RESULTS FOR THE FULL YEAR ENDED 31 DECEMBER 2020

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ESSENTRA PLC
(the "Company")

A leading global provider of essential components and solutions

RESULTS FOR THE FULL YEAR ENDED 31 DECEMBER 2020

A resilient performance of improving revenue and order trends during the year, with all three global divisions well positioned for growth, and a resumption of dividends

Summary:

- FY 2020 results displayed a resilient performance, notwithstanding the impacts of COVID-19 (the 'pandemic'), demonstrating Essentra's strong market positions, balanced portfolio and agile operations
    - Revenue decline of -6.3% on a like-for-like[1] (LFL) basis, with steady improvement each quarter following the immediate impact of the pandemic (-9.8% in Q2, -6.7% in Q3 and -1.0% in Q4)
    - Adjusted[2] operating profit down 27.9% (at constant FX) to £62.0m
        - Business disposals completed in 2019 accounted for £5.0m of the £24.0m decline, with the remainder driven predominantly by the effect of volume gearing and temporary manufacturing inefficiencies linked to the pandemic, partially offset by continued successful pricing management and cost control actions
    - Reported operating profit of £21.7m versus £80.0m in 2019; prior year included an overall adjusting items credit of £15.4m (mainly due to gains on business disposals), whilst 2020 has a total charge from adjusting items of £17.7m (mainly due to restructuring costs)
    - Adjusted[2] basic EPS lower by 37.2% (at constant FX) at 13.1p (FY 2019: 21.3p)
    - Reported basic EPS of 1.7p compares to 14.7p in 2019
    - Adjusted[2] operating cash flow of £76.3m in 2020, giving a cash conversion[3] of 123%
- High customer satisfaction levels leading to deepened customer franchises
- Well-positioned for growth across the Group:
    - Components most affected by the pandemic, but with a steady recovery in revenue and order trends throughout the year and further growth expected as end markets recover
    - Resilient performance in Packaging, with strategic initiatives in place to underpin further margin improvement
    - Filters made strong progress on game changers with the commencement of new outsourcing contracts, helping return the division to marginal growth in H2
- Value enhancing acquisition of 3C! Packaging completed, with integration progressing well
- A strengthened balance sheet, providing strategic optionality
    - Net debt of £210.4m (2019: £284.4m), with net debt / EBITDA at 1.8x (excluding lease liabilities, net debt / EBITDA ratio is 1.5x)
- Given the Group's resilient performance, encouraging outlook and strong financial position, the Board recommends a resumption of dividend payments, with a FY 2020 final dividend of 3.3p per share. The dividend payment being proposed is to be funded in full from cash flows generated from the operations of the Company during 2020

[1] Excludes the impact of acquisitions, disposals and foreign exchange
[2] Before amortisation of acquired intangible assets and adjusting items
[3] Cash conversion ratio being: adjusted operating cash flow / adjusted operating profit

Results at a glance:

	FY 2020	FY 2019	% change Actual FX	% change Constant FX
Revenue	£897m	£974m	-8	-7
Adjusted[1] operating profit	£62m	£88m	-29	-28
Adjusted[1] pre-tax profit	£46m	£73m	-37	-35
Adjusted[1] net income[2]	£37m	£59m	-36	-35
Adjusted[1] basic earnings per share	13.1p	21.3p	-38	-37
Dividend per share	3.3p	6.3p	-48	-48
Net debt (including lease liabilities)	£210m	£284m	-26	n/a
Net debt (excluding lease liabilities)	£149m	£234m	-36	n/a
Net debt to EBITDA (including lease liabilities)	1.8x	2.0x	n/a	n/a
Net debt to EBITDA (excluding lease liabilities)	1.5x	1.9x	n/a	n/a
Free cash flow[3]	£57m	£41m	n/a	n/a
Reported operating profit	£22m	£80m	-73	-72
Reported pre-tax profit	£6m	£66m	-91	-91
Reported net income[2]	£6m	£41m	-85	-84
Reported basic earnings per share	1.7p	14.7p	-88	-88

[1] Before amortisation of acquired intangible assets and adjusting items
[2] Net income is defined as profit after tax, before minority interests
[3] A reconciliation of free cash flow is set out in the Financial Review

Statutory to Adjusted Reconciliation:

31 December 2020	Reported	Acquisitions and disposals	Amortisation of acquired intangible assets	Adjusting items	Tax on adjustments	FX	LFL / Adjusted[1]
Revenue	£897m	£(40)m	-	-	-	-	£857m
Operating profit	£22m	-	£22m	£18m	-	-	£62m
Pre-tax profit	£6m	-	£22m	£18m	-	-	£46m
Net income	£6m	-	£22m	£18m	£(9)m	-	£37m

31 December 2019	Reported	Acquisitions and disposals	Amortisation of acquired intangible assets	Adjusting items	Tax on adjustments	FX	LFL[2] / Adjusted[1,2]
Revenue	£974m	£(47)m	-	-	-	£(13)m	£914m
Operating profit	£80m	-	£23m	£(15)m	-	£(2)m	£86m
Pre-tax profit	£66m	-	£23m	£(15)m	-	£(2)m	£72m
Net income	£41m	-	£23m	£(15)m	£10m	£(2)m	£57m

[1] Adjusted operating profit, adjusted pre-tax profit and adjusted net income relate to total Group
[2] 2019 Adjusted figures are presented at constant FX rates

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

"2020 was an unprecedented year and, looking back, I am very proud of and thankful for the incredible energy, commitment and passion demonstrated by all of our employees in the face of great pressure.

Through the Company's agility, adaptability and resilience, we have delivered a full year operating profit result which is in line with the consensus of analysts' forecasts.

Cash generation has also been strong, improving our liquidity position, and the company took the decision not to partake in any employee-related UK government support. Our equity capital raise enabled us to acquire a 'strategic bullseye' in 3C! Packaging, whilst further strengthening our balance sheet and providing greater strategic optionality.

Given the Group's resilient performance, encouraging outlook and strong financial position, the Board recommends a resumption of dividend payments.

I believe we have ended the year a closer team with deeper customer relationships, a stronger balance sheet and a clearer picture of the future. The resilient platform that we have built has been proven through the depths of this pandemic and gives us a fantastic base from which to drive responsible, profitable and cash generative growth in each of the divisions in 2021 and beyond."

Outlook Statement

Heading into 2021, the pandemic continues to contribute to an uncertain macro-economic environment. The portfolio of end-markets served across the Group provides a degree of resilience against this uncertainty. Although we do not anticipate a material direct impact to the Company from Brexit, the potential for certain supply chain disruption - and we are witnessing this to a limited degree currently - remains a risk that we must monitor closely. Additionally, it should be noted that the recent GBP appreciation, most notably against USD and EURO, is causing a translation headwind in the year thus far.

On a constant currency basis, our underlying business continues to improve, and the divisional outlook for 2021 suggests that: Components should see (after a slower start to the year due to certain logistical challenges) a continuation in the improvement of LFL trends, with industrial production forecasts predicting a return to 2019 volumes; Packaging should see the market return to moderate growth in the second half of 2021, with global healthcare systems having to catch up on the significant backlog of prescriptions and elective surgeries; and Filters should see year-on-year growth driven in part by outsourcing contract volumes as well as commencement of the China JV.

As previously announced, the Company has undertaken a detailed review of its global footprint, which has resulted in the proposed closure of certain sites in 2021 across the Components and Packaging divisions. The total cost related to these closures is estimated to be c£17m (£12.7m of which has been booked in 2020). We expect to start generating savings from these actions in 2021, with annual savings of c£13m from 2022 onwards, helping to underpin the profitability potential of the Company.

Alternative Performance Measures

Constant foreign exchange rates. Movements in exchange rates relative to sterling affect actual results as reported. The constant exchange rate basis ("constant FX") adjusts the comparative to exclude such movements, to show the underlying performance of the Company. The principal exchange rates for Essentra in FY 2020 were:

	-------- Average --------		-------- Closing --------	
	FY 2020	**FY 2019**	**FY 2020**	**FY 2019**
US$:£	1.29	1.28	1.37	1.32
€:£	1.13	1.14	1.12	1.18

Re-translating at FY 2020 average exchange rates decreases the prior year revenue and adjusted operating profit by £12.3m and £1.5m respectively.

Like-for-like ("LFL"). The term "like-for-like" describes the performance of the continuing business on a comparable basis, adjusting for the impact of acquisitions, disposals and foreign exchange. The FY 2020 LFL results are adjusted for the acquisition of the Innovative Components business on 26 June 2019, the acquisition of Nekicesa Packaging on 6 September 2019, the acquisition of 3C! Packaging, Inc. on 17 September 2020, the divestment of the Pipe Protection Technologies business on 14 January 2019, the divestment of the Extrusion business on 11 June 2019, the divestment of the Speciality Tapes business on 28 June 2019 and finally the divestment of the Card Solutions business on 23 July 2019.

Adjusted basis. The term "adjusted" excludes the impact of amortisation of acquired intangible assets and adjusting items, less any associated tax impact. In FY 2020, amortisation of acquired intangible assets was £22.6m (2019: £22.9m), and there was a pre-tax charge for adjusting items of £17.7m (2019: credit of £15.4m). For the current year charge for adjusting items, £12.7m is driven by the previously announced strategic initiatives that have resulted in the proposed closure of certain sites in 2021, across the Components and Packaging divisions. The remainder is attributable to: £4.6m for external professional costs associated with certain corporate development activities, £1.6m for transaction and integration costs of acquisitions, and £0.2m of external advisory and consultancy costs in relation to the review of the compliance of certain group companies' export activities with US laws, as previously disclosed in the 2019 Annual Accounts. This is offset by a £1.4m release of excess provision held for potential penalties in relation to this activity. Further details on adjusting items are shown in note 3 to the Consolidated Financial Statements.

Constant FX, LFL and adjusted measures are provided to reflect the underlying financial performance of Essentra. For further details on the performance metrics used by Essentra, please refer to pages 16 to 19 of the 2019 Annual Report.

Adjusted operating cash flow. Adjusted operating cash flow is net cash flow from operating activities, excluding income tax paid, pensions adjustments, and cash flows relating to adjusting items, less net capital expenditure. It is a measure of the underlying cash generation of the business. Net capital expenditure is included in this measure as management regard investment in operational assets (tangible and intangible) as integral to the underlying cash generation capability of the Company.

Operating Review

Considering the impact of the pandemic, the FY 2020 result for the Group was resilient. Overall, FY 2020 revenue decreased by 8.0% (-6.8% at constant exchange) to £896.5m, whilst on a LFL basis, revenue decreased by 6.3%. However, in order to fully understand LFL Group performance for the FY, progressive quarterly trading needs to be considered, as this gives more clarity on how, over time, the Company became increasingly proficient at dealing with the impacts and challenges of the pandemic. Q1 trading was largely unaffected by the pandemic, however with the advent of Q2 and the initial shock from the major global onset of COVID-19, the Company experienced its 'nadir' in trading performance during this second quarterly period. From thereon, as the year progressed, Group revenue on a LFL basis showed a steady improvement - going from -9.8% in Q2, to -6.7% in Q3 and finally further improving to -1.0% in Q4.

On an adjusted basis, operating profit was down 29.1% (-27.9% at constant FX) at £62.0m, which was driven in part by the disposal of various businesses in the prior year (£5.0m of the £24.0m decline), but mainly by the volume gearing effect from the revenue decline, which was exacerbated by temporary manufacturing inefficiencies caused by pandemic related issues, partially being offset by continued successful pricing management and cost control actions. Adjusted operating margin dropped by 210bps (200bps at constant FX) to 6.9%.

Including amortisation of acquired intangible assets of £22.6m and a pre-tax charge from adjusting items of £17.7m, operating profit as reported was £21.7m (2019: £80.0m); prior year included an overall adjusting items credit of £15.4m (mainly due to gains on business disposals), whilst 2020 has a total charge from adjusting items of £17.7m (mainly due to restructuring costs).

Net finance expense was above the prior year at £15.7m (2019: £14.5m), this was mainly driven by adverse FX movements on property leases in Turkey and Hungary that are denominated in non-local currencies. The effective tax rate on underlying profit before tax (before adjusting items) was 19.2% (2019: 19.9%). This reduced tax rate is driven by a change in the geographical split of profits across the Company.

On an adjusted basis, net income of £37.4m was down 36.1% (34.7% at constant FX) and adjusted basic earnings per share decreased by 38.5% (37.2% at constant FX) to 13.1p. On a total reported basis, net income of £6.3m and earnings per share of 1.7p compared to £41.2m and 14.7p respectively in 2019.

Adjusted operating cash flow was 6% higher than the previous year at £76.3m (2019: £71.8m), this equated to an operating cash conversion of 123% in the year. Adjusted free cash flow of £56.9m compared to £40.7m in 2019. The increase in adjusted operating cash flow, despite the aforementioned lower level of profitability in the Group, was mainly due to a healthy cash inflow during the year of £6.2m from working capital movements which in the prior year accounted for a large outflow of cash of £10.3m (current year performance was the result of reduced trading volumes combined with a concerted effort from the company to implement a series of initiatives to adapt and optimise working capital levels, in light of the pandemic), combined with a targeted reduction in year-on-year capex spend of £11.9m. The increase in adjusted free cash flow was also driven by a year-on-year reduction in tax spend (excluding tax payments relating to adjusting items) of £9.0m, which in the main resulted from the aforementioned lower profitability levels in the year as well as a refund of tax in the US.

As previously advised, the Company had made a voluntary disclosure to the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC"), with regards to certain historical transactions by the Filters business dating as far back as 2015. On 16 July 2020, a Deferred Prosecution Agreement was entered into with the US Department of Justice and a fine of $666,543.88 paid to settle certain sanctions violations by the Filters business in Dubai. The Company has co-operated fully with the US authorities and, whilst cautioned by OFAC on the importance of a robust sanctions compliance programme, no further enforcement action is being taken. The Company maintains its focus on continuous improvement to drive the effectiveness of its response to sanction regimes and other compliance requirements.

Business Review

Summary growth in revenue by Division

% growth	LFL	Acquisitions / Disposals	Foreign Exchange	Total Reported
Components	-10.1	+1.6	-1.5	-10.0
Packaging	-4.0	+6.8	+0.2	+3.0
Filters	-5.6	-	-2.7	-8.3
Specialist Components	-	-100.0	-	-100.0
Total	**-6.3**	**-0.5**	**-1.2**	**-8.0**

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

Components

	2020 £m	% growth Actual FX	% growth Constant FX
Revenue	255.0	-10.0	-8.5
Operating profit*	45.5	-24.5	-23.4
Operating margin*	17.8%	-350bps	-350bps

* Adjusted basis

Revenue for the year decreased by 8.5% to £255.0m. Adjusting for the acquisition of Innovative Components, LFL revenue was -10.1%. Within the Group, Components is the division which is most exposed to industrial cyclicality, hence it has been the most pandemic-affected out of all the divisions. However, it has seen the greatest level of quarterly trading performance recovery during the course of the year.

On a LFL basis, revenue was 5.3% down in Q1, which was reflective of the pandemic causing disruption in China earlier than in rest of the world and a soft end-market backdrop in the US. As we moved into Q2 and as the pandemic took a firm grip across the globe, we saw an accelerated slowdown in customer demand, with LFL revenue falling to -20.0% in the quarter. However, from then on, we have seen a steady recovery in the division's trading performance - Q3 improved to a level of -13.9%, whilst Q4 improved further to -0.3%.

Consistent with the commitment to providing customers with a "hassle-free" experience, along with reliable and timely delivery, further commercial and operational initiatives were progressed during the period. Key among these was the continued roll out and enhancement of a new digital platform, a critical tool in upgrading the division's online presence. We are seeing increased levels of online customer activity, driven by new customer engagement, accelerating the 'shift to digital'. During the year, the European roll-out of the new digital platform was completed, with a view to taking this platform in to a number of our Asian markets in 2021 (North America went live in 2019). The new platform provides greater ease of navigation for customers, a better ability to compare products, and improved visibility in search engines such as Google. Moreover, this platform has given the division the stage on which to promote an expanding range of products that have both been organically introduced and added from acquisitions. Linked to this, and in terms of enhancements made to the digital platform during the year, the most important one was the introduction of cross sell functionality on the website. Further developments are in progress, including the use of artificial intelligence, and are being driven by an agile monthly improvements forum. In order to complement this increased functionality in our website, the division has carried out an extensive 'cross selling' training programme for sales staff, to drive even better knowledge and expertise of the division's full product portfolio.

Our new fully automated German warehouse commenced operations at the end of Q3 2020, providing an enhanced logistical platform from which to drive the European Components business.

In 2020 we decided to consolidate warehouse operations from three European warehouse sites into the aforementioned German warehouse. Furthermore, the closure of three manufacturing sites (one in Sweden and two in the US), as well as the exit of three smaller warehousing and distribution (express) sites in the US, have been announced. These actions will all take effect in 2021 and allow us to improve service for our customers, maximise the opportunities for automation and support anticipated growth for the division.

We have continued to invest in our BPR programme during the year and have launched a new CRM platform in 2020 which will be integrated with the new ERP platform (that we plan to roll-out across Europe in 2021).

The division has recently conducted its annual customer survey and is very pleased to report that despite all of the challenges faced in 2020 due to the impact of the pandemic, our customers have rated us with a net promoter score (NPS) of 45 points - which is a 4 point improvement on the prior year.

Adjusted operating profit decreased by 23.4% to £45.5m, equating to a margin of 17.8% (2019: 21.3%). This 350bps dilution reflected the aforementioned volume impact of a softer macro environment, which was exacerbated by temporary manufacturing inefficiencies caused by pandemic related issues, partially being offset by continued successful pricing management and cost control actions.

Packaging

	2020 £m	% growth Actual FX	% growth Constant FX
Revenue	363.2	+3.0	+2.8
Operating profit*	13.8	-8.6	-9.6
Operating margin*	3.8%	-50bps	-50bps

* Adjusted basis

Revenue increased 2.8% to £363.2m. On a LFL basis, the revenue decline was -4.0% for the year. However to better understand performance through the year, shifts in underlying demand caused by the impacts of the pandemic need to be taken into account.

In H1, despite the onset of the pandemic, underlying demand remained relatively robust. LFL performance in H1 was -3.0%. This was reflective of a tough prior year comparative - H1 2019 was bolstered by short term customer demand on the back of the new regulatory requirements as prescribed by the Falsified Medicines Directive, which took effect in Europe in early 2019. Additionally, the division was impacted by some pandemic induced supply chain performance issues and facility closures. These facility closures were rectified from May and the division delivered positive monthly revenue growth towards the end of H1. However, with the advent of H2, underlying demand saw softness in certain end markets owing to an impact from the reduction in the levels of prescriptions and elective surgeries through lockdown periods. Having said that, over the course of H2, there was a steady improvement in performance, as the pharmaceutical and beauty markets started to slowly recover; Q3 was -8.5%, this improved to -1.3% in Q4.

During the pandemic, the combination of maintained high levels of service, along with a clear key account management structure, has meant that dialogue with customers has continued to be further strengthened and deepened, with the division collaborating with its customers to help meet a range of needs and objectives during these unprecedented times. The division has been awarded more than US $5m (annualised) of new business as a result of its focus on supporting customers. Moreover, towards the end of the year, the division ran its annual customer survey, where it recorded a score of 8.1 out of 10, against last year's 7.9 and a Packaging industry average of 7.6.

The division is proud to have played a part in supporting the healthcare industry in its fight against the pandemic, helping to produce secondary packaging for anti-viral and vaccine products. In November, we received external recognition from a leading industry publication "Packaging News", with the award of UK Packaging Company of the Year. In a year of incredible challenge, this external recognition demonstrates the significant progress, agility, and resilience within the division.

A major highlight of the year was the acquisition of 3C! Packaging Inc. in September. The acquisition not only strengthened the division's position in pharmaceutical and healthcare packaging in core product areas, but also brought with it valuable new innovation with its serialisation technology. Integration activities are progressing well, helped by the business culturally fitting in efficiently with the wider division, with delivery of early procurement synergies and growth pipeline opportunities being progressed.

In 2020 we proposed the closure of our manufacturing sites in Portsmouth, UK and Moorestown, US in 2021. These actions reflect the significant reduction in demand in some key areas and withdrawal of key customer production due to the pandemic, whilst also supporting supply chain optimisation.

Adjusted operating profit decreased 9.6% to £13.8m, equating to a margin of 3.8% (50 bps decline). This was largely driven by the volume gearing effect from the revenue decline, which was exacerbated by temporary manufacturing inefficiencies caused by pandemic related issues. Netted off against these was the impact of continued successful pricing management and cost control actions.

Filters

	2020 £m	% growth Actual FX	% growth Constant FX
Revenue	278.3	-8.3	-5.6
Operating profit*	25.2	-30.4	-29.2
Operating margin*	9.1%	-280bps	-300bps

* Adjusted basis

Total Filters divisional revenue was 5.6% down on the prior year period, of which the core Filters business (division excluding Tear Tapes) was down by 4.9%. However, as with the other divisions, in order to better understand FY trading numbers, this must be looked at through the lens of more granular half-yearly performance.

H1 was 11.2% down for the overall division, as it quickly adapted itself to deal with the challenges presented by the outbreak. In particular, H1 was affected by two short-term factors; namely, the impact from government enforced facility closures in India and Paraguay (compounded by the fact that both of these territories have a unique route-to-market for tobacco products that were also closed), and the continued effect on prior period comparatives due to business disruption in the Middle East following the sanction compliance issues announced in our year end 2019 results.

As we moved into H2, the division returned to delivering marginal half-yearly growth, bolstered by the optimisation of production volumes for the previously announced outsourcing contract wins. In H2, the overall division recorded growth of 0.2%, whilst the core Filters business delivered growth of 0.7%. Growth in H2 would have been even better had it not been for certain logistical challenges towards the end of the period, in shipping product in Asia, derived from regional container shortages.

In relation to the division's game changers, as mentioned above, the two previously announced outsourcing contracts are now operational, with full production capacity being achieved on both of these. Additionally during the year, the division also won another outsourcing contract with an independent customer. The China JV remains on track to commence production towards the end of Q2 2021, providing a great platform to capture the many opportunities available in the world's largest tobacco market. We continue to build our pipeline of next generation products (NGP) opportunities - with one further patent application made, one proprietary product launch and joint developments ongoing with several partners. In regards to the development of biodegradable filters - as an innovation leader, the division is well placed to play a leading role. The division has projects ongoing in collaboration with customers and suppliers and this could create a number of opportunities in the medium to long-term. As previously reported, in December 2020 the division has launched three proprietary products (Eco Sensation, ECO Cavitec and ECO Cavitec Sensation), which are intended to meet EU Single Use Plastics Directive initiatives for plastic-free and biodegradable products.

During the period the division has continued to develop its cross-functional key account management structure, which will help to create a more in-depth understanding of customer needs, develop relevant value propositions and identify mutually beneficial strategic initiatives. This combined with the division's world class service and quality metrics having been maintained, despite any disruptions that have been caused by the pandemic, has further strengthened and deepened customer relationships.

Adjusted operating profit decreased 29.2% to £25.2m, equating to an operating margin of 9.1% (decline of 300 bps). This was largely driven by the volume gearing effect from the revenue decline and a mix effect from proportionally less new product introduction (NPI) projects. Additionally, temporary manufacturing inefficiencies caused by pandemic related issues also adversely impacted profits during the year.

Financial Review

Net finance expense. Net finance expense of £15.7m was £1.2m above the prior year period, and is broken down as follows:

£m	2020	2019
Net interest charged on net debt	10.3	11.4
Amortisation of bank fees	0.7	0.8
IAS 19 pension finance charge	0.7	0.7
Interest on leases	2.4	2.1
Net other finance expense	1.6	(0.5)
Total net finance expense	**15.7**	**14.5**

The increase in net other finance expenses was mainly driven by adverse FX movements on property leases in Turkey and Hungary that are denominated in non-local currencies.

Tax. The effective tax rate on underlying profit before tax (before adjusting items and amortisation of acquired intangible assets) was 19.2% (2019: 19.9%). This reduced tax rate is driven by a change in the geographical split of profits across the Company.

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

£m	2020	2019
Inventories	102.6	113.1
Trade & other receivables	154.2	166.9
Trade & other payables	(155.4)	(174.5)
Adjustments	6.7	8.3
Net working capital	**108.1**	**113.8**

The decrease in net working capital was largely due to lower inventory and receivables levels, which were driven by the reduced trading volumes combined with a concerted effort by the company to implement a series of initiatives to adapt and optimise working capital levels, in light of the pandemic. These lower inventory and receivables were netted off by a decrease in trade and other payables. It should also be noted that an element of the year-on-year reduction in overall net working capital is attributable to FX impact.

Cash flow. Adjusted operating cash flow is net cash flow from operating activities, excluding income tax paid, pensions adjustments, and cash flows relating to adjusting items, less net capital expenditure. It is a measure of the underlying cash generation of the business. Net capital expenditure is included in this measure as management regard investment in operational assets (tangible and intangible) as integral to the underlying cash generation capability of the Company.

Adjusted operating cash flow was 6% higher than the previous year at £76.3m (2019: £71.8m), this equated to an operating cash conversion of 123% in the year (2019: 82%). Adjusted free cash flow was £56.9m compared to £40.7m in 2019. The increase in adjusted operating cash flow, despite the aforementioned lower level of profitability in the Group, was due to two key drivers; a healthy cash inflow of £6.2m from working capital movements that was mainly the outcome of reduced trading volumes combined with a series of working capital cash management initiatives that were put in place with the onset of the pandemic (in the prior year working capital movements accounted for a large outflow of cash of £10.3m), and secondly a targeted reduction in year-on-year capex spend of £11.9m. The increase in adjusted free cash flow was also driven by a year-on-year reduction in tax spend of £9.0m (which in the main resulted from the aforementioned lower profitability levels in the year as well as a refund of tax in the US).

In 2020, there was a £65.3m net increase in cash and cash equivalents to £135.8m (2019: increase of £5.1m to £70.4m).

£m	2020	2019
Operating profit - adjusted	**62.0**	**87.5**
Depreciation and amortisation of non-acquired intangible assets	40.2	36.4
Right-of-use asset depreciation	12.0	11.3
Share option expense / other movements	0.6	3.5
Change in working capital	6.2	(10.3)
Net capital expenditure (excluding disposal proceeds relating to adjusting items)	(44.7)	(56.6)
Operating cash flow - adjusted	**76.3**	**71.8**
Tax*	(7.5)	(16.5)
Cash outflow in respect of adjusting items	(11.1)	(34.2)
Pension obligations	0.9	(1.3)
Add back: net capital expenditure (excluding disposal proceeds relating to adjusting items)	44.7	56.6
Net cash inflow from operating activities	**103.3**	**76.4**
Operating cash flow - adjusted	**76.3**	**71.8**
Tax*	(7.5)	(16.5)
Net interest paid	(12.8)	(13.3)
Pension obligations	0.9	(1.3)
Free cash flow - adjusted	**56.9**	**40.7**
Net increase in cash & cash equivalents	**65.3**	**5.1**

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

Net debt. Net debt at the end of the period was £210.4m, a £74.0m decrease from 1 January 2020 (including lease liabilities). The overall decrease was mainly driven by a combination of the free cashflow generated during the year along with cash raised from the placement of new share capital in the Company, being netted off against cash paid for the acquisition of 3C! Packaging Inc. and an increase in lease liability movements (which are driven by a new lease for the aforementioned Components Germany warehouse project along with recently extended leases on our Components Turkey and Filters Hungary facilities).

£m	2020
Net debt as at 1 January 2020	**284.4**
Free cash flow	(56.9)
Cash outflow in respect of adjusting items	11.1
Foreign exchange	4.4
Disposals*	-
Acquisitions - net cash paid	41.2
Shares issued (net of costs incurred)	(96.7)
Shares issued in JV	(5.0)
Dividends to minority interest	0.7
Lease liability movements	19.7
Employee trust shares	(0.1)

Loans and lease liabilities acquired through business combinations	6.6
Other	1.0
Net debt as at 31 December 2020	**210.4**

* Excludes £5.0m cash received from the settlement of the promissory note as this already excluded part of net debt

The Company's financial ratios remain healthy. The ratio of net debt to EBITDA including lease liabilities was 1.8x (31 December 2019: 2.0x). Net debt to EBITDA excluding lease liabilities was 1.5x (31 December 2019: 1.9x). Interest cover was 4.2x (31 December 2019: 6.6x).

Refinancing activities. One of the main sources of funding for the Company is a Revolving Credit Facility (RCF) provided by a group of eight highly-rated banks, which as at the year end was set to mature in its entirety in November 2022. However, for a tranche involving five of the eight banks (worth £225m), we have recently agreed an extension to the facility based on new terms, which will now mature in November 2023. The Company continues to review its financing, including the lenders in the original tranche still set to mature in November 2022.

Fundraise. On 18 September 2020, the Company successfully completed the placing and subscription of new ordinary shares in the Company. In aggregate, the Fundraise comprised of 38,461,538 new ordinary shares, raising net proceeds of £96.7m. This fundraise enabled the acquisition of 3C! Packaging, Inc. and helped reduce the Company's leverage ratio to within target range of 1x-2x, providing the platform for further strategic optionality.

Pensions. As at 31 December 2020, the Company's IAS 19 net pension liability was £23.9m (2019: £17.4m). This increase in the liability is a result of an actuarial loss (driven by a reduction in discount rate) being netted off against a positive return of plan assets.

Board changes. As reported in the HY 2020 results announcement, Lorraine Trainer stepped down as a Non-Executive Director and Chair of the Remuneration Committee, following the Company's 2020 Annual General Meeting on 21 May 2020. Lorraine has been replaced as Chair of the Remuneration Committee by Nicki Demby, who has been with the Company since 1 June 2019.

Tommy Breen will retire as a Non-Executive Director and Senior Independent Director with effect from the conclusion of the Annual General Meeting (AGM) to be held on Thursday 21 May 2021. Tommy leaves having served as a Non-Executive Director for six years and as Senior Independent Director. The Board are pleased to announce that Mary Reilly will become Senior Independent Director upon Tommy's retirement, subject to Mary's re-election at the AGM. Mary is also Chair of the Audit & Risk Committee and Board Employee Champion. The Nomination Committee has initiated a process to appoint a new Non-Executive Director.

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

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

Foreign exchange risk. The majority of Essentra's net assets are in currencies other than sterling. The Company's normal policy is to reduce the translation exposure and the resulting impact on shareholders' funds through measures such as borrowing in those currencies in which the Group has significant net assets. As at 31 December 2020, Essentra's US dollar-denominated assets were approximately 27% hedged by its US dollar-denominated borrowings, while its euro-denominated assets were approximately 32% hedged by its euro-denominated borrowings.

The majority of Essentra's transactions are carried out in the functional currencies of its operations, and therefore transaction exposure is limited. However, where such exposure does occur, Essentra uses forward foreign currency contracts to hedge its exposure to movements in exchange rates on its highly probable forecast foreign currency sales and purchases over a period of up to 18 months.

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

Dividends

Earlier in the year, in light of the unprecedented uncertainty due to the pandemic, the Company announced that the Board had concluded that all reasonable steps should be taken to conserve cash and, accordingly, decided to cancel the 2019 final and 2020 interim dividend. The Board has since reviewed the overall dividend payment for this financial year and taking into consideration: the resilient financial performance of 2020, the Company's stronger balance sheet position, and the encouraging outlook, concluded that there should be resumption of a payment for the FY 2020 final dividend of 3.3p per share. The dividend payment being proposed is to be funded in full from cash flows generated from the operations of the Company during 2020. Going forwards, a progressive dividend policy will be adopted.

The final dividend will be paid on 1 June 2021 to equity holders on the share register on 23 April 2021: the ex-dividend date will be 22 April 2021. Essentra operates a Dividend Re-Investment Programme ("DRIP"), details of which are available from the Company's Registrars, Computershare Investor Services PLC: the final date for DRIP elections will be 10 May 2021.

The UK's Exit from the European Union ("Brexit")

Now that the UK has exited the EU with a trade deal, the Company's focus has shifted to ensuring effective management of new customs and delivery arrangements, in order to maintain customer service levels. Some supply chain disruptions have been noted thus far in Q1 2021 due to the additional administrative steps, particularly in the Components business. In response to these disruptions, certain product lead times have had to be extended. We are also currently experiencing additional costs and increased freight rates from the aforementioned additional administrative steps. We continue to foresee no material direct impact to the Company from Brexit, however the potential for certain supply chain disruption remains a risk that we must continue to monitor closely.

Business Process Redesign ("BPR")

As previously advised, the Company is currently part way through a business process redesign project, supported by implementation of a new ERP system. This project will support the strategic growth agenda of the divisions, along with improving process efficiencies and business controls. We have now completed scoping and process design, along with development activity of the system, both for core finance & procurement processes, as well as sales, manufacturing & warehouse processes for the Components Division.

We went 'live' with HQ finance & procurement processes in July 2020 and we are now in User Acceptance/Business Readiness Testing for our first country launch in Spain in Q2 2021. This will be followed by the remaining European locations for Components.

Over the cycle, the tangible benefits of the BPR programme are estimated to offset the cost. With streamlined processes and modern technology, the Company expects to become a much more agile and nimble business.

Enquiries

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Presentation

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

The Full Year Results presentation to analysts and investors will start at 08:30 (UK time), and will be held virtually.

There are two options for participating in the event:

1) View and listen in to a webcast of the presentation, which can be accessed at https://www.essentraplc.com/en/investors/company-information/webcasts-and-presentations
Please note that this option will not allow you to ask any questions - it will be listen only mode.

2) If you wish to ask a question, or are unable to listen to the audio via the webcast, please dial in to the audio conference call using the details below:

Dial-in number: +44 (0)20 7192 8338 (UK / international participants)
+1 646 741 3167 (US participants)

Toll-free number:	0800 279 6619 (UK participants) +1 877 870 9135 (US participants)
Event Plus Passcode:	8289709

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

Replay number:	+44 (0)333 300 9785 (UK / international participants) +1 917 677 7532 (US participants)
Toll-free number:	0808 238 0667 (UK participants) +1 866 331 1332 (US participants)
Replay access code:	8289709
Replay available:	For 7 days

Cautionary forward-looking statement

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

MAR Statement

This announcement contains inside information

Notes to Editors

About Essentra plc

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

Headquartered in the United Kingdom, Essentra's global network extends to 34 countries and includes 7,065 employees, 50 principal manufacturing facilities, 32 sales & distribution operations and 3 research & development centres. For further information, please visit www.essentraplc.com.

Essentra Components

Essentra Components is a global market leading manufacturer and distributor of plastic injection moulded, vinyl dip moulded and metal items. Operating in 25 countries worldwide, 15 manufacturing facilities and 25 sales & distribution centres serve more than 82,000 customers with a rapid supply of low cost but essential products for a variety of applications in industries such as equipment manufacturing, automotive, fabrication, electronics and construction. The division also includes the Reid Supply business, which provides a wide range of branded hardware supplies to a broad base of industrial customers, largely located in the US Mid-West.

Essentra Packaging

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

Essentra Filters

Essentra Filters is the only global independent cigarette filter supplier. The twelve sites across nine countries, including three R&D centres, provide a flexible infrastructure strategically positioned to serve the tobacco sector. The business supplies a wide range of value-adding high quality innovative filters, packaging solutions to the roll your own segment and analytical laboratory services for ingredient measurement to the industry: Essentra's offering also includes Heat Not Burn and e-cigarette solutions to the rapidly evolving market for Next Generation Products. The division also includes the Tear Tapes business, which is globally recognised as the leading manufacturer and supplier of pressure-sensitive tear tapes, that are largely used in the tobacco, food and drink and specialist packaging sectors.

Consolidated Income Statement

For the year ended 31 December 2020

	Note	**2020**	2019
		£m	£m
Revenue	2	**896.5**	974.1
Operating profit		**21.7**	80.0
Finance income	4	**1.9**	2.1
Finance expense	4	**(17.6)**	(16.6)
Profit before tax		**6.0**	65.5
Income tax credit/(charge)		**0.3**	(24.3)
Profit for the year		**6.3**	41.2
Attributable to:			
Equity holders of Essentra plc		**4.5**	38.4
Non-controlling interests		**1.8**	2.8
Profit for the year		**6.3**	41.2
Earnings per share attributable to equity holders of Essentra plc:			
Basic	5	**1.7p**	14.7p
Diluted	5	**1.6p**	14.5p
Earnings per share from continuing operations attributable to equity holders of Essentra plc:			
Basic	5	**1.7p**	14.7p
Diluted	5	**1.6p**	14.5p

Adjusted profit measure:

		£m	£m
Operating profit		**21.7**	80.0
Amortisation of acquired intangible assets		**22.6**	22.9
Adjusting items	3	**17.7**	(15.4)
Adjusted operating profit		**62.0**	87.5

See note 16 for further details of the adjusted profit measure.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	**2020**	2019
		£m	£m
Profit for the year		**6.3**	41.2
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	9	**(6.7)**	(4.9)

Deferred tax income on remeasurement of defined benefit pension schemes	**2.1**	1.0
	(4.6)	(3.9)
Items that may be reclassified subsequently to profit or loss:		
Effective portion of changes in fair value of cash flow hedges:		
Net change in fair value of cash flow hedges transferred to the income statement	**(0.5)**	0.8
Effective portion of changes in fair value of cash flow hedges	**0.1**	(0.6)
Foreign exchange translation differences:		
Attributable to equity holders of Essentra plc:		
Arising on translation of foreign operations	**(9.3)**	(42.9)
Arising on effective net investment hedges	**(3.3)**	7.5
Income tax (expense)/income	**(0.5)**	1.6
Attributable to non-controlling interests	**(0.5)**	(0.6)
	(14.0)	(34.2)
Other comprehensive income for the year, net of tax	**(18.6)**	(38.1)
Total comprehensive income for the year	**(12.3)**	3.1
Attributable to:		
Equity holders of Essentra plc	**(13.6)**	0.9
Non-controlling interests	**1.3**	2.2
Total comprehensive income for the year	**(12.3)**	3.1

Consolidated Balance Sheet

At 31 December 2020

	Note	**31 December 2020 £m**	31 December 2019 £m
Assets			
Property, plant and equipment	6	**263.0**	276.0
Lease right-of-use asset	8	**52.7**	43.4
Intangible assets	7	**518.8**	486.3
Long-term receivables		**4.7**	5.6
Deferred tax assets		**16.8**	13.6
Retirement benefit assets	9	**12.6**	16.9
Total non-current assets		**868.6**	841.8
Inventories		**102.6**	113.1
Income tax receivable		**3.7**	7.0
Trade and other receivables		**154.2**	166.9
Derivative assets		**0.3**	0.8
Other financial assets		**-**	6.2
Cash and cash equivalents	11	**135.8**	70.4
Total current assets		**396.6**	364.4
Total assets		**1,265.2**	1,206.2
Equity			
Issued share capital	10	**75.6**	66.0
Merger relief reserve		**385.2**	298.1
Capital redemption reserve		**0.1**	0.1
Other reserve		**(132.8)**	(132.8)
Cash flow hedging reserve		**(0.1)**	0.3
Translation reserve		**(24.1)**	(11.0)
Retained earnings		**313.9**	312.4
Attributable to equity holders of Essentra plc		**617.8**	533.1
Non-controlling interests		**13.3**	7.7
Total equity		**631.1**	540.8
Liabilities			
Interest bearing loans and borrowings	11	**285.2**	249.0
Lease liabilities	11	**49.1**	39.3
Retirement benefit obligations	9	**36.5**	34.3
Provisions		**8.0**	6.0
Other financial liabilities		**1.2**	3.4
Other payables		**2.2**	-
Deferred tax liabilities		**45.5**	45.3
Total non-current liabilities		**427.7**	377.3
Interest bearing loans and borrowings	11	**-**	60.7

Lease liabilities	11	**11.9**	11.4
Derivative liabilities		**0.5**	0.3
Income tax payable		**33.1**	37.9
Trade and other payables		**155.4**	174.5
Provisions		**5.5**	3.3
Total current liabilities		**206.4**	288.1
Total liabilities		**634.1**	665.4
Total equity and liabilities		**1,265.2**	1,206.2

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

									2020
	Issued capital £m	**Merger relief reserve £m**	**Capital redemption reserve £m**	**Other reserve £m**	**Cash flow hedging reserve £m**	**Translation reserve £m**	**Retained earnings £m**	**Non-controlling interests £m**	**Total equity £m**
At 1 January 2020	**66.0**	**298.1**	**0.1**	**(132.8)**	**0.3**	**(11.0)**	**312.4**	**7.7**	**540.8**
Profit for the year							**4.5**	**1.8**	**6.3**
Other comprehensive income					**(0.4)**	**(13.1)**	**(4.6)**	**(0.5)**	**(18.6)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(0.4)**	**(13.1)**	**(0.1)**	**1.3**	**(12.3)**
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							**-**	**(0.7)**	**(0.7)**
At 31 December 2020	**75.6**	**385.2**	**0.1**	**(132.8)**	**(0.1)**	**(24.1)**	**313.9**	**13.3**	**631.1**

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020	2019
		£m	£m
Operating activities			
Profit for the year		**6.3**	41.2
Adjustments for:			
Income tax (credit)/expense		**(0.3)**	24.3
Net finance expense	4	**15.7**	14.5
Intangible amortisation	7	**25.2**	23.8
Adjusting items	3	**17.7**	(15.4)
Depreciation of property, plant and equipment	6	**37.6**	35.5
Lease right-of-use asset depreciation	8	**12.0**	11.3
Profit on lease termination		**(2.0)**	-
Impairment of fixed assets		**0.1**	0.5
Share option expense		**1.2**	3.9
Hedging activities and other movements		**1.3**	0.4
Decrease/(increase) in inventories		**9.6**	(1.1)
Decrease in trade and other receivables		**14.9**	7.3
Decrease in trade and other payables		**(18.3)**	(16.5)
Cash outflow in respect of adjusting items		**(10.9)**	(24.6)
Adjustment for pension contributions		**0.9**	(1.3)
Movement in provisions		**-**	(1.3)
Cash inflow from operating activities		**111.0**	102.5
Income tax paid		**(7.7)**	(26.1)
Net cash inflow from operating activities		**103.3**	76.4
Investing activities			
Interest received		**1.9**	1.3
Acquisition of property, plant and equipment		**(30.9)**	(48.4)
Proceeds from sale of property, plant and equipment		**0.4**	2.6
Payments for intangible assets		**(14.2)**	(10.5)
Acquisition of businesses net of cash acquired	12	**(41.2)**	(26.1)
Proceeds from sale of businesses net of cash disposed	12	**5.0**	113.7
Short-term investments		**0.6**	(0.6)
Net cash (outflow)/inflow from investing activities		**(78.4)**	32.0
Financing activities			
Interest paid		**(14.7)**	(14.6)
Dividends paid to equity holders		**-**	(54.2)
Dividends paid to non-controlling interests		**(0.7)**	(0.8)
Acquisition of non-controlling interests		**-**	(11.6)
Repayments of short-term loans		**-**	(0.1)
Repayments of long-term loans		**(352.9)**	(207.3)
Proceeds from long-term loans		**318.8**	197.3
Lease liability principal repayments		**(11.9)**	(12.4)
Proceeds from equity issue		**100.0**	-
Costs incurred in equity issue		**(3.3)**	-
Proceeds from equity issue to non-controlling interests		**5.0**	-
Proceeds from sale of employee trust shares		**0.1**	0.4
Net cash inflow/(outflow) from financing activities		**40.4**	(103.3)
Net increase in cash and cash equivalents	11	**65.3**	5.1
Net cash and cash equivalents at the beginning of the year		**70.4**	66.2
Net increase in cash and cash equivalents		**65.3**	5.1
Net effect of currency translation on cash and cash equivalents		**0.1**	(0.9)
Net cash and cash equivalents at the end of the year	11	**135.8**	70.4

1. Basis of preparation

The financial information set out in this document does not constitute statutory accounts for Essentra plc for the year ended 31 December 2020 but is extracted from the 2020 Annual Report.

The Annual Report for 2020 will be delivered to the Registrar of Companies in due course. The auditors' report on those accounts was unqualified and neither drew attention to any matters by way of emphasis nor contained a statement under either section 498(2) of Companies Act 2006 (accounting records or returns inadequate or accounts not agreeing with records and returns), or sec on 498(3) of Companies Act 2006 (failure to obtain necessary information and explanations).

The consolidated financial statements have been prepared and approved by the Directors in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applied in the European Union.

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.

At 31 December 2020, the Group's financing arrangements amounted to £448.0m, comprising United States Private Placement (USPP) of US$100.0m (with a range of expiry dates from November 2024 to April 2030) and a multi-currency revolving credit facility (RCF) of £375.0m (of which £225.0m expires in November 2023 following extension agreed with lenders in January 2021, and the remaining amount in November 2022).

At 31 December 2020, £161.2m of the RCF facility was undrawn. The facility is subject to two covenants, which are tested semi-annually: net debt to EBITDA (leverage) and EBITA to net finance charges. Despite the macroeconomic uncertainty, 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 notwithstanding the impact of current events such as Brexit and, after making enquiries including a review of forecasts and predictions, taking account of reasonably possible changes in trading performances and considering the existing banking 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 12 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 2020 and the most recent circumstances. As at 31 December 2020 and as at the date of approval of the financial statements, all of the Group's manufacturing and distribution facilities are operational and have broadly resumed to pre-pandemic levels of service. Across the Group, public health measures advised by governments are being followed in support of their efforts to contain the spread of the virus, and the supply chain is being proactively managed as are operating costs and the timing of capital expenditure.

As part of the going concern assessment, the Board has also considered a downside scenario that reflects the current uncertainty in the global economy and which we consider to be severe but plausible. The results of this scenario show that there is sufficient liquidity in the business for a period of at least 12 months from the date of approval of these financial statements, and do not indicate any covenant breach during the test period. The scenario includes assumption for similar extent of disruptions as seen in 2020. Set against this were mitigating actions including tight management of capital expenditure, sales and general overhead, and working capital. Since the first Covid-19 external announcement issued by the Company in May 2022, the Group has been cash generative and hence the liquidity position has further improved. Overall liquidity (defined as available undrawn borrowing facility plus cash and cash equivalent excluding the amount attributable to non-controlling interests) at the end of December was approximately £287m, which improved from approximately £260m at half-year, achieved by diligent cash flow management in the Company.

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. Significant level of headroom remains in place with regard to liquidity and compliance with financial covenants. Therefore, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Further information on the Group's borrowing facilities, cash resources and other financial instruments can be found in notes 11 and 17 to the financial statements.

The Directors have prepared plans and forecasts for a period of at least twelve months from the date of signing these financial statements. Based on these, 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.

In these financial statements, the Company has changed the layout of its consolidated income statement to present adjusted operating profit measure below the income statement. In addition, the description previously used for adjusting items has been changed from "exceptional and other adjusting items" to "adjusting items", whilst its scope and definition remains unchanged. Details of these items are provided in note 3.

Changes in accounting policies

The Group adopted the following new pronouncements during 2020, which did not have a material impact on the Group's financial statement:

- *Definition of Material (Amendments to IAS 1 and IAS 8)* which clarifies when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

- *Definition of a Business (Amendments to IFRS 3),* which provides guidance on whether activities and assets acquired are a business or merely a group of assets, and confirms that a business must include inputs and a substantive process that together significantly contribute to the ability to create outputs; furthermore, there has been a change to the definition of the 'outputs'.

- *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)* which is issued as a first reaction to the potential effects the IBOR reform could have on financial reporting.

- *Revised Conceptual Framework for Financial Reporting (Amendments to IFRS 9, IAS 39 and IFRS 7)*

2. Segment analysis

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

Components is a global market leading manufacturer and distributor of plastic injection moulded, vinyl dip moulded and metal items.

Packaging is one of only two multi-continental suppliers of a full secondary packaging range to the health and personal care sectors.

Filters is the only global independent supplier of innovative cigarette filters and related solutions to the tobacco industry.

Specialist Components was dissolved in 2019, and for the purposes of the comparative information, it comprised the following smaller businesses which were divested in 2019:

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

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.

							2020
	Components	**Packaging**	**Filters**	**Specialist Components**	**Eliminations**	**Central Services[1]**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
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	-	-	(22.5)	62.0
Amortisation of acquired intangible assets	(8.9)	(13.6)	(0.1)	-	-	-	(22.6)
Adjusting items	(4.7)	(9.1)	0.9	-	-	(4.8)	(17.7)
Operating profit/(loss)	**31.9**	**(8.9)**	**26.0**	**-**	**-**	**(27.3)**	**21.7**
Segment assets	149.1	218.5	186.6	-	-	23.0	577.2
Intangible assets	165.2	316.0	22.6	-	-	15.0	518.8
Unallocated items [2]	-	-	-	-	-	169.2	169.2
Total assets	**314.3**	**534.5**	**209.2**	**-**	**-**	**207.2**	**1,265.2**
Segment liabilities	60.4	85.8	56.7	-	-	30.4	233.3
Unallocated items [2]	-	-	-	-	-	400.8	400.8
Total liabilities	**60.4**	**85.8**	**56.7**	**-**	**-**	**431.2**	**634.1**
Other segment items							
Capital expenditure (cash spend)	11.8	11.0	8.5	-	-	13.8	45.1
Depreciation	7.3	13.7	10.7	-	-	5.9	37.6
Average number of employees	2,355	3,498	1,674	-	-	276	7,803

							2019
	Components	**Packaging**	**Filters**	**Specialist Components**	**Eliminations**	**Central Services[1]**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
External revenue	283.1	352.7	303.3	35.0	-	-	974.1
Intersegment revenue	0.2	-	0.3	0.2	(0.7)	-	-
Total revenue	283.3	352.7	303.6	35.2	(0.7)	-	974.1

Operating profit/(loss) before intangible amortisation and adjusting items	60.3	15.1	36.2	4.8	-	(28.9)	87.5
Amortisation of acquired intangible assets	(9.3)	(12.7)	(0.1)	(0.8)	-	-	(22.9)
Adjusting items	(1.6)	7.4	(9.2)	19.7	-	(0.9)	15.4
Operating profit/(loss)	**49.4**	**9.8**	**26.9**	**23.7**	**-**	**(29.8)**	**80.0**
Segment assets	164.1	218.9	193.9	-	-	28.1	605.0
Intangible assets	171.1	283.6	22.3	-	-	9.3	486.3
Unallocated items [2]	-	-	-	-	-	114.9	114.9
Total assets	**335.2**	**502.5**	**216.2**	**-**	**-**	**152.3**	**1,206.2**
Segment liabilities	54.1	89.2	59.0	-	-	35.6	237.9
Unallocated items [2]	-	-	-	-	-	427.5	427.5
Total liabilities	**54.1**	**89.2**	**59.0**	**-**	**-**	**463.1**	**665.4**
Other segment items							
Capital expenditure (cash spend)	14.1	13.5	16.8	0.6	-	13.9	58.9
Depreciation	7.4	12.0	10.7	0.1	-	5.3	35.5
Average number of employees	2,409	3,251	1,730	387	-	221	7,998

[1] Central Services includes executive and non-executive management, group finance, tax, treasury, legal, group assurance, human resources, information technology, corporate development, investor relations and other services provided centrally to support the operating segments.

[2] The unallocated assets relate to income and deferred tax assets, retirement benefit assets, derivatives, short-term investments, loan receivables and cash and cash equivalents. The unallocated liabilities relate to interest bearing loans and borrowings, retirement benefit obligations, derivatives, deferred tax liabilities and income tax payable. Intersegment transactions are carried out on an arm's length basis.

Continuing operations' net finance expense of £15.7m (2019: £14.5m) and income tax credit of £0.3m (2019: expense of £24.3m) cannot be meaningfully allocated by segment.

No customer accounted for more than 10% of revenue in either 2020 or 2019. Analysed by destination, revenue to Europe & Africa is £443.2m (2019: £481.0m), revenue to Americas is £277.2m (2019: £296.4m) and revenue to Asia and Middle East is £176.1m (2019: £196.7m). Revenue to the UK is £81.5m (2019: £97.2m), with other significant countries being the USA with revenue of £210.4m (2019: £221.0m), Ireland £49.5m (2019: £50.9m) and Germany £48.9m (2019: £52.5m). Non-current assets in the UK total £167.9m (2019: £166.8m), with the other significant location being the USA with £321.6m (2019: £293.6m).

3. Adjusting items

	2020	2019
	£m	£m
Losses/(gains) and transaction costs relating to acquisitions and disposals of businesses[1]	**5.7**	(15.9)
Acquisition integration and restructuring costs[2]	**0.5**	0.7
Other[3]	**11.5**	(0.2)
Adjusting items	**17.7**	(15.4)

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 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.

The previous description "exceptional and other adjusting items" has been changed to "adjusting items", whilst its scope and definition remains unchanged.

1 Losses/gains and transaction costs relating to acquisitions and disposals of businesses are made up of £0.3m gain relating to a VAT refund on the costs of a previous business disposal, £0.1m consisting of acquisition related 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 relates to external professional costs associated with certain corporate development activities during the year.

In 2019 there was a £8.9m gain on the disposal of Pipe Protection Technology, £14.9m gain on disposal of Speciality Tapes, offset by a £3.0m loss on disposal of the Extrusion business, £1.3m loss on disposal of the Card Solutions business, £1.5m costs incurred in establishing the Filters China joint venture, £0.1m costs incurred in acquiring non-controlling interest of Dubai, £0.9m costs incurred acquiring Innovative Components, and £0.8m costs incurred acquiring Nekicesa. The remaining £0.3m relates to costs incurred to date in pursuit of acquisition targets.

2 Acquisition integration and restructuring costs relates to £0.3m of costs incurred in the integration of Nekicesa, acquired in 2019, and 3C!, acquired in 2020, into the existing business. 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 into the existing business.
In 2019, acquisition integration and restructuring costs relate to the integration of; Hertila, acquired in 2018, Innovative Components, acquired in 2019, and Nekicesa, acquired in 2019, into the existing business. Included within the total is £0.1m credit relating to a release of Micro Plastics integration costs accrued.

3 Other 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.

Other adjusting items in 2019 of £0.2m relate to:

- £6.2m credit relating to the release of onerous lease liabilities, originally provided for as part of the closure of the Newport Cartons business in 2017, as a result of lease surrender being agreed with the lessor.

- £2.9m credit relating to the release of excess restructuring and closure provisions relating to the closure of the Largo and Kilmarnock sites within the Packaging division and Speciality Tapes business at Nottingham within the now dissolved Specialist Components division.
- £0.6m cost in relation to the restructure of the Group Finance function. The programme represents an initiative to streamline and restructure the Finance function, in line with managements' vision of the future of the Finance function.

- £7.5m of cost in relation to a review of the compliance of certain group companies' export activities, as previously disclosed in the 2019 Annual Report which included £3.2m of external advisory and consultancy costs involved in investigations conducted by the Group and £0.4m of costs of external resources for direct remediation actions were incurred. As a result of impact on trading transactions with certain customers, impairment losses of certain related assets (inventories, trade receivable and property, plant and equipment) amounting to £1.6m were also recognised.

- £0.7m restructuring cost relating to personnel within the now dissolved Specialist Components division not retained within the business.

- £0.1m in relation to Filters restructuring.

The tax effect of the adjusting items is a credit of £4.1m (2019: charge of £14.9m).

4. Net finance expense

	2020	2019
	£m	£m
Finance income		
Bank deposits	**0.8**	0.8
Other finance income	**0.8**	0.8

Net interest on net pension scheme assets (note 9)	**0.3**	0.5
	1.9	2.1
Finance expense		
Interest on loans and overdrafts	**(11.1)**	(12.2)
Amortisation of bank facility fees	**(0.7)**	(0.8)
Other finance expense	**(2.4)**	(0.3)
Net interest on net pension scheme liabilities (note 9)	**(1.0)**	(1.2)
Interest on leases	**(2.4)**	(2.1)
	(17.6)	(16.6)
Net finance expense	**(15.7)**	(14.5)

5. Earnings per share

	2020	2019
	£m	£m
Earnings		
Earnings attributable to equity holders of Essentra plc	**4.5**	38.4
Adjustments		
Amortisation of acquired intangible assets	**22.6**	22.9
Adjusting items	**17.7**	(15.4)
	40.3	7.5
Tax (charge)/relief on adjustments	**(9.2)**	9.8
Adjusted earnings	**35.6**	55.7

Weighted average number of shares		
Basic weighted average ordinary shares outstanding (million)	**272.7**	262.0
Dilutive effect of employee share option plans (million)	**2.0**	3.6
Diluted weighted average ordinary shares (million)	**274.7**	265.6
Earnings per share (pence)		
Basic earnings per share	**1.7p**	14.7p
Adjustment	**11.4p**	6.6p
Basic adjusted earnings per share	**13.1p**	21.3p
Diluted earnings per share	**1.6p**	14.5p
Diluted adjusted earnings per share	**13.0p**	21.0p

Adjusted earnings per share is provided to reflect the underlying earnings performance of Essentra.

The basic weighted average number of ordinary shares in issue excludes shares held in treasury and shares held by an employee benefit trust.

6. Property, plant and equipment

	Land and buildings	Plant and machinery	Fixtures, fittings and equipment	Total
				2020
	£m	**£m**	**£m**	**£m**
Cost				
Beginning of year	**81.9**	**384.8**	**78.9**	**545.6**
Acquisitions (note 12)	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)**
Transfers	-	-	(1.9)	**(1.9)**
Currency translation	(0.1)	(6.9)	(0.6)	**(7.6)**
End of year	**84.8**	**387.2**	**79.3**	**551.3**
Accumulated depreciation and impairment				
Beginning of year	**13.4**	**215.4**	**40.8**	**269.6**
Charge in period	3.7	25.5	8.4	**37.6**
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**	**45.1**	**288.3**
Net book value at end of year	**67.6**	**161.2**	**34.2**	**263.0**

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

Net book value at end of year	68.5	169.4	38.1	276.0

Included within land and buildings, plant and machinery and fixtures, fittings and equipment are assets in the course of construction of £2.1m (2019: £14.2m) which were not depreciated during the year.

Contractual commitments to purchase property, plant and equipment amounted to £1.4m at 31 December 2020 (2019: £2.0m).

During the year property, plant and equipment with a net book value of £2.5m was impaired by £2.0m to a recoverable amount of £0.5m, which represented fair value less cost to sell. £1.9m of this impairment relates to restructuring projects and has been charged to adjusting items.

7. Intangible assets

				2020
	Goodwill	**Customer relationships**	**Other intangible assets**	**Total**
	£m	**£m**	**£m**	**£m**
Cost				
Beginning of year	**339.0**	**402.1**	**23.8**	**764.9**
Acquisitions (note 12)	20.9	25.4	-	**46.3**
Additions	-	-	14.2	**14.2**
Transfer	-	-	1.9	**1.9**
Currency translation	(3.9)	(3.1)	(0.2)	**(7.2)**
End of year	**356.0**	**424.4**	**39.7**	**820.1**
Amortisation and impairment				
Beginning of year	**28.3**	**243.8**	**6.5**	**278.6**
Charge for the year	-	22.3	2.9	**25.2**
Currency translation	(0.5)	(1.8)	(0.2)	**(2.5)**
End of year	**27.8**	**264.3**	**9.2**	**301.3**
Net book value at end of year	**328.2**	**160.1**	**30.5**	**518.8**

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

Included within other intangible assets are assets in the course of construction of £15.8m (2019: £9.8m) which were not amortised 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.

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.

The weighted average remaining useful lives of customer relationships and other intangible assets at the end of the year were 8.1 years and 5.8 years (2019: 7.9 years and 6.3 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
	2020	2019
	£m	£m
Components	**95.3**	98.5
Packaging	**211.2**	190.5
Filters	**21.7**	21.7
	328.2	310.7

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

			Customer relationships and other intangible assets
		2020	2019
Business	**Operating segment**	**£m**	£m
Components - Businesses of former Moss and Skiffy	Components	**10.3**	10.7
Components - Businesses of former Richco	Components	**18.4**	22.6
Components - Business of former Mesan	Components	**3.0**	4.6
Components - Business of former Abric	Components	**8.1**	8.6
Components - Business of former MicroPlastics	Components	**4.0**	4.5
Components - Industrial Supply	Components	**2.4**	3.5
Components - Innovative Components	Components	**7.2**	8.1
Components - e-Commerce development costs	Components	**12.6**	5.2
Components - other businesses	Components	**3.9**	4.8
Packaging - Americas	Packaging	**50.3**	31.9
Packaging - Asia	Packaging	**1.2**	1.5
Packaging - Europe	Packaging	**49.1**	55.5
Packaging - Nekicesa	Packaging	**4.2**	4.2
Filters	Filters	**0.9**	0.6
No allocated to divisions - software and development costs	Central	**15.0**	9.3
		190.6	175.6

At 31 December 2020, management has performed an impairment review of the assets in each division. Following the impairment assessment, no impairment loss was recognised in 2020.

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

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

- Impairment reviews take into account the impact of IFRS 16 in both the calculation of discounted cash flows and the asset base.

- 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 4.1% to 7.5%. The average operating profit margin assumption for the next five years included within the Packaging division impairment assessment ranges from 8.3% to 11.3%. In respect of Components and Filters, the combined average operating profit margin over the five year forecast period is assumed to improve by 260 bps from 2020.

- 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 7.8%.

- 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 7.3% (2019: 7.5%). The specific pre-tax discount rates applied for each group of cash generating units to which significant goodwill is allocated are as follows: 8.8% for Packaging, 9.4% for Components and 9.7% for Filters (2019: 9.0% for Packaging, 9.7% for Components and 9.5% 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 1.5% p.a. (2019: 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 Packaging division impairment test has historically been the most sensitive to changes in assumptions, therefore management have 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 300 basis points
- A reduction of 510 basis points in the operating profit margin in the terminal year
- A reduction of 410 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 £143.8m
- A 1.0% reduction in the terminal growth rate would reduce headroom to £162.8m
- A 1.5% reduction in each year's growth rate would reduce headroom to £218.9m
- A 2.0% reduction in operating profit margin in the terminal year would reduce headroom to £153.2m

8. Lease right-of-use assets

				2020
	Land and buildings	Plant and machinery	Fixtures, fittings and equipment	Total
	£m	£m	£m	£m
Cost				
Beginning of year	**84.4**	**14.6**	**0.2**	**99.2**
Additions	19.5	2.2	0.2	**21.9**
Terminations	(2.5)	(2.9)	-	**(5.4)**
Acquisitions (note 12)	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**

				2019

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

During the year lease right-of-use assets with a net book value of £2.7m was impaired to a net book value of £1.0m. This £1.7m impairment charge related to site closures as disclosed in adjusting items section of note 3. The assets were written down to their recoverable amount, which represented their fair value.

For the year ended 31 December 2020 the weighted average lessee's incremental borrowing rate applied to the lease liabilities was 5.1% (2019: 3.9%).

9. Employee benefits

Post-employment benefits

Pension costs of the defined benefit schemes are assessed in accordance with the advice of independent professionally qualified actuaries. Full triennial actuarial valuations were carried out on the principal European defined benefit schemes as at 5 April 2018 and annual actuarial valuations are performed on the principal US defined benefit schemes. The assets and liabilities of the defined benefit schemes have been updated to the balance sheet date from the most recently completed actuarial valuations taking account of the investment returns achieved by the schemes and the level of contributions.

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

	2020	2019
	£m	£m
Amounts expensed against operating profit		
Defined contribution schemes	**7.2**	7.5
Defined benefit schemes - current service cost	**1.6**	1.7
Defined benefit schemes - curtailment gain	**(0.4)**	-
Other post-employment obligations	**0.5**	0.5
Total operating expense	**8.9**	9.7
Amounts included as finance (income)/expense		
Net interest on defined benefit scheme assets (note 4)	**(0.3)**	(0.5)
Net interest on defined benefit scheme liabilities (note 4)	**1.0**	1.2
Net finance expense	**0.7**	0.7
Amounts recognised in the consolidated statement of comprehensive income		
Return on defined benefit scheme assets excluding amounts in net finance income	**(32.4)**	(29.6)
Impact of changes in assumptions and experience to the present value of defined benefit scheme liabilities	**39.1**	34.5
Remeasurement of defined benefit schemes	**6.7**	4.9

The defined benefit schemes' curtailment gain of £0.4m (2019: £nil) has been included within adjusting items (see note 3).

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

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

		2020		2019
	Europe	**US**	Europe	US

Increase in salaries (pre-2010)[1]	**n/a**	**n/a**	n/a	n/a
Increase in salaries (post-2010)[1]	**n/a**	**n/a**	n/a	n/a
Increase in pensions[1]				
at RPI capped at 5%	**2.70%**	**n/a**	2.90%	n/a
at CPI capped at 5%	**2.20%**	**n/a**	2.10%	n/a
at CPI minimum 3%, capped at 5%	**3.10%**	**n/a**	3.10%	n/a
at CPI capped at 2.5%	**1.90%**	**n/a**	1.90%	n/a
Discount rate	**1.30%**	**2.45%**	2.10%	3.15%
Inflation rate - RPI	**2.70%**	**n/a**	3.00%	n/a
Inflation rate - CPI	**2.20%**	**n/a**	2.10%	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:

		2020		2019
	Europe	**US**	Europe	US
Male retiring today at age 65	**22.5**	**20.4**	22.3	20.6
Female retiring today at age 65	**24.3**	**22.4**	24.2	22.6
Male retiring in 20 years at age 65	**23.8**	**21.9**	23.7	22.2
Female retiring in 20 years at age 65	**25.7**	**23.8**	25.6	24.1

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

				2020				2019
	Defined benefit pension scheme assets	**Defined benefit pension scheme liabilities**	**Other**	**Total**	Defined benefit pension scheme assets	Defined benefit pension scheme liabilities	Other	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Beginning of year	**287.8**	**(301.2)**	**(4.0)**	**(17.4)**	261.3	(272.2)	(3.0)	(13.9)
Current service cost and administrative expense	**(1.6)**	**-**	**(0.5)**	**(2.1)**	(1.7)	-	(0.5)	(2.2)
Past service cost	**-**	**-**	**-**	**-**	-	-	-	-
Employer contributions	**1.1**	**0.1**	**-**	**1.2**	3.4	0.1	-	3.5
Return on plan assets excluding amounts in net finance income	**32.4**	**-**	**-**	**32.4**	29.6	-	-	29.6
Actuarial (losses)/gain arising from change in financial assumptions	**-**	**(39.0)**	**0.2**	**(38.8)**	-	(38.1)	(0.2)	(38.3)
Actuarial gains arising from change in demographic assumptions	**-**	**1.9**	**-**	**1.9**	-	3.0	-	3.0
Actuarial gains arising from experience adjustment	**-**	**(2.2)**	**-**	**(2.2)**	-	0.8	-	0.8
Finance income/(expense)	**6.4**	**(6.9)**	**(0.2)**	**(0.7)**	8.1	(8.6)	(0.2)	(0.7)
Benefits paid	**(12.0)**	**12.0**	**-**	**-**	(11.2)	11.2	-	-
Curtailments	**-**	**-**	**0.4**	**0.4**	-	-	-	-
Currency translation	**(2.1)**	**3.3**	**0.2**	**1.4**	(1.7)	2.6	(0.1)	0.8
Business disposals	**-**	**-**	**-**	**-**	-	-	-	-
End of year	**312.0**	**(332.0)**	**(3.9)**	**(23.9)**	287.8	(301.2)	(4.0)	(17.4)

Sensitivity
For the significant assumptions used in determining defined benefit costs and liabilities, the following sensitivity analysis gives the estimate of the impact on the measurement of the scheme liabilities as at 31 December 2020.

	(Increase) / decrease in schemes net liabilities		
	Europe	US	**Total**
	£m	£m	**£m**
0.5% decrease in the discount rate	(25.2)	(5.4)	**(30.6)**
1.0% increase in the rate of inflation	(25.0)	n/a	**(25.0)**
1.0% increase in rate of salary/pension increases	n/a	n/a	**n/a**
1 year increase in life expectancy	(10.9)	(2.8)	**(13.7)**
1 year decrease in life expectancy	11.0	n/a	**11.0**
0.5% increase in the discount rate	22.0	4.9	**26.9**
1.0% decrease in rate of salary/pension increases	n/a	n/a	**n/a**
1.0% decrease in the rate of inflation	18.9	n/a	**18.9**

10. Issued share capital

	2020	2019
	£m	£m
Issued, authorised and fully paid ordinary shares of 25p (2019: 25p) each	**75.6**	66.0
Number of ordinary shares in issue		
Beginning of year	**264,129,170**	264,129,170
Issue of shares during the year	**38,461,538**	-
End of year	**302,590,708**	264,129,170

The issue of share capital during the year was in relation to a placement offering of 38,461,538 new shares with par value of 25p issued at 260p per share. Company has raised £96.7m through this issue of share capital. An amount of £87.1m has recognised within the merger relief reserve being the excess of net proceeds over the nominal value of shares issued under s612 of the Companies Act 2006.

At 31 December 2020, the Company held 908,650 (2019: 951,137) of its own shares with a nominal value of £0.2m (2019: £0.2m) in treasury. This represents 0.3% (2019: 0.4%) of the number of ordinary shares in issue.

11. Analysis of net debt

	1 Jan 2020	Cash flow	Business combinations	Lease additions	Exchange movements	Non-cash movements	31 Dec 2020
	£m	£m	£m	£m	£m	£m	£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. During the year £9.6m of lease liabilities moved from due after one year to due within one year.

During the year £5.0m was received in respect of the loan receivables arising from the disposal of Porous Technologies held in other financial assets as at 31 December 2019.

	1 Jan 2019	Impact on adoption of IFRS 16	Cash flow	Business combinations	Lease additions	Exchange movements	Non-cash movements	31 Dec 2019
	£m	£m	£m	£m	£m	£m	£m	£m

Cash at bank and in hand	62.3	-	0.8	-	-	(0.5)	-	62.6
Short-term deposits and investments	3.9	-	4.3	-	-	(0.4)	-	7.8
Cash and cash equivalents in the statement of cash flows	66.2	-	5.1	-	-	(0.9)	-	70.4
Debt due within one year	(0.1)	-	0.1	-	-	-	(60.7)	(60.7)
Debt due after one year	(311.2)	-	10.0	(13.8)	-	6.1	59.9	(249.0)
Lease liabilities due within one year	-	(11.7)	14.5	(0.5)	(1.6)	0.3	(12.4)	(11.4)
Lease liabilities due after one year	-	(47.7)	-	(1.7)	(11.7)	1.1	20.7	(39.3)
Debt from financing activities	(311.3)	(59.4)	24.6	(16.0)	(13.3)	7.5	7.5	(360.4)
Other financial assets	5.0	-	0.6	-	-	-	-	5.6
Net debt	(240.1)	(59.4)	30.3	(16.0)	(13.3)	6.6	7.5	(284.4)

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

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

12. Acquisitions and disposals

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. The Company's capital contribution into this business is US$10.3m, to be paid in three equal instalments over 18 months following its establishment. As at 31 December 2020 the Company has paid two of these three instalments.

Acquisition of Nekicesa

On 6 September 2019, Essentra acquired 100% of the share capital of Nekicesa Packaging S.L. ("Nekicesa"). Due to the timing of the transaction, the purchase price allocations including the goodwill and fair value adjustments included in the financial statements for the year ended 31 December 2019 were provisional.

During 2020, Essentra reassessed the fair value adjustments and made changes to the carrying amounts of certain plant, property and equipment, inventory, payables and deferred tax balances. The impact on goodwill is an increase of £0.9m.

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"). Due to the timing of the transaction, the purchase price allocations including the goodwill and fair value adjustments included in the financial statements for the year ended 31 December 2019 were provisional.

During 2020, Essentra reassessed the fair value adjustments and made changes to the carrying amounts of certain accruals, payables, receivables, provisions and deferred tax balances. In addition to this Essentra received back £0.2m of the consideration originally paid from the vendors on finalisation of the completion accounts. The net impact on goodwill is an increase of £0.2m.

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.

On acquisition the assets and liabilities of the business acquired were adjusted to reflect their fair value to Essentra. Due to the timing of the transaction, the purchase price allocations including the split between goodwill and intangible assets and fair value adjustments are provisional and subject to finalisation for up to one year from the date of acquisition.

Had the acquisition been completed on 1 January 2020, the contribution to the Group's revenue and operating profit would have been £28.2m and £3.6m higher respectively.

Within adjusting items in the consolidated income statement are £1.2m of costs incurred in acquiring the business.

The fair value of assets and liabilities acquired as part of the acquisition of 3C! are detailed below:

	3C! £m
Intangible assets	25.4
Property, plant and equipment	7.5
Lease right-of-use asset	2.5
Inventories	2.2
Trade and other receivables	4.8
Cash and cash equivalents	0.7
Deferred tax	(6.9)
Debt	(4.1)
Trade and other payables	(6.9)
Provisions	(0.2)
Lease liabilities	(2.5)
	22.5
Goodwill	19.8
Consideration	42.3
Satisfied by:	
Cash consideration	42.1
Deferred consideration	0.2
Cash consideration	42.1
Cash and cash equivalents acquired	(0.7)
Net cash outflow in respect of the acquisition	**41.4**

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

Fair values of assets and liabilities, including property, plant and equipment, acquired for 3C! are provisional and subject to change as the Group is still permitted to make fair value adjustments up until 12 months after the date of acquisition.

2019: Disposals

On 14 January 2019, Essentra divested of its Pipe Protection Technologies business ("PPT") to certain wholly-owned subsidiaries of National Oilwell Varco, Inc. This disposal resulted in a gain before tax of £11.2m and was treated as an adjusting item. Proceeds of £38.5m were received in respect of this transaction with £37.5m received on completion and £1.0m deferred, all of which was received in 2019. Included within the net assets disposed was goodwill attributed to the business with a carrying value of £10.1m.

On 11 June 2019, Essentra divested of its Extrusion business to Inter Primo A/S. This disposal resulted in a loss before tax of £1.8m and was treated as an adjusting item. Proceeds of £14.3m were received in respect of this transaction. Included within the net assets disposed was goodwill attributed to the business with a carrying value of £3.7m.

On 28 June 2019, Essentra divested of its Speciality Tapes business ("ST") to OpenGate Capital. This disposal resulted in a gain before tax of £20.0m and was treated as an adjusting item. Proceeds of £60.8m were received in respect of this transaction. Included within the net assets disposed was goodwill and customer relationship intangibles attributed to the business with a carrying value of £27.4 and £8.6m respectively.

On 23 July 2019, Essentra divested of its Cards Solution business to Barcodes, Inc. This disposal resulted in a loss before tax of £1.1m and was treated as an adjusting item. Proceeds of £1.6m were received in respect of this transaction. Included within the net assets disposed was goodwill and customer relationship intangibles attributed to the business with a carrying value of £0.4 and £0.8m respectively.

13. Dividends

	Per share		Total	
	2020	2019	**2020**	2019
	p	p	**£m**	£m
2019 interim: paid 30 October 2019		6.3	**-**	16.5
2020 proposed final: payable 1 June 2021	**3.3**	-	**10.0**	-

During the year ended 31 December 2019 a final dividend of 14.4p was initially declared but then subsequently cancelled in 2020.

14. Related parties

Other than the compensation of key management and the capital injection into the Filters joint venture entity China Tobacco Essentra (Xiamen) Filters Co., Ltd. (note 12), Essentra has not entered into any material transactions with related parties since the last Annual Report.

ITC Essentra Limited is 50% owned by the Group. The results were fully consolidated within the Group's financial statements as it is deemed Essentra has control by virtue of having control of the board. As at 31 December 2020 the entity had gross assets of £24.3m (2019: £25.9m) and gross liabilities of £7.4m (2019: £10.4m). Operating profit for the year amounted to £4.8m (2019: £6.3m) and movement in cash for the year amounted to £1.7m (2019: £3.8m).

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 2020 the entity had gross assets of £9.9m (2019: £nil) and gross liabilities of £nil (2019: £nil). Operating loss for the year amounted to £0.1m (2019: £nil) and movement in cash for the year amounted to £9.9m (2019: £nil).

15. Post balance sheet events

As noted in note 11, 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.

16. Adjusted measures

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

		2020	2019
	Note	**£m**	£m
Operating profit		**21.7**	80.0
Amortisation of acquired intangible assets		**22.6**	22.9
Adjusting items	3	**17.7**	(15.4)
Adjusted operating profit		**62.0**	87.5
Finance income	4	**1.9**	2.1
Finance expenses	4	**(17.6)**	(16.6)
Adjusted profit before income tax		**46.3**	73.0
Tax on adjusted profit		**(8.9)**	(14.5)
Adjusted profit		**37.4**	58.5
Attributable to:			
Equity holders of Essentra plc		**35.6**	55.7
Non-controlling interests		**1.8**	2.8
Adjusted profit		**37.4**	58.5
Adjusted earnings per share	5	**13.1p**	21.3p
Adjusted diluted earnings per share	5	**13.0p**	21.0p

Adjusted operating cash flow is net cash flow from operating activities, excluding income tax paid, pensions adjustments, and cash flows relating to adjusting items, less net capital expenditure. It is a measure of the underlying cash generation of the business. Net capital expenditure is included in this measure as management regard investment in operational assets (tangible and intangible) as integral to the underlying cash generation capability of the Company.

	2020	2019
	£m	£m
Adjusted operating profit	**62.0**	87.5
Depreciation	**37.6**	35.5
Lease right-of-use asset depreciation	**12.0**	11.3
Amortisation of non-acquired intangible assets	**2.6**	0.9
Share option expense	**1.2**	3.9
Other non-cash items[1]	**(0.6)**	(0.4)
Working capital movements	**6.2**	(10.3)
Net capital expenditure[2]	**(44.7)**	(56.6)
Operating cash flow - adjusted	**76.3**	71.8
Reconciliation of cash flows from adjusting items:		
Adjusting items as shown on income statement	**17.7**	(15.4)
Non-cash (charge)/credit in adjusting items	**(9.8)**	0.6

Net gain on disposal of businesses	**-**	28.3
Cash outflow on adjusting items recognised in the year	**7.9**	13.5
Utilisation of prior period and acquired accruals and provisions	**3.0**	11.1
Cash outflow from adjusting items	**10.9**	24.6

[1]Other non-cash items comprise impairment of fixed assets £0.1m (2019: £0.5m), hedging activities and other movements £1.3m (2019: £0.4m), and movement in provisions £nil (2019: negative £1.3m) less Profit on lease termination £2.0m (2019: £nil).

[2] Net capital expenditure within adjusted operating cash flow excludes £nil (2019: £0.3m) of property, plant and equipment disposal proceeds realised during site closures which relate to adjusting items.

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

	2020	2019
	£m	£m
Operating profit before intangible amortisation and adjusting items	**62.0**	87.5
Plus depreciation and other amounts written off property, plant and equipment, and amortisation of non-acquired intangible assets	**52.3**	48.2
Plus share option expense	**1.2**	3.9
EBITDA	**115.5**	139.6

17. Financial risk management

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.

			2020			2019
	Fair value £m	**Amortised cost £m**	**Total carrying value £m**	Fair value £m	Amortised cost £m	Total carrying value £m
Trade and other receivables	-	151.8	**151.8**	-	162.0	162.0
Cash and cash equivalents	-	135.8	**135.8**	-	70.4	70.4
Other financial assets	-	-	**-**	-	6.2	6.2
Interest bearing loans and borrowings	-	(285.2)	**(285.2)**	-	(309.7)	(309.7)
Lease liabilities	-	(61.0)	**(61.0)**	-	(50.7)	(50.7)
Trade and other payables	-	(143.1)	**(143.1)**	-	(166.5)	(166.5)
Level 2 of fair value hierarchy						
Derivative assets	0.3	-	**0.3**	0.8	-	0.8
Derivative liabilities	(0.5)	-	**(0.5)**	(0.3)	-	(0.3)
Level 3 of fair value hierarchy						
Trade and other payables	(3.2)	-	**(3.2)**	(3.4)	-	(3.4)
Other non-current financial liabilities	(1.2)	-	**(1.2)**	(0.9)	-	(0.9)
	(4.6)	**(201.7)**	**(206.3)**	(3.8)	(288.3)	(292.1)

Total trade and other receivables carried at £158.9m (2019: £172.5m) include prepayments of £7.1m (2019: £10.5m) which are not financial assets and are therefore excluded from the above analysis. Fair values of forward foreign exchange contracts and cross currency swaps have been calculated at year end forward exchange rates compared to contracted rates. These are determined to be level 2 in the fair value hierarchy.

Included within trade and other payables and other non-current financial liabilities, which is classified as level 3 in the fair value hierarchy, is the deferred consideration of £4.4m relating to the acquisitions of Micro Plastics, Innovative Components and 3C! (2019: £4.3m). There are no non-recurring fair value measurements. During the year, no fair value gain or loss (2019: £nil) was recognised in respect of financial instruments at level 3 fair value hierarchy, and £nil (2019: £nil) was settled in cash. No other fair value gains or losses were recorded in profit or loss and other comprehensive income.

Included within interest bearing loans and borrowings are $100m (2019: $155m) US Private Placement Loan Notes. The Loan Notes are held at amortised cost with a carrying value of £72.6m (2019: £117.1m). The Group estimates that the total fair value of the Loan Notes at 31 December 2020 is £78.5m (2019: £121.1m).

18. Cautionary forward-looking statements

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

19. Directors' responsibility statement

We confirm that to the best of our knowledge

- the Group financial statements, which have been prepared in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the announcement includes a fair review of the development and performance of the business and the position of the Group and company, together with a description of the principal risks and uncertainties that it faces

On behalf of the Board

Paul Forman	Lily Liu
Chief Executive	Chief Financial Officer

5 March 2021

Risk Management Report

RESPONDING TO COVID-19 DISRUPTION IN 2020

The preparation of the Essentra risk management report for 2019 was completed before COVID-19 escalated from an issue apparently confined to China to a global pandemic leading to disruption to societies and economies on a scale that few ever imagined.

Similar to many we did not have pandemic as a Principal Risk or as an emerging threat likely to cause major disruption to our business at the beginning of 2020 but as we moved through the year we continued to challenge our assessment of our Principal Risks, our risk mitigation activities and our overall risk profile to ensure it appropriately reflected the changes in the risk environment, particularly given the uncertainties which dominated global business prospects and operations due to COVID-19.

As the likely extent of the pandemic became clearer, so the Company's crisis management response saw the GMC meeting at least three times a week and the Board at least once, enabling swift response and action to changes in the risk profile with a focus on health and safety, supporting our customers and the cash position. As time progressed, the cadence of such meetings has decreased but the GMC continues to meet at least once a week to assess the latest COVID-19 developments and to ensure that we are well positioned for future growth in the context of the changes in the business and social environments.

Whilst during 2020 we and our employees faced many new and different challenges as a result of COVID-19 we believe our risk management approach and framework enabled us to respond quickly and robustly to the issues which arose across our sites and in international supply chains.

As a result of COVID-19 we identified a number of learnings we are confident we can take to drive further improvement in our risk management activities to enhance our capability to identify, assess and respond effectively to potential threats or future disruption to our business and to ensure a strong foundation to support our future growth objectives.

Looking ahead to 2021, the COVID-19 pandemic, including the potential impact of further variants, remains a global crisis, and at the date of this report the situation remains volatile and uncertain across many areas of the world. Whilst the Company's risk landscape has changed to reflect the impacts of COVID-19 we believe that our focused risk management efforts across the Company have enabled an agile and resilient response to the unrivalled challenges posed by the pandemic and delivered effective mitigating actions.

The impact of COVID-19 has tested and challenged the effectiveness of our approach to risk and its management. We adapted our ways of working as needed and are confident that our risk management framework responded effectively in protecting value during the year. As we build for the future there remains a continued focus on enhancing our approach to risk management and building on the lessons learnt in 2020 to ensure risk management practices continue to not only protect stakeholder value but to support its creation in line with our strategic growth objectives.

There are risks emerging that the second or subsequent further waves of COVID-19 will handicap recovery and return-to-work plans with continued disruption across supply chains and societies. The successful adoption of a new working model, based around social distancing requirements, workspace and office transformations, augmented work schedules, reduced travel and continued remote working will require careful planning and successful change management to ensure a transition which provides opportunity and benefit for our business and our people as opposed to a threat to our operations and the wellbeing of our employees.

Whilst COVID-19 has taken the majority of the headlines in 2020, it has also been important for us to continue to scan the horizon for additional new, emerging or disruptive risks which could significantly impact the Company's ability to meet its strategic growth objectives. Despite the focus on mitigating the impacts of COVID-19, we have paid close attention to the increasing momentum associated with the risk agendas for ESG and climate change, whilst the potential impacts of international trade deals and the US election results have also been on our risk radar during the year.

RISK MANAGEMENT APPROACH

Our risk management activities aim to drive performance aligned to our purpose, encourage growth through innovation and support the achievement of our strategic objectives. In doing this, we take a balanced approach that puts risk management at the core of the senior management agenda. We are committed to managing risks in a proactive and effective manner to protect and enhance value, and provide assurance to the Board and our stakeholders.

We have continued to make good progress in improving our risk management processes in 2020 as we continue to ensure our risk management processes are aligned with FTSE 250 upper quartile practice. This included a number of initiatives to drive enhanced risk reporting and further embed risk activities to improve risk culture across the Company. Particular focus was placed on assigning responsibility and accountability for Principal and Emerging Risks, particularly those risks that cut across divisions and enabling functions. The approach continues to be adopted from ISO 31000 Risk Management guidelines and includes a RACI (responsible, accountable, consult and inform) matrix to drive clear responsibility and accountability.

RISK MANAGEMENT FRAMEWORK

There is a risk management framework for identifying and managing risk within defined appetite levels, in relation to both operations and strategy. The framework has been designed to provide the Group Risk Committee (GRC) and the Board with a clear line of sight over risk and to enable informed decision-making.

Our risk management framework continues to evolve in line with best practice to ensure that it supports the Company's growth and strategic objectives. A robust, but flexible, approach to the management of risk is fundamental to the continued success of the Company. In 2020 the challenges presented by the COVID-19 pandemic included relocation of staff, remote working and temporary inaccessibility of some business locations. A clear focus was placed on accommodating new ways of working and ensuring the continued operation of our risk management framework. Through regular discussions and virtual workshops with all divisional and enabling function leadership teams, we ensured clear accountability for the identification, assessment, and mitigation of risks throughout the Company.

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

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

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

• identify the Company's significant risks and appropriate mitigating actions

• formulate the risk appetite and ensure that our business profile and plans are consistent with it

• ensure that growth plans are properly supported by an effective risk infrastructure

• help management teams to improve the control and co-ordination of risk-taking across the Company

STRENGTHENING OUR FRAMEWORK

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

In 2020 the Group Assurance team engaged directly with divisional and enabling functions leadership teams on the development of their risk registers and risk reporting practices. This included conducting virtual risk knowledge workshops, in line with ISO 31000, to drive a consistent understanding and application of risk. Each workshop included a discussion of the Board-approved rating criteria for financial and reputational impact and likelihood, to ensure that a consistent rating based on risk to the Company is applied. In 2020 we paid particular attention to emerging risks and on ensuring clarity across roles and responsibilities for those risks that cut across divisions and enabling functions. Principal Risks were subject to deep dives during the year at Board and GRC meetings using a standard reporting template. This enabled consistency of risk reporting across the Company.

In 2021 we will build on lessons learnt from COVID-19 as we seek to further improve our risk management practices. A key focus will be placed on further embedding risk culture and streamlining processes across the Company, ensuring risk management remains an integral part of all business activities.

RISK GOVERNANCE STRUCTURE AND OVERSIGHT

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

The GRC met eight times in 2020, each meeting with a full attendance. The GRC is chaired by the Chief Executive and its membership comprises the GMC members, Head of Legal, Group Head of Assurance and Head of Communications. Non-member standing attendees are the Group Health, Safety and Environment Director and the Group Financial Controller. Other members of senior management are also invited to present reports on risk activities. We also welcomed external presentations from subject matter experts on topics including ESG and sustainability. The Chair of the Audit and Risk Committee has a standing invite to attend all GRC meetings and receives copies of the minutes of every meeting.

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

As an important part of fulfilling its responsibilities the Board receives regular reporting from the Chief Executive in his capacity as GRC Chairman to enable the Board to challenge and review the GRC's views on key risks.

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

The divisional and enabling functions leadership teams undertake regular reviews during the course of the year and engage in facilitated discussions with Group Assurance to consider the risk environment for their particular functional or geographic area of responsibility and how these could impact on the achievement of the Company's strategic objectives.

PRINCIPAL RISKS

The GRC has responsibility for overseeing Essentra's Principal Risks. Our Risk Management approach in relation to COVID-19 has been to consider the completeness and appropriateness of our Principal Risks. Whilst COVID-19 has not been identified as a standalone Principal Risk, we have considered its impact on each of our Principal Risks and our risk appetite. Where necessary we have identified suitable mitigating actions. A top-down and a bottom-up assessment is undertaken to identify our Principal Risks. The assessment is performed against the four risk categories.

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

As part of our top-down process, an updated assessment was completed for each Principal Risk by the GRC. This top-down assessment required each GRC risk owner to provide analysis on material changes in the risk they manage and whether they consider it to have more or less impact during the course of the year on achievement of our strategic objectives.

These individual responses were consolidated, the GRC then discussed and reached a consensus regarding Principal Risks that can seriously affect the performance, future prospects or reputation of Essentra. The outputs from the GRC assessments were then presented to the Board for approval along with the recommendation of Principal Risks to be included in the longer term viability (LTVS) testing.

The Board believes the Principal Risks are specific to Essentra and reflect the risk profile of the Company at the current time. All Principal Risks are managed within their individual risk appetite. As a result, the 12 Principal Risks are a combination of one new, as disclosed at half year, and 11 previously disclosed risks.

The Board and GRC evaluate the potential effects of Principal Risks materialising over a three-year period to understand how they could impact the Company's long-term viability.

The evaluation is based on plausible worst case scenarios.

To make this evaluation, the estimated financial impact of each Principal Risk crystallising was considered. The Board and GRC assessed the potential impact on the Company's viability, based on selected severe plausible risk scenarios. These were developed in conjunction with senior management.

In addition to the Principal Risks, Emerging Risks and wider key risks have been identified and are being monitored by the Company. Mitigation actions in response to such risks are an important part of the divisional and enabling functions risk reporting to the GRC and Board.

KEY CHANGES DURING THE YEAR

During 2020 we undertook a robust review of our risk profile. At half year we disclosed the following key changes:

• One new Principal Risk, Exposure to the Cyclical Industrial Market (Components division), was identified to capture the risk that changes to the Components division cost base and business model do not happen quickly enough or are not robust enough to minimise the impact on operating margins as a result of cyclical downturns in global industrial production.

• Geopolitical Risk was removed as an Emerging Risk and incorporated within the Macro-economic and Trade Deal Uncertainty Principal Risk.

• An additional Emerging Risk in relation to the changing structure of the debt market was identified.

• The likelihood assessment of six Principal Risks was increased: PR3 Delivery of Strategic Projects, PR5 Cyber Attack, PR7 Business Continuity Planning and Management, PR8 Environmental, Social and Governance, PR9 Internal Processes and Control and PR10 Safety, Health and Wellbeing. The impact assessment of PR7 Business Continuity Planning and Management was also increased. Since our half year disclosure we undertook further review of risk profile and do not believe there has been any further change the impact or likelihood assessments of our Principal Risk profiles.

A key change since our half year disclosure includes:

• Removal of Climate Change risk as an Emerging Risk. We have elevated the profile of this risk and considered it as part of our wider ESG Principal Risk. Please refer to the detailed Principal Risk disclosure which details the initiatives being undertaken in this area including fulfilment our obligations under TCFD requirements.

EMERGING RISKS

We define Emerging Risk as a changing risk or a novel combination of risks for which there is no track record or previous experience by which the impact, likelihood or costs can be understood. Its potential impact is viewed as being two years or more in the future. We strongly believe that identification and appropriate challenge to the management and mitigation of Emerging Risks is critical to our long-term success.

Emerging Risks have the potential to increase in significance and affect the performance of the Company and as such are continually monitored through our existing risk management processes. Our risk management process ensures Emerging Risks are identified and aids the GRC and the Board's assessment of whether the Company is adequately prepared for the potential opportunities and threats they present. The process enables new and changing risks to be identified at an early stage so we can analyse them thoroughly and assess any potential exposure. We undertake a top-down and a bottom up assessment to identify Emerging Risks. Risk management workshops for divisional and enabling functions leadership teams were facilitated by the Group Assurance function this year, to provide a bottom-up view of Emerging Risks. These workshops include discussion of potential Emerging Risks based on externally sourced Emerging Risk data. The Company's potential exposure is assessed against the Board's approved risk measurement criteria. The process enables new and changing risks to be identified at an early stage so we can analyse them thoroughly and assess potential exposure. The preliminary view on Emerging Risks were consolidated and discussed by the GRC to reach a consensus regarding Emerging Risks that can seriously affect the performance, future prospects or reputation of Essentra. The outputs from the GRC assessments were presented to the Board for approval along with the recommendation to develop appropriate response strategies. The GRC and the Board have undertaken a rigorous assessment of Emerging Risks during 2020 and have established procedures to closely monitor Emerging Risks on an ongoing basis including:

• the GRC's terms of reference require it to review the Group's ability to identify Emerging Risks

• Emerging Risks is a standing agenda item at each GRC meeting and each Emerging Risk will be subject to a deep dive

• external specialist input will be sought where required

• identified Emerging Risks have been assigned an owner who is both a GRC and GMC member. The Emerging Risk owner is responsible for providing an update on the development of Emerging Risks and activities in response at each meeting

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

STRATEGIC RISKS

Failure to Achieve Acceptable Returns from the Packaging Division

Change in risk level: Unchanged

Ownership: Packaging Division Managing Director

Relevance: Company specific

Description

The potential for a failure to deliver improving returns each year and demonstrating delivery of industry average returns by end of 2021 has been identified as a Principal Risk since 2017. This risk includes the potential of the Packaging business failing to deliver new business wins, expected cost savings or acceptable returns. COVID-19 There has been no change in the risk profile; COVID-19 has impacted our ability to deliver growth in 2020 with the underlying pharmaceutical market in particular disrupted by the lack of patient visits to GPs and significantly fewer elective surgeries resulting in lower demand for branded and generic drugs, however subject to the pharmaceutical market recovering in H1 2021, the division is on track to deliver margin in line with the lower end of the industry average range by 2021.

Mitigation

This Principal Risk is addressed annually with the development of the business strategy and plan. Both strategy and plan reflect this risk, and key initiatives are developed to further improve business performance. Key mitigation actions include:

• strengthening the existing value proposition for customers using the knowledge and expertise from our recent acquisition of 3C! and Nekicesa to support the continuing top line growth and margin improvement

• continuing to drive cost savings through operational continuous improvement projects at each manufacturing site, efficiency improvements through investment in new equipment, procurement initiatives

• continuing to optimise the manufacturing supply chain and overhead costs

• maintaining our focus on key account management and enhancing this with capabilities to support local customer site problem solving

• continued delivery against key customer performance metrics of quality, On-Time-In Full, manufacturing lead times, safety and supply chain efficiency.

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

Tobacco Industry Dynamics

Change in risk level Unchanged

Ownership: Filters Division Managing Director

Relevance: Company specific

Description

The Filters division supplies filter products and packaging solutions to manufacturers in the tobacco industry. Changes in the traditional tobacco market present both opportunities and risks for the division. Whilst the Company has a strong market position the future growth opportunities may be affected by dynamics of the tobacco industry such as the declining combustible markets, shifting towards Next Generation Products (NGP) as well as moving towards other tobacco substitutes. The focus of stakeholders on ESG objectives provides an additional area of challenge for the business. There is continued legislation to reduce smoking prevalence and promote the use of more sustainable products and practices, for example the EU Single Use Plastics Directive. This presents an opportunity for growth through our sustainable product portfolio. The change in global consumption and end markets for our products requires increased oversight of where our products are used and a robust regulatory framework. Tobacco-related litigation could also affect Essentra, although there is no history of the Company being involved in such a claim.

COVID-19 2020 saw a notable impact of COVID-19 accelerating volume declines in the combustible market, postponement of new product introductions and disruption of the duty free market due to global travel restrictions. These factors have, in turn, placed further cost pressures on both our customers and suppliers. There was considerable disruption in the first half of the year caused by the global pandemic but a strong second half of the year demonstrated that underlying demand remains in place. Greater stability should also be achieved through full year impact of the two significant outsourcing contracts in 2021 and first commercial production from our Joint Venture Company in China, the world's largest tobacco market. In addition, our focus on innovation is delivering a pipeline of new products that we believe can deliver a competitive advantage in 2021 and beyond. Essentra is well placed to compete and succeed as we continue to drive our operational and innovation capabilities in line with key market trends. A number of initiatives are targeted to be completed in 2021 which are anticipated to minimise the risk over time.

Mitigation

Essentra is mitigating the risk associated with changes in the tobacco market dynamics by focusing on activities with longer-term viability and exploiting potential growth opportunities. This includes progressing on our "game changers" and increasing our innovation capabilities especially around NGP and sustainability. Key mitigating actions include:

• establishing the manufacturing facility of our China JV to allow first product shipments in H1 2021 within the world's largest tobacco market

• implementation of the two outsourcing contracts agreed in 2019, now both in full supply. One additional contract has been agreed with an independent customer in 2020

• enhanced innovation capabilities resulting in multiple product patent applications in the key segments of NGP and sustainability

• operational KPIs continue to improve with an additional focus on lead time reduction in 2020 to ensure our customers continue to get the best possible service

• implementation of key account management has provided a more robust pipeline, as demonstrated by continued outsourcing wins

• the integration of the Tapes business provides new growth opportunities in Food and Beverage and e-Commerce segments

• building on lessons learnt to further enhance our compliance programme to further develop a robust regulatory framework.

Delivery of Strategic Projects

Change in risk level: Increased

Ownership: Strategy and Commercial Director

Relevance: Company specific

Description

The Company's success is dependent on its ability to deliver key strategic projects on time and within budget, to realise their full potential. The Company invests in, and delivers, significant strategic, operational and capital expenditure projects in order to drive the business forward, for example our ongoing Business Process Redesign implementation. In line with our strategic plans, this project approach also includes the acquisition and disposal of businesses. Failure to deliver such key projects effectively and efficiently could result in significantly increased project costs and impede our ability to execute our strategic plans. COVID-19 During 2020 as a result of COVID-19 impacts and restrictions; we encountered some delays in project delivery. This added complexity in project co-ordination due to remote working and travel restrictions. Additionally, there has been a need to review our project pipeline from both a strategic and budgetary perspective as we continue to build for the future. Our ability to successfully deliver strategic projects given the prolonged period of COVID-19 requires us to also manage our employee wellbeing through effective change management.

Mitigation

Strategy and Governance

• an annual strategic review with the Board and the GMC where we proactively monitor the market, review our strategy and our strategic programmes, particularly in light of the impact of COVID-19. This process is led by the Strategy and Commercial Director

• review and approval of key, strategic projects by Board and GMC, as appropriate with robust governance and detailed reporting of project KPIs and key milestones Project Management

• a portfolio of key strategic projects has been developed and is maintained to ensure appropriate focus of key projects by a Group Project Management (PMO) team to monitor and control major strategic programmes, investments and capital expenditure projects

• day-to-day project management using a standard project management methodology based on PMI PMBOK ("Project Management Body of Knowledge") established a standard Project Management tool based on Microsoft Project to further enhance visibility and governance

• interventions, as required, by Group PMO, to initiate, course correct and undertake remedial actions on programmes and projects

M&A

• acquisition pipeline management to identify suitable acquisition targets with best value creation potential

• an annual post-investment review and project lessons learnt to identify key learnings to embed into future initiatives

• use of external advisers to provide expertise, assistance and rigorous due diligence, as appropriate Employee

• maintain strong focus on the capability of our employees. This is achieved by mobilising teams which possess the right skills to deliver our strategic programmes

• support project managers' development through a variety of training programmes and professional qualifications

• increased use of technology and video conferencing to support teams and project activities

• In order to ensure a continued focus on the people element in projects, relevant change management principles are being embedded in all key strategic projects and more broadly, change management training introduced across the Company.

Exposure to the Cyclical Industrial Market (Components Division)

Change in risk level: Year on year - New risk in 2020 as disclosed at half year

Ownership: Components Division Managing Director

Relevance: Company Specific

Description

The Components division serves industrial OEM customers and hence, is exposed to overall Industrial Production trends. Global Industrial Production has tended to be cyclical in nature with major economic downturns leading to a downturn in Industrial Production. From the Global Financial Crisis in 2008-2009 to the current COVID-19 crisis, economic cycles have impacted demand in the broad industrial market. The Components division sells to a broad base of key end markets including Automotive, Capital Goods and Electronics. This broad base of customers provides some risk diversification, however, future downturns in Industrial Production are almost certain to happen, albeit with an uncertain timeframe. The Components division can make changes to its cost base and business model to maintain operating margins against fluctuations in demand. The risk is that such changes do not happen quickly enough, or are not robust enough to minimise the impact on operating margins.

Mitigation

Key mitigating actions being undertaken to protect the division from future industrial declines include the following:

• Optimising our fixed cost base such that it is a lower proportion of operating costs The Components division undertakes continuous review of its operating footprint to optimise manufacturing and distribution cost to serve. Our new distribution facility in Nettetal, Germany provides an opportunity for this as we leverage delivery network capabilities to reduce our distribution footprint while delivering enhanced service level to our customers. Our increased investment in the automation of production and distribution activities enabled by robotics will further help to reduce fixed costs

• Increased variability of our cost base We also undertake reviews of how better to manage labour, striking the right balance between permanent and temporary employees, so that we are able to effectively manage our cost base

• Diversification across the market sectors we sell to; both within the industrial sector and also beyond it We have introduced a category management approach focusing on faster growing and resilient markets. We continue to explore entry opportunities in new markets to further mitigate this risk

• Innovation We continue to exploit our innovation capabilities to secure new opportunities and diversify with the use of new materials in the event of future restrictions on the use of plastics

Environmental, Social and Governance

Change in risk level: Increased

Ownership: Company Secretary and General Counsel

Relevance: Industry general

Description

Environmental, Social and Governance (ESG) issues are becoming increasingly fundamental for all companies. For Essentra, this includes exposure to tobacco-related products cigarette filters, potential changes in regulation related to single-use plastics, climate change and other topics. Failure to meet stakeholder expectations on increasing environmental and/or social governance obligations could lead to reputational or commercial risk for the Company. This includes risks arising from changing investor attitudes, increasing customer expectations, social attitudes towards the health and environmental impact of our products which may impact on our ability to market them, along with ability to attract and retain talent, given increasing employee focus on sustainability-related topics

Mitigation

Governance-related issues are managed through the Company's comprehensive risk management processes. In addition, environmental and social topics are managed via the Board Sustainability Committee, chaired by a Non-Executive Director, and including membership from Board and GMC. The role of this Committee is to:

• review and assess the Company's exposure to sustainability-related issues

• assess the Company's responses to these issues

• understand whether these responses are consistent with the risk appetite of the Company

• identify potential gaps in approach and high level approaches to closing those gaps. The Board Sustainability Committee's recommendations link into and inform the work of the GMC, the divisions and the enabling functions, to reduce risk exposure appropriately. The Company is also establishing a Sustainability Working Group comprising representatives from the divisions, Group HSE, Group HR, Group LRG, Group Communications and Group Investor Relations to monitor and respond to ESG and sustainability related-topics on a day-to-day basis.

Specifically, the GRC is also reviewing our approach to managing climate change risk, including fulfilling our obligations under TCFD requirements. The Components division is exposed to potential impacts of ESG initiatives and climate change risks including reduction in single use plastics. The division is actively working to incorporate more sustainable materials and believes it has the innovation capabilities to enable future growth opportunities with the use of these materials. Similarly, Filters is exposed to single use plastic legislation and is actively developing new innovative products including the recently launched ECO range of biodegradable filters.

Talent to Deliver Our Future

Change in risk level: Unchanged

Ownership: Group Human Resources Director

Relevance: Industry general

Description

Failure to acquire, retain, develop and motivate the required management and leadership necessary to evolve our business, develop our culture and meet future customer needs. The change agenda coupled with the impact of COVID-19 creates a need to focus on retention of key talent, avoiding burn-out and presenteeism. Additionally, we must continue to grow the agile skills required to build for the future. COVID-19 The impact of COVID-19 changes the talent landscape in the short-term, with a focus on retention of the key leaders to transition and change to a post pandemic working model. As we move forward, retention will need to be balanced with attraction to boost the talent needed to deliver our strategy in key areas such as digital. The market conditions are predicted to change with great speed post COVID, with key talent in areas such as agility and change leadership predicted to be in high demand and therefore we need to consider:

• our ability to retain talented leaders and managers who have the agility and skills we will need going forward

• ensure we have the right retention tools to motivate and drive performance

• ensuring the resilience of our leadership and management teams as the pandemic continues; the prolonged period is having a toll on the emotional wellbeing of our people

• recognising the impact of COVID-19 on employees and the real issues of presenteeism and fatigue. COVID-19 will reshape business needs, the talent market as well as the expectations of our managers and leaders. We must continue to be proactive and forward looking in order to balance the needs of our business today and its requirements tomorrow.

Mitigation

Key mitigations include reviewing the people strategy to ensure it underpins the approach to enhance the employee experience, drive changes needed and have skilled leaders for the future. This strategy considers:

• ensuring the variable pay schemes are adequate to retain key talent and reward high performance

• building management capability across the wider team to ensure we manage through the change journey in an engaged and considered way

• talent mapping and succession planning that considers current and future business requirements

• develop the health and wellbeing strategy with a specific consideration of the actions needed to aid retention of our wider workforce

• communication with employees is a critical step to ensure engagement, drive a sense of purpose and belonging across the workforce

• assessing what training and support we can provide to future leaders, middle managers on resilience and developing their personal career path in a considered way

EXTERNAL RISKS

Regulatory - Governance

Change in risk level: Unchanged

Ownership: Company Secretary and General Counsel

Relevance Industry general

Description

The Company operates across many international jurisdictions and engages with a wide range of stakeholders, including a diverse employee, customer and supplier base. Some locations we operate in are high risk. We are required to comply with multiple areas of legislation, regulation and good practice for areas such as Anti-Trust, Anti-Bribery, Sanctions and Data Protection and Privacy. Our operations are subject to an external environment which is seeing increasing levels of scrutiny and oversight from regulators and enforcement agencies. Failure to manage effectively the scrutiny and oversight and/or comply with new laws and regulations could result in significant fines, costs and reputational damage to the Company. COVID-19 Changes in supply chains and the adoption of remote working environments as a result of COVID-19 potentially increase compliance and control risks. COVID-19 has potentially increased the risk in relation to data privacy given the additional collection of personal data. We have not seen a significant change in other regulatory risks. Whilst the external environment is generating additional compliance demands and undertaking increased levels of enforcement, the Company continues to drive continuous improvements in its compliance activities and overall the level of risk to the Company has remained the same.

Mitigation

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

• a "tone from the top" from the Board and GMC on the importance of ethics and compliance

• through the Company's compliance programme (including employee training), we aim to conform with all applicable laws and regulations, and encourage a culture of openness, honesty and integrity

• improved compliance communication with "Be smart, be sure" campaign

• continuous improvement of the Group compliance framework to ensure effective compliance programme with appropriate policies, processes, reporting and monitoring.

• a Group Compliance Committee that directs and oversees the Company's implementation of compliance programmes, policies and procedures required to meet legal, compliance and regulatory requirements

• strengthening of internal divisional resources to support embedding of regulatory compliance within the respective businesses and continued investment to drive better governance

• extensive focus on third party due diligence, sanctioned market activity to take account of lessons learnt from the past

• the Company's Legal, Risk and Governance team continuously monitors changes in regulations and emerging good practice seeking external support or guidance as necessary.

Cyber Attack

Change in risk level: Increased

Ownership: Chief Information Officer

Relevance: Industry general

Description

The Company is dependent on the IT systems for day-to-day operations. Should the Company be affected by a cyber security breach, this could result in suspension of some IT services and loss of data. Subsequently, the Company could receive fines, lose customer confidence and suffer reputational damage. COVID-19 The risk has been heightened, primarily due to a significant increase in remote working as part of COVID-19 crisis management. The Company is mitigating these additional risks through consistent deployment of our security controls to devices away from the office, maintaining software updates and the introduction of stronger authentication for remote access services. Cyber attacks are a serious threat to the smooth running of our business. We continue to invest in our cyber security programme which includes mitigation and risk reduction activities across people, process and technology.

Mitigation

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

• endpoint protection, encryption of data, network firewalls, web and email content protection

• deployment of strong authentication for remote access and cloud based services

• continued cyber security awareness training for all employees

• vulnerability and penetration testing for all external facing Company services and websites

• pending implementation of cloud-to-cloud data service monitoring (CASB)

• improvements to security operations capability across monitoring and alerting (people, processes and tools)

• Enhanced IT security team capabilities complemented by third party advisory services

• ISO 27001 certification (renewed in Dec 2020).

Macroeconomic and Trade Deal Uncertainty (including Brexit)

Change in risk level: Unchanged

Ownership: Group Programme Director

Relevance: Industry general

Description

As a global business, changes to global economic conditions or trading arrangements have the potential to impact us. Our international trade flows expose the Company to tariffs, duties or quotas imposed through trade sanctions and also to macroeconomic effects due to regional or global industrial output changes. Essentra will need to adapt to geopolitical changes that impact on patterns of trade and the movement of labour and capital. A trend towards protectionism, regionalism and a rebalancing from West to East creates risks and opportunities that Essentra will need to manage and exploit. In light of the Trade and Co-operation Agreement being agreed between the UK and the EU, our Brexit focus has moved to continuing to ensure we are following robust customs and shipment processes and proactive management of goods across the UK-EU border, to minimise delays to our customers, and our working capital.

Mitigation

Essentra has an international customer base which dilutes the effect of downturns in specific geographies. The economic environment is constantly monitored as part of our business planning cycle and budgeting, enabling a degree of forward planning in the event of a period of economic instability. This is performed in close coordination with each division to pinpoint trends likely to impact our individual business activities. The annual budgets that result from the planning process are a control, against which monthly results are monitored, surfacing any effects of economic instability and informing commercial decision-making. Movements in currency can have positive and negative impacts on the Company's reported earnings. This is managed through proactive hedging of currency exposures. The Board also considers potential impacts of specific macroeconomic events, including the UK's decision to leave the EU. The breadth of the Company's portfolio and its diversification across markets, geographies and products provides some natural mitigations of potential impacts. Our divisions consider the wider economic situation in their strategies as part of the budgeting and strategic planning process.

Brexit

Over the past few years, the Company conducted a thorough review of Brexit risks and implemented a series of changes to minimise raw material and finished product flows across the EU-UK border, and to mitigate the associated risks including supply chain disruption and to ensure the appropriate customs processes and procedures are in place to allow for effective and efficient flow of goods and materials between the UK and the EU. We continue to work with our supply chain partners to minimise disruption and ensure flow of goods across the EU-UK border.

OPERATIONAL RISKS

Business Continuity Planning and Management

Change in risk level: Increased

Ownership: Group Programme Director

Relevance: Industry general

Description

We operate a global manufacturing footprint and supply chain. Making this supply chain resilient is a critical factor in serving our customers, to minimise the impact of potential disruptions. Business continuity management issues can be focused on particular locations, driven by single point supply chain failures. Here, our global footprint provides risk diversification, via alternative manufacturing routes. Equally, business continuity issues can be broader in nature and impact a number of sites simultaneously as has been the potential with COVID-19. Our global footprint may expose us to a broader set of potential multi-site disruption risks, than more focused companies. Robust business continuity planning and management practices are required to minimise the impact on production capability, supply chain management, customer relationships, reputation, revenue and profit. The Company experienced some minor disruption through COVID-19 related issues, during 2020. The vast majority of sites remained operational, with a small number of sites temporarily shut due to government imposed lockdowns.

Mitigation

The Company continues to review and refresh its business continuity management and planning frameworks and processes. Mitigating factors that the Company has in place for single location issues include:

• leveraging our global manufacturing footprint to provide alternative manufacturing locations

• fire and other risk prevention systems

• assessing and managing operational risks via the enterprise risk management process

• ensuring comprehensive maintenance plans are in place for key manufacturing equipment, and/or alternative manufacturing routes are identified

• maintaining an insurance programme and working closely with our insurers, FM Global, to ensure complete and comprehensive cover to prevent losses.

Additional measures to mitigate against multisite issues include:

• enhancing our multi-site capabilities and manufacturing flexibility

• identifying alternative sources of supply for key raw materials and supply guarantees where necessary and feasible

• global, standard site/network assessment approaches for pandemic and other issues. During 2021 the company will work with our insurers to model the potential impact of climate change

Internal Processes and Control

Change in risk level: Increased

Ownership: Chief Financial Officer

Relevance: Company specific

Description

Processes and controls play an important part in our ability to prevent and detect inappropriate and unethical behaviour. This includes fraud, deliberate financial misstatement and improper accounting practices. If the design, operation or the assurance over these controls is ineffective or ownership is not defined or controls are overridden, there is a greater risk of operational loss. COVID-19 In response to COVID-19 there has been greater adoption of flexible and remote working arrangements. There is an ongoing need to adapt our controls and processes to these changing ways of working.

Mitigation

During the year, Minimum Control Standards (MCS) continued to be rolled out across various sites in the Group, establishing a consistent minimum standard of financial controls across the Company. The MCS steering group continued in its role as the governing body overseeing activities. A total of 70 out of 79 sites now have had the MCS roll-out, which account for approximately 94% of Group revenue. MCS implementation action plans were continually assessed and tracked through the course of the year. The primary responsibility for site roll-outs and embedding of MCS rests with divisional management, with central coordination by Group Finance. With the MCS framework now rolled out to a large majority of the sites, the Company is shifting its focus onto the implementation of internal testing methodology to ensure continuing compliance with the framework. Furthermore, the MCS project has been conducted in close collaboration with other wider business initiatives, such as Business Process Redesign, which saw the first implementation of the new system at the head office during the year. The new system entails establishment of standard operating procedures, and improves the landscape around enforcement of internal controls. In the face of the challenges posed by COVID-19, the Company has ensured continued communications to the sites regarding the importance of continuing robustness in internal controls.

Group Assurance audit procedures were carried out to assess performance of internal controls. These reviews were temporarily disrupted in the first half of the year due to COVID-19, but resumed in the second half of the year. Additionally, Group Finance performed a separate layer of independent testing to further evaluate the effectiveness of implementation thus far. The Company has also started reviewing the potential additional requirements in the UK with regards to internal controls, and this will continue into 2021. Monitoring controls and processes continue to be performed to prevent and detect inappropriate and unethical behaviour. This includes fraud, deliberate financial misstatement and improper accounting practices.

Safety, Health and Wellbeing

Change in risk level: Increased

Ownership: Group Human Resources Director

Relevance: Industry general

Description

The safety, health and wellbeing of our employees is of the highest priority for the Company. Essentra has many manufacturing facilities across the world, along with non-manufacturing sites and internationally mobile employees. Factory manufacturing can be inherently risky given the use of industrial machinery and high speed manufacturing processes. In addition, the Company must comply with national safety regulation in multiple jurisdictions. Should an injury or fatality occur involving our employees or visitors; or should there be any breach of safety regulation resulting in prosecution, considerable reputational damage is anticipated as well as potentially significant financial costs. Increasingly, especially given recent COVID-19 related events, the mental and emotional wellbeing of our leaders, managers and workforce is becoming a focus. The organisation is working in a different way, which is impacting individuals physically as well as emotionally. The prolonged period of COVID-19 and the potential impact of further variants increases risks in this area.

Mitigation

The "tone from the top" has continued to reinforce safety, health and wellbeing across all of the businesses. Management teams have been instructed to give a high priority to establishing appropriate Safety Management Systems and reinforcing the desired behaviours by all who are employed by the Company. Some of the key mitigations which are in place include:

• regular reporting to the GMC, GRC and the Board on Health, Safety and Environment (HSE) related matters

• a Group HSE policy detailing required standards, governance, roles and responsibilities at all sites

• launch of our health and wellbeing strategy with a specific workstream that considers our leaders, managers and employees

• performance monitoring and Health and Safety Audits, incorporating reporting and escalation arrangements to ensure all actions are closed

• root cause analysis is conducted for any issues identified through investigation of serious incidents, including Near Misses

• our Global "Stop, Think, Examine, Proceed" ("STEP") programme is a hazard identification and process improvement initiative. This empowers the entire workforce to recognise and address opportunities with corrective actions assigned clear owners for completion within 48 hours

• focused HSE events throughout the year to highlight particular risks and help keep safety at the forefront of our minds.

With the increased focus on mental and emotional health and wellbeing, we have introduced awareness training for leaders and mangers. We have developed training materials for employees and are now moving towards introducing proactive steps for employees to manage their own wellbeing. Our health and wellbeing strategy, Essentra Thrives, launched with the introduction of the global assistance programme for all employees. We are continually looking at areas where we can enhance the health, safety and wellbeing of our employees.

EMERGING RISKS

Emerging risk	Risk owner	Risk description	Controls
Regulatory change	Company Secretary and General Counsel	Essentra is a global company that must comply with regulatory requirements in many countries. Regulation is increasing worldwide and may potentially impact our products, operations, workforce and relationships with suppliers, customers and stakeholders. COVID-19 has significantly impacted supply chains and the working environment, potentially leading to new or additional areas of regulatory scrutiny and subsequent regulatory change.	We remain alert to longer-term regulatory developments including those related to single use plastics and tobacco-related and tobacco alternative products. The Company's Legal, Risk and Governance team continuously monitors changes in regulations and emerging good practice seeking external support or guidance as necessary. Strengthening of internal divisional resources to identify market and product changes and any potential associated regulatory requirements.
Technology disruptors	Chief Information Officer	The risk that Essentra does not manage its response to evolving technologies effectively. This may include losing competitive advantage as rivals deploy advanced manufacturing technologies, artificial intelligence and robotics to strengthen product development, marketing, production, distribution and support functions.	We continue to monitor and review developments in the external market through our networks. This includes innovation and futures sessions with existing suppliers. We are also involved in a range of external technical focus groups.
Evolving conditions of the Debt Market	Chief Financial Officer	The debt market is evolving, and the lending condition and appetite can be impacted by key events, we have recently observed the effect from the COVID pandemic. Essentra continues to have strong liquidity and we will stay alert to the change of investors' appetite and respond optimally to it and maintain our profile in the debt market.	We remain alert to the change in investors' appetite and we continue to respond to this and maintain our profile in the debt market. The treasury team monitors changes in the debt markets and is in regular contact with banks inside of the Essentra bank group and other financial institutions to ensure that we have the widest variety of market options that are available.

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