ESSENTRA

RESULTS FOR THE FULL YEAR ENDED 31 DECEMBER 2021

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ESSENTRA PLC
("Essentra" or the "Company")

A leading global provider of essential components and solutions

RESULTS FOR THE FULL YEAR ENDED 31 DECEMBER 2021

Strong trading performance with accelerated growth in Q4. Strategic reviews are progressing in line with expectations with focus on becoming a pure play Components business

Summary:

- The strategic reviews of both the Filters and Packaging divisions are progressing in line with expectations
- FY 2021 results displayed a strong performance with operating profit within the range of analyst forecasts, demonstrating Essentra's strong market positions, clear market share gain strategy and agile operations:
    - Revenue increase of 8.4% on a like-for-like[1] ("LFL") basis
    - Adjusted[2,3] operating profit up 46.5% (at constant FX) to £83.9m
    - Reported[3] operating profit of £49.7m versus £11.6m in 2020
    - Adjusted[2,3] basic EPS 54.6% higher (at constant FX) at 18.2p
    - Reported[3] basic EPS of 8.9p compares to 1.2p loss in 2020
    - Adjusted[2,3] operating cash flow £64.5m in 2021 (2020: £86.7m)
- Strong performance across the Group for the FY:
    - Components delivered a strong trading performance with revenue +21.7% on a LFL constant currency basis. Successful navigation of ongoing supply chain disruptions and mitigation of inflationary cost increases, whilst satisfying accelerated demand, resulted in operating profit increasing to £56.9m with 100bps margin expansion to 18.9% on a constant currency basis
    - Packaging revenue declined 3.6% on a LFL constant currency basis due to the ongoing impact of the pandemic on prescription and elective surgery volumes. Operating profit reached £15.4m with 40bps margin expansion to 4.2% on a constant currency basis. A Q4 margin of 7.9% was achieved as a result of uplifted trading performance and timing related one-off benefits. Strong customer relationships and signs of market recovery have resulted in encouraging order book trends
    - Filters sales grew 12.9% on a constant currency basis underpinned by growing volumes of outsourced contract business wins. There has been an increased commercial interest in proprietary ECO and Tobacco Heating Products ("THP"). Operating profit increased to £28.2m with margin expanding 50bps to 9.5% on a constant currency basis
- Accelerated revenue growth seen in all three divisions in Q4 on a LFL basis. Continued momentum seen in early 2022 with sales on a YTD basis continuing to grow compared to the same period last year
- Stability of our balance sheet has provided optionality to invest in capex, M&A activity and working capital requirements
    - Net debt of £234.7m (2020: £210.4m), with net debt to EBITDA at 1.7x (2020: 1.8x) and 1.5x excluding lease

liabilities (unchanged from 2020)

- Given the Group's continued strong performance and financial position, the Board has recommended a final dividend of 4.0p per share, making a total dividend distribution for the year of 6.0p (2020: 3.3p), aligned with our progressive dividend policy
- A non-cash change to the Group's accounting policy driven by IFRIC relating to the de-recognition of certain software assets from the balance sheet totals £11.8m in 2021 and £16.9m relating to 2020 and prior years

1 Excludes the impact of acquisitions and foreign exchange

2 Before amortisation of acquired intangible assets and adjusting items. Further details can be found in Alternative Performance Measures section

3 Prior year restatement required for the adoption of IFRIC agenda decision on cloud-based software arrangements. See note 1 to the Consolidated Financial Statements

Results at a glance:

	FY 2021	FY 2020 (restated)[4]	FY 2020 (as previously reported)	% change Actual FX	% change Constant FX
Revenue	£960m	£897m	£897m	+7	+13
Adjusted[1] operating profit	£84m	£62m	£62m	+35	+47
Adjusted[1] pre-tax profit	£67m	£47m	£46m	+45	+61
Adjusted[1] net income[2]	£56m	£38m	£37m	+49	+66
Adjusted[1] basic earnings per share	18.2p	13.2p	13.1p	+38	+55
Dividend per share	6.0p	3.3p	3.3p	+82	n/a
Net debt (including lease liabilities)	£235m	£210m	£210m	+12	n/a
Net debt (excluding lease liabilities)	£177m	£149m	£149m	+18	n/a
Net debt to EBITDA (including lease liabilities)	1.7x	1.8x	1.8x	n/a	n/a
Net debt to EBITDA (excluding lease liabilities)	1.5x	1.5x	1.5x	n/a	n/a
Free cash flow[3]	£37m	£67m	£57m	n/a	n/a
Reported operating profit	£50m	£12m	£22m	+328	+516
Reported pre-tax profit/(loss)	£33m	£(4)m	£6m	n/a	n/a
Reported net income[2]	£28m	£(2)m	£6m	n/a	n/a
Reported basic earnings per share	8.9p	(1.2)p	1.7p	n/a	n/a

1 Before amortisation of acquired intangible assets and adjusting items. Further details can be found in Alternative Performance Measures section

2 Net income is defined as profit / (loss) after tax, before non-controlling interests

3 A reconciliation of free cash flow is set out in the Financial Review

4 Prior year restatement required for the adoption of IFRIC agenda decision on cloud-based software arrangements. See note 1 to the Consolidated Financial Statements

Statutory to Adjusted Reconciliation:

31 December 2021	Reported	Acquisitions	Amortisation of acquired intangible assets	Adjusting items	Tax on adjustments	FX	LFL / Adjusted[1]
Revenue	£960m	£(45)m	-	-	-	-	£915m
Operating profit	£50m	-	£22m	£12m	-	-	£84m
Pre-tax profit	£33m	-	£22m	£12m	-	-	£67m

Net income	£28m	-	£22m	£12m	£(6)m	-	£56m

31 December 2020	Reported (restated)	Acquisitions	Amortisation of acquired intangible assets	Adjusting items (restated)	Tax on adjustments (restated)	FX	LFL[2] / Adjusted[1,2] (restated)
Revenue	£897m	£(9)m	-	-	-	£(44)m	£844m
Operating profit	£12m	-	£23m	£28m	-	-	£62m
Pre-tax profit/(loss)	£(4)m	-	£23m	£28m	-	-	£47m
Net income/ (expense)	£(2)m	-	£23m	£28m	£(11)m	-	£38m

1 Adjusted operating profit, adjusted pre-tax profit and adjusted net income relate to total Group

2 Prior year restatement required for the adoption of IFRIC agenda decision on cloud-based software arrangements. See note 1 to the Consolidated Financial Statements

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

"2021 saw the start of a new and transformational chapter in Essentra's journey; we have set out a clear direction for the Company to become a pure play Components business over time and announced strategic reviews of the Filters and Packaging divisions, thereby ensuring we create three strong stand-alone global businesses. I believe this next chapter will present even more positive opportunities for our businesses and our people.

While the strategic announcements dominated the focus of the organisation as the year drew to a close, 2021 as a whole was also a year of continued business investment, strategic delivery and strong financial performance.

Despite the challenges arising from the pandemic and supply chain headwinds, we have seen an improving revenue trend throughout the year, which has continued into the start of 2022 with all three global divisions well-positioned for growth with strong order books.

Essentra has no significant operations or employees in Ukraine or Russia and our sales to these markets are de minimis in the context of the Group. All sales to Russia have been suspended and will continue to be suspended until further notice.

Our thoughts are with everyone whose lives have been affected by these appalling events. We are doing all we can to extend support to affected colleagues and providing support to the humanitarian relief effort."

Strategic Reviews

In Q3 2021, Essentra set out its strategic goal to become a pure play Components business, maximising shareholder value and the potential of each business.

Over the last few years, Essentra has simplified its portfolio into three global businesses, each with leading market positions and a clear purpose and strategy. These businesses all have strong prospects and the potential to deliver compelling returns for investors, but are at different stages of their development and have limited synergies.

The strategic reviews of the Filters and Packaging divisions, previously announced by the Board, are running in parallel and are progressing in line with expectations.

The Board remains focused on maximising shareholder value and will provide further updates as appropriate.

Sustainability

In 2021, the Group made continued progress towards achieving sustainability goals in all divisions, working towards the goal of "class-leading sustainability" we set out in 2020.

In Components, we have increased the use of post-consumer recycled content materials to 8.5% from c.2% in 2020 (target of 20% in 2025); in Packaging we continue to introduce alternative materials and 96% of our paper and board material come from sustainably managed sources; in Filters, we continue the development and commercialisation of our ECO range.

The Group also saw further reduction of normalised Greenhouse Gas emissions to 18.4% below the 2019 baseline, well on track for our target of 25% reduction by 2025.

The number of zero waste to landfill manufacturing sites increased to 22 sites this year, with the aim of certifying all sites by 2030. We saw waste volumes decline by 10.9% in 2021, targeting 20% reduction by 2030, compared to the 2019 baseline. The reductions in 2021 have been achieved as a result of improved tracking of waste and continuous improvement projects on sites.

Further details regarding our sustainability strategy will be published within our 2021 Annual Report.

Ukraine and Russia

Essentra has no significant operations or infrastructure in Russia or Ukraine and no employees in either country. Sales to these markets are around 2% of total revenue. All sales to Russia have been suspended and will continue to be suspended until further notice.

The Company is supporting the humanitarian relief effort in Ukraine with fundraising and other events happening across our businesses. Essentra has made a donation of £100,000 to the Disasters Emergency Committee ("DEC") Ukraine Appeal.

The Company's thoughts are with the Ukrainian people at this incredibly difficult time and our hopes are for peace to be restored as swiftly as possible.

Outlook Statement

Essentra has made a strong start to the year, with sales and order book ahead of 2021. Whilst the external environment remains challenging due to global supply chain disruptions and continued impact of cost inflation, the Group has demonstrated its ability to manage these challenges in the past, and will continue to implement pricing actions alongside local cost mitigation activities.

We expect Components to grow from market share gains through enhanced digital customer experience and cross-selling activities, as well as from continued underlying market recovery; Packaging to return to historic levels of growth as prescriptions and elective surgery volumes recover; and Filters should see strong growth enabled by the ramp up of China JV and outsourcing contracts.

It is worth noting that the recent GBP appreciation, particularly against USD, EUR and TRY continues to cause a translational exchange headwind.

Restatement of Comparatives

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

Due to the level of spend incurred in relation to these arrangements, the Group's accounting policy has been reviewed retrospectively to align with the IFRIC guidance recently issued in relation to cost of configuring and customising SaaS arrangements previously capitalised.

This change in accounting policy led to adjustments amounting to a reduction in assets of £16.9m and £6.9m recognised in the 31 December 2020 and 1 January 2020 balance sheets respectively.

Customisation and configuration costs for SaaS arrangements of £11.8m and £10.5m were charged to operating expenses for 2021 and 2020 respectively. Of these, £11.8m (2021) and £10.4m (2020) relate to major SaaS arrangements and are therefore presented within adjusting items with regards to the Group's adjusted operating profit.

See note 1 to the Consolidated Financial Statements for further details.

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 were:

	-------- Average --------		-------- Closing --------	
	FY 2021	**FY 2020**	**FY 2021**	**FY 2020**
US$:£	1.38	1.29	1.35	1.37
€:£	1.16	1.13	1.19	1.12

Re-translating at FY 2021 average exchange rates decreases the prior year revenue and adjusted operating profit by £43.8m and £5.0m 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 2021 LFL results are adjusted for acquisition of 3C! Packaging, Inc. on 17 September 2020, the acquisition of Jiangxi Hengzhu Electrical Cabinet Lock Co., Ltd ("Hengzhu") on 2 August 2021 and the commencement of production in the China Joint venture in July 2021.

Additionally, when 2021 LFL performance is compared against 2019, then the following are also adjusted for: the acquisition of the Innovative Components business on 26 June 2019, the acquisition of Nekicesa Packaging on 6 September 2019, 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 2021, amortisation of acquired intangible assets was £22.4m (2020: £22.6m), and there was a pre-tax charge for adjusting items of £11.8m (2020: £28.1m). In the current year, a charge for adjusting items of £11.8m is driven by major software as a service ("SaaS") development expenditure; £2.8m from strategic initiatives that have resulted in the proposed closure of certain sites in 2021 (net of gain on disposal of fixed assets), as well as corporate projects, and £2.0m on acquisition related transaction and integration costs. This was offset by a release of provisions and deferred considerations from previous acquisitions and disposals of £4.8m. 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 27 to 30 of the 2020 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

The FY 2021 result for the Group was strong with an accelerated Q4 performance notwithstanding the macroeconomic uncertainty and global supply chain disruptions. Overall, FY 2021 revenue increased by 7.0% (12.6% at constant exchange) to £959.7m, whilst on a LFL constant currency basis, revenue increased by 8.4% (1.4% vs 2019).

On an adjusted basis, operating profit was up 34.7% (46.5% at constant FX) at £83.9m, which has been driven by a recovery in trading volumes and also demonstrates the effective mitigation of supply chain disruption and cost inflation through focused pricing activities, as well as cost saving programmes. Adjusted operating margin improved by 180 bps (200bps at constant FX) to 8.7% and is also now slightly ahead of 2019 levels.

Including amortisation of acquired intangible assets of £22.4m and a pre-tax charge from adjusting items of £11.8m, operating profit as reported was £49.7m (2020: £11.6m).

Net finance expense was above the prior year at £16.5m (2020: £15.7m), this was mainly driven by an increase in interest charged on net debt and leases. The effective tax rate on underlying profit before tax (before adjusting items) was 16.6% (2020: 19.1%). The reduction in the tax rate is driven by a one-off tax credit from the revaluation of UK deferred tax assets as a result of the increase in UK corporate income tax. The underlying effective tax rate for the Group without this credit is 19.7%, which is within our forecast tax rate range of 19% to 20%.

On an adjusted basis, net income of £56.2m was up 49.1% (65.9% at constant FX) and adjusted basic earnings per share increased to 18.2p. On a total reported basis, net income of £28.3m and basic earnings per share of 8.9p compared to net loss of £1.5m and loss per share of 1.2p respectively in 2020.

Adjusted operating cash flow was £64.5m (2020: £86.7m), equating to a cash conversion of 77% compared to 139% in 2020. This includes an outflow of net working capital for the year of £29.9m (2020: £6.2m inflow). The increase in net working capital to £129.7m (2020: £108.1m) was predominately due to higher inventory and receivables levels, supporting growth and increased trading volumes as well as helping with our mitigation of supply chain disruption. Our average net working capital to sales ratio improved by 140bps to 12.8% when compared to 2020 and 2019 levels.

Business Review

Summary growth in revenue by Division

% growth	LFL	Acquisitions	Foreign Exchange	Total Reported
Components	+21.7	+3.0	-6.4	+18.3
Packaging	-3.6	+7.4	-4.0	-0.2
Filters	+11.7	+1.2	-6.7	+6.2
Total	**+8.4**	**+4.2**	**-5.6**	**+7.0**

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

Components

	2021 £m	% growth Actual FX	% growth Constant FX
Revenue	301.7	+18.3	+24.7
Adjusted[1] operating profit	56.9	+25.1	+31.2
Adjusted[1] operating margin	18.9%	+110bps	+100bps

1 Before amortisation of acquired intangible assets and adjusting items.

Revenue for the year increased by 24.7% to £301.7m. Adjusting for the acquisition of Hengzhu, LFL revenue was +21.7%. The division has seen a strong quarterly trading performance recovery during the course of the year and has been trading consistently ahead of 2019 pre-pandemic revenue levels from Q2 onwards.

The division has continued to rebound with the positive momentum seen in the first half of 2021 continuing through to H2 despite tougher comparatives. The business has recorded LFL revenue per trading day adjusted growth of 28.5% in Q3 and 18.7% in Q4. When compared to Q3 and Q4 of 2019, current year trading is up 14.2% and 14.9% respectively on a LFL revenue per trading day adjusted basis.

Consistent with the commitment to providing customers with a "hassle-free" experience, the division has continued progress on its digital journey. After the Asia roll out of the new digital platform in H1, three further countries are now live, with Turkey and Thailand to follow in 2022, completing the global roll out of the new digital platform (Europe and North America went live in prior years). The platform provides the division with the ability to promote an expanding range of products from both organic and acquisition activities, with improved cross selling functionality. Further developments have taken place in H2 such as advanced intelligence functionality using digital data to enhance personalisation and digital effectiveness. We continue to see success in our category management approach using global category expertise rather than a regionally bound approach.

As highlighted during the half year results, the growth in Components has been delivered against a backdrop of supply chain challenges which has continued into H2 where further disruption and inflationary headwinds have been faced. These supply chain challenges have been compounded by a strong rebound in demand seen in the market alongside labour availability and inflation headwinds in the US.

Given the impact on customer service caused by supply chain disruption, we were disappointed but not surprised that our net promoter score ("NPS") fell to 23. However, our sales growth rate indicates the strength of underlying market and our ability to gain market share even in challenging times. Our backlog, which peaked in August 2021, has shown substantial improvement over the last six months as we continue to drive service improvements.

In response to increased inflationary pressures (materials, labour and freight), and to protect our margins, the business implemented a second tranche of price increases in Q3. In 2022, the division will continue to monitor supply chain headwinds and drive proactive remediation actions.

We have successfully taken steps to streamline our operational footprint with the closure of two manufacturing sites in the US, and one in Europe, previously identified in 2020, which will deliver overall improvements in cost to serve.

The Components division has made solid progress towards meeting sustainability targets in 2021. We have made strong advances towards achieving the target of using 20% recycled or renewable polymer raw materials by 2025, finishing the year with a Q4 run rate of recycled material consumption of c.10% of total material. Our investment in research and development across this field continues to be a key area of focus and will enable further implementation of projects to deliver our 2022 goals.

We have continued to invest in our BPR programme during the year, which has not been without its challenges. After going live with our first operational site in Spain in July, we have conducted a review of activity and lessons learnt through implementation as well as enhancing resources for the project, with a new structure in place at the end of 2021. We now have a solid foundation to progress the roll out in 2022.

Adjusted operating profit increased by 31.2% to £56.9m, equating to a margin of 18.9% (2020: 17.8%). The 100bps improvement (at constant currency) reflects the improved trading volumes throughout the year, tempered by inflationary input cost pressures which we were able to mitigate through price increases in the second half of the year.

Packaging

	2021 £m	% growth Actual FX	% growth Constant FX
Revenue	362.4	-0.2	+3.8
Adjusted[1] operating profit	15.4	+11.6	+17.6
Adjusted[1] operating margin	4.2%	+40bps	+40bps

1 Before amortisation of acquired intangible assets and adjusting items.

Revenue increased 3.8% to £362.4m. On a LFL, constant currency basis the revenue decline was 3.6% for the year. 3C! Packaging which was acquired in September 2020 contributed £34.3m revenue in 2021.

Throughout 2021, healthcare market demand has continued to be impacted by the pandemic, especially for certain segments (cold and flu treatments, hospitals and over-the-counter). The ramp up of COVID-19 vaccines and anti-viral treatments have marginally offset lower overall demand and we started to see improvements to our order books through H2. We are proud to have continued to support several customers in supplying critical COVID-19 treatments and vaccines across the year.

The US healthcare market started to recover from Q2 whilst the European market, due to further headwinds of new variants and continued lockdowns, did not start to show an improvement until the end of Q3. Recovery within both markets was reflected in Q4, with LFL growth of +2.1% as activity picked up, providing signs of optimism of market demand recovery and reflecting labour stabilisation and retention in the US.

Throughout 2021, we have continued to provide our customers with a reliable service for their critical products and customer relationships have strengthened further. We were delighted to receive positive feedback from our customers, including a COVID-19 supplier award from our largest UK pharmaceutical customer.

We have made significant progress with our sustainability credentials, with more than half of our manufacturing sites now classified as zero waste to landfill and 96% of paper and board material used is now from FSC or PEFC certified suppliers. Sustainability has risen up our customers' agenda significantly and we are collaborating with them on a pipeline of sustainable product innovations. Our Re*flect alternative to metalised polyester board ("METPOL") is a great example of delivering an innovative product to support our customers' sustainability goals, and we have been able to grow a sustainable innovative product offering through ClearCode technology (acquired from 3C! Packaging). The Packaging division was recognised for its approach to sustainability at the 2021 Pro Carton awards, receiving a Gold in the Carton Excellence awards for its cosmetics carton for an exclusive online skincare brand in Q3.

Strategic cost reduction initiatives, in particular the closure of our Portsmouth (UK) and Moorestown (USA) sites in H1, have supported margin improvement through the year, and when market recovery enables us to benefit from operational leverage we are confident in our ability to see margins improve. In response to input cost increases in H1, pricing actions were implemented through the second half of the year. Our Q4 margin exit rate of 7.9%, has been delivered with support of self-help actions, and timing related benefit alongside signs of market recovery, and we continue our journey towards achieving industry standard margins.

Adjusted operating profit increased 17.6% to £15.4m, equating to a margin of 4.2% (40bps constant currency improvement). This was largely driven by the continued delivery of savings originating from gross margin initiatives, procurement and organisational changes made in the prior year, offset by lower sales volumes.

Filters

	2021 £m	% growth Actual FX	% growth Constant FX
Revenue	295.6	+6.2	+12.9
Adjusted[1] operating profit	28.2	+11.9	+20.3
Adjusted[1] operating margin	9.5%	+40bps	+50bps

1 Before amortisation of acquired intangible assets and adjusting items.

Total Filters divisional revenue was 12.9% up on the prior year, of which the core Filters business (excluding Tapes business) was up by 14.2%.

The second half of 2021 continued to gain momentum versus 2020 despite tougher quarterly comparatives. Q3 was up by 2.8% and Q4 22.7% on a constant currency basis. Accelerated growth has been driven by increased sales into the Chinese market, a number of outsourcing contract business wins and the increase in sales of capsule filters. Sales price increases have also supported in protecting against cost inflation (raw materials and freight).

In relation to the division's 'game changers', the previously announced outsourcing contracts are now operating with full production volumes being achieved. Significant investments into driving outsourcing contracts has led to tangible results, including securing two multi-year outsourcing contracts with two Multi-National Companies ("MNCs"). Our pipeline of outsourcing contract opportunities built in 2021 should continue to deliver growth in 2022 and have been achieved across the range of our customer base (MNC, Monopoly and Independents), primarily for manufacture in EMEA and Asia.

The China JV continues to provide a great platform to capture opportunities available in the world's largest tobacco market which is also shifting towards speciality products. Production volumes have ramped up through H2 and annualised exit rate is on track with expectation.

We continue to focus on innovation, and our pipeline of ECO and next generation products ("NGP"). There are c.52 ongoing projects with major tobacco customers on sustainable filter products including two projects in commercial production phase. The division remains uniquely positioned to be a key global player in the outsourced filter market using strong technological knowledge and we remain pleased with the increased levels of interest the market is showing towards these new products. As previously reported in December 2020 the division 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. Three further patents have been filed for the products to extend our ECO range and both ECO Flute and ECO Active have been launched commercially.

The Tapes business has continued to develop its key account management structure, growing a deeper understanding of customer needs, and supporting development of relevant value propositions.

Despite disruptions that have been faced through the year the division as a whole has maintained world class service and quality metrics, further deepening customer relationships, driving productivity and efficient use of materials.

Adjusted operating profit increased 20.3% to £28.2m, equating to an operating margin of 9.5% (50bps improvement at constant currency). This was largely driven by the volume gearing effect from the revenue increase and mix of outsourcing contracts, netted off against costs incurred for the set up for the China JV.

Financial Review

Net finance expense. Net finance expense of £16.5m was £0.8m above the prior year period, and is broken down as follows:

£m	2021	2020
Net interest charged on net debt	10.9	10.3
Amortisation of bank fees	1.1	0.7
Net IAS 19 pension finance charge	0.6	0.7
Interest on leases	2.8	2.4
Net other finance expense	1.1	1.6
Total net finance expense	**16.5**	**15.7**

Tax. The effective tax rate on underlying profit before tax (before adjusting items and amortisation of acquired intangible assets) was 16.6% (2020: 19.1%). As disclosed at the HY, this reduced tax rate is primarily driven by a one-off non-cash benefit on the remeasurement of deferred tax assets as a result of the enacted change in UK corporate tax rates. The underlying effective tax rate for the Group without this credit is 19.7%, which is within the Group's forecast tax rate range of 19% to 20%.

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	2021	2020
Inventories	128.7	102.6
Trade & other receivables	175.2	154.2
Trade & other payables	(180.9)	(155.4)
Adjustments	6.7	6.7
Net working capital	**129.7**	**108.1**

The increase in net working capital was predominately due to higher inventory and receivables levels, which were driven by enhanced trading volumes combined with a build of inventory, to mitigate supply chain disruption and support sales growth.

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 26% lower than the previous year at £64.5m (2020: £86.7m), which equated to an operating cash conversion of 77% in the year (2020: 139%). Free cash flow was £36.7m compared to £67.3m in 2020. In addition to working capital movements, the decrease in free cash flow was also due to payments of pension contributions that were previously deferred, as well as an increase in tax payments in 2021 following an increase in Group profits.

In 2021, there was a £2.5m net increase in cash and cash equivalents to £136.3m (2020: increase of £65.3m to £135.8m).

£m	2021	2020[1] (restated)	2020 (as previously reported)
Adjusted operating profit	**83.9**	**62.3**	**62.0**
Depreciation and amortisation of non-acquired intangible assets	39.2	39.8	40.2
Right-of-use asset depreciation	12.0	12.0	12.0

Share option expense / other movements	0.6	0.6	0.6
Change in working capital	(29.9)	6.2	6.2
Net capital expenditure (excluding disposal proceeds relating to adjusting items)	(41.3)	(34.2)	(44.7)
Adjusted operating profit	**64.5**	**86.7**	**76.3**
Tax[2]	(12.4)	(7.5)	(7.5)
Cash outflow in respect of adjusting items[2]	(25.4)	(21.5)	(11.1)
Pension obligations	(4.8)	0.9	0.9
Add back: net capital expenditure (excluding disposal proceeds relating to adjusting items)	41.3	34.2	44.7
Net cash inflow from operating activities	**63.2**	**92.8**	**103.3**
Adjusted operating cash flow	**64.5**	**86.7**	**76.3**
Tax[2]	(12.4)	(7.5)	(7.5)
Net interest paid	(10.6)	(12.8)	(12.8)
Pension obligations	(4.8)	0.9	0.9
Free cash flow	**36.7**	**67.3**	**56.9**
Net increase in cash & cash equivalents	**2.5**	**65.3**	**65.3**

1 Restated for the adoption of IFRIC agenda decision on cloud-based software arrangements. See note 1 of the Consolidated Financial Statements

2 Tax paid excludes the tax paid/received in relation to adjusting items. This is included within the cash outflow in respect of adjusting items

Net debt. Net debt at the end of the period was £234.7m, a £24.3m increase from 1 January 2021 (including lease liabilities). The overall increase was mainly driven by free cash flow generated, being netted off against cash paid for the acquisition of Hengzhu. In 2021 we also resumed dividend payments resulting in a cash outflow of £16.0m.

The Group's financial ratios remain healthy. The ratio of net debt to EBITDA including lease liabilities was 1.7x (31 December 2020: 1.8x). Net debt to EBITDA excluding lease liabilities was 1.5x (31 December 2020: 1.5x). Interest cover was 5.3x (31 December 2020: 4.2x).

£m	2021
Net debt as at 1 January 2021	**210.4**
Free cash flow	(36.7)
Cash outflow in respect of adjusting items	16.9
Foreign exchange	3.0
Acquisitions - net cash paid	14.6
Capital contributions from non-controlling interests in the China JV	(3.1)
Dividends to non-controlling interests	1.5
Dividends to equity holders	16.0
Lease liability movements	9.0
Lease liabilities acquired through business combinations	2.0
Amortisation of pre-paid facilities	1.1
Net debt as at 31 December 2021	**234.7**

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 end of 2020 was set to mature in November 2022. Subsequently in January 2021, we agreed an extension to the majority of the existing facility based on new terms with six of the eight banks (totalling £225.0m), maturing in November 2023. In October 2021 we completed the total refinancing of our RCF, with the same banking group and a new five-year term, expiring in October 2026 for a commitment of £275m.

In addition to the above, in July the Company agreed the issue of US $250 million of medium and long-dated private placement debt. The issue comprises US $80 million notes due 2028, US $85 million notes due 2031, and US $85 million notes due 2033. The covenants on the notes are in line with those on the Company's existing private placement notes and its bank revolving credit facility. As indicated at the half year, the proceeds have been used to repay GBP and Euro debt drawn under our RCF, thereby diversifying the Company's source of debt finance and lengthening its maturity profile.

Pensions. As at 31 December 2021, the Company's IAS 19 net pension net surplus was £9.0m (2020: net liability of £23.9m). This reduction in the liability is mainly a result of an actuarial gain (driven by an increased discount rate) being netted off against a negative return of plan assets.

Dividends. In keeping with the Company's progressive dividend policy, the Board of Directors recommends a final dividend of 4.0 pence per 25 pence ordinary share (FY 2020: 3.3p). The final dividend will be paid on 1 June 2022 to equity holders on the share register on 22 April 2022: the ex-dividend date will be 21 April 2022. 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 11 May 2022.

Board changes. As planned and previously communicated, Tommy Breen retired as a Non-Executive Director and Senior Independent Director with effect from the conclusion of the Annual General Meeting ("AGM"), held on Thursday 21 May 2021. Mary Reilly became Senior Independent Director upon Tommy's retirement, adding to her already existing role as Chair of the Audit & Risk Committee and Board Employee Champion.

Nicki Demby has advised the Board that she will be retiring from her role as Remuneration Committee Chair and Non-Executive Director with effect following the Company's 2022 AGM on 19 May 2022. Nicki joined the Board in 2019 and has made a significant contribution, in particular her focus and expertise when dealing with remuneration has provided the Board the assurance needed. Ralf Wunderlich has been appointed as Remuneration Committee Chair, providing continuing scrutiny and oversight of reward and remuneration during this time of change, adding to his existing role as Sustainability Committee Chair.

Adrian Peace was appointed as a Non-Executive Director with effect from 28 June 2021. Adrian is also a Board Employee Champion for the North American region. Adrian brings extensive experience in US and Global markets having operated in a range of businesses including light and heavy manufacturing, distribution and services sectors. Between Mary Reilly, Ralf Wunderlich and Adrian Peace our Board Employee Champions are now able to better cover our global footprint.

Dupsy Abiola was appointed as Essentra's first Board Trainee, Non-Executive Director on 29 July 2021. The purpose of the role is to help to develop a wider pool of candidates for Board positions. This appointment has been a success, and Dupsy has agreed to become a Non-Executive Director and will stand for election at the 2022 AGM on 19 May 2022. Given the success of the Board Trainee position, the Board intend to continue the scheme following the conclusion of the strategic reviews.

In November 2021, the Company announced that Lily Liu informed the Board that she would leave the Company to take up a new role as Chief Financial Officer with Synthomer plc and that a search for her successor, as Chief Financial Officer for the Essentra Components business, had commenced. On 14 March 2022, the Board has separately announced that Jack Clarke will join the Board as Chief Financial Officer Designate with effect from 4 April 2022 and stand for election at the 2022 AGM on 19 May 2022. The Board is delighted to have recruited Jack to succeed Lily and they will work closely together during the coming months to ensure a smooth transition. Lily will remain focused on the strategic reviews and her leaving date will be announced separately. Jack brings extensive experience having previously been the CFO of Marshalls plc from 2014 until 2021. Prior to Marshalls plc, Jack was CFO of AMEC E&I from 2010 to 2014.

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. At 31 December 2021, Essentra's US dollar-denominated assets were approximately 53% hedged by its US dollar-denominated borrowings, while Essentra's euro loan was repaid in the year and so the euro denominated assets were no longer hedged by any 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.

Extension of Audit Partner's Tenure

The Board advises that it has agreed the extension of Nicholas Stevenson's tenure as the Company's audit engagement leader for a sixth and final year in 2022.

Pursuant to the Financial Reporting Council's Ethical Section 3 to safeguard audit quality, audit engagement partners for public companies are required to rotate after five years. Both the Audit and Risk Committee ("ARC") and PwC believe that the extension of Nicholas Stevenson's tenure as audit engagement leader is acceptable due to the exceptional arrangements that the strategic reviews present. Ethical Standard 3 allows for this period to be extended by a further two years with shareholder notification.

PwC have put in place additional safeguards to ensure that any threat to independence arising from his familiarity with the audit and the Company are sufficiently safeguarded. The ARC reviewed these arrangements and agreed they were satisfied that the additional arrangements provided robust checks and maintained the integrity of the audit.

Enquiries

Essentra plc	**Tulchan Communications LLP**
Lily Liu, Chief Financial Officer	Martin Robinson
Lucy Yank, Group Communications Director	Olivia Peters
Claire Goodman, Group Investor Relations Manager	Tel: +44 (0)20 7353 4200
Tel: +44 (0)1908 359100	

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)207 192 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:	7070958

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:	7070958
Replay available:	For 7 days

Cautionary forward-looking statement

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

Notes to Editors

About Essentra plc

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

Headquartered in the United Kingdom, Essentra's global network extends to 34 countries and includes 8,327 employees, 47 principal manufacturing facilities, 28 sales & distribution operations and two 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, 13 manufacturing facilities and 23 sales & distribution centres serve more than 79,000 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 23 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. Currently headquartered in Singapore, the division has 12 sites across nine countries, including two innovation centres, providing 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, e-commerce, food and beverage and specialist packaging sectors.

Consolidated Income Statement

For the year ended 31 December 2021

	Note	2021 £m	(restated)* 2020 £m
Revenue	2	**959.7**	896.5
Operating profit		**49.7**	11.6
Finance income	4	**2.8**	1.9

Finance expense	4	**(19.3)**	(17.6)
Profit/(loss) before tax		**33.2**	(4.1)
Income tax (charge)/credit		**(4.9)**	2.6
Profit/(loss) for the year		**28.3**	(1.5)
Attributable to:			
Equity holders of Essentra plc		**26.9**	(3.3)
Non-controlling interests		**1.4**	1.8
Profit/(loss) for the year		**28.3**	(1.5)

*See change of accounting policies within note 1 for further details of the prior year restatement.

Earnings per share attributable to equity holders of Essentra plc:			
Basic	5	**8.9p**	(1.2)p
Diluted	5	**8.9p**	(1.2)p
Earnings per share from continuing operations attributable to equity holders of Essentra plc:			
Basic	5	**8.9p**	(1.2)p
Diluted	5	**8.9p**	(1.2)p

Adjusted profit measure:

		£m	£m
Operating profit		**49.7**	11.6
Amortisation of acquired intangible assets		**22.4**	22.6
Adjusting items	3	**11.8**	28.1
Adjusted operating profit		**83.9**	62.3

See note 15 for further details of the adjusted profit measure.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	Note	2021 £m	(restated)* 2020 £m
Profit/(loss) for the year		**28.3**	(1.5)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	9	**28.5**	(6.7)
Deferred tax (expense)/income on remeasurement of defined benefit pension schemes		**(7.9)**	2.1
		20.6	(4.6)
Items that may be reclassified subsequently to profit or loss:			
Effective portion of changes in fair value of cash flow hedges:			
Net change in fair value of cash flow hedges transferred to the income statement		**(1.8)**	(0.5)
Ineffective portion of changes in fair value of cash flow hedges transferred to the income statement		**(0.5)**	-
Effective portion of changes in fair value of cash flow hedges		**0.9**	0.1
Foreign exchange translation differences:			
Attributable to equity holders of Essentra plc:			
Arising on translation of foreign operations		**(23.4)**	(9.3)
Arising on effective net investment hedges		**(0.4)**	(3.3)
Income tax income/(expense)		**0.4**	(0.5)
Attributable to non-controlling interests		**(0.1)**	(0.5)
		(24.9)	(14.0)
Other comprehensive expense for the year, net of tax		**(4.3)**	(18.6)

Total comprehensive income for the year	**24.0**	(20.1)
Attributable to:		
Equity holders of Essentra plc	**22.7**	(21.4)
Non-controlling interests	**1.3**	1.3
Total comprehensive income for the year	**24.0**	(20.1)

* See change of accounting policies within note 1 for further details of the prior year restatement.

Consolidated Balance Sheet

At 31 December 2021

	Note	**31 December 2021 £m**	(restated)* 31 December 2020 £m	(restated)* 1 January 2020 £m
Assets				
Property, plant and equipment	6	**254.3**	262.5	273.5
Lease right-of-use asset	8	**50.4**	52.7	43.4
Intangible assets	7	**483.5**	502.4	481.9
Long-term receivables		**5.2**	4.7	5.6
Derivative assets		**0.7**	-	-
Deferred tax assets		**11.6**	20.6	15.2
Retirement benefit assets	9	**34.1**	12.6	16.9
Total non-current assets		**839.8**	855.5	836.5
Inventories		**128.7**	102.6	113.1
Income tax receivable		**1.5**	3.7	7.0
Trade and other receivables		**175.2**	154.2	166.9
Derivative assets		**0.5**	0.3	0.8
Other financial assets		**-**	-	6.2
Cash and cash equivalents		**136.3**	135.8	70.4
Total current assets		**442.2**	396.6	364.4
Total assets		**1,282.0**	1,252.1	1,200.9
Equity				
Issued share capital	10	**75.6**	75.6	66.0
Merger relief reserve		**385.2**	385.2	298.1
Capital redemption reserve		**0.1**	0.1	0.1
Other reserve		**(132.8)**	(132.8)	(132.8)
Cash flow hedging reserve		**(1.5)**	(0.1)	0.3
Translation reserve		**(47.5)**	(24.1)	(11.0)
Retained earnings		**333.6**	300.8	307.1
Attributable to equity holders of Essentra plc		**612.7**	604.7	527.8
Non-controlling interests		**16.2**	13.3	7.7
Total equity		**628.9**	618.0	535.5
Liabilities				
Interest bearing loans and borrowings		**313.3**	285.2	249.0
Lease liabilities	11	**46.1**	49.1	39.3

Retirement benefit obligations	9	**25.1**	36.5	34.3
Provisions		**2.5**	8.0	6.0
Other financial liabilities		**5.6**	1.2	3.4
Other payables		**-**	2.2	-
Deferred tax liabilities		**45.3**	45.5	45.3
Total non-current liabilities		**437.9**	427.7	377.3
Interest bearing loans and borrowings		**-**	-	60.7
Lease liabilities	11	**11.6**	11.9	11.4
Derivative liabilities		**0.1**	0.5	0.3
Income tax payable		**21.5**	33.1	37.9
Trade and other payables		**180.9**	155.4	174.5
Provisions		**1.1**	5.5	3.3
Total current liabilities		**215.2**	206.4	288.1
Total liabilities		**653.1**	634.1	665.4
Total equity and liabilities		**1,282.0**	1,252.1	1,200.9

* See change of accounting policies within note 1 for further details of the prior year restatement.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

										2021
		Issued capital	**Merger relief reserve**	**Capital redemption reserve**	**Other reserve**	**Cash flow hedging and cost of hedging reserves**	**Translation reserve**	**Retained earnings**	**Non- controlling interests**	**Total equity**
		£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 January 2021 (restated*)		**75.6**	**385.2**	**0.1**	**(132.8)**	**(0.1)**	**(24.1)**	**300.8**	**13.3**	**618.0**
Profit for the year								**26.9**	**1.4**	**28.3**
Other comprehensive expense						**(1.4)**	**(23.4)**	**20.6**	**(0.1)**	**(4.3)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(1.4)**	**(23.4)**	**47.5**	**1.3**	**24.0**
Equity issue to non-controlling interest									**3.1**	**3.1**
Share option expense								**0.8**	**-**	**0.8**
Tax relating to share-based incentives								**0.5**	**-**	**0.5**
Dividends paid	13							**(16.0)**	**(1.5)**	**(17.5)**
At 31 December 2021		**75.6**	**385.2**	**0.1**	**(132.8)**	**(1.5)**	**(47.5)**	**333.6**	**16.2**	**628.9**

										2020 (restated*)
		Issued capital	Merger relief reserve	Capital redemption reserve	Other reserve	Cash flow hedging and cost of hedging reserves	Translation reserve	Retained earnings	Non- controlling interests	Total equity
		£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020 (as previously reported)		66.0	298.1	0.1	(132.8)	0.3	(11.0)	312.4	7.7	540.8
Prior period restatement								(5.3)	-	(5.3)
Restated total equity at the beginning of the financial year		66.0	298.1	0.1	(132.8)	0.3	(11.0)	307.1	7.7	535.5
Loss for the year (restated*)								(3.3)	1.8	(1.5)
Other comprehensive expense						(0.4)	(13.1)	(4.6)	(0.5)	(18.6)
Total comprehensive loss for the year		-	-	-	-	(0.4)	(13.1)	(7.9)	1.3	(20.1)
Issue of share capital		9.6	87.1					-	-	96.7
Equity issue to non-controlling interest								-	5.0	5.0
Share options exercised								0.1	-	0.1
Share option expense								1.2	-	1.2
Tax relating to share-based incentives								0.3	-	0.3
Dividends paid	13							-	(0.7)	(0.7)
At 31 December 2020 (restated*)		75.6	385.2	0.1	(132.8)	(0.1)	(24.1)	300.8	13.3	618.0

*See change of accounting policies within note 1 for further details of the prior year restatement..

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

(restated)*

	Note	2021	2020
		£m	£m
Operating activities			
Profit/(loss) for the year		**28.3**	(1.5)
Adjustments for:			
Income tax expense/(credit)		**4.9**	(2.6)
Net finance expense	4	**16.5**	15.7
Intangible amortisation	7	**25.0**	25.1
Adjusting items	3	**11.8**	28.1
Depreciation of property, plant and equipment	6	**36.6**	37.3
Lease right-of-use asset depreciation	8	**12.0**	12.0
Profit on lease termination		**-**	(2.0)
Impairment of fixed assets		**0.5**	0.1
Share option expense		**0.8**	1.2
Hedging activities and other movements		**(0.5)**	1.3
(Increase)/decrease in inventories		**(28.3)**	9.6
(Increase)/decrease in trade and other receivables		**(27.9)**	14.9
Increase/(decrease) in trade and other payables		**26.3**	(18.3)
Cash outflow in respect of adjusting items		**(25.6)**	(21.3)
Adjustment for pension contributions		**(4.8)**	0.9
Movement in provisions		**(0.2)**	-
Cash inflow from operating activities		**75.4**	100.5
Income tax paid		**(12.2)**	(7.7)
Net cash inflow from operating activities		**63.2**	92.8
Investing activities			
Interest received		**0.4**	1.9
Acquisition of property, plant and equipment		**(38.5)**	(30.9)
Proceeds from sale of property, plant and equipment		**8.9**	0.4
Payments for intangible assets		**(3.2)**	(3.7)
Acquisition of businesses net of cash acquired	12	**(14.6)**	(41.2)
Proceeds from sale of businesses net of cash disposed	11	**-**	5.0
Short-term investments		**-**	0.6
Net cash outflow from investing activities		**(47.0)**	(67.9)
Financing activities			
Interest paid		**(11.0)**	(14.7)
Dividends paid to equity holders		**(16.0)**	-
Dividends paid to non-controlling interests		**(1.5)**	(0.7)
Arrangement fee paid for financing facilities		**(4.4)**	-
Repayments of long-term loans		**(182.5)**	(352.9)
Proceeds from long-term loans		**211.4**	318.8
Lease liability principal repayments		**(12.8)**	(11.9)
Proceeds from equity issue		**-**	100.0
Costs incurred in equity issue		**-**	(3.3)
Proceeds from equity issue to non-controlling interests		**3.1**	5.0
Proceeds from sale of employee trust shares		**-**	0.1

Net cash (outflow)/inflow from financing activities		**(13.7)**	40.4
Net increase in cash and cash equivalents	11	**2.5**	65.3
Net cash and cash equivalents at the beginning of the year		**135.8**	70.4
Net increase in cash and cash equivalents		**2.5**	65.3
Net effect of currency translation on cash and cash equivalents		**(2.0)**	0.1
Net cash and cash equivalents at the end of the year	11	**136.3**	135.8

* See change of accounting policies within note 1 for further details of the prior year restatement.

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 2021 but is extracted from the 2021 Annual Report.

The Annual Report for 2021 will be delivered to the Registrar of Companies in due course. The auditors' report on those accounts are 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 of the Essentra plc group have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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

The 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.

Going Concern

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

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

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

As part of the going concern assessment, the Board has also considered a downside scenario that reflects a continuing level of operational and commercial challenges experienced in the recent years, which we consider to be severe but plausible. Included within the severe yet plausible downside scenario are the potential significant costs of strategic reviews which are ongoing and possible impact of foreign exchange fluctuations. The directors have also considered scenarios which incorporate the potential outcomes of the strategic reviews and the potential impact of the group's previously announced intentions to move to be a pure play components business over time. The results of these scenario show that there is sufficient liquidity in the business for a period of at least 18 months from the date of approval of these financial statements, and do not indicate any covenant breach during the test period. The severe downside scenario includes assumptions for the similar extent of operational disruptions as seen in 2021. Set against this were mitigating actions including tight management of capital expenditure, sales and general overhead, and working capital. Overall level of liquidity (defined as available undrawn borrowing facility plus cash and cash equivalent) at the end of December 2021 was £352.1m, which was significantly higher than the £287.0m as at 31 December 2020. Further information on the Group's borrowing facilities, cash resources and other financial instruments can be found in notes 11 and 17 to the financial statements.

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

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

Changes in accounting policies

Software as a service ("SaaS") arrangements

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

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

The costs written off are presented within operating profit in the consolidated income statement. Given the significant impact of this policy change, in presenting the Group's adjusted operating profit, configuration and customisation costs of significant SaaS arrangements are presented as part of adjusting items (see note 3) in order to present an alternative performance measure that excludes the impact of such costs which, in the view of management, represent investments in upgrading the Group's technological capability including costs associated with current implementation of a cloud-based enterprise resource planning ("ERP") system within the Group. Configuration and customisation costs of non-significant SaaS arrangements are included within adjusted operating profit.

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

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

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

i) Impact on the consolidated balance sheet

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

	As previously reported 1 January 2020	Impact of restatement	Restated 1 January 2020

	£m	£m	£m
Property, plant and equipment	276.0	(2.5)	273.5
Intangible assets	486.3	(4.4)	481.9
Deferred tax	13.6	1.6	15.2
Other assets and liabilities	(235.1)	-	(235.1)
Net assets	540.8	(5.3)	535.5
Retained earnings	312.4	(5.3)	307.1
Other equity balances	228.4	-	228.4
Total equity	540.8	(5.3)	535.5

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

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

iii) Impact on earnings per share

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

iv) Impact on consolidated statement of cash flows

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

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

Other pronouncements

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

- *Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 7, IFRS 4 and IFRS 16)*, which address the effects of the reform on a company's financial statements that arise when an interest rate benchmark used to calculate interest on a financial asset is replaced with an alternative benchmark

- *Amendments to UK and Republic of Ireland accounting standards as a result of the UK's exit from the European Union*

- *Amendment to IFRS 16, which clarifies the extension of the practical expedient* where the lessee is not required to assess whether eligible COVID-19 related rent concessions are lease modifications.

- *Amendments to IAS 1, which address the presentation of financial statements on classification of liabilities*

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

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

- *Amendment to IAS 12 - deferred tax related to assets and liabilities arising from a single transaction*

- *A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16*

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.

The adjusted operating profit/loss presented for each operating segment includes the effect of allocation of certain functional costs such as finance, human resources, legal and IT, as well as costs relating to management of the divisions on an internal management methodology.

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

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

[1] See change of accounting policies within note 1 for further details of the prior year restatement.

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

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

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

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

3. Adjusting items

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

* See change of accounting policies within note 1 for further details of the prior year restatement.

Adjusting items are separately presented from other items by virtue of their nature, size and/or incidence (considered for each operating segment). They are identified separately in order for the reader to obtain a clearer understanding of the underlying results of the ongoing Group's operations, by excluding the impact of items which, in management's view, do not form part of the Group's underlying operating results, such as gains, losses or costs arising from business acquisition and disposal activities, significant restructuring and closure costs and other items which are non-recurring or one-off in nature (such as the costs of fundamental strategic reviews and reorganisation). Operating profit before adjusting items and acquired intangible amortisation is called adjusted operating profit, which forms the primary basis of management's review and assessment of operational performance of the Group's businesses.

1 (Gains)/losses and transaction costs relating to acquisitions and disposals of businesses are made up of a credit of £4.4m in relation to the reversal of certain claim provisions in relation to prior disposals, following the conclusion of negotiation with the purchasers; a gain of £0.4m in relation to a prior acquisition for claims made against the vendor. These are offset by acquisition-related costs of £1.0m in relation to the acquisition of Jiangxi Hengzhu Electrical Cabinet Lock Co., Ltd ("Hengzhu"); £0.2m of costs in setting up the Filters China joint venture, and £0.2m related to costs incurred in pursuit of acquisition targets.

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

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

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

3 In accordance with the revised accounting policy in relation to the customisation and configuration costs of software as a service ("SaaS") arrangements (see the note 1 within change of accounting policies), costs of significant SaaS arrangements which, in the view of management, represents investment in upgrading the Group's technological capability, were expensed as adjusting items. In the current the year, costs of £11.8m (2020: £10.4m) were attributable to major SaaS projects and relate primarily to the costs of implementing a new cloud-based enterprise resource planning ("ERP") system within the Group.

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

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

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

- £7.6m costs relating to restructuring activities within the Packaging division. These relate to costs incurred in the re-evaluation of the divisional footprint, which resulted in the announced closure of manufacturing facilities in Portsmouth, UK, and Moorestown, USA, as well as additional workforce rationalisation costs.
- £2.1m of cost in relation to restructuring activities within the Components Europe business following a review of the operational footprint of the region. This comprises £0.6m costs incurred in the transfer of manufacturing activities out of Åstorp, Sweden into Barcelona and £1.5m incurred
- on moving the warehousing capabilities of certain central northern European (Bergeijk in

the Netherlands, Geretsried in Germany and Bratislava in Slovakia) into the newly established North European Distribution Hub in Nettetal, Germany.

- £2.5m of cost in relation to restructuring activities within the Components Americas business following a review of the operational footprint of the region. The review has resulted in the announcement of closures of manufacturing sites in Schaumburg, Illinois, and Melbourne, Arkansas and the transfer of production to the Components site to Flippin, Arkansas, as well as the exit of three smaller warehousing and distribution express sites in Edison in New Jersey, Elgin in Illinois and Los Angeles in California.
- £1.2m credit in relation to the review of the compliance of certain group companies' export activities with US laws, as previously disclosed in the 2019 Annual Report. This comprises £0.2m of external advisory and consultancy costs, offset by a £1.4m release of excess provision held for potential penalties in relation to this activity as the Company does not anticipate any significant enforcement action.
- £0.5m of external advisory costs in relation to a strategic review of the Group's operational structure and cost profile, following the significant structural changes in recent years.

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

4. Net finance expense

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

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

5. Earnings per share

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

*See change of accounting policies within note 1 for further details of the prior year restatement.

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

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

6. Property, plant and equipment

	Land and buildings	Plant and machinery	Fixtures, fittings and equipment	2021 Total
	£m	£m	£m	£m
Cost				
Beginning of year	**84.8**	**387.2**	**78.4**	**550.4**
Acquisitions (note 12)	(0.5)	2.4	0.1	**2.0**
Additions	2.1	31.8	4.9	**38.8**
Disposals	(4.2)	(20.6)	(3.2)	**(28.0)**
Currency translation	(2.8)	(14.3)	(1.3)	**(18.4)**
End of year	**79.4**	**386.5**	**78.9**	**544.8**
Accumulated depreciation and impairment				
Beginning of year	**17.2**	**226.0**	**44.7**	**287.9**
Charge in period	3.2	25.3	8.1	**36.6**
Disposals	(0.8)	(19.2)	(3.2)	**(23.2)**
Impairment	0.2	0.5	-	**0.7**
Currency translation	(1.8)	(8.9)	(0.8)	**(11.5)**
End of year	**18.0**	**223.7**	**48.8**	**290.5**
Net book value at end of year	**61.4**	**162.8**	**30.1**	**254.3**

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

Net book value at end of year	67.6	161.2	33.7	262.5

*See change of accounting policies within note 1 for further details of the prior year restatement.

Included within land and buildings, plant and machinery and fixtures, fittings and equipment are assets in the course of construction of £1.1m (2020 restated : £1.8m) which were not depreciated during the year.

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

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

7. Intangible assets

				2021
	Goodwill	Customer relationships	Other intangible assets	Total
	£m	£m	£m	£m
Cost				
Beginning of year	**356.0**	**424.4**	**23.1**	**803.5**
Acquisitions (note 12)	4.5	8.6	-	**13.1**
Additions	-	-	3.2	**3.2**
Currency translation	(5.6)	(9.8)	0.1	**(15.3)**
End of year	**354.9**	**423.2**	**26.4**	**804.5**
Amortisation and impairment				
Beginning of year	**27.8**	**264.3**	**9.0**	**301.1**
Charge for the year	-	22.2	2.8	**25.0**
Impairment	-	-	0.3	**0.3**
Currency translation	0.1	(5.6)	0.1	**(5.4)**
End of year	**27.9**	**280.9**	**12.2**	**321.0**
Net book value at end of year	**327.0**	**142.3**	**14.2**	**483.5**

			(restated)*	(restated)*

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

* See change of accounting policies within note 1 for further details of the prior year restatement..

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

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

Other intangible assets principally comprise trade names acquired with Reid Supply, developed technology acquired with Richco, order backlog, software development and e-Commerce development costs.
The e-Commerce development and software development costs were not acquired through a business combination, and their amortisation is included within operating profit before amortisation of acquired intangibles and adjusting items. Amortisation charged on other intangible assets is included within operating profit before amortisation of acquired intangibles and adjusting items.

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

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

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

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

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

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

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

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

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

- The key assumptions in the cash flow projections for the Plan are the revenue growth and operating margin for each division. Operating margin is primarily based on historical levels achieved, adjusted by targets set for revenue expansion and cost control and reduction for each individual division within the Plan period. The key assumptions underlying the estimation of cash flow projections for value in use are operating profit margin and revenue growth assumptions. The values assigned to these assumptions represent management's assessment of market condition and scope for cost and profitability improvement, taking into account realisable synergies resulting from integration activities. The compound annual revenue growth rate assumption across all three divisions for the next five years ranges from 5.3% to 8.5%. The average operating profit margin assumption for the next five years included within the Packaging division impairment assessment ranges from 6.9% to 10.9%. In respect of Components and Filters, the combined average operating profit margin over the five year forecast period is assumed to improve by 300 bps from 2021

- In relation to the test for the Components and Filters divisions, cash flows beyond the first year of the model are based on the approved annual budget with growth rates specific to each business applied to revenue of up to 5.8%

- The estimated cash flows are discounted using a pre-tax discount rate based upon Essentra's estimated post-tax weighted average cost of capital of 6.5% (2020: 7.3%). The specific pre-tax discount rates applied for each group of cash generating units to which significant goodwill is allocated are as follows: 7.8% for Packaging, 8.4% for Components and 7.7% for Filters (2020: 8.8% for Packaging, 9.4% for Components and 9.7% for Filters)

- In relation to the test for the Packaging division, management carried out a detailed assessment of the growth and profit margin assumptions for each of the next four years after the Plan period, and applied a terminal growth rate of 1.8% p.a. (2020: 1.5%) subsequently. The growth and profit margin assumptions are based on management's assessment of market condition and scope for cost and profitability improvement, taking into account realisable synergies following the recent integration and reorganisation activities. The operating profit assumptions include an estimate for the impact of the key risks but not the opportunities from climate change and includes costs and risks related to meeting environmental, social and governance targets

The Packaging division impairment test has historically been the most sensitive to changes in assumptions, therefore management 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 380 basis points
- A reduction of 600 basis points in the operating profit margin in the terminal year
- A reduction of 510 basis points in the terminal growth rate

Management considered the following reasonably possible changes in the key assumptions, and the associated impact on the impairment assessment, in relation to the Packaging division:

- A 1.0% increase in discount rate would reduce headroom to £229.3m
- A 1.0% reduction in the terminal growth rate would reduce headroom to £251.2m
- A 1.5% reduction in each year's growth rate would reduce headroom to £337.5m
- A 2.0% reduction in operating profit margin in the terminal year would reduce headroom to £253.7m

8. Lease right-of-use assets

				2021
	Land and buildings	**Plant and machinery**	**Fixtures, fittings and equipment**	**Total**
	£m	**£m**	**£m**	**£m**
Cost				
Beginning of year	**102.0**	**13.9**	**0.4**	**116.3**
Additions, extensions and surrenders	8.2	1.8	-	**10.0**
Terminations	(6.3)	(1.7)	-	**(8.0)**
Acquisitions (note 12)	2.0	-	-	**2.0**
Currency translation	(5.4)	(0.6)	-	**(6.0)**
End of year	**100.5**	**13.4**	**0.4**	**114.3**
Accumulated depreciation				
Beginning of year	**57.7**	**5.7**	**0.2**	**63.6**
Charge for the year	9.0	2.9	0.1	**12.0**
Terminations	(6.0)	(1.3)	-	**(7.3)**
Impairment writeback	(1.1)	-	-	**(1.1)**
Currency translation	(3.0)	(0.3)	-	**(3.3)**
End of year	**56.6**	**7.0**	**0.3**	**63.9**
Net book value at end of year	**43.9**	**6.4**	**0.1**	**50.4**

				2020
	Land and buildings	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, extensions and surrenders	19.5	2.2	0.2	21.9
Terminations	(2.5)	(2.9)	-	(5.4)
Acquisitions	2.5	-	-	2.5

Currency translation	(1.9)	-	-	(1.9)
End of year	102.0	13.9	0.4	116.3
Accumulated depreciation				
Beginning of year	50.2	5.5	0.1	55.8
Charge for the year	8.8	3.1	0.1	12.0
Terminations	(2.3)	(2.9)	-	(5.2)
Impairment	1.7	-	-	1.7
Currency translation	(0.7)	-	-	(0.7)
End of year	57.7	5.7	0.2	63.6
Net book value at end of year	44.3	8.2	0.2	52.7

During the year there was an impairment write back of £1.1m (2020: impairment of £1.7m). This £1.1m impairment write back is disclosed in adjusting items section of note 3. The assets were uplifted to their recoverable amount, which represented their fair value. Contractual commitments to lease property, plant and equipment amounted to £nil at 31 December 2021 (2020: £4.0m).

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

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 2021 and annual actuarial valuations are performed on the principal US defined benefit schemes. The assets and liabilities of the defined benefit schemes have been updated to the balance sheet date from the most recently completed actuarial valuations taking account of the investment returns achieved by the schemes and the level of contributions.

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

	2021	2020
	£m	£m
Amounts expensed against operating profit		
Defined contribution schemes	**6.9**	7.2
Defined benefit schemes - current service cost	**1.5**	1.6
Defined benefit schemes - curtailment gain	**(0.2)**	(0.4)
Other post-employment obligations	**0.4**	0.5
Total operating expense	**8.6**	8.9
Amounts included as finance (income)/expense		
Net interest on defined benefit scheme assets (note 4)	**(0.2)**	(0.3)
Net interest on defined benefit scheme liabilities (note 4)	**0.8**	1.0
Net finance expense	**0.6**	0.7
Amounts recognised in the consolidated statement of comprehensive income		
Return on defined benefit scheme assets excluding amounts in net finance income	**0.6**	(32.4)
Impact of changes in assumptions and experience to the present value of defined benefit scheme liabilities	**(29.1)**	39.1
Remeasurement of defined benefit schemes	**(28.5)**	6.7

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

	2021		2020	
	Europe	**US**	Europe	US
Increase in salaries (pre-2010)[1]	**n/a**	**n/a**	n/a	n/a
Increase in salaries (post-2010)[1]	**n/a**	**n/a**	n/a	n/a
Increase in pensions[1]				

at RPI capped at 5%	**3.1%**	**n/a**	2.70%	n/a
at CPI capped at 5%	**2.7%**	**n/a**	2.20%	n/a
at CPI minimum 3%, capped at 5%	**3.3%**	**n/a**	3.10%	n/a
at CPI capped at 2.5%	**2.2%**	**n/a**	1.90%	n/a
Discount rate	**1.9%**	**2.8%**	1.30%	2.45%
Inflation rate - RPI	**3.2%**	**n/a**	2.70%	n/a
Inflation rate - CPI	**2.7%**	**n/a**	2.20%	n/a

[1] For service prior to April 2010, pension at retirement is linked to salary at retirement. For service after April 2010, pension is linked to salary at April 2010 with annual increases capped at 3%.

Due to the timescale covered, the assumptions applied may not be borne out in practice.

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

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

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

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

Sensitivity

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

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

10. Issued share capital

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

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

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

11. Analysis of net debt

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

The non-cash movements in debt due after one year represent the amortisation of prepaid facility fees £1.1m. The net non-cash movement in lease liabilities represents lease liability surrender of £1.0m due to renegotiated lease terms, offset by interest on leases £2.8m. The net cash outflow relating to lease liabilities for low value, short-term and variable lease payments was £0.3m (see note 8). During the year £10.5m of lease liabilities moved from due after one year to due within one year.

	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. The net cash outflow relating to lease liabilities for low value, short-term and variable lease payments was £0.3m. During the year £9.6m of lease liabilities moved from due after one year to due within one year.

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

12. Acquisitions and disposals

Acquisition of 3C!

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

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

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

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

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

Acquisition of Innovative Components

On 26th June 2019, Essentra acquired 100% of the share capital of Innovative Components Inc. and Componentes Innovadores Limitada (together "Innovative Components"). During 2021, Essentra paid out the remaining deferred consideration relating to the acquisition of Innovative Components, amounting to £1.8m.

Acquisition of Micro Plastics

On 12 December 2017 Essentra acquired 100% of the share capital of Micro Plastics Inc. The transaction was settled with cash consideration of £19.7m and deferred consideration of £3.7m. During 2021, £1.2m of deferred consideration was paid out to the vendor, with the remainder to be paid in the future.

Acquisition of Hengzhu

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

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

Had the acquisition been completed on 1 January 2021, the contribution to the Group's revenue and operating profit would have been £17.4m and £0.7m higher respectively. Included within the consolidated accounts are £7.2m of revenue and £nil of operating profit from Hengzhu since acquisition.

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

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

	Hengzhu £m
Intangible assets	**8.6**
Property, plant and equipment	**2.2**
Lease right-of-use asset	**2.0**
Inventories	**2.2**
Trade and other receivables	**0.2**
Trade and other payables	**(1.4)**
Lease liabilities	**(2.0)**
	11.8
Goodwill	**3.9**

Consideration	**15.7**
Satisfied by:	
Cash consideration	**11.5**
Deferred consideration	**4.2**
Cash consideration	**11.5**
Cash outflow in respect of the acquisition	**11.5**

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

13. Dividends

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

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 2021 the entity had gross assets of £27.6m (2020: £24.3m) and gross liabilities of £9.9m (2020: £7.4m). Operating profit for the year amounted to £5.0m (2020: £4.8m) and movement in cash for the year amounted to £0.8m (2020: £1.7m).

China Tobacco Essentra (Xiamen) Filters Co., Ltd is 49% owned by the Group. The results were fully consolidated within the Group's financial statements as it is deemed Essentra has control by virtue of having control of the board. As at 31 December 2021 the entity had gross assets of £20.3m (2020: £9.9m) and gross liabilities of £5.4m (2020: £nil). Operating loss for the year amounted to £0.8m (2020: £0.1m) and movement in cash for the year amounted to £0.2m (2020: £9.9m).

15. 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.

			(restated)*
		2021	2020
	Note	**£m**	£m
Operating profit		**49.7**	11.6
Amortisation of acquired intangible assets		**22.4**	22.6
Adjusting items	3	**11.8**	28.1
Adjusted operating profit		**83.9**	62.3
Finance income	4	**2.8**	1.9
Finance expenses	4	**(19.3)**	(17.6)
Adjusted profit before income tax		**67.4**	46.6
Tax on adjusted profit		**(11.2)**	(8.9)
Adjusted profit		**56.2**	37.7
Attributable to:			
Equity holders of Essentra plc		**54.8**	35.9
Non-controlling interests		**1.4**	1.8
Adjusted profit		**56.2**	37.7
Basic adjusted earnings per share	5	**18.2p**	13.2p

Diluted adjusted earnings per share	5	**18.1p**	13.1p

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

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

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

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

16. Post balance sheet events

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

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.

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

Trade and other payables	-	-	**-**	(3.2)	-	(3.2)
Other non-current financial liabilities	(5.6)	-	**(5.6)**	(1.2)	-	(1.2)
	(4.5)	**(228.5)**	**(233.0)**	(4.6)	(201.7)	(206.3)

Total trade and other receivables carried at £175.2m (2020: £154.2m) include prepayments of £6.5m (2020: £7.1m) which are not financial assets and are therefore excluded from the above analysis. Fair values of forward foreign exchange contracts and cross currency swaps have been calculated at year end forward exchange rates compared to contracted rates. These are determined to be level 2 in the fair value hierarchy. Trade receivables subject to factoring are measured at fair value through other comprehensive income. Their fair value is determined based on management's expectation of recoverable amount, taking into account expected credit losses and, if material, time value of money.

Included within trade and other payables and other non-current financial liabilities, which is classified as level 3 in the fair value hierarchy, is the deferred consideration of £5.6m relating to the acquisitions of Micro Plastics and Hengzhu (2020: £4.4m). The value of deferred consideration is primarily based on the post-acquisition financial performance of the acquired business, and reflects management's expectation of the performance during the earn out period.

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

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

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 — Chief Executive

Lily Liu — Chief Financial Officer

18 March 2022

Risk Management Report

RESPONDING TO CONTINUED DISRUPTION IN 2021

Whilst 2020 was the year in which we first experienced the disruption caused by the COVID-19 pandemic, 2021 presented a different range of risks and challenges to which we needed to react and adapt. As economies started to emerge from the pandemic we identified differing forms of disruption from supply chain constraints to rapidly changing workforce availability.

The risk management lessons we learnt during 2020 resulted in us being well placed to manage our responses to these events quickly and robustly. However, continuing disruption to business, in all its forms, indicated a need to perform a thorough review of the risk management framework. This review concluded in September and resulted in an updated risk framework which supports the evolution of our approach and considers risk at both a strategic and an operational level with a view to improving business resilience over the short to long term.

Following on from the introduction of our revised risk framework, an increasingly dynamic risk landscape and the announcements relating to the strategic reviews, we also performed an in-depth review of our Principal and Emerging Risks which comprised consultation with the Board, the Group Risk Committee ("GRC") and the ARC. The following sections reflect the output of these discussions with one Principal Risk having been retired (in relation to Macro Economic & Trade Deal Uncertainty) and one new risk added (to reflect the risks surrounding the strategic reviews process). Other risks have been reviewed and refined to reflect the current nature of the risk and our approach to mitigation.

Looking ahead to 2022, we anticipate that certain pandemic related risks will remain, at least for the short to medium term; however, the work put in to our risk management processes and practices over the past two years means we are well placed to continue to deal with them efficiently and effectively. Additionally, as the strategic reviews progress we continue to analyse and assess the Emerging Risk landscape, with particular focus on the Components division's processes, to ensure the Group's risk management practices continue not only to protect stakeholder value but to support its creation in line with our strategic growth objectives.

As we have seen recently, there remains a risk that further variants and subsequent waves of COVID-19 will continue to disrupt societies, economies and businesses during 2022. Our geographical breadth, coupled with our ability to flex operating models with a high degree of agility means we are well placed to maintain customer service levels whilst managing the threats to our operations and the wellbeing of our people.

It remains critical for us to continue to scan the horizon for additional new, emerging or disruptive risks which could significantly impact our ability to meet our strategic growth objectives. Despite the focus on mitigating the impacts of an increasing range of disruptive risks, we have during the year paid close attention to the increasing momentum associated with the risk agendas for ESG and climate change along with the potential impacts of technology-related innovations disrupting our core markets.

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 and more broadly across our operations. We are committed to managing risks in a proactive, efficient and eective manner to protect and enhance value, and provide assurance to the Board and our stakeholders.

We made significant progress during 2021 in evolving our risk management processes as we continue to ensure our risk management processes are aligned with FTSE 250 upper quartile practice. This included a number of initiatives to start driving the risk conversation to a site level, support the divisions in their assessment of risk, to monitor and improve the risk culture and to further develop the Group's risk framework, enhanced risk reporting and further embed risk activities to improve risk culture across the Company. Particular focus was placed on reviewing our portfolio of Principal and Emerging Risks in the light of an increasingly dynamic operating environment.

RISK MANAGEMENT FRAMEWORK

A refreshed risk management framework has been developed for identifying and managing risk within defined appetite levels, at both a strategic and an operational level. This framework was designed to provide the GRC and the Board with a clear line of sight over risk, to enable informed decision-making and to deliver improved resilience.

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 2021, the challenges presented by the COVID-19 pandemic and economies emerging from it included relocation of employees, remote working, temporary inaccessibility of some business locations, raw material shortages, supply chain disruption, volatile supply and demand, and distribution challenges. A clear focus was placed on ensuring the continued operation of our risk management framework in a dynamic environment. 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 bi-annually by mapping its Principal Risks against a sliding scale from "risk-averse" to "risk-neutral" to "risk-tolerant" and this informs the development of mitigating actions for each of the Principal Risks.

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 eective 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 2021, the Risk Assurance team supported divisional and enabling functions leadership teams in the management of their risk processes, specifically in relation to the strategic planning process. Additionally, a number of risk workshops have been held in relation to the long-term organisational objective set out in the strategic review announcements. In 2021 we paid continuing attention to Emerging Risks and to 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.

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 Risk 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 supports risk management activities. In addition, all divisions and enabling functions have appointed Risk Champions to drive risk management practices into their businesses.

The GRC met four times in 2021, each meeting with a full attendance. The GRC is chaired by the Chief Executive and its membership comprises the GMC members, Head of Legal, Head of Risk, Head of Governance and the Group Communications Director. Non-member standing attendees are the Group Health, Safety and Environment Director, the Chief information Security Officer and the Group Financial Controller. Other members of senior management are also invited to present reports on specific risk activities. We also welcomed external presentations from subject matter experts on topics including ESG and sustainability. The Chair of the ARC has a standing invitation to attend all GRC meetings, attending two in 2021, and receives copies of the minutes of every meeting. The Chair of the ARC also meets with the Head of Risk on a monthly basis.

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 risks.

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

The ARC engages directly with the divisions and the enabling functions, including deep dive reviews, as part of fulfilling its oversight responsibilities in relation to risk management processes. The ARC, with assistance from Risk 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 Risk 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 enabling the identification and management of Essentra's Principal Risks. An in-depth assessment has been undertaken to assess the appropriateness and adequacy of our Principal Risks. The assessment was performed against the four risk categories.

As part of the process, divisional and enabling function leadership teams have also undertaken reviews of this risk portfolio supported, where necessary, by the Risk Assurance team.

As part of our top-down process, a review of Principal Risks was performed by the Board which led to further review and refinement by the GRC. This top-down assessment required each GRC risk owner to provide analysis of 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, and the GRC then discussed and reached a consensus regarding Principal Risks that can seriously aect 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 long-term viability modelling.

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.

The Board and GRC evaluate the potential eects 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. The Principal Risks that were considered to have a potentially significant impact on the Company's viability are included in the long-term viability modelling.

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 2021 we undertook a robust review of our Principal and Emerging Risks.

At half year we disclosed the following key changes:

- a decrease in relation to the probability of our Macro-economic and Trade Deal Uncertainty (including Brexit)

risk manifesting itself
- an increase in the probability and impact of our Environmental, Social Governance (ESG) risk resulting from an increasing stakeholder focus
- an increase in probability in relation to our Talent and Workforce Management risk resulting from pandemic related workforce dynamics

No further Emerging Risks were noted.

Since our half-year disclosure, we undertook further review of our Principal and Emerging Risk profiles. The following key changes have been made since our half-year disclosure:

- removal of Macro-economic and Trade Deal Uncertainty (including Brexit) as a Principal Risk given the conclusion of the Brexit process and increasing clarity around trade deals. Broader disruptive events are now considered under our new Operational and Supply Chain Disruption Principal Risk
- addition of a new Principal Risk relating to the ongoing strategic reviews
- reduction in the risk level associated with our Delivery of Strategic Projects risk following the successful completion of a number of acquisitions. The remaining risk largely relates to the delivery of the BPR programme
- an increase in the risk level associated with our Cyber Event (Cyber Attack in 2020) risk as a result of increasing reliance on our digital supply chain
- replacement of our Business Continuity Planning and Management Principal Risk with an Operational and Supply Chain Disruption risk reflecting the increasingly dynamic nature of disruptive events
- a decrease in the risk level for our Internal Process and Control risk following the completion of the roll out of the Minimum Control Standard framework
- a continuing increase in risk level in relation to our Talent and Workforce Management risk
- removal of Emerging Risks relating to Regulatory Change (now covered under our Regulatory Governance Principal Risk) and Evolving conditions of the Debt Market

All other risks have been reviewed and updated to reflect the current nature of the risk and mitigating activities.

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 the identification and appropriate management or 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. A risk management workshop with the Board was facilitated by the Risk Assurance team as part of the ongoing cadence of Emerging Risk identification; this workshop was followed by further discussion at GRC meetings. These assessments 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 Emerging Risks to be identified at an early stage so we can analyse them thoroughly and assess potential exposure.

The preliminary views of Emerging Risks were consolidated and discussed by the GRC to reach a consensus regarding Emerging Risks that can seriously aect 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 2021 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 and Emerging Risks. The Company continues to focus on ensuring the adequate mitigation of risks faced by the Company to ensure alignment with the Board-approved risk appetite.

We continue to closely monitor the situation in Ukraine, the response of international governments and any potential impact on the Group. Essentra has no significant operations or infrastructure in Russia or Ukraine and the business does not have local currency exposure. We have processes in place to ensure the Group is compliant with all relevant international regulations and sanctions, continue to closely monitor the situation and remain vigilant to changes in our risk profile resulting from it.

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 and, in the longer-term, industry average returns in the Packaging division has been 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. Significant effort has gone into mitigating this risk since it was first identified in 2017 including supply chain optimisation, cost savings through continuous improvement initiatives, strengthening our value proposition, focusing on effective key account management and delivering in line with customer expectation on quality and lead times. As such, the greater part of this risk now relates to the ongoing disruption in the underlying pharmaceutical market resulting from the ongoing COVID-19 pandemic with fewer GP visits and reduced demand for elective surgeries. However, as the world emerges from the pandemic the approach is moving towards pre-hospitalisation drug-based treatments which might present some opportunity for the division.

Stakeholder expectations around the raw materials used in packaging materials present an opportunity for Essentra Packaging given the sustainable nature of our product portfolio and our capability to work with customers to design packaging solutions with minimal environmental impact.

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. Failure to effectively mitigate this risk might affect the outcome of the strategic reviews.

Key mitigation actions include:

- delivering our differentiated value proposition to customers through innovative, high quality products and services
- innovation focus on smart packaging, patient safety, and sustainability
- delivering operational excellence through improved performance on safety, environment sustainability, quality, manufacturing efficiency, supply chain and continuous improvement initiatives
- developing a pricing strategy that minimises the impact of inflation internally as well as on customers.

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, notably from our ability to supply sustainable filters.

Whilst we have a strong market position, the future growth opportunities may be affected by the longer term dynamics of the tobacco industry. These include declining combustible markets, a shift towards Next Generation Products ("NGP") and other tobacco substitutes. The focus of stakeholders on the environmental and sustainability elements of tobacco markets provides an additional area of risk and opportunity for the business.

The social pressures and the evolving regulatory environment continue to move towards reducing the prevalence of smoking worldwide and also minimising its environmental impact. This presents an opportunity for growth through our existing sustainable product portfolio and new innovations.

The continuing changing trends in global consumption and end markets for our products requires increased oversight of where our products are used and a robust framework to ensure regulatory compliance. Tobacco-related litigation could also affect Essentra; however, there is no history of the Company being involved in such a claim.

Mitigation

Essentra seeks to mitigate the risk associated with changes in tobacco market dynamics by focusing on innovation and by exploiting potential market growth opportunities. Failure to effectively mitigate this risk could affect the outcome of the strategic reviews.

Key mitigation actions include:

- the establishment of a joint venture, including manufacturing facilities in China, which is now the world's largest tobacco market. Production started in this facility in 2021
- focus on winning further outsourcing contracts
- ongoing enhancement of innovation capabilities to ensure we are well positioned for the future of the tobacco market
- continuous improvement activities to ensure operational KPIs continue to improve with an ongoing focus on lead time

reduction and quality 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 Tapes business provides new growth opportunities in Food and Beverage and e-Commerce segments
- building on lessons learnt to further enhance our compliance programme and maintain a robust regulatory framework.

Delivery of Strategic Projects

Change in risk level: Decreased

Ownership: Company Secretary and General Counsel

Relevance: Company specific

Description

Our success is dependent, in part, on our ability to deliver key strategic projects on time and within budget to realise their full potential. We invest in, and deliver, significant strategic, operational and capital expenditure projects in order to drive the business forward, in particular, our ongoing Business Process Redesign implementation. Additionally, over recent years we have actively reviewed our portfolio of businesses, engaging in acquisitions and disposals as appropriate. 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.

During the year, our ability to deliver complex projects has been affected by some of the restrictions and other disruptions relating to the COVID-19 pandemic. This has, however, resulted in an enhanced capability to deliver projects in a complex and dynamic environment.

We have recently reviewed and strengthened project governance arrangements and resources to accelerate delivery of the Business Process Redesign programme delivery plan. Additionally, further resources will be deployed to sites during future site implementations to maintain operational and commercial stability.

Mitigation

Strategy and Governance:

- an annual strategic review with the Board and the GMC where we proactively monitor the market and review our strategy and our strategic programmes. This process is led by the Strategy and Commercial Director and, in 2021, has resulted in the commencement of a strategic reviews of the Filters and Packaging divisions
- 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 identified and kept up to date by the Group Project Management Office ("PMO"), to ensure appropriate focus on, monitoring and control of major strategic programmes, investments and capital expenditure projects
- day-to-day project management capabilities using a recognised project management methodology have been enhanced during the year
- interventions, as required, by Group PMO to initiate course corrections 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 lessons learnt exercise to identify key learnings to embed into future initiatives
- use of external advisers to provide expertise, assistance and rigorous due diligence, as appropriate.

People:

- 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.

Exposure to the Cyclical Industrial Market (Components Division)

Change in risk level: Unchanged

Ownership: Components Division Managing Director

Relevance: Company Specific

Description

The Components division serves a broad range of industrial customers and, as such, 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 COVID-19 pandemic, economic cycles have affected demand in these broad industrial markets.

The Components division sells to a broad base of end markets including automotive, capital goods and electronics. This market breadth provides a degree of risk diversification; however, future downturns in industrial production are almost certain to happen, albeit with an uncertain timeframe.

The Components division seeks to operate a flexible model whereby changes to its cost base can be quickly made to maintain operating margins against fluctuations in demand. The risk is that the business is not able to execute such changes, or they are not robust enough to minimise the impact on operating margins.

Additionally, the division, given its end-markets, supply chains and operating model, has a specific exposure to the Operational & Supply Chain Disruption Principal Risk.

Given the strategic announcement regarding the Group becoming a pure play global Components business, this risk will become increasingly prominent.

Mitigation

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

- the ongoing optimisation of fixed cost base to minimise the impact of demand fluctuations. Specifically, the Components division undertakes continuous reviews of its operating footprint to optimise manufacturing and distribution cost to serve. We opened a new distribution facility in Nettetal, Germany during the year which provides the opportunity for us to reduce our distribution footprint while delivering enhanced service levels to our customers
- our increased investment in the automation of production and distribution activities, enabled by robotics, will further help to reduce fixed costs. We also undertake ongoing reviews of our labour management practices with a view to 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 continue to develop our product category management approach to better focus on faster growing and resilient market segments. We continue to explore M&A and entry opportunities in new markets to further mitigate this risk.

We continue to invest in our innovation capabilities to secure new opportunities, develop our use of alternative materials and diversify our product range.

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 increasingly fundamental for all companies and stakeholders. Essentra has specific exposure to tobacco-related regulation, potential changes in relation to the regulation of single-use plastics, EU packaging regulations, climate change and multiple 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, developing customer expectations, changing supply chain dynamics, social attitudes towards the 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 ESG.

The Components division is exposed to ESG risks around the reduction in single use plastics, but also in relation, in the longer term, to climate change given the breadth of its operational footprint. 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.

Climate change

As part of our TCFD activity, we have worked closely with third-party consultants to understand the financial impact of climate-change-related physical risk exposure at key sites across seven risk areas, under three scenarios. We have identified ten material risks and opportunities relating to physical events, the transition of our business resulting from changing customer demands and the changing input costs relating to raw materials and power. We can now build mitigation activity and management approaches to help address these issues into our business continuity management and planning frameworks, closely linked to existing work with our insurers.

Mitigation

Governance-related activities are managed through the Company's comprehensive risk management processes.

Environmental and social topics are managed through the 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 Sustainability Committee's recommendations, in respect of reducing risk exposure, inform the work of the GMC, the divisions and the enabling functions.

Additionally, the Nomination and Remuneration Committees cover aspects of social issues and the Audit and Risk Committee explicitly covers governance.

During the year, we have also established an ESG Committee which comprises representatives from the divisions and enabling functions to monitor and respond to ESG and sustainability-related-topics on a day-to-day basis.

Additionally, the GRC also continues to evolve our approach to managing climate change risk, and we have worked with an external resource in support of fulfilling our reporting obligations under TCFD requirements.

Talent and Workforce Management

Change in risk level: Increased

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, including the recently announced strategic reviews, coupled with the ongoing impact of COVID-19 on workforce and labour market dynamics, requires us to continue our focus on retention of key talent, avoiding burn-out and presenteeism. Additionally, we must continue to grow the agile skills required to support and build on our future strategic direction.

The experience of the past two years has clearly indicated the effect major health events, be they global, regional or country specific, can have on the availability of resources. There remains a risk that future major health events could result in further labour disruption.

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
- developing 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 and managers on resilience and developing their personal career path in a considered way.

As the COVID-19 pandemic continues, we continue to focus on retention, but also on attracting the talent necessary to deliver our strategy in this new, global, working environment. We continue to review the organisation for points of failure at which additional cross-training might be necessary to alleviate disruption.

Strategic Reviews

Change in risk level: New risk

Ownership: General Counsel and Company Secretary

Relevance: Company specific

Description

In October and November 2021, the Company announced strategic reviews of both the Filters and Packaging divisions. These reviews have a view to maximising shareholder value through focusing on the growth potential of pure play global components business whilst Filters and Packaging benefit from new ownership structures.

Whilst the strategic reviews create significant opportunities for the respective businesses and our people, the uncertainty, both internal and external, caused by these announcements creates a number of potential risks. These include but are not limited to:

- a lack of focus on 'business-as-usual' activities
- poor execution of the review and any resulting decisions
- talent flight
- customer, supplier and competitor behaviours, compliance issues
- adverse investor feedback

The reviews comprise a number of complex projects with significant interdependencies; however, Essentra is well placed to deliver them and external/temporary resource has been identified where there are known capacity and capability gaps.

Mitigation

The key mitigation in place over this Principal Risk is the governance structure that has been established around the strategic review programme. A detailed structure is in place, supported by internal resources and external advisers, to ensure timely delivery. This structure includes clear leadership and management support along with a regular cadence of meetings on various workstreams supported by regular decision board meetings.

A range of external advisers have been engaged to support the strategic review process and the execution of any decisions that result from it.

Retention and recruitment strategies are in place to ensure ongoing leadership and capability.

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 of our locations are considered higher risk from a regulatory perspective. We are required to comply with multiple areas of legislation and regulation across an increasingly broad range of areas including: Anti-Trust, Anti-Bribery, Sanctions, Privacy and Environmental, Social & Governance ("ESG"). Our operations are subject to an external environment which is seeing an increasing breadth of emerging regulation and greater levels of scrutiny and oversight from regulators and enforcement agencies.

Additionally, there remains a risk that we fail to adhere strictly to the compliance requirements and reporting obligations set out in the Deferred Prosecution Agreement ("DPA") agreed with the US Department of Justice ("DoJ") in relation to historical US sanctions issues in the Filters division.

Failure to manage effectively the scrutiny and oversight and/or comply with laws and regulations could result in significant fines, costs or reputational damage to the Company and might adversely affect our ability to operate in certain jurisdictions.

Whilst the external environment is generating additional compliance demands, the Company continues to drive continuous improvements in its approach to managing regulatory and legislative requirements and overall the level of risk to the Company has remained the same.

Mitigation

The Company deploys a range of mitigating activities to support the management of regulatory risk including:

- a clear "tone from the top" from the Board and GMC on the importance of ethics and compliance
- a compliance programme (including employee training) with which we aim to conform with all applicable laws and regulations and encourage a culture of openness, honesty and integrity
- a mechanism that seeks to ensure all employees complete mandatory training on a timely basis
- improved compliance communication with "Be smart, be sure" campaign
- continuous improvement of the compliance framework to ensure an effective and appropriate policies, processes, reporting and monitoring
- a Group Compliance Committee that directs and oversees the Company's implementation of compliance programmes, policies and procedures which are required to meet legal, compliance and regulatory requirements (including sanctions)
- strengthening of divisional resources to embed regulatory compliance within the businesses and continued investment to drive better governance
- extensive focus on third party due diligence to take account of lessons learnt from the past
- the Company's Legal, Risk and Governance team which, with support from external advisers, continuously monitors current and forthcoming changes to the regulatory environment and emerging good practice
- the recent enhancement of disciplinary and IT lock-out processes to help ensure mandatory governance training is completed on time

- a "Right to Speak" portal is in place to encourage the reporting of governance issues.

Cyber Event

Change in risk level: Increased

Ownership: Group IT Director

Relevance: Industry general

Description

The Company is dependent on its internal and external IT systems for day-to-day operations. Should the Company, or its key cloud service suppliers, be affected by a cyber event (denial of service, data breach, compromise) resulting from an external or internal threat, this could result in suspension of critical business services and loss of data. Subsequently, the Company could receive fines, suffer reputational damage and be unable to meet customer expectations (leading to a loss of customer confidence). Prolonged outages could further erode trust in the business resulting in long-term reputational damage.

The pandemic continues to affect our operational dynamic with significant levels of remote working becoming the new normal. The Company has invested, as part of our pandemic response, in improvements to protection of mobile devices and remote access.

Disruptive cyber events remain 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 established cyber security improvement programme which aims to mitigate the risks and operational disruption caused by cyber events. The programme includes:

- endpoint protection, encryption of data, enhanced cloud-based security tooling and protection, web and email content protection

- identity and access management
- continued cyber security awareness training for all employees
- vulnerability and penetration testing for external IT services and websites.

OPERATIONAL RISKS

Operational and Supply Chain Disruption

Change in risk level: New Risk

Ownership: General Counsel and Company Secretary

Relevance: Industry general

Description

We operate a diverse, global operational footprint and supply chain across each of our divisions. Ensuring these operations and supply chains are resilient is a fundamental part of maintaining our customer service levels by giving options and alternatives, to minimise the impact of disruption.

Disruptive events could be focused on particular locations, driven by single points of failure in our operations or supply chain, be localised natural events or result from political conflict. Here, our global footprint provides risk diversification, through alternative manufacturing options elsewhere in the Group. Equally, disruptive events might be broader in nature and impact a number of sites simultaneously, for example via the COVID-19 pandemic, or climate change related issues in the longer term. In this situation, our global footprint may expose us to a broader set of potential disruption risks than more focused businesses.

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.

We experienced some minor disruption through COVID-19 related issues during 2021; however, the vast majority of sites remained operational throughout the year.

The Company is increasingly reliant on the digital ecosystem within its supply chain. Some elements are addressed in our management of our Cyber Event risk and others more broadly by the continuity planning activities described below.

Additionally, during 2021, as part of our TCFD activity, we have worked with external consultants to better understand the potential impact of climate change on our business over the short, medium and long term, both for physical and transition risks, to enable us better to embed these considerations in our risk management processes.

Mitigation

We continue to review and refresh our business continuity management and planning frameworks and processes.

Mitigating actions that we have 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
- ensuring resilience arrangements are in place and are tested for key operational IT hardware and software
- maintaining an insurance programme and working closely with our insurers to ensure complete and comprehensive cover to prevent losses, along with identifying and pursuing opportunities to improve site-level resilience to human factor, natural disaster and fire-related issues
- performing tests and ensuring any lessons learnt (along with any learnt from real-world events) are fed back into the planning process
- ensuring non-operational employees are equipped to work from alternative locations should the need arise.

Additional measures to mitigate against multi-site 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.

Internal Processes and Control

Change in risk level: Decreased

Ownership: Chief Financial Officer

Relevance: Company specific

Description

Processes and controls play an important part in our ability to prevent and detect errors in our management information and also inappropriate and unethical behaviour. This might include fraud, deliberate or accidental financial misstatement or improper accounting practices. If the design, operation or the assurance over these controls is ineffective, ownership is not defined or controls are overridden, there is a greater risk of operational loss and reputational damage.

The changes in ways of working as a result of the COVID-19 pandemic resulted in a greater adoption of remote working arrangements. In the short term, this created an increased risk around our capability to maintain a robust system of internal control. During this year we were able to operate our processes and controls consistently with this more flexible working environment.

Mitigation

During the year, we completed the roll out of Minimum Control Standards ("MCS") across the Group, establishing a consistent minimum standard of financial controls across the Company.

With the MCS framework roll out complete, the focus has moved to ensuring the ongoing compliant and effective operation of the controls. This work has been performed by Group Finance, divisional finance teams and by the Risk Assurance function who have increased the level of work performed on the MCS framework at a site level during the year.

As a result of the ongoing BEIS consultation on audit and corporate governance, we have created an internal controls team who will be charged with maintaining the MCS framework and ultimately enhancing it to a level that will be compliant with the ultimate conclusion of the review.

Safety, Health and Wellbeing

Change in risk level: Unchanged

Ownership: Group Human Resources Director

Relevance: Industry general

Description

The safety, health and wellbeing of our employees remains one of our highest priorities.

Essentra has many manufacturing, distribution and administrative facilities across the world, along with internationally mobile employees. Manufacturing and distribution 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 a serious incident occur involving our employees or visitors, or should there be any breach of safety regulation, there is a risk of prosecution and considerable reputational damage as well as potentially significant financial costs.

Increasingly, given the changes and ways of working resulting from the COVID-19 pandemic and the resulting strain it places on people, the emotional wellbeing of our leaders, managers and workforce has an increased focus.

Mitigation

The "tone from the top" continues to reinforce safety, health and wellbeing behaviours across all of our businesses and employees. The establishment of appropriate Safety Management Systems is a high priority for management teams.

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
- increasing use of the Enabler system to automate our Global "Stop, Think, Examine, Proceed" ("STEP") programme. This is a hazard identification and process improvement initiative that empowers the entire workforce to recognise and address safety improvement opportunities. Corrective actions are assigned with clear ownership and targeted completion within 48 hours
- conducting performance monitoring and Health and Safety Audits, incorporating reporting and escalation arrangements to ensure all actions are closed
- undertaking root cause analysis for any issues identified through investigation of serious incidents, including near misses and ensuring lessons learnt are cascaded across the Group
- embedding our health and wellbeing strategy with a specific workstream that considers our leaders, managers and employees and their physical and emotional wellbeing
- 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 emotional health and wellbeing, we have introduced awareness training for leaders and managers. 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**
Technology disruptors	Divisional Managing Directors	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,	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 to support the identification of future technology trends.

		production, distribution and support functions. In particular, the potential emergence of digital pharmaceutical literature might adversely affect parts of our packaging division.	

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