ESSENTRA

1 March 2019

ESSENTRA PLC
(the "Company")

A leading global provider of essential components and solutions

RESULTS FOR THE FULL YEAR ENDED 31 DECEMBER 2018

GROWTH RESTORED, RECOVERY ON TRACK, STRATEGY BEING DELIVERED

Summary:

- Full year results continue HY 2018 return to first growth in profit and margin from a stable revenue base since 2015.
  - Revenue unchanged on a like-for-like[1] basis (+1.4%, adjusting for the closure of the Newport IP5 cartons site at the end of 2017).
    - Continued robust result in Components, despite underlying market softness in Q4.
    - Return to growth for the Packaging division in H2, with an accelerating trend.
    - Modest decline in Filters and Specialist Components.
  - Adjusted operating profit[2, 4] up 9.1% (at constant FX) to £91m, with improving momentum in H2.
  - Reported operating profit[4] of £47m compares to £6m in FY 2017.
  - Adjusted basic EPS[2, 4] higher by 2.3% (at constant FX) at 23.1p.
    - Significant increase in minority interest, due to growth in Filters' joint ventures.
    - Reported basic EPS of 9.3p compares to 43.7p in FY 2017.
- Net debt of £240m (31 December 2017: £211m); increase primarily due to dividend payments and cash exceptional & other adjusting items.
  - Net debt to EBITDA of 1.8x (31 December 2017: 1.7x).
  - Strong operating cash conversion[3, 4] of c. 85% (FY 2017: c. 95%).
    - Balance sheet further strengthened by disposal of Pipe Protection Technologies in January 2019, notwithstanding continued planned investment in Packaging and IT.
- Full year dividend unchanged at 20.7p per share.
- Continued good progress on all key operating metrics of the stability programme: new Executive team now fully in place.
- Stable outlook – value levers primarily in Essentra's control, in addition to defensive qualities in Packaging and Filters especially.

Results at a glance:

	FY 2018	FY 2017	% change Actual FX	% change Constant FX
Revenue – cont.[4]	£1,026m	£1,027m	+0	+2
Adjusted[2] operating profit - cont.[4]	£91m	£85m	+7	+9
Adjusted[2] pre-tax profit - cont.[4]	£80m	£74m	+8	+10
Adjusted[2] net income[5] – cont.[4]	£64m	£59m	+8	+6
Adjusted[2] basic earnings per share – cont.[4]	23.1p	22.1p	+5	+2
Dividend per share	20.7p	20.7p	-	
Reported operating profit – cont.[4]	£47m	£6m	n / m	n / m
Reported pre-tax profit / (loss) – cont.[4]	£36m	£(5)m	n / m	n / m
Reported net income[5, 6] – total	£28m	£116m	n / m	n / m
Reported basic earnings[6] per share – total	9.3p	43.7p	n / m	n / m

[1] Excludes the impact of acquisitions, disposals and foreign exchange
[2] Before amortisation of acquired intangible assets and exceptional and other adjusting items
[3] Operating cash conversion is defined as adjusted operating cash flow divided by adjusted operating profit
[4] Continuing operations, excluding Porous Technologies, in light of the divestment on 6 March 2017
[5] Net income is defined as profit after tax, before minority interests
[6] FY 2017 net income and basic earnings per share reflect the exceptional gain on the divestment of Porous Technologies

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

"At our HY 2018 results, when we reported profit growth from a stable revenue base for the first time in three years, I stated my firm conviction that we had turned a corner. We have maintained this strategic momentum during H2 – importantly, with our Packaging division returning to growth as anticipated, underpinned by continuing improvement in our customer relationships – and I am confident that we have restored Essentra to a position where future revenue and profit growth can be sustained.

Underpinning this improvement has been further progress in all aspects of our stability programme, from our key service and quality metrics to our IT systems. Importantly, we are seeing tangible evidence of the positive cultural shift which has been implemented, with a material uplift in our employee engagement to levels which are in line with global and manufacturing benchmarks as well as significant gains in our health and safety performance.

Of course, there is more for us still to do. However, I am proud of the great strides we have taken in FY 2018 versus our stated change plan to restore sustainable growth, and have every faith in our ability to deliver further improvement and achieve success together as a team."

Outlook Statement

Heading into 2019, the macro economic environment is uncertain. However, while our Components division – and elements of Specialist Components – are more exposed to industrial segments with a certain degree of cyclicality, much of our Group serves end-markets which are non-cyclical in nature.

Accordingly, as we continue to drive the agenda and deliver the stated objectives for each of our divisions, we expect to make further strategic progress in 2019.

Basis of Preparation

Unless otherwise stated, the FY 2018 results and narrative contained herein reflect the performance of the Essentra Group on a continuing operations basis (ie, excluding Porous Technologies, which was divested on 6 March 2017).

Constant foreign exchange rates. Movements in exchange rates relative to sterling affect actual results as reported. The constant exchange rate basis ("constant FX") adjusts the comparative to exclude such movements, to show the underlying performance of the Company. The principal exchange rates for Essentra in FY 2018 were:

	-------- Average --------		-------- Closing --------	
	FY 2018	**FY 2017**	**FY 2018**	**FY 2017**
US$:£	1.33	1.30	1.28	1.35
€:£	1.13	1.14	1.12	1.13

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

Like-for-like ("LFL"). The term "like-for-like" describes the performance of the continuing business on a comparable basis, adjusting for the impact of acquisitions, disposals and foreign exchange. The FY 2018 LFL results are adjusted for the divestment of the Bristol consumer packaging site on 5 June 2017, the acquisition of Micro Plastics on 12 December 2017, the acquisition of Nolato Hertila ("Hertila") on 5 July 2018 and the divestment of the trade and assets of the Swiftbrook paper merchant business on 3 September 2018.

Adjusted basis. The term "adjusted" excludes the impact of amortisation of acquired intangible assets and exceptional and other adjusting items, less any associated tax impact. In FY 2018, amortisation of acquired intangible assets was £22.7m (FY 2017: £22.9m), and there was an exceptional pre-tax charge of £20.8m (FY 2017: £56.2m) mainly relating to costs associated with the afore-mentioned acquisitions / disposals and with the strategic review of the Company, as well as rationalisation of the site footprint, simplification of the organisational structure and the departure of certain senior management during the year. Further details on exceptional and other adjusting items are shown in note 2 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 page 21 of the 2017 Annual Report.

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

Operating Review

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

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

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

Net finance expense was slightly above the prior year at £10.9m (FY 2017: £10.4m), due to a higher average net debt position. The effective tax rate on underlying profit before tax (before exceptional & other adjusting items) was lower at 19.5% (FY 2017: 20.0%).

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

Adjusted operating cash flow was 3.5% lower than the previous year at £77.2m (FY 2017: £80.0m) largely due to the increase in adjusted operating profit (after adding back share option expense / other non-cash movements), being offset by an uplift in net capital expenditure: this equated to operating cash conversion of 85.1% (FY 2017: 94.6%). Adjusted free cash flow of £50.2m compared to £56.4m in FY 2017, a decrease of 11.0%.

With effect from 1 January 2018, the Company is now organised into four divisions. A restatement of the FY 2017 revenue and adjusted operating profit on this basis is set out in note 1 to the Consolidated Financial Statements.

Business Review

Summary growth in revenue by Division

% growth	**LFL**	**Acquisitions / Disposals**	**Foreign Exchange**	**Total Reported**
Components	+6	+9	-3	+12
Packaging	-	-1	-1	-2
Filters	-3	-	-3	-6
Specialist Components	-1	-	-2	-3
Total	**-**	**+2**	**-2**	**-**

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

Components

	FY 2018 £m	**% growth Actual FX**	**% growth Constant FX**
Revenue	271.1	+12.1	+14.8
Operating profit*	60.0	+11.9	+13.2
Operating margin*	22.1%	-10bps	-30bps

* Adjusted basis

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

This strong performance reflected good progress across a number of key strategic objectives, with refinement of the product offer and service proposition and improved customer experience supporting a broad-based result across geographic markets and customer size – notwithstanding Industrial Production levels declining throughout the course of the year, particularly in H2.

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

Consistent with the division's strategic objective of providing customers with a "hassle-free" experience and reliable and timely delivery, a number of commercial and operational projects were initiated during the year. Supported by a selective investment in talent, these included the upgrading of digital capability - with a new online platform scheduled for initial launch in Q1 2019 - as well as ongoing customer service improvement and product training programmes. In addition, significant progress was made in ensuring that operational processes for both products and customers are in place and are standardised. As a result, not only was there a material uplift in On Time In Full delivery but also a meaningful reduction in waste levels, with further Continuous Improvement initiatives being launched towards the end of the year to drive additional benefits in 2019. Thanks to these combined initiatives, the Net Promoter Score – which is the key metric to measure overall customer satisfaction levels – improved further, and reflected a particularly good uplift in the US.

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

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

Packaging

	FY 2018 £m	% growth Actual FX	% growth Constant FX
Revenue	342.3	-2.3	-1.5
Operating profit*	5.4	n / m	n / m
Operating margin*	1.6%	+210bps	+200bps

* Adjusted basis

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

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

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

To support the ongoing improvement in both commercial and operational effectiveness, there was significant investment across the site footprint in machine upgrades in order to continue to rebuild capabilities. This included new folding equipment, gluing lines, carton presses featuring the latest colour management technology, cut-and-crease machines and additional digital carton and label printing capability. Continuing to leverage the capabilities of the Design Hub in providing value-added solutions, a second facility was established in Moorestown, US, to better serve customers in the Americas. Taken in aggregate, this incremental investment will not only help to realise the division's objective of being the leading provider of secondary packaging in terms of quality management, but also to make continual improvement in manufacturing lead times as customers require even greater agility from their suppliers.

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

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

Filters

	FY 2018 £m	% growth Actual FX	% growth Constant FX
Revenue	260.0	-6.3	-2.9
Operating profit*	34.8	-	+1.5
Operating margin*	13.4%	+90bps	+60bps

* Adjusted basis

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

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

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

Beyond traditional combustible filters, progress in NGP was encouraging during the year. Although currently a relatively modest contributor to divisional revenue and operating profit, the business successfully piloted a number of Heat Not Burn ("HNB") solutions with Chinese and other Asian independent customers, as well as continued to work with various multinationals to advance their respective potential – or next phase - HNB offers. With customers increasingly focusing their research and development beyond traditional combustible filters, the division has likewise shifted its innovation efforts into these emerging – but fast-growing – new technologies, to ensure that the business continues to expand its knowledge and capabilities to meet their needs.

The Scientific Services unit continued to perform well, further building on its extensive experience and expanded range of accredited testing methods. During the year, the testing of Heat Not Burn products was added to the existing analytical laboratory services, to ensure the delivery of high-quality analysis which remains at the forefront of industry trends and regulatory requirements in this growing segment.

Adjusted operating profit increased 1.5% to £34.8m, with the 60bps uplift in the margin to 13.4% driven by further significant efficiency improvements and productivity gains.

Specialist Components

	FY 2018 £m	**% growth Actual FX**	**% growth Constant FX**
Revenue	159.1	-2.8	-0.8
Operating profit*	12.2	-13.5	-10.9
Operating margin*	7.7%	-90bps	-80bps

* Adjusted basis

Revenue decreased 0.8% to £159.1m, largely due to ongoing weakness in Tear Tapes where a strategic improvement plan has been implemented.

Pipe Protection Technologies delivered good growth – albeit at a significantly reduced rate of improvement compared to FY 2017 – and benefited for much of the year from the strength in the oil price and increase in the North American rig count, with the consequent impact on drilling activity and demand from the pipe mills, oil & gas service companies and pipe processors.

A modest increase in Industrial Supply was supported by the expansion of core product lines and the introduction of new branded ranges, with site automation initiatives additionally improving operational efficiency.

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

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

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

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

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

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

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

Financial Review

Net finance expense. Net finance expense of £10.9m was slightly above the prior year period, and is broken down as follows:

£m	FY 2018	FY 2017
Net interest charged on net debt	9.6	8.4
Amortisation of bank fees	0.7	1.0
IAS 19 pension finance charge	0.6	1.0
Total net interest expense	**10.9**	**10.4**

Positive numbers represent net finance expense, negative numbers reflect net finance income

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

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

£m	FY 2018	FY 2017
Inventories	119.7	114.3
Trade & other receivables	188.8	201.0
Trade & other payables	(199.5)	(197.5)
Net working capital in assets held for sale	5.1	-
Adjustments	7.7	6.6
Net working capital	**121.8**	**124.4**

The decrease in net working capital was largely due to a reduction in accounts receivable. The average net working capital / revenue ratio was 13.7% (FY 2017: 14.9%, at constant FX).

Cash flow. Adjusted operating cash flow is presented to exclude the impact of tax, exceptional and other adjusting items, interest and other items not impacting operating profit. Net capital expenditure is included in this measure as management regards investment in operational assets as integral to the underlying cash generation capability of the Company. In FY 2018, net capital expenditure excludes £8.3m of exceptional property, plant and equipment ("PP&E") disposal proceeds realised during site closures.

Adjusted operating cash flow was £2.8m lower than the prior year period, at £77.2m largely due to the increase in adjusted operating profit (after adding back share option expense / other non-cash movements), being offset by a £14.9m uplift in net capital expenditure. Adjusted free cash flow of £50.2m compared to £56.4m in FY 2017.

In FY 2018, there was a £14.5m net increase in cash and cash equivalents (FY 2017: net decrease of £7.7m).

£m	FY 2018	FY 2017
Operating profit – adjusted	**90.7**	**84.6**
Depreciation and amortisation of non-acquired intangible assets	35.9	36.3
Share option expense / other movements	4.9	(2.0)
Change in working capital	5.9	6.4
Net capital expenditure (excluding exceptional PP&E disposal proceeds)	(60.2)	(45.3)
Operating cash flow – adjusted	**77.2**	**80.0**
Tax	(16.5)	(11.2)
Cash outflow in respect of exceptional and other adjusting items	(20.8)	(17.1)
Pension obligations	(1.0)	0.1
Other	-	(0.6)
Add back: net capital expenditure (excluding exceptional PP&E disposal proceeds)	60.2	45.3
Net cash inflow from operating activities – continuing operations	**99.1**	**96.5**
Net cash inflow from operating activities – discontinued operations	-	(19.1)
Net cash inflow from operating activities – total Group	**99.1**	**77.4**
Operating cash flow – adjusted	**77.2**	**80.0**
Tax	(16.5)	(11.2)
Net interest paid	(9.5)	(12.5)
Pension obligations	(1.0)	0.1
Free cash flow – adjusted – continuing operations	**50.2**	**56.4**
Free cash flow – adjusted – discontinued operations	-	(7.6)
Free cash flow – adjusted – total Group	**50.2**	**48.8**
Net increase / (decrease) in cash & cash equivalents	**14.5**	**(7.7)**

Net debt. Net debt at the end of the period was £240.1m, a £29.5m increase from 1 January 2018, primarily due to dividend payments and cash exceptional & other adjusting items.

£m	FY 2018
Net debt as at 1 January 2018	210.6
Dividends	54.2
Free cash flow	(50.2)
Cash outflow in respect of exceptional and other adjusting items (net of exceptional PP&E disposal proceeds)	12.5
Foreign exchange	8.0
Acquisitions	4.9
Disposals	(0.9)
Employee trust shares	(0.1)
Other	1.1
Net debt as at 31 December 2018	**240.1**

The Company's financial ratios remain strong. The ratio of net debt to EBITDA as at 31 December 2018 was 1.8x (31 December 2017: 1.7x) and interest cover was 9.0x (31 December 2017: 9.0x).

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

This finances non-current assets (excluding assets held for resale) of £853.3m (2017: £868.1m), of which £282.2m (2017: £283.1m) is tangible fixed assets, the remainder being intangible assets, deferred tax assets, retirement benefit assets and long-term receivables. The Company has net working capital of £121.8m (2017: £124.4m), current provisions of £5.3m (2017: £4.8m) and long-term liabilities other than borrowings of £106.2m (2017: £105.4m).

Pensions. As at 31 December 2018, the Company's IAS 19 net pension liability was £13.9m (FY 2017: £13.4m). The net liability has been calculated after updating the asset values and certain assumptions as at 31 December 2018.

Dividends. The Board of Directors recommends a final dividend of 14.4 pence per 25 pence ordinary share (2017: 14.4 pence). The final dividend will be paid on 3 June 2019 to equity holders on the share register on 26 April 2019: the ex-dividend date will be 25 April 2019. Essentra operates a Dividend Re-Investment Programme ("DRIP"), details of which are available from the Company's Registrars, Computershare Investor Services PLC: the final date for DRIP elections will be 10 May 2019.

Board changes. Following the Company's Annual General Meeting on 19 April 2018, Terry Twigger retired from the Board. Further to Terry's retirement, Tommy Breen was appointed as Senior Independent Non-Executive Director and Mary Reilly assumed the role of Chairman of the Audit & Risk Committee.

On 30 May 2018, the Board announced the appointment of Lily Liu to the Board of Essentra with effect from 15 November 2018, to succeed Stefan Schellinger as Chief Financial Officer. Stefan retired from the Board on 15 November 2018 and left the Company on 30 November 2018.

On 1 March 2019, the Board announces the appointment of Nicki Demby as a Non-Executive Director and Remuneration Committee Chairman Designate, with effect from 1 June 2019. After six years, Lorraine Trainer has advised the Board of her intention to step down as a Non-Executive Director and Chairman of the Remuneration Committee following the Company's 2020 Annual General Meeting, and will work closely with Nicki in the meantime to ensure a smooth transition of responsibilities.

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

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

Foreign exchange risk. The majority of Essentra's net assets are in currencies other than sterling. The Company's normal policy is to reduce the translation exposure and the resulting impact on shareholders' funds through measures such as borrowing in those currencies in which the Group has significant net assets. As at 31 December 2018, Essentra's US dollar-denominated assets were approximately 36% hedged by its US dollar-denominated borrowings, while its euro-denominated assets were approximately 30% hedged by its euro-denominated borrowings.

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

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

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

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

Business Process Redesign ("BPR")

With effect from 1 January 2019, the Company has initiated a Business Process Redesign ("BPR") programme, which is expected to run for five years and will ultimately support the strategic growth agenda, enhance process efficiency and improve business controls. Starting with the Components division and the Finance and Procurement functions, this phased programme will focus on both business model redesign and ERP investment. Further details on cost and benefits associated with the BPR programme will be provided at the time of Essentra's HY 2019 results.

2019 Outlook

Heading into 2019, the macro economic environment is uncertain. However, while our Components division – and elements of Specialist Components – are more exposed to industrial segments with a certain degree of cyclicality, much of our Group serves end-markets which are non-cyclical in nature.

Accordingly, as we continue to drive the agenda and deliver the stated objectives for each of our divisions, we expect to make further strategic progress in 2019.

Enquiries

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Presentation

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

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

There are three options for participating in the presentation:

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

Dial-in number:	+44 (0)20 7192 8000 (UK / international participants) +1 631 510 7495 (US participants)
Toll-free number:	0800 376 7922 (UK participants) +1 866 966 1396 (US participants)
PIN code:	7277998

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:	7277998
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 four divisions from the start of 2018 - reflecting the Company's strategic review - 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.

Essentra Components

Essentra Components is a global market leading manufacturer and distributor of plastic injection moulded, vinyl dip moulded and metal items. Operating in 28 countries worldwide, ten manufacturing facilities and 26 logistics centres serve more than 85,000 customers with a rapid supply of low cost but essential products for a variety of applications in industries such as equipment manufacturing, automotive, fabrication, electronics and construction.

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 22 facilities across four geographic regions. The division's innovative products include cartons, leaflets, self-adhesive labels and printed foils used in blister packs, which help customers to meet the rapidly-changing requirements of these end-markets and can also be combined with Essentra's authentication solutions to help the fight against counterfeiting.

Essentra Filters

Essentra Filters is the only global independent cigarette filter supplier. The seven worldwide locations, including a dedicated Technology Centre supported by three regional development facilities, provide a flexible infrastructure strategically positioned to serve the tobacco sector. The business supplies a wide range of value-adding high quality innovative filters, packaging solutions to the roll your own segment and analytical laboratory services for ingredient measurement to the industry: Essentra's offering also includes e-cigarette and Heat Not Burn solutions to the rapidly evolving market for Next Generation Products.

Essentra Specialist Components

Essentra Specialist Components comprises the Company's five smaller businesses. These activities largely have strong positions in the markets in which they operate, although they have little overlap with each other or with Essentra's larger three global divisions.

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

The *Speciality Tapes* business has expertise in coating multiple adhesive systems in numerous technologies, with approximately 1,200 tape products stocked for same-day shipping predominantly for retail point of purchase, appliance and industrial applications.

The *Tear Tapes* business is globally recognised as the leading manufacturer and supplier of pressure-sensitive tear tapes, which are largely used in the tobacco, food and drink and specialist packaging sectors.

The *Industrial Supply* business provides a wide range of branded hardware supplies to a broad base of industrial customers, largely located in the US Mid-West.

The *Card Solutions* business is a leading European provider of ID card printers, systems and accessories to direct and trade customers.

Headquartered in the United Kingdom, Essentra's global network extends to 33 countries and includes c. 8,000 employees, c. 45 principal manufacturing facilities, c. 30 sales & distribution operations and 4 research & development centres. For further information, please visit www.essentraplc.com.

Consolidated Income Statement

For the year ended 31 December 2018

	Note	**2018 £m**	2017 £m
Revenue	2	**1,025.6**	1,027.3
Operating profit before intangible amortisation and exceptional and other adjusting items		**90.7**	84.6
Amortisation of acquired intangible assets		**(22.7)**	(22.9)
Exceptional and other adjusting items	3	**(20.8)**	(56.2)
Operating profit		**47.2**	5.5
Finance income	4	**1.7**	0.8
Finance expense	4	**(12.6)**	(11.2)
Profit / (loss) before tax		**36.3**	(4.9)
Income tax (expense) / credit		**(8.2)**	10.4
Profit from continuing operations		**28.1**	5.5
Profit from discontinued operations	11	**-**	110.3
Profit for the year		**28.1**	115.8
Attributable to:			
Equity holders of Essentra plc		**24.3**	114.3
Non-controlling interests		**3.8**	1.5
Profit for the year		**28.1**	115.8
Earnings per share attributable to equity holders of Essentra plc:			
Basic	5	**9.3p**	43.7p
Diluted	5	**9.2p**	43.4p
Earnings per share from continuing operations attributable to equity holders of Essentra plc:			
Basic	5	**9.3p**	1.5p
Diluted	5	**9.2p**	1.5p

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	**2018 £m**	2017 £m
Profit for the year		**28.1**	115.8
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	8	**2.7**	8.3
Deferred tax expense on remeasurement of defined benefit pension schemes		**(0.4)**	(2.8)
		2.3	5.5
Items that may be reclassified subsequently to profit or loss:			
Effective portion of changes in fair value of cash flow hedges:			
Net change in fair value of cash flow hedges transferred to the income statement		**0.6**	(0.6)
Effective portion of changes in fair value of cash flow hedges		**(0.2)**	0.6
Foreign exchange translation differences:			
Attributable to equity holders of Essentra plc:			
Arising on translation of foreign operations		**10.1**	(51.6)
Arising on effective net investment hedges		**(5.6)**	1.7
Income tax expense		**(0.2)**	(0.2)
Attributable to non-controlling interests		**0.1**	(0.5)
		4.8	(50.6)
Other comprehensive income / (loss) for the year, net of tax		**7.1**	(45.1)
Total comprehensive income for the year		**35.2**	70.7
Attributable to:			
Equity holders of Essentra plc		**31.3**	69.7
Non-controlling interests		**3.9**	1.0
Total comprehensive income for the year		**35.2**	70.7

Consolidated Balance Sheet

At 31 December 2018

	Note	**31 December 2018 £m**	31 December 2017 £m
Assets			
Property, plant and equipment	6	**282.2**	283.1
Intangible assets	7	**528.2**	547.7
Long-term receivables		**9.6**	8.6
Deferred tax assets		**14.8**	10.4
Retirement benefit assets	8	**18.5**	18.3
Total non-current assets		**853.3**	868.1
Inventories		**119.7**	114.3
Income tax receivable		**2.9**	3.9
Trade and other receivables		**188.8**	201.0
Derivative assets	15	**0.3**	0.4
Cash and cash equivalents	10	**65.8**	52.0
Total current assets		**377.5**	371.6
Assets in disposal group held for sale	11	**41.8**	-
Total assets		**1,272.6**	1,239.7
Equity			
Issued share capital	9	**66.0**	66.0
Merger relief reserve		**298.1**	298.1
Capital redemption reserve		**0.1**	0.1
Other reserve		**(132.8)**	(132.8)
Cash flow hedging reserve		**0.1**	(0.3)
Translation reserve		**22.8**	18.5
Retained earnings		**338.3**	362.7
Attributable to equity holders of Essentra plc		**592.6**	612.3
Non-controlling interests		**11.6**	8.1
Total equity		**604.2**	620.4
Liabilities			
Interest bearing loans and borrowings	10	**311.2**	267.1
Retirement benefit obligations	8	**32.4**	31.7
Provisions		**20.7**	20.0
Other financial liabilities		**2.6**	3.7
Deferred tax liabilities		**50.5**	50.0
Total non-current liabilities		**417.4**	372.5
Interest bearing loans and borrowings	10	**0.1**	0.5
Derivative liabilities	15	**0.2**	0.9
Income tax payable		**41.8**	43.1
Trade and other payables		**199.5**	197.5
Provisions		**5.3**	4.8
Total current liabilities		**246.9**	246.8
Liabilities in disposal group held for sale	11	**4.1**	-
Total liabilities		**668.4**	619.3
Total equity and liabilities		**1,272.6**	1,239.7

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

2018

	note	Issued capital £m	Merger relief reserve £m	Capital redemption reserve £m	Other reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
At 1 January 2018		**66.0**	**298.1**	**0.1**	**(132.8)**	**(0.3)**	**18.5**	**362.7**	**8.1**	**620.4**
Change in accounting policy	1							(2.2)	(0.1)	**(2.3)**
Restated total equity at the beginning of the financial year		**66.0**	**298.1**	**0.1**	**(132.8)**	**(0.3)**	**18.5**	**360.5**	**8.0**	**618.1**
Profit for the year								24.3	3.8	**28.1**
Other comprehensive income						0.4	4.3	2.3	0.1	**7.1**
Total comprehensive income for the year		-	-	-	-	0.4	4.3	26.6	3.9	**35.2**
Share options exercised								0.1		**0.1**
Share option expense								5.2		**5.2**
Tax relating to share-based incentives								0.1		**0.1**
Dividends paid								(54.2)	(0.3)	**(54.5)**
At 31 December 2018		**66.0**	**298.1**	**0.1**	**(132.8)**	**0.1**	**22.8**	**338.3**	**11.6**	**604.2**

2017

	Issued capital £m	Merger relief reserve £m	Capital redemption reserve £m	Other reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
At 1 January 2017	66.0	298.1	0.1	(132.8)	(0.3)	68.6	295.7	7.3	602.7
Profit for the year							114.3	1.5	115.8
Other comprehensive loss					-	(50.1)	5.5	(0.5)	(45.1)
Total comprehensive income for the year	-	-	-	-	-	(50.1)	119.8	1.0	70.7
Share options exercised							0.3	-	0.3
Share option expense							1.3	-	1.3
Tax relating to share-based incentives							(0.3)	-	(0.3)
Dividends paid							(54.1)	(0.2)	(54.3)
At 31 December 2017	66.0	298.1	0.1	(132.8)	(0.3)	18.5	362.7	8.1	620.4

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Operating activities			
Profit for the year		**28.1**	115.8
Adjustments for:			
Income tax expense		**8.2**	14.5
Net finance expense	4	**10.9**	10.4
Intangible amortisation		**23.2**	23.9
Exceptional and other adjusting items	3	**20.8**	(76.2)
Depreciation		**35.4**	35.3
Share option expense		**4.8**	0.7
Hedging activities and other movements		**1.2**	(1.6)
Increase in inventories		**(8.0)**	(2.4)
Decrease in trade and other receivables		**5.5**	15.5
Increase/(decrease) in trade and other payables		**8.4**	(7.5)
Cash outflow in respect of exceptional and other adjusting items		**(20.8)**	(28.9)
Adjustment for pension contributions		**(1.0)**	(0.1)
Movement in provisions		**(1.1)**	(1.6)
Cash inflow from operating activities		**115.6**	97.8
Income tax paid		**(16.5)**	(20.4)
Net cash inflow from operating activities		**99.1**	77.4
Investing activities			
Interest received		**1.2**	0.5
Acquisition of property, plant and equipment		**(58.2)**	(47.2)
Proceeds from sale of property, plant and equipment		**9.3**	1.8
Payments for intangible assets		**(3.0)**	(0.2)
Acquisition of businesses net of cash acquired	11	**(4.9)**	(15.4)
Proceeds from sale of businesses net of cash disposed	11	**0.9**	210.8
Net cash (outflow)/inflow from investing activities		**(54.7)**	150.3
Financing activities			
Interest paid		**(10.7)**	(13.0)
Dividends paid to equity holders		**(54.2)**	(54.1)
Dividends paid to non-controlling interests		**(0.3)**	(0.2)
Repayments of short-term loans		**(0.4)**	(64.6)
Repayments of long-term loans		**(101.4)**	(305.6)
Proceeds from long-term loans		**137.0**	201.8
Proceeds from sale of employee trust shares		**0.1**	0.3
Net cash outflow from financing activities		**(29.9)**	(235.4)
Net increase/(decrease) in cash and cash equivalents	10	**14.5**	(7.7)
Net cash and cash equivalents at the beginning of the year		**52.0**	60.7
Net increase/(decrease) in cash and cash equivalents		**14.5**	(7.7)
Net effect of currency translation on cash and cash equivalents		**(0.3)**	(1.0)
Net cash and cash equivalents at the end of the year	10	**66.2**	52.0

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 2018 but is extracted from the 2018 Annual Report.

The Annual Report for 2018 will be delivered to the Registrar of Companies in due course. The auditors' report on those accounts was unqualified and neither drew attention to any matters by way of emphasis nor contained a statement under either section 498(2) of Companies Act 2006 (accounting records or returns inadequate or accounts not agreeing with records and returns), or sec on 498(3) of Companies Act 2006 (failure to obtain necessary information and explanations).

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ("EU") in accordance with EU law (IAS Regulation EC 1606/2002) ("adopted IFRS") and International Financial Reporting Standards as issued by the International Accounting Standards Board, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements are prepared under the historical cost convention except for derivatives which are stated at fair value and retirement benefit obligations which are valued in accordance with IAS 19 *Employee Benefits*.

The preparation of financial that conform with adopted IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

For the purposes of these financial statements "Essentra" or "the Group" means Essentra plc ("the Company") and its subsidiaries.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods if relevant.

On 25 August 2016, Essentra entered into a sale and purchase agreement with Filtration Group to dispose of the Group's entire operations in Porous Technologies. The transaction completed on 6 March 2017. The results of Porous Technologies were presented as results from a discontinued operation in the consolidated income statement for the year ended 31 December 2017.

On 14 January 2019, Essentra divested of its Pipe Protection Technologies business ("PPT") to certain wholly-owned subsidiaries of National Oilwell Varco, Inc. As the transaction occurred after the 2018 financial year end, the assets and liabilities of the business have been disclosed in the consolidated balance sheet as at 31 December 2018 as a disposal group held for sale. Results from the business for the year ended 31 December 2018, and the comparative year, are presented in continuing operations.

Changes in accounting policies

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* from 1 January 2018. The adoption of these standards does not have a material effect on the Group's financial statements, as disclosed in the Group's 2017 consolidated financial statements. There is no quantitative impact of adopting IFRS 15. The quantitative impact of IFRS 9 on the Group's retained earnings at 1 January relating to an increase in provision for trade receivables is £2.7m (£2.3m net of deferred tax).

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

2. Segment analysis

In accordance with IFRS 8, Essentra has determined its operating segments based upon the information reported to the Group Management Committee. With effect from 1 January 2018, Essentra has implemented a new organisational structure, comprising four divisions. The scope of central services remains the same.

The operating segments are as follows:

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

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

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

Specialist Components is a new division, created with effect from 1 January 2018 further to the Company's strategic review, and comprises the following six smaller businesses of Essentra:

- The **Extrusion** business is a leading custom profile extruder located in the Netherlands which offers a complete design and production service.
- The **Pipe Protection Technologies** business specialises in the manufacture of high performance innovative products from commodity resins to engineering-grade thermoplastics and polymer alloys for use in the oil & gas industry.
- The **Speciality Tapes** business has expertise in coating multiple adhesive systems in numerous technologies, and its products range from foam, magnetic, finger lift and acrylic high bond tapes to hook and loop and non-skid foam.
- The **Tear Tapes** business is globally recognised as the leading manufacturer and supplier of pressure-sensitive tear tapes, which are largely used in the tobacco, food & drink and specialist packaging sectors.
- The **Industrial Supply** business provides a wide range of branded hardware supplies to a broad base of industrial customers, largely located in the US mid-west.
- The **Card Solutions** business is a leading European provider of ID card printers, systems and accessories to direct and trade customers.

On 25 August 2016, Essentra entered into a sale and purchase agreement with Filtration Group to dispose of the Group's entire operations in Porous Technologies. The transaction completed on 6 March 2017. The results of Porous Technologies were presented as results from a discontinued operation in the consolidated income statement for the year ended 31 December 2017.
No finance income or expense related to discontinued operations, and the income tax expense related to discontinued operations amounted to £nil (2017: £24.9m).

The adjusted operating profit/loss presented for each operating segment includes the effect of allocation of certain functional costs such as finance, human resources, legal and IT, as well as costs relating to management of the divisions on an internal management methodology. Therefore the adjusted operating profit for year ended 31 December 2017 presented below of £84.9m differs from the amount presented as operating profit before intangible amortisation and exceptional and other adjusting items of £84.6m as a result of £0.3m of costs allocated to Porous Technologies under the internal management methodology.

2. Segment analysis continued

	Components £m	Packaging £m	Filters £m	Specialist Components £m	Eliminations £m	Central Services[1] £m	Continuing Operations £m	Discontinued Operations £m	Total £m
2018									
External revenue	270.6	342.2	260.0	152.8	-	-	1,025.6	-	**1,025.6**
Intersegment revenue	0.5	0.1	-	6.3	(6.9)	-	-	-	**-**
Total revenue	271.1	342.3	260.0	159.1	(6.9)	-	1,025.6	-	**1,025.6**
Operating profit/(loss) before intangible amortisation and exceptional and other adjusting items	60.0	5.4	34.8	12.2	-	(21.7)	90.7	-	**90.7**
Amortisation of acquired intangible assets	(7.5)	(12.6)	-	(2.6)	-	-	(22.7)	-	**(22.7)**
Exceptional and other adjusting items	(1.7)	(7.4)	(0.7)	(4.7)	-	(6.3)	(20.8)	-	**(20.8)**
Operating profit/(loss)	50.8	(14.6)	34.1	4.9	-	(28.0)	47.2	-	**47.2**
Segment assets [4]	142.1	182.6	165.7	103.8	-	32.5	626.7	-	**626.7**
Intangible assets [4]	151.8	296.7	0.3	89.4	-	-	538.2	-	**538.2**
Unallocated items [2]	-	-	-	-	-	107.7	107.7	-	**107.7**
Total assets	**293.9**	**479.3**	**166.0**	**193.2**	**-**	**140.2**	**1,272.6**	**-**	**1,272.6**
Segment liabilities [4]	42.1	86.0	53.1	24.6	-	26.4	232.2	-	**232.2**
Unallocated items [2]	-	-	-	-	-	436.2	436.2	-	**436.2**
Total liabilities	**42.1**	**86.0**	**53.1**	**24.6**	**-**	**462.6**	**668.4**	**-**	**668.4**
Other segment items									
Capital expenditure (cash spend)	8.4	21.0	11.9	4.2	-	15.7	61.2	-	61.2
Depreciation	7.8	10.0	8.7	6.0	-	2.9	35.4	-	35.4
Average number of employees [3]	2,390	3,151	1,591	938	-	169	8,239	-	8,239

	Components £m	Packaging £m	Filters £m	Specialist Components £m	Eliminations £m	Central Services[1] £m	Continuing Operations £m	Discontinued Operations £m	Total £m
2017									
External revenue	241.1	348.8	277.5	159.9	-	-	1,027.3	15.7	**1,043.0**
Intersegment revenue	0.7	1.7	-	3.7	(6.1)	-	-	-	**-**
Total revenue	241.8	350.5	277.5	163.6	(6.1)	-	1,027.3	15.7	**1,043.0**
Operating profit/(loss) before intangible amortisation and exceptional and other adjusting items	53.6	(1.8)	34.8	14.1	-	(15.8)	84.9	2.5	**87.4**
Amortisation of acquired intangible assets	(7.5)	(12.8)	-	(2.6)	-	-	(22.9)	-	**(22.9)**
Exceptional and other adjusting items	(7.0)	(36.3)	(0.5)	(2.9)	-	(9.5)	(56.2)	132.4	**76.2**
Operating profit/(loss)	39.1	(50.9)	34.3	8.6	-	(25.3)	5.8	134.9	**140.7**
Segment assets	139.8	175.6	162.8	108.1	-	15.7	602.0	-	**602.0**
Intangible assets	151.6	307.2	0.1	88.8	-	-	547.7	-	**547.7**
Unallocated items [2]	-	-	-	-	-	90.0	90.0	-	**90.0**
Total assets	**291.4**	**482.8**	**162.9**	**196.9**	**-**	**105.7**	**1,239.7**	**-**	**1,239.7**
Segment liabilities	40.9	88.2	48.8	24.4	-	23.7	226.0	-	**226.0**
Unallocated items [2]	-	-	-	-	-	393.3	393.3	-	**393.3**
Total liabilities	**40.9**	**88.2**	**48.8**	**24.4**	**-**	**417.0**	**619.3**	**-**	**619.3**
Other segment items									
Capital expenditure (cash spend)	6.4	15.8	11.4	7.7	-	5.8	47.1	0.3	47.4
Depreciation	7.0	10.6	9.3	6.4	-	2.0	35.3	-	35.3
Average number of employees [3]	1,937	3,361	1,598	903	-	163	7,962	89	8,051

Segment analysis continued

[1] Central Services includes executive and non-executive management, group finance, tax, treasury, legal, group assurance, human resources, information technology, corporate development, investor relations and other services provided centrally to support the operating segments.
[2] The unallocated assets relate to income and deferred tax assets, retirement benefit assets, derivatives and cash and cash equivalents. The unallocated liabilities relate to interest bearing loans and borrowings, retirement benefit obligations, derivatives, deferred tax liabilities and income tax payable. Intersegment transactions are carried out on an arm's length basis.

[3] The average number of employees within discontinued operations over the period 1 January 2017 until the date of disposal of the Porous Technologies business was 531.

[4] Intangible assets, segment assets and segment liabilities in 2018 include the assets and liabilities of the disposal group held for sale.

Continuing operations' net finance expense of £10.9m (2017: £10.4m) and income tax expense of £8.2m (2017: £10.4m credit) cannot be meaningfully allocated by segment.

No Customer accounted for more than 10% of revenue in either 2018 or 2017. Analysed by destination, revenue to Europe & Africa is £477.4m (2017: £494.0m), revenue to Americas is £340.2m (2017: £338.3m) and Revenue to Asia and Middle East is £208.0m (2017: £210.7m). Revenue to the UK is £105.8m (2017: £116.0m), with other significant countries being the USA with revenue of £264.6m (2017: £258.0m), Ireland £52.5m (2017: £50.9m) and Germany £51.4m (2017: £53.1m). Non-current assets in the UK total £153.5m (2017: £151.8m), with the other significant location being the USA with £334.6m (2017 £315.1m).

3. Exceptional and other adjusting items (including discontinued operations)

	2018 £m	2017 £m
(Gains)/losses and transaction costs relating to acquisitions and disposals of businesses[1]:		
- continuing operations	**4.9**	1.6
- discontinued operations (Porous Technologies)	**-**	(132.4)
Acquisition integration and restructuring costs[2] – continuing operations	**0.2**	-
Other[3] – continuing operations	**15.7**	54.6
Exceptional and other adjusting items (including discontinued operations)	**20.8**	(76.2)
Exceptional tax items[4]	**-**	11.4

1 Gains/losses and transaction costs relating to acquisitions and disposals of businesses are made up of £2.5m relating to the net loss on disposal of the Swiftbrook paper merchant business in September 2018 (see note 11), £0.1m of costs in relation to the acquisition of Nolato Hertila which completed on 5 July 2018 (see note 11), £1.1m relating to the effect of unwinding the fair value adjustment on inventory in relation to the acquisitions of Micro Plastics and Nolato Hertila and £1.9m of transaction costs relating to ongoing acquisition and disposal projects and release of £0.7m of deferred consideration relating to a prior acquisition. In 2017 there was a £132.4m net gain on disposal of the Porous Technologies business and £1.3m net loss on disposal of the Packaging business in Bristol, £0.5m of costs in relation to the acquisition of Micro Plastics and release of £0.2m deferred consideration from the acquisition of Abric in 2014.

2 Acquisition integration and restructuring costs relate to the integration of the Micro Plastics UK business following the acquisition of Micro Plastics.

3 Other exceptional items in 2018 of £15.7m relate to:

- £2.5m in respect of the fundamental strategic review of the Group's operations initiated in 2017 and concluded in 2018, including £0.4m in relation to divisional and Central management team restructuring. The remaining costs relate to external consultancy and project costs attributable to reviews into the various aspects of the Group's operations, systems and processes under the strategic review;
- £1.7m relating to the Packaging restructuring programme (closure costs are outlined separately below). The restructuring programme represents a division-wide programme across multiple sites to streamline and align cost structures following the strategic review, including £1.0m in relation to review and improvement of manufacturing capability and business portfolio, and £0.7m costs relating to strategic management upgrade and other structural changes within the division;
- £7.4m relating to the closure of the Largo and Kilmarnock sites within the Packaging division and the Speciality Tapes business at Nottingham within the Specialist Components division;
- £1.6m associated with the replacement of the Group Finance Director and Group HR Director, as senior management team restructuring associated with the Group's strategic review;
- £2.2m of pension past service cost relating to a Guaranteed Minimum Pensions ("GMP") equalisation was recognised in the year, in relation to the cost of equalising certain pension benefits between men and women in the UK schemes for the impact of GMP for the period between 17 May 1990 and 5 April 1997, following an external court ruling on the subject during the year;
- £0.3m relating to the Filters restructuring to align the division's operational structure with the division strategy; and

Other exceptional items in 2017 of £54.6m relate to:

- £35.4m associated with the closure of the folded cartons facility at Newport;
- £17.3m in respect of the strategic review undertaken during the period and associated reorganisation cost;
- £1.9m relating to the closure and relocation of the security seals production from Ipoh, Malaysia to Rayong, Thailand as a result of the strategic review.

4 Exceptional tax items of £11.4m in 2017 primarily related to the revaluation of deferred tax balances as a result of tax reform in the US.

The tax effect of the exceptional items is a credit of £2.3m (2017: £16.7m expense).

4. Net finance expense

	2018 £m	2017 £m
Finance income		
Bank deposits	**0.5**	0.4
Other finance income	**0.7**	0.1
Net interest on net pension scheme assets (note 8)	**0.5**	0.3
	1.7	0.8
Finance expense		
Interest on loans and overdrafts	**(10.8)**	(8.5)
Amortisation of bank facility fees	**(0.7)**	(1.0)
Other finance expense	**-**	(0.4)
Net interest on net pension scheme liabilities (note 8)	**(1.1)**	(1.3)
	(12.6)	(11.2)
Net finance expense	**(10.9)**	(10.4)

5. Earnings per share

	2018 £m	2017 £m
Earnings: Continuing operations		
Earnings attributable to equity holders of Essentra plc	**24.3**	4.0
Adjustments		
Amortisation of acquired intangible assets	**22.7**	22.9
Exceptional and other adjusting items	**20.8**	56.2
	43.5	79.1
Tax relief on adjustments	**(7.4)**	(14.0)
Exceptional tax item	**-**	(11.4)
Adjusted earnings	**60.4**	57.7
Earnings: Discontinued operations		
Earnings attributable to equity holders of Essentra plc	**-**	110.3
Adjustments		
Exceptional and other adjusting items	**-**	(132.4)
	-	(132.4)
Tax charge on adjustments	**-**	24.1
Adjusted earnings	**-**	2.0
Weighted average number of shares		
Basic weighted average ordinary shares outstanding (million)	**261.9**	261.6
Dilutive effect of employee share option plans (million)	**2.7**	2.0
Diluted weighted average ordinary shares (million)	**264.6**	263.6
Earnings per share: Continuing operations (pence)		
Basic earnings per share	**9.3p**	1.5p
Adjustment	**13.8p**	20.6p
Basic adjusted earnings per share	**23.1p**	22.1p
Diluted earnings per share	**9.2p**	1.5p
Diluted adjusted earnings per share	**22.8p**	21.9p
Earnings per share: Discontinued operations (pence)		
Basic earnings per share	**-**	42.2p
Adjustment	**-**	(41.5)p
Basic adjusted earnings per share	**-**	0.7p
Diluted earnings per share	**-**	41.9p
Diluted adjusted earnings per share	**-**	0.7p
Earnings per share: Total Group (pence)		
Basic earnings per share	**9.3p**	43.7p
Adjustment	**13.8p**	(20.9)p
Basic adjusted earnings per share	**23.1p**	22.8p
Diluted earnings per share	**9.2p**	43.4p
Diluted adjusted earnings per share	**22.8p**	22.6p

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

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

6. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	2018 Total £m
Cost				
Beginning of year	**98.2**	**418.8**	**61.0**	**578.0**
Acquisitions (note 11)	-	0.4	0.1	**0.5**
Additions	3.3	36.4	18.7	**58.4**
Disposals	(3.3)	(24.5)	(1.8)	**(29.6)**
Transfers	(0.1)	-	0.1	**-**
Transfers to assets held for sale	(10.4)	(31.1)	(1.2)	**(42.7)**
Currency translation	2.2	9.3	0.8	**12.3**
End of year	**89.9**	**409.3**	**77.7**	**576.9**
Depreciation and impairment				
Beginning of year	**19.7**	**238.4**	**36.8**	**294.9**
Charge in period	3.1	25.4	6.9	**35.4**
Disposals	(1.3)	(20.0)	(2.1)	**(23.4)**
Transfers	0.1	(0.1)	-	**-**
Transfers to assets held for sale	(1.5)	(17.9)	(1.1)	**(20.5)**
Impairment	0.1	1.8	-	**1.9**
Currency translation	0.7	5.0	0.7	**6.4**
End of year	**20.9**	**232.6**	**41.2**	**294.7**
Net book value at end of year	**69.0**	**176.7**	**36.5**	**282.2**

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	2017 Total £m
Cost				
Beginning of year	**87.3**	**426.1**	**55.7**	**569.1**
Acquisitions (note 11)	1.8	2.1	0.1	**4.0**
Additions	7.3	31.2	10.1	**48.6**
Disposals	(3.7)	(29.2)	(2.6)	**(35.5)**
Transfers in from disposal group held for sale	6.2	0.7	0.3	**7.2**
Transfers	2.3	(0.4)	(1.9)	**-**
Currency translation	(3.0)	(11.7)	(0.7)	**(15.4)**
End of year	**98.2**	**418.8**	**61.0**	**578.0**
Depreciation and impairment				
Beginning of year	**16.4**	**232.7**	**34.1**	**283.2**
Charge in period	3.0	26.6	5.7	**35.3**
Disposals	(1.4)	(27.8)	(2.4)	**(31.6)**
Transfers in from disposal group held for sale	1.2	0.3	0.1	**1.6**
Transfers	0.7	(0.3)	(0.4)	**-**
Impairment	-	12.0	0.3	**12.3**
Currency translation	(0.2)	(5.1)	(0.6)	**(5.9)**
End of year	**19.7**	**238.4**	**36.8**	**294.9**
Net book value at end of year	**78.5**	**180.4**	**24.2**	**283.1**

Included within land and buildings and plant and machinery are assets in the course of construction of £12.2m (2017: £11.0m) which were not depreciated during the year.

Impairment charge in 2018 of £1.9m related primarily to the closure of the Kilmarnock site within the Packaging division and the Speciality Tapes business at Nottingham within the Specialist Components division. The assets were written down to their recoverable amount, which represented fair value less cost of disposal.

7. Intangible assets

	Goodwill £m	Customer relationships £m	Other intangible assets £m	2018 Total £m
Cost				
Beginning of year (restated)	**373.5**	**421.6**	**13.6**	**808.7**
Acquisitions (note 11)	2.0	3.4	-	**5.4**
Additions	-	-	3.2	**3.2**
Disposal	(1.3)	(1.5)	-	**(2.8)**
Transfers to assets held for sale	(10.2)	-	-	**(10.2)**
Currency translation	6.8	6.8	0.3	**13.9**
End of year	**370.8**	**430.3**	**17.1**	**818.2**
Amortisation and impairment				
Beginning of year	**31.2**	**219.7**	**10.1**	**261.0**
Disposal	-	(0.5)	-	**(0.5)**
Charge for the year	-	22.1	1.1	**23.2**
Transfers to assets held for sale	(0.2)	-	-	**(0.2)**
Impairment	-	0.8	-	**0.8**
Currency translation	0.9	4.6	0.2	**5.7**
End of year	**31.9**	**246.7**	**11.4**	**290.0**
Net book value at end of year	**338.9**	**183.6**	**5.7**	**528.2**

	Goodwill £m	Customer relationships £m	Other intangible assets £m	2017 Total £m
Cost				
Beginning of year	380.5	427.2	14.1	821.8
Acquisitions (restated) (note 11)	5.5	5.2	-	10.7
Additions	-	-	0.2	0.2
Currency translation	(12.5)	(10.8)	(0.7)	(24.0)
End of year (restated)	373.5	421.6	13.6	808.7
Amortisation and impairment				
Beginning of year	32.5	203.4	4.2	240.1
Charge for the year	-	22.2	1.7	23.9
Impairment	-	-	4.4	4.4
Currency translation	(1.3)	(5.9)	(0.2)	(7.4)
End of year	31.2	219.7	10.1	261.0
Net book value at end of year (restated)	342.3	201.9	3.5	547.7

The amounts of intangible assets acquired in the prior year have been restated to reflect adjustments to their fair values in relation to the acquisition of Micro Plastics during the purchase price allocation period (see note 11). Adjustment is a reclassification between goodwill and customer relationships and has no effect on net book value in 2017.

Included within the acquisition of goodwill of £2.0m is £0.7m relating to fair value adjustments in respect of the Micro Plastics acquisition and £1.3m in respect of the Hertila acquisition. Further details can be found in note 11.

Other intangible assets principally comprise trade names acquired with Reid Supply, developed technology acquired with Richco, order backlog and e-Commerce development costs. Amortisation of intangible assets arising from business combinations ("acquired intangible assets") is presented separately on the face of the consolidated income statement.

7. Intangible assets continued

The e-Commerce development costs were not acquired through a business combination, and their amortisation is included within operating profits before amortisation of acquired intangibles and exceptional and other adjusting items as presented on the face of the consolidated income statement.

The weighted average remaining useful lives of customer relationships and other intangible assets at the end of the year were 8.8 years and 9.4 years (2017: 9.2 years and 10.6 years) respectively.

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

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

		Goodwill
	2018	**2017**
	£m	**£m**
Components	**80.4**	78.6
Packaging	**191.3**	189.0
Specialist Components	**67.2**	74.7
	338.9	342.3

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

			Customer relationships and other intangible assets
		2018	**2017**
Business	**Operating segment**	**£m**	**£m**
Components – Businesses of former Moss and Skiffy	Components	**12.3**	13.2
Components – Businesses of former Richco	Components	**26.9**	28.9
Components – Business of former Mesan	Components	**6.1**	9.0
Components – Business of former Abric	Components	**9.9**	10.6
Components – Business of former MicroPlastics	Components	**5.0**	5.2
Components - Other businesses	Components	**11.2**	6.2
Components - e-Commerce development costs	Components		
Card Solutions	Specialist Components	**1.1**	1.6
Industrial Supply	Specialist Components	**4.6**	5.7
Speciality Tapes	Specialist Components	**6.4**	6.8
Packaging – Americas	Packaging	**37.0**	39.8
Packaging – Asia	Packaging	**1.7**	1.9
Packaging – Europe	Packaging	**66.8**	76.4
Filters	Filters	**0.3**	0.1
		189.3	205.4

At 31 December 2018, management has performed an impairment review of the assets in each division. Following the impairment assessment, no impairment loss was recognised in 2018 (apart from impairment losses arising from site closures).

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

7. Intangible assets continued

The impairment tests for goodwill and intangible assets are based on the Business Plan and incorporate the following assumptions:

- The key assumptions in the cash flow projections for the Plan are the revenue growth and operating margin for each division. Operating margin is primarily based on the levels achieved in 2018, which are disclosed in note 2, adjusted by targets set for revenue expansion and cost control and reduction for each individual division within the Plan period. The key assumptions underlying the estimation of cash flow projections for value in use are operating profit margin and revenue growth assumptions. The values assigned to these assumptions represent management's assessment of market condition and scope for cost and profitability improvement, taking into account realisable synergies resulting from integration activities. The compound annual revenue growth rate assumption across all four divisions for the next five years ranges from 3.0% to 5.2%. The average operating profit margin assumption for the next five years included within the Packaging division impairment assessment ranges from 5.0% to 10.0%. In respect of Components and Specialist Components, the combined average operating profit margin over the five year forecast period is assumed to improve by 110 bps from 2018.

- In relation to the test for the Components and Specialist Components divisions, cash flows beyond the Plan period are based on Plan cash flows with growth rates specific to each business of up to 2.0% (2017: up to 2%).
- The estimated cash flows are discounted using a pre-tax discount rate based upon Essentra's estimated post-tax weighted average cost of capital of 7.7% (2017: 8.8%). The specific pre-tax discount rates applied for each group of cash generating units to which significant goodwill is allocated are as follows: 8.8% for Packaging, 9.6% for Components and 9.5% for Specialist Components (2017: 11.9% for Packaging, 11.6% for Components and 11.3% for Specialist Components).
- There is no goodwill held by the Filters division.
- In relation to the test for the Packaging division, management carried out a more detailed assessment of the growth and profit margin assumptions for each of the next four years after the Plan period, and applied a terminal growth rate of 2.0% (2017: 2.0%) subsequently. The growth and profit margin assumptions are based on management's assessment of market condition and scope for cost and profitability improvement, taking into account realisable synergies following the recent integration activities. The key assumption is that operating margins in this division will return to industry average margins by the end of the forecast period following a number of changes made as an outcome of the Group wide strategic review.

The following change to key assumptions will cause the carrying amount to exceed the recoverable amount in the Packaging division:

- An increase in discount rate of 228 basis points
- A reduction of 370 basis points in the operating profit margin in the fifth year of the five-year period

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

- A 1.2% increase in discount rate would reduce headroom to £64.4m
- A 2.0% reduction in the terminal growth rate would reduce headroom to £38.6m
- A 1.5% reduction in each year's growth rate would reduce headroom to £138.6m
- A 2% reduction in operating profit margin in the fifth year would reduce headroom to £75.8m

8. Employee benefits

Post-employment benefits

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

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

	2018 £m	2017 £m
Amounts expensed against operating profit		
Defined contribution schemes	**7.1**	7.1
Defined benefit schemes – current service cost	**1.5**	1.5
Defined benefit schemes – past service cost	**2.2**	-
Defined benefit schemes – curtailment gain	**(0.2)**	(0.1)
Other post-employment obligations	**0.4**	0.2
Total operating expense (including discontinued operations)	**11.0**	8.7
Amounts included as finance (income)/expense		
Net interest on defined benefit scheme assets (note 4)	**(0.5)**	(0.3)
Net interest on defined benefit scheme liabilities (note 4)	**1.1**	1.3
Net finance expense (including discontinued operations)	**0.6**	1.0
Amounts recognised in the consolidated statement of comprehensive income		
Return on defined benefit scheme assets excluding amounts in net finance income	**14.1**	(11.2)
Impact of changes in assumptions and experience to the present value of defined benefit scheme liabilities	**(16.8)**	2.9
Remeasurement of defined benefit schemes (including discontinued operations)	**(2.7)**	(8.3)

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

	2018		2017	
	Europe	**US**	Europe	US
Increase in salaries (pre-2010)[1]	**n/a**	**n/a**	n/a	n/a
Increase in salaries (post-2010)[1]	**n/a**	**n/a**	n/a	n/a
Increase in pensions[1]				
at RPI capped at 5%	**3.10%**	**n/a**	3.10%	n/a
at CPI capped at 5%	**2.20%**	**n/a**	2.20%	n/a
at CPI minimum 3%, capped at 5%	**3.10%**	**n/a**	3.10%	n/a
at CPI capped at 2.5%	**1.90%**	**n/a**	1.90%	n/a
Discount rate	**2.90%**	**4.25%**	2.50%	3.60%
Inflation rate – RPI	**3.20%**	**n/a**	3.20%	n/a
Inflation rate – CPI	**2.20%**	**n/a**	2.20%	n/a

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

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

8. Employee benefits continued

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

		2018		2017
	Europe	**US**	Europe	US
Male retiring today at age 65	**22.4**	**20.6**	22.1	20.7
Female retiring today at age 65	**24.2**	**22.7**	23.9	22.7
Male retiring in 20 years at age 65	**23.8**	**22.3**	23.5	22.3
Female retiring in 20 years at age 65	**25.8**	**24.2**	25.4	24.2

Movement in fair value of post-employment obligations (including disposal group held for sale) during the year

				2018				2017
	Defined benefit pension scheme assets £m	**Defined benefit pension scheme liabilities £m**	**Other £m**	**Total £m**	Defined benefit pension scheme assets £m	Defined benefit pension scheme liabilities £m	Other £m	Total £m
Beginning of year	**280.6**	**(291.3)**	**(2.7)**	**(13.4)**	277.8	(298.9)	(2.3)	(23.4)
Current service cost and administrative expense	**(1.5)**	**–**	**(0.4)**	**(1.9)**	(1.4)	(0.1)	(0.2)	(1.7)
Past service cost	**–**	**(2.2)**	**–**	**(2.2)**	–	–	–	–
Employer contributions	**2.6**	**0.1**	**–**	**2.7**	1.2	0.1	–	1.3
Return on plan assets excluding amounts in net finance income	**(14.1)**	**–**	**–**	**(14.1)**	11.2	–	–	11.2
Actuarial losses arising from change in financial assumptions	**–**	**20.3**	**0.2**	**20.5**	–	(9.5)	–	(9.5)
Actuarial gains arising from change in demographic assumptions	**–**	**0.8**	**–**	**0.8**	–	4.4	–	4.4
Actuarial gains arising from experience adjustment	**–**	**(4.5)**	**–**	**(4.5)**	–	2.2	–	2.2
Finance income/(expense)	**7.5**	**(8.0)**	**(0.1)**	**(0.6)**	8.0	(8.9)	(0.1)	(1.0)
Benefits paid	**(16.7)**	**16.7**	**–**	**–**	(10.9)	10.9	–	–
Curtailments	**–**	**0.1**	**0.1**	**0.2**	–	–	0.1	0.1
Currency translation	**2.9**	**(4.2)**	**(0.1)**	**(1.4)**	(4.6)	7.5	(0.2)	2.7
Business disposals	**–**	**–**	**–**	**–**	(0.7)	1.0	–	0.3
End of year	**261.3**	**(272.2)**	**(3.0)**	**(13.9)**	280.6	(291.3)	(2.7)	(13.4)

Sensitivity

For the significant assumptions used in determining defined benefit costs and liabilities, the following sensitivity analysis gives the estimate of the impact on the measurement of the scheme liabilities as at 31 December 2018.

	Increase / (decrease) in schemes net liabilities		
	Europe £m	US £m	**Total £m**
0.5% decrease in the discount rate	(18.5)	(4.6)	**(23.1)**
1.0% increase in the rate of inflation	(16.8)	n/a	**(16.8)**
1.0% increase in rate of salary/pension increases	n/a	n/a	**n/a**
1 year increase in life expectancy	(7.3)	(2.2)	**(9.5)**
1 year decrease in life expectancy	7.0	2.1	**9.1**
0.5% increase in the discount rate	16.2	4.1	**20.3**
1.0% decrease in rate of salary/pension increases	n/a	n/a	**n/a**
1.0% decrease in the rate of inflation	13.7	n/a	**13.7**

9. Issued share capital

	2018 £m	2017 £m
Issued and fully paid ordinary shares of 25p (2017: 25p) each	**66.0**	66.0

Number of ordinary shares in issue		
Beginning of year	**264,129,170**	264,129,170
End of year	**264,129,170**	264,129,170

At 31 December 2018, the Company held 1,127,065 (2017: 1,170,925) of its own shares with a nominal value of £0.3m (2017: £0.3m) in treasury. This represents 0.4% (2017: 0.4%) of the number of ordinary shares in issue.

10. Analysis of net debt

	1 Jan 2018 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	31 Dec 2018 £m
Cash at bank and in hand	48.0	14.5	(0.2)	-	**62.3**
Short-term deposits and investments	4.0	-	(0.1)	-	**3.9**
Cash and cash equivalents in the statement of cash flows	52.0	14.5	(0.3)	-	**66.2**
Liabilities from financing activities					
Debt due within one year	(0.5)	0.4	-	-	**(0.1)**
Debt due after one year	(267.1)	(35.6)	(7.7)	(0.8)	**(311.2)**
Loan receivable (arising from the disposal of Porous Technologies)	5.0	-	-	-	**5.0**
Net debt	(210.6)	(20.7)	(8.0)	(0.8)	**(240.1)**

The non-cash movements in 2018 represent the amortisation of prepaid facility fees.

	1 Jan 2017 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	31 Dec 2017 £m
Cash at bank and in hand	34.0	15.0	(1.0)	-	48.0
Short-term deposits and investments	26.7	(22.7)	-	-	4.0
Cash and cash equivalents	60.7	(7.7)	(1.0)	-	52.0
Debt due within one year	(65.1)	64.6	-	-	(0.5)
Debt due after one year	(374.9)	103.8	1.5	2.5	(267.1)
Loan receivable (arising from the disposal of Porous Technologies)	-	-	-	5.0	5.0
Net debt	(379.3)	160.7	0.5	7.5	(210.6)

The non-cash movements in 2017 represent the movement in prepaid facility fees £2.5m and loan receivable arising from the disposal of Porous Technologies £5.0m.

11. Acquisitions and disposals

2018 acquisition: Hertila

On 5 July 2018, Essentra acquired 100% of the share capital of Nolato Hertila AB ("Hertila"). Hertila is a leading manufacturer and distributor of caps and plugs and other plastic components for a wide range of industrial end markets – including automotive, mining, coating, hydraulics and medical – and will be reported under the Company's Components division.

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

Had the acquisition been completed on 1 January 2018, the contribution to the Group's revenue and operating profit would have been £1.8m and £0.2m higher respectively.

Related transaction costs of £0.1m were recognised in the consolidated income statement in exceptional and other adjusting items.

	Fair value of assets / (liabilities) acquired £m
Intangible assets	**3.4**
Property, plant and equipment	**0.5**
Inventories	**0.5**
Trade and other receivables	**0.6**
Deferred tax	**(0.7)**
Trade and other payables	**(0.7)**
	3.6
Goodwill	**1.3**
Consideration	**4.9**
Satisfied by:	
Cash consideration	**4.9**
Net cash flow in respect of the acquisition	**4.9**

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

2017 acquisition: Micro Plastics

On 12 December 2017, Essentra acquired 100% of the share capital of Micro Plastics Inc ("Micro Plastics"). Due to the timing of the transaction, the purchase price allocations including the split between goodwill and intangible assets and fair value adjustments included in the financial statements for the year ended 31 December 2017 were provisional.

During 2018, Essentra reassessed the fair value adjustments and made changes to certain accruals, payables and provisions, inventories, prepayments and deferred tax balances. The impact on goodwill is an increase of £0.7m. Separately, customer relationship intangible assets were valued at £5.2m leading to a transfer between the goodwill and other intangible asset categories of £5.2m.

11. Acquisitions and disposals continued

2019 disposal: Pipe Protection Technologies

On 14 January 2019, Essentra divested of its Pipe Protection Technologies business ("PPT") to certain wholly-owned subsidiaries of National Oilwell Varco, Inc. The transaction values PPT at US$48.0m, free of cash and debt. As the transaction occurred after the 2018 financial year end, the assets and liabilities of the business have been disclosed in the consolidated balance sheet as at 31 December 2018 as a disposal group held for sale. Results from the business for the year ended 31 December 2018, and the comparative year, are presented in continuing operations. The estimated profit before tax on disposal of the PPT business is estimated to be between £4m and £8m. Included within this is an estimated gain of £9.8m arising from the movement in foreign currency exchange, which will be reclassified and reported within the consolidated income statement as part of the profit on disposal.

The assets and liabilities of PPT at 31 December 2018 presented as assets and liabilities in a disposal group held for sale, and the assets and liabilities for the rest of the Group were as follows:

As at 31 December 2018	Pipe Protection Technologies £m	Rest of Group £m	Total Group £m
Property, plant and equipment	22.2	282.2	**304.4**
Intangible assets	10.0	528.2	**538.2**
Long-term receivables	-	9.6	**9.6**
Deferred tax assets	-	14.8	**14.8**
Retirement benefit asset	-	18.5	**18.5**
Inventories	3.4	119.7	**123.1**
Income tax receivable	-	2.9	**2.9**
Trade and other receivables	5.8	188.8	**194.6**
Derivative assets	-	0.3	**0.3**
Cash and cash equivalents	0.4	65.8	**66.2**
Total assets	**41.8**	**1,230.8**	**1,272.6**
Trade and other payables	4.1	199.5	**203.6**
Interest bearing loans and borrowings	-	311.3	**311.3**
Provisions	-	26.0	**26.0**
Retirement benefit obligation	-	32.4	**32.4**
Derivative liabilities	-	0.2	**0.2**
Other financial liabilities	-	2.6	**2.6**
Deferred tax liabilities	-	50.5	**50.5**
Income tax payable	-	41.8	**41.8**
Total liabilities	**4.1**	**664.3**	**668.4**

2018 disposal: Swiftbrook

On 3 September 2018, Essentra entered in to a business transfer agreement with Graphic and Paper Merchants Holdings Limited to dispose of non-strategic Health & Personal Care Packaging operations in Ireland. Disposal proceeds comprised of £0.5m payable on completion and £0.4m payable in three subsequent instalments, all of which were received in the second half of 2018. The disposal resulted in a loss before tax of £2.5m and has been treated as an exceptional and other adjusting item. Included in the net assets disposed of were goodwill and customer relationship intangible assets attributed to the business with carrying values of £1.3m and £1.0m respectively.

11. Acquisitions and disposals continued

2017 disposal: Porous Technologies

On 6 March 2017, Essentra completed its disposal of Porous Technologies as part of a sale and purchase agreement with Filtration Group. The results of Porous Technologies up to the date on which the transaction completed were presented as profit from discontinued operations in the consolidated income statement for the year ended 31 December 2017.

The results from continuing and discontinued operations for the year ended 31 December 2017 are shown below

	Continuing Operations	Discontinued Operations	2017 Total Group
	£m	£m	£m
External revenue	1,027.3	15.7	1,043.0
External expenses	(942.7)	(12.9)	(955.6)
Operating profit before intangible amortisation and exceptional and other adjusting items	84.6	2.8	87.4
Amortisation of acquired intangible assets	(22.9)	-	(22.9)
Exceptional and other adjusting items	(56.2)	132.4	76.2
Operating profit	5.5	135.2	140.7
Finance income	0.8	-	0.8
Finance expense	(11.2)	-	(11.2)
(Loss)/profit before tax	(4.9)	135.2	130.3
Income tax credit/(expense)	10.4	(24.9)	(14.5)
Profit after tax	5.5	110.3	115.8
Basic earnings per share	1.5p	42.2p	43.7p
Basic adjusted earnings per share	22.1p	0.7p	22.8p
Diluted earnings per share	1.5p	41.9p	43.4p
Diluted adjusted earnings per share	21.9p	0.7p	22.6p

The results from discontinued operations are attributable entirely to the equity holders of Essentra plc. The earnings per share of discontinued operations are disclosed in note 5.

For the year ended 31 December 2018 there were no disposals or transfers of disposal groups to assets held for sale that met the criteria under IFRS 5 to have their results reported separately in the consolidated income statement as profit from discontinued operations.

12. Dividends

	Per share		**Total**	
	2018	**2017**	**2018**	**2017**
	p	**P**	**£m**	**£m**
2017 interim: paid 30 October 2017		6.3		16.5
2017 final: paid 1 May 2018		14.4		37.7
2018 interim: paid 31 October 2018	**6.3**		**16.5**	
2018 proposed final: payable 3 June 2019	**14.4**		**37.7**	
	20.7	20.7	**54.2**	54.2

13. Transactions with related parties

Other than the compensation of key management, Essentra has not entered into any material transactions with related parties during 2017 and 2018.

14. Adjusted measures

Management reviews the adjusted operating profit and operating cash flow as measures of the performance of the business. Adjusted operating profit is stated before amortisation of acquired intangible assets and exceptional and other adjusting items which are considered not relevant to measuring the underlying performance of the business. Operating cash flow is defined as adjusted operating profit before depreciation, share option expense and other non-cash items, less working capital movements and net capital expenditure as shown below:

	2018 £m	2017 £m
Operating profit (including discontinued operations)	**47.2**	140.7
Amortisation of acquired intangible assets	**22.7**	22.9
Exceptional and other adjusting items	**20.8**	(76.2)
Adjusted operating profit (including discontinued operations)	**90.7**	87.4
Depreciation	**35.4**	35.3
Amortisation of non-acquired intangible assets	**0.5**	1.0
Share option expense	**4.8**	0.7
Other non-cash items	**0.1**	(2.6)
Working capital movements	**5.9**	5.6
Net capital expenditure[1]	**(60.2)**	(45.6)
Operating cash inflow - adjusted (including discontinued operations)	**77.2**	81.8

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

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

	2018 £m	2017 £m
Operating profit before intangible amortisation and exceptional and other adjusting items	**90.7**	87.4
Plus depreciation and other amounts written off property, plant and equipment, and amortisation of non-acquired intangible assets	**35.9**	36.3
Plus share option expense	**4.8**	0.7
EBITDA	**131.4**	124.4

15. Financial instruments

The table below sets out Essentra's accounting categories and fair value for each class of financial asset and liability (including amounts relating to disposal group held for sale).

	2018			2017		
	Fair value £m	**Amortised cost £m**	**Total carrying value £m**	**Fair value £m**	**Amortised cost £m**	**Total carrying value £m**
Trade and other receivables	-	191.2	**191.2**	-	199.1	**199.1**
Cash and cash equivalents	-	66.2	**66.2**	-	52.0	**52.0**
Interest bearing loans and borrowings	-	(311.3)	**(311.3)**	-	(267.6)	**(267.6)**
Trade and other payables	-	(144.4)	**(144.4)**	-	(132.3)	**(132.3)**
Level 2 of fair value hierarchy						
Derivative assets	0.3	-	**0.3**	0.4	-	**0.4**
Derivative liabilities	(0.2)	-	**(0.2)**	(0.9)	-	**(0.9)**
Level 3 of fair value hierarchy						
Other non-current financial liabilities	(2.6)	-	**(2.6)**	(3.7)	-	**(3.7)**
Other current payables	(1.3)	-	**(1.3)**	(0.8)	-	**(0.8)**
	(3.8)	**(198.3)**	**(202.1)**	**(5.0)**	**(148.8)**	**(153.8)**

Total trade and other receivables (including amounts relating to disposal group held for sale) carried at £204.2m (2017: £209.6m) include prepayments of £13.0m (2017: £10.5m) which are not financial assets and are therefore excluded from the above analysis. Fair values of forward foreign exchange contracts and cross currency swaps have been calculated at year end forward exchange rates compared to contracted rates. These are determined to be level 2 in the fair value hierarchy.

The only financial instrument with fair value determined by reference to significant unobservable inputs, which is classified as level 3 in the fair value hierarchy, is the deferred contingent consideration of £3.9m relating to the acquisitions of Micro Plastics and a previous acquisition (2017: £4.5m). The fair value of the deferred contingent consideration is estimated based on an assessment of the likely outcome of the acquired business' financial performance. There have been no transfers between levels of the fair value hierarchy. There are no non-recurring fair value measurements. During the year, a fair value gain of £nil (2017: fair value gain of £0.1m) in respect of financial instruments at level 3 fair value hierarchy was recognised within exceptional and other adjusting items (see note 3), and £nil (2017: £nil) was settled in cash. No other fair value gains or losses were recorded in profit or loss and other comprehensive income.

Included within interest bearing loans and borrowings are $155m (2017: $155m) US Private Placement Loan Notes. The Loan Notes are held at amortised cost with a carrying value of £120.6m (2017: £114.4m). The Group estimates that the total fair value of the Loan Notes at 31 December 2018 is £120.5m (2017: £117.8m).

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

16. 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.

17. Directors' responsibility statement

We confirm that to the best of our knowledge

- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union – Dual IFRS (European Union and IASB), give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the announcement includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

On behalf of the Board

Paul Forman
Chief Executive

Lily Liu
Chief Financial Officer

1 March 2019

Management of Principal Risks

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

Risk management approach

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

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

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

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

Risk management framework

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

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

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

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

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

Strengthening our framework

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

Risk governance structure and oversight

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

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

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

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

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

The divisional and Enabling Function Leadership Teams dedicate time each year in a facilitated discussion with Group Assurance to consider the risk environment for their particular functional or geographic area of responsibility and how these could impact on the achievement of the Company’s strategic objectives.

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

Emerging Risks

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

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

Principal Risks

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

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

As part of bottom up process, the divisional Leadership and Enabling Function Teams have also undertaken a detailed risk assessment. This was then analysed to ensure completeness and appropriateness of the Principal Risks.

The Board believes that the Principal Risks are specific to Essentra and reflect the risk profile of the Company at the current time. All the Principal Risks are being managed within their individual risk appetite. As a result, the Principal Risks are a combination of new and previously disclosed risks. The updated risk management practices have facilitated a better articulation of the nature and characteristics of the major risks and an enhanced focus on effective mitigation.

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

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

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

Key changes in the year

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

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

Strategic risk

Failure to Achieve Acceptable Returns from the Packaging Division

Change in risk level: Decreased
Ownership: Packaging division MD
Relevance: Company Specific

Description

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

Mitigation

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

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

Tobacco Industry Dynamics

Change in risk level: Increased
Ownership: Filters division MD
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.

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

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

There is an increasing trend towards more legislation restricting smoking prevalence. Tobacco-related litigation could also affect Essentra, although there is no history of the Company being involved in such a claim.

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

Mitigation

- Essentra is seeking to mitigate the risk associated with changes in the tobacco market dynamics by focusing on activities with longer-term viability and exploiting potential growth opportunities. This includes progressing on our game changers and increasing our innovation capabilities
- increased segmentation and prioritisation based on customer categorisation and filter differentiation
- further upgrading of innovation capabilities and research and development
- enhanced focus on Key Account Management, leading to better market visibility and building further enhanced relationships
- developing world class capabilities in operations and responsiveness to customer demands
- exploring medium to long-term value creation levers:
    - investing to establish continued growth in the highly attractive Chinese market
    - delivering new solutions and business models to respond to evolving outsourcing requirements of our customers
    - developing Next Generation Products and testing capabilities

Delivery of Strategic Projects

Change in risk level: New
Ownership: Strategy and Commercial Director
Relevance: Company Specific

Description

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

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

Mitigation

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

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

External Risk

Regulatory – Governance

Change in risk level: No Change
Ownership: Company Secretary and General Counsel
Relevance: Industry General

Description

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

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

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

Mitigation

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

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

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

Cyber Attack

Change in risk level: Increased
Ownership: Chief Information Officer
Relevance: Industry General

Description

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

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

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

Mitigation

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

- Endpoint protection, encryption of data, identity-based access control, network firewalls, web and email content protection
- Cyber security awareness training for all employees
- Vulnerability and penetration testing for all external facing Company services and websites
- Scanning, monitoring and logging tools to identify intrusions and detect rogue data traffic
- Enhance internal cyber security skills and capabilities
- Preparation for Cyber Essentials Plus and ISO 27001
- Further investment in cyber security has been budgeted in 2019 as a result of increased threat
- This risk continues to be the subject of a high degree of monitoring through the GRC and the Board
- Our Crisis Communication Network is currently being enhanced to include a cyber-attack scenario

Macro-economic and Trade Deal Uncertainty (including Brexit)

Change in risk level: Increased
Ownership: Group Operations Director
Relevance: Industry General

Description

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

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

- a material element of the operations of the Components division involves manufacturing and importing products in the UK and distributing them into the EU. Should trade tariffs and / or a customs border be imposed this could lead to increased costs and complexity within the division's existing business model
- the Company has multiple manufacturing sites in the UK. Should trade tariffs or a customs border be imposed, this could restrict supply chain opportunities available to these sites
- depending on the outcome of negotiations, Brexit could increase the cost of, or restrict funding for, the Group's current and future investment plans

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

Mitigation

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

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

Brexit uncertainty:

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

During 2018, the following key actions were taken:

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

Macro-economic uncertainty:

- Essentra has an international customer base which dilutes the effect of downturns in specific geographies
- the economic environment is constantly monitored as part of our business planning cycle and budgeting, enabling a degree of forward planning in the event of a period of economic instability. This is performed in close co-ordination with each division to pinpoint trends likely to impact our individual business activities
- the annual budgets that result from the planning process are a control against which results are monitored through the monthly reporting process, surfacing any effects of economic instability and informing commercial decision making
- movements in currency can have positive and negative impacts on the Company's reported earnings. This is managed through proactive hedging of currency measures

Operational Risks

Business Continuity Planning and Management

Change in risk level: No Change
Ownership: Group Operations Director
Relevance: Industry General

Description

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

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

The Group experienced limited employee impact and operational disruption as a result of natural catastrophes during 2018. Should further events occur, this could impact production capability and fixed assets, supply chain management, customer relationships, reputation, revenue and profit.

Such events continue to be a risk to the normal operation of the Company. The level of risk remains the same.

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

Mitigation

The Group continues to review and refresh its business continuity planning processes. Such plans are kept under constant review and are tested periodically. Other mitigating factors that the Company has in place are:

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

Product Liability

Change in risk level: No change
Ownership: Group Operations Director
Relevance: Industry General

Description

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

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

Mitigation

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

- maintaining the quality and safety of our products by ensuring strict quality control and product testing procedures
- ongoing tracking of quality metrics and review of quality management processes to ensure they remain fit for purpose
- divisional capital expenditure plans also include, where appropriate, additional spend on inspection equipment (e.g. sensors, cameras) to improve in-line inspection and further reduce the likelihood of product quality issues
- trade / industry body membership to remain abreast of industry regulations
- group compliance policies, processes and guidance materials
- checking supplier specifications. We exercise the right to due diligence when it comes to undertake new suppliers and continuing to do business with existing ones
- the Company continues to assess potential exposures to litigation arising from tobacco-related or Next Generation Products, and seeks to manage the supply, packaging and labelling of such products accordingly. In 2019, we will continue to monitor changes in emerging regulations in the sector with support from external specialists where necessary

Internal Processes and Controls

Change in risk level: Decreased
Ownership: Chief Financial Officer
Relevance: Company Specific

Description

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

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

Mitigation

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

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

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

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

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

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

Safety (including Regulatory)

Change in risk level: No change
Ownership: Group Human Resources Director
Relevance: Industry General

Description

Safety is of the highest priority for the Company. Essentra has 50 manufacturing facilities across the world, along with many non-manufacturing sites and internationally mobile employees. Factory manufacturing can be inherently risky given the use of industrial machinery and high speed manufacturing processes. In addition, the Company must comply with national safety regulation in multiple jurisdictions.

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

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

Mitigation

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

Some of the key mitigations which are in place:

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

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

IT Systems – Stability and Reliability

Change in risk level: Decreased
Ownership: Chief Information Officer
Relevance: Company Specific

Description

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

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

Mitigation

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

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

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

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