24 February 2011

Filtrona plc

Results for the Year ended 31 December 2010

Filtrona plc ("Filtrona" or the "Company"), the leading international supplier of speciality plastic and fibre products, today announces its results for the year ended 31 December 2010.

Year ended 31 December (Continuing operations)	2010	2009	% change	% change at constant exchange rates
Revenue	£489.6m	£444.0m	10.3%	8.3%
Adjusted operating profit[1]	£75.0m	£56.2m	33.5%	28.9%
Adjusted profit before tax[1]	£64.6m	£46.2m	39.8%	
Adjusted earnings per share[1]	21.0p	14.8p	41.9%	
Operating cash flow[2]	£74.9m	£72.5m	3.3%	
Total dividend per share	9.0p	7.78p	15.7%	
Operating profit	£72.0m	£42.3m	70.2%	
Profit before tax	£61.6m	£32.3m	90.7%	
Basic earnings per share	20.0p	9.1p	119.8%	

[1] *Before intangible amortisation (2009: intangible amortisation, major restructuring costs and exceptional acquisition fees).*

[2] *Adjusted operating profit before depreciation, share option expense and other non-cash items, less working capital movements, less net capital expenditure.*

COMPANY PERFORMANCE OVERVIEW

Trading performance in 2010 was strong across the Company, with adjusted operating profit[1] growth and margin improvement delivered in all four divisions.

Revenue of £489.6m was up 10.3% against the prior year (2009: £444.0m) and up 8.3% at constant exchange rates. Adjusted operating profit[1] of £75.0m was up 33.5% (2009: £56.2m) and up 28.9% at constant exchange rates. Adjusted operating margin[1] increased by 260 basis points to 15.3% (2009: 12.7%) due to the operational leverage benefits from the increased revenue, the benefit from ongoing effective cost management and the mix impact of higher growth rates being achieved in the higher margin divisions.

The principal drivers of the increase in adjusted operating profit[1] were the Protection & Finishing Products division, which delivered an 81.1% uplift in profit and the Porous Technologies and Coated & Security Products divisions, where profits grew by 22.1% and 20.5% respectively. Filter Products generated a 7.2% increase in profit, although this was slightly down by 1.7% on the prior year at constant exchange rates.

The increase in Company profit combined with the ongoing focus on working capital management and net capital expenditure below depreciation, generated operating cash flow of £74.9m (2009: £72.5m), representing a 100% conversion of adjusted operating profit[1] to operating cash flow[2]. This performance once again demonstrated the strength of the Company's cash generative business model and its ability to generate significant positive operating cash flows at all stages of the economic cycle. Working capital as a percentage of revenue increased marginally to 14.0% from 13.9% in 2009 and net capital expenditure of £18.8m represented 92% of the depreciation charge of £20.4m.

Adjusted earnings per share increased by 41.9% to 21.0p (2009: 14.8p), primarily as a result of the strong improvement in adjusted operating profit. Basic earnings per share for continuing operations increased by 119.8% to 20.0p (2009: 9.1p), driven by the absence of any negative impacts from exceptional items.

During the year, the Company successfully completed two small, yet strategically important, acquisitions. BP Labels provides a new carrier medium for the technologies being developed within the Coated & Security Products division. The acquisition of Stera Tape broadens the range of speciality tapes supplied by the Protection & Finishing Products division and is highly complementary to the Duraco business which was acquired in 2007.

Net debt reduced by £16.3m to £90.8m (2009: £107.1m), primarily driven by the strong operating cash flow. Additionally, the Company received £8.2m relating to the early settlement of the earn-out from the sale of Filtrona's North American Plastic Profile and Sheet business in 2009, and a further deferred payment of £2.7m relating to the sale of the Globalpack Brazilian consumer packaging business in 2007, which were more than offset by the consideration paid for the two acquisitions referred to above.

The ratio of net debt to EBITDA (adjusted operating profit[1] before depreciation, share option expenses and other non-cash items) at the year end reduced to 0.9 from 1.4 at 31 December 2009. Interest cover was 7.1 x compared with 7.2 x at the end of 2009.

The Company successfully completed an issue of Private Placement notes totalling US$160m in April, with 7 and 10 year terms (US$80m each) and fixed annual coupon rates of 5.37% and 5.91% respectively. These notes provide a stable, long-term funding platform for the Company.

The Board is recommending a final dividend of 6.0 pence per share which, if approved at the Annual General Meeting on 14 April 2011, will make a total dividend of 9.0 pence per share (2009: 7.78p) for the full year. The final dividend will be paid on 28 April 2011 to shareholders on the register at 15 April 2011.

OPERATIONAL REVIEW

Filtrona is a leading international supplier of speciality plastic and fibre products with four operating divisions; Protection & Finishing Products, Porous Technologies, Coated & Security Products, and Filter Products. Filtrona is engaged in the light manufacture and distribution of high volume, small but essential value-added products to a wide range of customers across diverse geographies within a broad but targeted range of international markets. These markets are served from a global network *of 28 principal manufacturing facilities, 41 sales and distribution operations and 6 research and development centres.*

The general improvement in economic activity during 2010, combined with the benefits of investments made during 2009 to develop new revenue streams and to win market share, enabled the Company to deliver strong financial results. The rapid recovery in organic growth rates vindicated both the Company's investment strategy and the proactive measures taken during 2009 to reduce costs and further enhance the Company's competitive position. The strength and quality of the businesses within Filtrona was again demonstrated by the profit growth and margin enhancements achieved in each of the divisions.

The Company's focus on costs and productivity improvement continued throughout the year. Company headcount at the year end was 3,198 (2009: 3,160) and, combined with the significant revenue growth, generated an 11% increase in revenue per employee from £137k to £152k at constant exchange rates.

PROTECTION & FINISHING PRODUCTS

The Protection & Finishing Products division is a global market leading supplier of product protection and finishing solutions, manufacturing and distributing plastic injection moulded, vinyl dip moulded, adhesive-coated foam and metal products. The division has 41 operating units in 14 countries serving a very broad industrial base of customers with a rapid supply of primarily plastic products for protection and finishing applications in industries such as hydraulics, pneumatics, oil and gas, electrical controls, point of sale and tubular metal products.

Year ended 31 December	**2010**	**2009**	**% change**
Revenue	£129.1m	£95.3m	35.5
Adjusted operating profit[1]	£28.8m	£15.9m	81.1
Adjusted operating margin[1]	22.3%	16.7%	

[1] *Before intangible amortisation (2009: intangible amortisation and major restructuring costs).*

Revenue recovered strongly during 2010 with an increase of 35.5% to £129.1m (2009: £95.3m) and, at constant exchange rates, increased by 35.0% with each of the businesses in the division trading well. Adjusted operating profit[1] increased by 81.1% to £28.8m (2009: £15.9m) due to the operational gearing impact of the strong revenue growth and the lower cost base resulting from the cost reduction measures taken during late 2008 and throughout 2009. At constant exchange rates, the increase in adjusted operating profit[1] was also 81.1%.

Operating cash flow was again strong at £29.0m, representing a conversion ratio of 101% of adjusted operating profit[1] into operating cash flow. Adjusted operating margin[1] increased by 560 basis points to 22.3% (2009: 16.7%) as a result of the recovery in each of the businesses, the reduced cost base, and the operational gearing benefit of the revenue increases. Headcount in the division increased by 157 from 722 to 879 at the year end due to the significant increase in activity levels and the Stera Tape acquisition. Revenue per employee at constant exchange rates increased substantially from £132k at the end of 2009 to £161k at the end of 2010.

The division continued to pursue its strategic goal of gaining market share through marketing investment, product range expansion and the further development of its infrastructure.

The marketing investment not only drove market share gains during the year, but also continued to deliver strong lead indicators which underpin confidence in the division's future performance. In 2010, the division generated 10% more catalogue and sample requests than in 2009 and, with an 8% increase in new accounts opened, the number of live accounts increased by 12% during the year to almost 87,000 accounts. The continued strategic focus on the development of the higher margin revenue from proprietary parts, as opposed to custom parts, saw this segment increase to 71% in 2010, from 69% in 2009, as a percentage of total divisional revenue.

Each of the businesses continued to broaden their product offering and sales of new products were an integral part of the division's revenue growth. The Stera Tape business was acquired in November, with the dual strategic goals of expanding the Duraco range of speciality tapes into the US market and providing a bridgehead into the European market for the Duraco product range.

The division continued to strengthen and expand its distribution infrastructure throughout the year. In Poland and Brazil, larger distribution sites were occupied as a result of strong organic growth and the Chinese warehouse operation was expanded as sales into the domestic Chinese market more than doubled, albeit from a low base. At the Moss operation in Oxford, a new high bay warehouse extension project commenced, which will substantially increase the available storage capacity.

A new Duraco operation in China was established successfully, and at the end of the year a Duraco Express business began trading in Los Angeles at the existing Alliance Plastics location, thereby achieving overhead efficiency.

The division's standardised ERP system was rolled out successfully to the Duraco, Chicago and Skiffy, Amsterdam operations during the year. A number of other IT improvement projects were completed and significant improvement of the division's e-commerce platform is a key objective for 2011.

At MSI, the oil country tubular goods thread protector business, revenue recovered strongly with the sharp rise in the North American drilling rig count supplemented by the decision of the US and Canadian governments to levy anti-dumping duties on the importation of pipe and tubing from China. Activity was also boosted by the growth in horizontal drilling associated with the exploitation of the large North American shale gas deposits. Given the significant weighting in MSI's business to land based drilling, the operation was not materially affected by the Gulf of Mexico oil spill and subsequent drilling moratorium. As a result of business recovery, the Board approved the construction of a new US$11m manufacturing facility on land adjacent to the existing MSI site in Houston, Texas and this is targeted to be operational in the first half of 2012.

The division experienced persistent increases in raw material costs throughout the year. To offset the impact, pricing programmes were enacted late in 2010 and at the beginning of 2011.

Order input and activity trends early in 2011 have been favourable across the division and in all geographies. Looking forward to the year in full, continued growth in industrial markets around the world, projected strength in the price of oil and gas, and the benefit of pricing programmes, provide a good foundation for further progress in 2011.

POROUS TECHNOLOGIES

The Porous Technologies division is the leading global technology developer and manufacturer of custom bonded fibre and hydrophilic foam components. Its components handle fluid and vapour and deliver high value and precision performance to many of the most well-known consumer, industrial and medical brand owners in the world. The components are used in a wide range of product applications including medical diagnostics and wound care, inkjet printer cartridges, writing instruments and air fresheners.

Year ended 31 December	**2010**	**2009**	**% change**
Revenue	£74.7m	£66.0m	13.2
Adjusted operating profit[1]	£17.7m	£14.5m	22.1
Adjusted operating margin[1]	23.7%	22.0%	

[1] *Before intangible amortisation (2009: intangible amortisation).*

Revenue progressed well during 2010 with an increase of 13.2% to £74.7m (2009: £66.0m) and, at constant exchange rates, increased by 14.0%. Adjusted operating profit[1] increased by 22.1% to £17.7m (2009: £14.5m) due to the good revenue growth and improved mix. At constant exchange rates, the increase in adjusted operating profit[1] was also 22.1%.

Operating cash flow was again robust at £16.2m, representing a 92% conversion ratio of adjusted operating profit[1] into operating cash flow. Adjusted operating margin[1] increased by 170 basis points to 23.7% (2009: 22.0%) as a result of the operational gearing benefits of the revenue growth and improved mix. Headcount in the division increased by 12 to 457 (2009: 445) and revenue per employee at constant exchange rates improved by 12% to £164k (2009: £147k).

The division continued its successful track record of converting its intellectual property and manufacturing know-how into commercial success and also experienced a strong recovery in its traditional product sectors.

Writing instrument reservoirs, which remain the division's largest product category, saw revenue increase by 20% as consumer markets improved in both the US and Europe as the year progressed. The strongest product category performance was delivered in printer systems, where revenue increased by 33%, making printer systems the second largest product category in the division. Revenue growth was particularly strong with the principal original equipment manufacturer customers, and aftermarket revenue was also up in the year.

Revenue in healthcare sciences reduced by 4%, in part as a result of a reduction in sales of surgical mask components after very strong 2009 sales due to the H1N1 flu scare and a temporary reduction in pregnancy test kit wick sales due to the relocation of a customer's manufacturing site. Household products revenue increased by an encouraging 4.9% after a very slow start to the year.

A number of longer term supply agreements were concluded in the year with important customers in each of the product categories.

The three year renovation programme at the Reinbek, Germany facility was completed during 2010 on time and to budget and without operational disruption. The modernised factory infrastructure is already yielding benefits in energy efficiency, process flows and labour productivity. At Lendell, a new foam process line was successfully commissioned delivering a significant increase in capacity and improved process capability. In addition, a full R&D capability was established at the St. Charles, Michigan facility where ISO 14001 and OHSAS 18001 accreditations were also achieved.

The division continued to make good progress in the development of new technologies, products and applications in existing and completely new product categories. A new range of "eco reservoirs" made entirely from recycled materials was launched and 12 patent applications remain active.

Looking forward to 2011, the division will sustain its revenue investments in the development of new technologies, products and applications. Investment in R&D remains at the core of the strategy for the division. It is anticipated that each of the principal product categories will deliver growth, and that the healthcare sciences category will benefit from the absence of the influences which held back its performance in 2010.

COATED & SECURITY PRODUCTS

The global market leading producer of high quality self-adhesive tear tape and a growing supplier of labels, products and technologies for brand protection, document authentication, personal identification and track and trace. Customers in over 100 countries are served from facilities operating in six countries. The division also includes plastic profile extrusion activities in The Netherlands.

Year ended 31 December	**2010**	**2009**	**% change**
Revenue	£91.9m	£87.3m	5.3
Adjusted operating profit[1]	£14.7m	£12.2m	20.5
Adjusted operating margin[1]	16.0%	14.0%	

[1] *Before intangible amortisation (2009: intangible amortisation and major restructuring costs).*

Revenue in Coated & Security Products increased by 5.3% to £91.9m (2009: £87.3m) as the division continued to pursue its strategy of commercializing new and existing security technologies and applications for international markets whilst sustaining its world leadership position in the self-adhesive tear tape market. At constant exchange rates, revenue increased 5.5% with growth in tear tape, security technologies and at Enitor, the Dutch plastic extrusion business, plus a first revenue contribution from BP Labels. Adjusting for the impact of BP Labels, revenue growth was 2.2% at constant exchange rates.

Adjusted operating profit[1] increased by 20.5% to £14.7m (2009: £12.2m), up 20.5% at constant exchange rates and up 19.5% after adjusting for the impact of BP Labels. The adjusted operating margin[1] increased by 200 basis points to 16.0% (2009: 14.0%) with the benefit of an improved mix from security technologies.

Operating cash flow of £13.4m represented a 91% conversion rate of adjusted operating profit[1]. Revenue per employee at constant exchange rates increased from £157k in 2009 to £159k.

The Payne tear tape business performed well, with tear tape volume up 2% and value up 5%. Good growth was achieved in the Asia region where revenue increased by 9% and sales development in the food and drink and shelf ready packaging sectors was particularly encouraging. Product mix was assisted by successful variable data promotions with tobacco industry customers in Russia and Japan.

Polymer price increases impacted tear tape material costs progressively during the year and a pricing programme was implemented to recover these cost increases. The Brazilian tear tape operation moved to higher quality premises during the year and the divisional technology centre in Nottingham was refurbished and expanded.

Revenue from the Payne authentication system was again strong, with a revenue increase of 72% driven by the successful implementation of another major contract with a global fast moving consumer goods company.

The acquisition of BP Labels, which was completed in February, provides an important new carrier medium for the division's security technologies. BP Labels contributed revenue of £2.8m in the year and the new project pipeline is healthy entering 2011. The BP Labels business will be rebranded Payne in the first half of 2011.

As previously announced, revenue from the UK passport contract ceased, albeit later than expected, in the last quarter of 2010. As a result, a restructuring programme was completed at the division's Banbury facility to match the cost base to the reduced level of activity.

The Enitor plastic extrusion business in The Netherlands achieved a good recovery in the year with an encouraging progression in financial performance including strong cash conversion. Production volume increased by 11.7%, and efficiency improved along with significant gains in on time delivery.

Looking forward to 2011, it is anticipated that the Coated & Security Products division will continue to progress well with revenue growth from new products and services.

FILTER PRODUCTS

The Filter Products division is the only global independent cigarette filter supplier. The 10 worldwide locations, including a UK-based research facility and three regional development centres, provide a flexible infrastructure strategically positioned to serve the cigarette industry. The division supplies a wide range of value adding high quality innovative filters from monoacetate to multi-segment speciality filters with sophisticated adsorbent materials.

Year ended 31 December	2010	2009	% change
Revenue	£200.7m	£202.9m	(1.1)
Adjusted operating profit[1]	£23.7m	£22.1m	7.2
Adjusted operating margin[1]	11.8%	10.9%	

[1] *Before intangible amortisation (2009: intangible amortisation and major restructuring costs).*

Revenue reduced by 1.1% to £200.7m (2009: £202.9m) and was down 4.8% at constant exchange rates. Adjusted operating profit[1] increased by 7.2% to £23.7m (2009: £22.1m) and was down by 1.7% at constant exchange rates. Adjusted operating margin[1] increased by 90 basis points to 11.8% (2009: 10.9%) as a result of ongoing productivity improvements. Cash conversion of adjusted operating profit[1] into operating cash flow was 97%.

Total divisional volumes reduced by 2.9% to 48.7 billion filter rods, with an 11% increase in monoacetate volumes and a 10% reduction in special filters. The special filters reduction was impacted by the closure of the Venezuelan facility in the second half of the year. The increase in the monoacetate volume was due to ongoing success with independent customers and further growth in Asia which accounted for 52% of total divisional volume (2009: 48%).

The restructuring at the Jarrow production facility was completed on schedule in the second quarter of 2010 and the Jarrow Technical Centre was downsized in the third quarter in response to the expansion of development capability in the Americas and Asia regions.

The division's focus on productivity improvement, quality enhancement and cost reduction continued throughout the year. Conversion costs improved by a further 1.0% to 30.5% and total headcount fell by 12.9% from 1,439 to 1,254 at the year end. Revenue per employee at constant exchange rates improved by 9% to £148k (2009: £136k).

The division continued its investment in new products, capabilities and services. Revenue from laboratory services increased by 60%, albeit from a small base, as the division sought to market its scientific services capability to tobacco companies around the world. The division continued to develop its intellectual property portfolio and applications for eight UK, four international and four utility patents were filed in the year. The division increased its focus on the growing "roll your own" sector and specialist packing operations were established in the UK and Indonesia. The Company launched its innovative "smooth core" filter and the capability to produce filters with flavour capsules was introduced into the Greensboro, US facility.

Growth and developments in the Asia region have triggered the construction of a new leasehold facility in Bangkok, Thailand in the second half of the year and this is expected to be operational in the third quarter of 2011. The purchase of the freehold of the division's largest production facility in Surabaya, Indonesia was completed in the first half of 2010.

Looking forward to 2011, the division will continue to be focused on driving innovation, improving speed to market, and reducing unit costs. The division is expected to continue to demonstrate its resilience and deliver excellent financial returns with strong operating cash flow.

OUTLOOK

The positive momentum from 2010 has continued into the early part of the current year giving the Board confidence that the Company continues to be well positioned to grow in 2011.

FINANCIAL REVIEW

Principal exchange rates

Principal exchange rates for Filtrona were:

	Average		**Closing**	
	2010	2009	**2010**	2009
US$:£	**1.55**	1.57	**1.57**	1.61
€:£	**1.17**	1.12	**1.17**	1.13
IDR:£	**14,100**	16,200	**14,100**	15,200

Retranslating at 2010 average exchange rates increases the prior year revenue and operating profit by £7.9m and £2.0m respectively.

Revenue, Operating profit, Operating margin

As noted previously, revenue from continuing operations increased by 10.3% to £489.6m (2009: £444.0m), an increase of 8.3% when translated at constant exchange rates. When also excluding the impact of acquisitions, revenue growth was 7.6%. The operating profit before intangible amortisation ("adjusted operating profit") was 33.5% higher than in 2009 (28.9% higher when translated at constant exchange rates).

The operating margin before intangible amortisation ("adjusted operating margin") increased to 15.3% (2009: 12.7%).

Net finance expense

The total net finance expense increased to £10.4m (2009: £10.0m).

The net interest charge on net debt increased to £9.1m (2009: £7.0m) primarily as a result of the higher rates of interest payable on the Private Placement notes, issued in April 2010. Additionally, the amortisation of bank fees increased to £2.5m (2009: £1.7m) reflecting the full year impact of fees arising from the refinancing of the Company's banking facilities in April 2009.

The IAS 19 (Revised) pension finance credit of £0.6m compared to a charge in the prior period of £1.9m, whilst the net finance expense was reduced by £0.6m as a result of the unwinding of the discount on the deferred consideration from the 2007 sale of Globalpack (2009: £0.6m).

Tax

The tax charge of £19.1m (2009: £12.1m) represents an effective tax rate of 31.0% (2009: 37.5%) on the profit before tax.

The 2009 charge equated to a tax rate of 31.0% on profit before charging major restructuring costs and exceptional acquisition fees and was net of a deferred tax credit of £1.3m arising from the major restructuring costs.

The effective rate is higher than the nominal UK rate of 28% because most of the Company's operations are in countries with higher tax rates.

Earnings per share

Basic earnings per share from continuing operations were 20.0p, a increase of 119.8% from 9.1p in 2009. Adjusting for intangible amortisation of £3.0m (2009: £3.1m), less tax relief thereon of £0.9m, gives an adjusted earnings per share of 21.0p.

Dividends

An interim dividend of 3.0p (2009: 2.70p) per share and a proposed final dividend of 6.0p (2009: 5.08p) per share will result in a total dividend of 9.0p per share, an increase of 15.7% on prior year (2009: 7.78p).

Cash flow, Balance Sheet and Return on Average Operating Assets

Operating cash flow ("adjusted operating profit before depreciation, share option expense and other non-cash items less working capital movements less net capital expenditure") was £74.9m (2009: £72.5m).

This included an outflow of working capital for the year of £5.1m (2009: inflow of £2.2m) and gross capital expenditure of £20.1m (2009: £11.0m), with net capital expenditure at £18.8m (2009: £10.8m).

Net capital expenditure for the year equated to 92% (2009: 52%) of the depreciation charge for the year of £20.4m (2009: £20.7m).

Net debt reduced by £16.3m to £90.8m (2009: £107.1m). The ratio of net debt to EBITDA at the year end reduced to 0.9 from 1.4 on 31 December 2009. Interest cover was 7.1x compared with 7.2x at the end of 2009.

The return on average invested capital (including intangibles) was 21.6% (2009: 16.9%), driven by the higher profits in the year.

Pensions

At 31 December 2010, the Company's IAS 19 (Revised) gross pension liability was £17.6m (2009: £22.6m) with a net liability of £12.4m (2009: £15.8m) after accounting for a deferred tax asset of £5.2m (2009: £6.8m). The deficit has been calculated after updating the actuarial assumptions and asset values as at 31 December 2010. The asset values have increased significantly since the prior year which has contributed to the reduced liability, however offset in part by the use of lower discount rates applied to the calculation of the scheme liabilities.

Treasury Policy and Controls

Filtrona has a centralised treasury department to control external borrowings and manage exchange rate risk. Treasury policies are approved by the Board and cover the nature of the exposure to be hedged, the types of financial investments that may be employed and the criteria for investing and borrowing cash. The Company uses derivatives only to manage foreign currency and interest rate risk arising from underlying business activities. No transactions of a speculative nature are undertaken. The department is subject to independent reviews by the internal audit department. Underlying policy assumptions and activities are reviewed by the Executive Directors.

Controls over exposure changes and transaction authenticity are in place and dealings are restricted to those banks with the relevant combination of geographical presence and suitable credit rating. Filtrona monitors the credit ratings of its counterparties and credit exposure to each counterparty.

Foreign currency risk

The majority of Filtrona's net assets are in currencies other than sterling. The company's normal policy is to limit the translation exposure and the resulting impact on shareholders' funds by borrowing in those currencies in which the Company has significant net assets. At 31 December 2010, Filtrona's US denominated assets were approximately 88% hedged by its US dollar denominated borrowings, whilst its euro denominated assets were approximately 47% hedged by its euro denominated borrowings.

The Company does not hedge the translation effect of exchange rate movements on the income statement.

The majority of Filtrona's transactions are carried out in the functional currencies of its operations and so transaction exposure is limited. However, where they do occur, the Company's policy is to hedge the exposures as soon as they are committed using forward foreign exchange contracts.

Board appointment

On 13 January 2011, the Company announced the appointment of Colin Day to the Board as Chief Executive with effect from 1 April 2011. Mark Harper will stand down from the Board at the Company's Annual General Meeting on 14 April 2011 and will retire from the Company in May 2011.

Consolidated Income Statement
for the year ended 31 December 2010

	Note	**2010 £m**	2009 £m
Revenue	2	**489.6**	444.0
Operating profit before intangible amortisation (2009: intangible amortisation, major restructuring costs and exceptional acquisition fees)		**75.0**	56.2
Intangible amortisation		**(3.0)**	(3.1)
Major restructuring costs		**-**	(8.9)
Exceptional acquisition fees		**-**	(1.9)
Operating profit	2	**72.0**	42.3
Finance income	3	**12.0**	9.3
Finance expense	3	**(22.4)**	(19.3)
Profit before tax		**61.6**	32.3
Income tax expense		**(19.1)**	(12.1)
Profit from continuing operations		**42.5**	20.2
Profit/(loss) from discontinued operations	10	**6.8**	(6.7)
Profit for the year		**49.3**	13.5
Attributable to:			
Equity holders of Filtrona plc		**47.7**	11.8
Non-controlling interests		**1.6**	1.7
Profit for the year		**49.3**	13.5
Earnings per share attributable to equity holders of Filtrona plc:			
Basic	4	**23.3p**	5.8p
Diluted	4	**22.9p**	5.7p
Earnings per share from continuing operations attributable to equity holders of Filtrona plc:			
Basic	4	**20.0p**	9.1p
Diluted	4	**19.6p**	9.0p

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2010

	Note	**2010 £m**	2009 £m
Profit for the year		**49.3**	13.5
Other comprehensive income			
Actuarial (losses)/gains on defined benefit pension schemes	7	**(5.0)**	6.4
Deferred tax credit/(expense) on actuarial (losses)/gains on defined benefit pension schemes		**1.3**	(2.0)
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		**0.7**	8.0
Effective portion of changes in fair value of cash flow hedges		**(0.3)**	(1.0)
Foreign exchange translation differences:			
Transferred to loss on disposal of discontinued operations		**-**	(1.1)
Attributable to equity holders of Filtrona plc:			
Arising on translation of foreign operations		**2.9**	(16.6)
Arising on effective net investment hedges		**2.7**	2.2
Income tax (charge)/credit on effective net investment hedges		**(1.0)**	2.2
Attributable to non-controlling interests		**0.9**	(0.5)
		2.2	(2.4)
Total comprehensive income		**51.5**	11.1
Attributable to:			
Equity holders of Filtrona plc		**49.0**	9.9
Non-controlling interests		**2.5**	1.2
Total comprehensive income		**51.5**	11.1

Consolidated Balance Sheet
at 31 December 2010

	Note	**2010** **£m**	2009 £m
Assets			
Property, plant and equipment	5	**156.1**	153.9
Intangible assets	6	**107.3**	98.1
Deferred tax assets		**1.4**	2.2
Other receivables		**2.9**	5.3
Total non-current assets		**267.7**	259.5
Inventories		**59.1**	51.7
Income tax receivable		**4.2**	2.3
Trade and other receivables		**73.1**	67.1
Derivative assets		**0.4**	0.6
Cash and cash equivalents		**40.0**	32.0
Total current assets		**176.8**	153.7
Total assets		**444.5**	413.2
Equity			
Issued capital		**54.8**	54.8
Capital redemption reserve		**0.1**	0.1
Other reserve		**(132.8)**	(132.8)
Cash flow hedging reserve		**(0.6)**	(1.0)
Translation reserve		**17.6**	13.0
Retained earnings		**248.7**	219.6
Attributable to equity holders of Filtrona plc		**187.8**	153.7
Non-controlling interests		**9.6**	7.4
Total equity		**197.4**	161.1
Liabilities			
Interest bearing loans and borrowings		**116.8**	139.1
Derivative liabilities		**0.5**	1.8
Retirement benefit obligations	7	**17.6**	22.6
Income tax payable		**4.5**	4.7
Provisions		**1.2**	1.5
Deferred tax liabilities		**9.5**	8.6
Total non-current liabilities		**150.1**	178.3
Interest bearing loans and borrowings		**14.0**	-
Derivative liabilities		**2.0**	1.3
Income tax payable		**14.5**	12.3
Trade and other payables		**63.6**	55.3
Provisions		**2.9**	4.9
Total current liabilities		**97.0**	73.8
Total liabilities		**247.1**	252.1
Total equity and liabilities		**444.5**	413.2

Consolidated Statement of Changes in Equity
for the year ended 31 December 2010

	Issued capital £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
								2010
At 1 January 2010	**54.8**	**0.1**	**(132.8)**	**(1.0)**	**13.0**	**219.6**	**7.4**	**161.1**
Profit for the year						47.7	1.6	**49.3**
Other comprehensive income/(loss) for the year				0.4	4.6	(3.7)	0.9	**2.2**
Acquisition of employee trust shares						(1.1)		**(1.1)**
Share option expense						2.8		**2.8**
Dividends paid						(16.6)	(0.3)	**(16.9)**
At 31 December 2010	**54.8**	**0.1**	**(132.8)**	**(0.6)**	**17.6**	**248.7**	**9.6**	**197.4**

	Issued capital £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
								2009
At 1 January 2009	54.8	0.1	(132.8)	(8.0)	26.3	219.7	7.0	167.1
Profit for the year						11.8	1.7	13.5
Other comprehensive income/(loss) for the year				7.0	(13.3)	4.4	(0.5)	(2.4)
Acquisition of non-controlling interest						(2.9)		(2.9)
Share option expense						2.5		2.5
Dividends paid						(15.9)	(0.8)	(16.7)
At 31 December 2009	54.8	0.1	(132.8)	(1.0)	13.0	219.6	7.4	161.1

Consolidated Statement of Cash Flows
for the year ended 31 December 2010

	Note	**2010** **£m**	2009 £m
Operating activities			
Profit for the year from continuing operations		**42.5**	20.2
Adjustments for:			
Income tax expense		**19.1**	12.1
Net finance expense	3	**10.4**	10.0
Intangible amortisation		**3.0**	3.1
Major restructuring costs	2	**-**	8.9
Exceptional acquisition fees	2	**-**	1.9
Depreciation		**20.4**	20.7
Share option expense		**2.8**	2.4
Impairments to plant and equipment		**1.5**	1.0
Other movements		**(0.9)**	0.8
(Increase)/decrease in inventories		**(5.5)**	11.3
(Increase)/decrease in trade and other receivables		**(3.9)**	5.1
Increase/(decrease) in trade and other payables		**4.3**	(14.2)
Major restructuring costs paid		**(1.3)**	(3.7)
Exceptional acquisition fees paid		**-**	(1.9)
Employee trust shares		**(1.1)**	-
Additional pension contributions		**(10.1)**	(7.1)
Other provisions utilised in the year		**(0.5)**	-
Cash inflow from operating activities of continuing operations		**80.7**	70.6
Income tax paid in respect of continuing operations		**(16.3)**	(12.1)
Net cash inflow from operating activities of continuing operations		**64.4**	58.5
Net cash outflow from operating activities of discontinued operations		**-**	(3.0)
Net cash inflow from operating activities		**64.4**	55.5
Investing activities			
Interest received		**0.2**	0.1
Acquisition of property, plant and equipment		**(20.1)**	(11.0)
Proceeds from sale of property, plant and equipment		**1.3**	0.2
Acquisition of businesses net of cash acquired	9	**(12.0)**	(2.9)
Proceeds from sale of businesses		**10.9**	56.6
Income tax paid on sale of businesses		**(3.2)**	(3.5)
Net cash (outflow)/inflow from investing activities of continuing operations		**(22.9)**	39.5
Net cash outflow from investing activities of discontinued operations		**-**	(0.2)
Net cash (outflow)/inflow from investing activities		**(22.9)**	39.3
Financing activities			
Interest paid		**(8.2)**	(6.9)
Dividends paid to equity holders		**(16.6)**	(15.9)
Dividends paid to non-controlling interests		**(0.3)**	(0.8)
Realised losses on hedges of net investments		**-**	(2.0)
Proceeds from/(repayments of) short-term loans		**0.2**	(5.3)
Repayment of long-term loans		**(117.2)**	(214.1)
Proceeds from long-term loans		**104.3**	161.8
Net cash outflow from financing activities of continuing operations		**(37.8)**	(83.2)
Net cash outflow from financing activities of discontinued operations		**-**	-
Net cash outflow from financing activities		**(37.8)**	(83.2)
Net increase in cash and cash equivalents	8	**3.7**	11.6
Net cash and cash equivalents at the beginning of the year		**32.0**	21.3
Net increase in cash and cash equivalents		**3.7**	11.6
Net effect of currency translation on cash and cash equivalents		**4.3**	(0.9)
Net cash and cash equivalents at the end of the year	8	**40.0**	32.0

1 Basis of preparation

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 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 (Revised): *Employee benefits*.

The 2010 Annual Report will be despatched to shareholders during March 2011. The financial information set out herein does not constitute the Company's statutory accounts for the year ended 31 December 2010 but is derived from those accounts and the accompanying Directors' report. Statutory accounts for 2010 will be delivered to the Registrar of Companies following the Company's Annual General Meeting which will be held on 14 April 2011. The auditors have reported on those accounts and their report was unqualified.

2. Segment analysis

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

Protection & Finishing Products is a global market leading provider of product protection and finishing products, manufacturing and distributing plastic injection moulded, dip moulded, adhesive-coated foam and metal products. 41 operating units in 14 countries serving a very broad base of over 85,000 customers with a rapid supply of products for protection and finishing applications in industries such as hydraulics, pneumatics, oil and gas, electrical controls, point of purchase and tubular metal products.

Porous Technologies is the leading global technology developer and manufacturer of custom bonded fibre and hydrophilic foam components. Its components handle fluid and vapour and deliver high value and precision performance to many of the most well-known consumer, industrial and medical brand owners in the world. The components are used in a wide range of product applications including medical diagnostics and wound care, inkjet printer cartridges, writing instruments, and air fresheners

Coated & Security Products is the global market leading producer of high quality self-adhesive tear tape and a growing supplier of labels, products and technologies for brand protection, document authentication, personal identification and track and trace. Customers in over 100 countries are served from facilities operating in six countries. The division includes plastic profile extrusion activities in The Netherlands.

Filter Products is the only global independent cigarette filter supplier. The 10 worldwide locations, including a UK-based research facility and three regional development centres provide a flexible infrastructure strategically positioned to serve the cigarette industry. The division supplies a wide range of value adding high quality innovative filters from monoacetate to multi-segment speciality filters with sophisticated adsorbent materials.

2. Segment analysis continued

	Protection & Finishing Products £m	Porous Techno-logies £m	Coated & Security Products £m	Filter Products £m	Elimin-ations £m	Central Services[1] £m	Continuing operations £m	Discontinued operations £m	Total £m
									2010
External revenue	129.1	67.9	91.9	200.7	-	-	489.6	-	489.6
Intersegment revenue	-	6.8	-	-	(6.8)	-	-	-	-
Total revenue	**129.1**	**74.7**	**91.9**	**200.7**	**(6.8)**	**-**	**489.6**	**-**	**489.6**
Operating profit/(loss) before intangible amortisation	28.8	17.7	14.7	23.7	-	(9.9)	75.0	-	75.0
Intangible amortisation	(1.9)	(0.9)	(0.1)	(0.1)	-	-	(3.0)	-	(3.0)
Operating profit/(loss)	**26.9**	**16.8**	**14.6**	**23.6**	**-**	**(9.9)**	**72.0**	**-**	**72.0**
Segment assets	77.7	51.1	56.2	99.1	-	7.1	291.2	-	291.2
Intangible assets	70.1	19.2	18.0	-	-	-	107.3	-	107.3
Unallocated items						46.0	46.0		46.0
Total assets	**147.8**	**70.3**	**74.2**	**99.1**	**-**	**53.1**	**444.5**	**-**	**444.5**
Segment liabilities	18.3	7.0	8.2	22.9	-	8.6	65.0	2.7	67.7
Unallocated items						179.4	179.4		179.4
Total liabilities	**18.3**	**7.0**	**8.2**	**22.9**	**-**	**188.0**	**244.4**	**2.7**	**247.1**
Other segment items									
Capital expenditure	6.8	3.8	2.1	7.4	-	-	20.1	-	20.1
Impairment to property, plant and equipment	-	-	-	1.5	-	-	1.5	-	1.5
Depreciation	5.3	3.0	4.7	7.3	-	0.1	20.4	-	20.4
Average number of employees	800	455	577	1,355	-	26	3,213	-	3,213

[1] Central Services includes group finance, tax, treasury, legal, internal audit, human resources, information technology, corporate development and other services provided centrally to support the operating segments

2. Segment analysis continued

	Protection & Finishing Products £m	Porous Techno-logies £m	Coated & Security Products £m	Filter Products £m	Elimin-ations £m	Central Services[1] £m	Continuing operations £m	Discontinued operations £m	Discontinued eliminations £m	2009 Total £m
External revenue	95.2	58.5	87.3	202.9	-	-	443.9	22.8	-	466.7
Intersegment revenue	0.1	7.5	-	-	(7.5)	-	0.1	-	(0.1)	-
Total revenue	95.3	66.0	87.3	202.9	(7.5)	-	444.0	22.8	(0.1)	466.7
Operating profit/(loss) before intangible amortisation, major restructuring costs and exceptional acquisition fees	15.9	14.5	12.2	22.1	-	(8.5)	56.2	0.9	-	57.1
Intangible amortisation	(1.9)	(0.8)	(0.2)	(0.2)	-	-	(3.1)	-	-	(3.1)
Major restructuring costs	(1.3)	-	(0.8)	(6.8)	-	-	(8.9)	-	-	(8.9)
Exceptional acquisition fees	-	-	-	-	-	(1.9)	(1.9)	-	-	(1.9)
Operating profit/(loss)	12.7	13.7	11.2	15.1	-	(10.4)	42.3	0.9	-	43.2
Segment assets	67.7	47.7	55.5	96.7	-	10.4	278.0	-	-	278.0
Intangible assets	63.4	19.8	14.8	0.1	-	-	98.1	-	-	98.1
Unallocated items						37.1	37.1			37.1
Total assets	131.1	67.5	70.3	96.8	-	47.5	413.2	-	-	413.2
Segment liabilities	11.8	6.3	8.9	25.6	-	6.0	58.6	3.3	-	61.9
Unallocated items						190.2	190.2			190.2
Total liabilities	11.8	6.3	8.9	25.6	-	196.2	248.8	3.3	-	252.1
Other segment items										
Capital expenditure	2.2	2.5	1.7	4.6	-	-	11.0	0.2	-	11.2
Impairment to property, plant and equipment	0.3	-	-	0.7	-	-	1.0	-	-	1.0
Depreciation	5.7	2.9	4.7	7.2	-	0.2	20.7	0.9	-	21.6
Average number of employees	726	446	553	1,544	-	29	3,298	140	-	3,438

[1] Central Services includes group finance, tax, treasury, legal, internal audit, human resources, information technology, corporate development and other services provided centrally to support the operating segments

3. Net finance expense

Continuing operations	**2010 £m**	2009 £m
Finance income		
Bank deposits	**0.1**	0.1
Unwind of discount on Globalpack deferred consideration	**0.6**	0.6
Other finance income	**-**	0.3
Expected return on pension scheme assets	**11.3**	8.3
	12.0	9.3
Finance expense		
Interest on loans and overdrafts	**(9.2)**	(7.3)
Amortisation of bank facility fees	**(2.5)**	(1.7)
Other finance expense	**-**	(0.1)
Interest on pension scheme liabilities	**(10.7)**	(10.2)
	(22.4)	(19.3)
Net finance expense	**(10.4)**	(10.0)

4. Earnings per share

	2010	2009
	£m	£m
Continuing operations		
Earnings attributable to equity holders of Filtrona plc	**40.9**	18.5
Adjustments		
Intangible amortisation	**3.0**	3.1
Major restructuring costs	**-**	8.9
Exceptional acquisition fees	**-**	1.9
	3.0	13.9
Tax relief on adjustments	**(0.9)**	(2.2)
Adjusted earnings	**43.0**	30.2
Discontinued operations		
Earnings attributable to equity holders of Filtrona plc	**6.8**	(6.7)
Basic weighted average ordinary shares in issue (million)	**204.9**	204.2
Dilutive effect of employee share option plans (million)	**4.2**	2.5
Diluted weighted average ordinary shares (million)	**209.1**	206.7
Continuing operations		
Basic earnings per share	**20.0p**	9.1p
Adjustment	**1.0p**	5.7p
Adjusted earnings per share	**21.0p**	14.8p
Diluted basic earnings per share	**19.6p**	9.0p
Diluted adjusted earnings per share	**20.6p**	14.6p
Discontinued operations		
Basic earnings per share	**3.3p**	(3.3)p
Diluted basic earnings per share	**3.3p**	(3.3)p

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

5. Property, plant and equipment

				2010
	Land and buildings	**Plant and machinery**	**Fixtures, fittings and equipment**	**Total**
	£m	**£m**	**£m**	**£m**
Cost				
Beginning of year	67.7	256.0	41.3	**365.0**
Acquisitions	-	1.3	0.2	**1.5**
Additions	5.4	11.3	3.4	**20.1**
Disposals	(1.2)	(1.7)	(1.9)	**(4.8)**
Currency translation	0.5	3.4	0.7	**4.6**
End of year	**72.4**	**270.3**	**43.7**	**386.4**
Depreciation				
Beginning of year	18.7	160.6	31.8	**211.1**
Expense in year	2.1	15.4	2.9	**20.4**
Disposals	(1.0)	(1.7)	(1.9)	**(4.6)**
Impairments	-	1.5	-	**1.5**
Currency translation	-	1.4	0.5	**1.9**
End of year	**19.8**	**177.2**	**33.3**	**230.3**
Net book value at end of year	**52.6**	**93.1**	**10.4**	**156.1**

The impairments relate to plant and machinery and land and buildings that have been assessed as non-recoverable through on-going use in the Group and are expected to have no value on disposal.

6. Intangible assets

Goodwill	2010 £m	2009 £m
Beginning of year	**53.0**	78.9
Acquisitions	**5.8**	-
Divestment of Filtrona Extrusion	**-**	(20.9)
Currency translation	**0.1**	(5.0)
End of year	**58.9**	53.0
Customer relationships		
Cost		
Beginning of year	**49.2**	54.3
Acquisitions	**5.9**	-
Currency translation	**(0.3)**	(5.1)
End of year	**54.8**	49.2
Amortisation		
Beginning of year	**9.3**	7.5
Expense in year	**2.4**	2.5
Currency translation	**-**	(0.7)
End of year	**11.7**	9.3
Net book value at end of year	**43.1**	39.9
Net book value at beginning of year	**39.9**	46.8
Other		
Cost		
Beginning of year	**5.9**	6.6
Acquisitions	**0.5**	-
Currency translation	**0.2**	(0.7)
End of year	**6.6**	5.9
Amortisation		
Beginning of year	**0.7**	0.1
Expense in year	**0.6**	0.6
Currency translation	**-**	-
End of year	**1.3**	0.7
Net book value at end of year	**5.3**	5.2
Net book value at beginning of year	**5.2**	6.5
Total net book value of intangible assets at end of year	**107.3**	98.1

Other intangible assets principally comprise developed technology acquired with Lendell.

7. Employee benefits

Post-retirement benefits

The UK government announced on the 8 July 2010 that it will in future use the Consumer Price Index rather than the Retail Price Index for the purpose of determining statutory minimum pension increases for private sector occupational pension schemes. The group's current UK defined benefit pension scheme rules specify that pensions in deferment will increase in line with the annual statutory order published by the UK government. The group has therefore amended its assumptions for increases to pensions in deferment to reflect this. The resulting reduction in the present value of the schemes liabilities of £4.0m is included as a change in assumptions within other comprehensive income.

The amounts included in the consolidated financial statements in respect of arrangements in Europe and the US are as follows:

	2010	2009
	£m	£m
Amounts expensed/(credited) against operating profit		
Defined contribution schemes – continuing operations	**1.8**	1.7
Defined contribution schemes – discontinued operations	**-**	0.2
Defined benefit schemes:		
Current service cost – continuing operations	**1.8**	2.1
Current service cost – discontinued operations	**-**	0.1
Curtailment gain	**-**	(0.2)
Total operating expense	**3.6**	3.9
Amounts included as finance (income)/expense		
Expected return on scheme assets	**(11.3)**	(8.3)
Interest on scheme liabilities	**10.7**	10.2
Net financial (income)/expense	**(0.6)**	1.9
Amounts recognised in the consolidated statement of comprehensive income		
Actual return less expected return on scheme assets	**5.7**	18.9
Impact of changes in assumptions relating to the present value of scheme liabilities	**(10.7)**	(12.5)
Actuarial (loss)/gain	**(5.0)**	6.4

The principal assumptions used by the independent qualified actuaries for the purposes of IAS 19 (Revised) were:

		2010		2009
	Europe	**US**	Europe	US
Increase in salaries (pre-2010) [1]	4.20%	3.00%	4.10%	3.50%
Increase in salaries (post-2010) [1]	3.00%	3.00%	-	-
Increase in pensions (pre-2010) [1]	3.60%	n/a [2]	3.50%	n/a [2]
Increase in pensions (post-2010) [1]	2.95%	n/a [2]	-	n/a [2]
Discount rate	5.40%	5.30%	5.70%	5.75%
Inflation rate	3.60%	n/a [2]	3.50%	n/a [2]
Expected return on scheme assets	6.20%	7.80%	6.60%	7.80%

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%.

2 not applicable

7. **Employee benefits** continued

The assumptions used by the actuaries are the estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not be borne out in practice.

The life expectancy assumptions used to estimate defined benefit obligations at the year end are:

	2010		2009	
	Europe	**US**	Europe	US
Male retiring today at age 65	**20.8**	**18.5**	20.8	18.4
Female retiring today at age 65	**23.5**	**20.7**	23.5	20.6
Male retiring in 20 years at age 65	**22.8**	**18.5**	22.8	18.4
Female retiring in 20 years at age 65	**25.5**	**20.7**	25.5	20.6

Movement in fair value of scheme assets/(liabilities) during the year

	2010			2009		
	Scheme assets £m	**Scheme liabilities £m**	**Total £m**	Scheme assets £m	Scheme liabilities £m	Total £m
Beginning of year	**158.7**	**(181.3)**	**(22.6)**	131.6	(169.0)	(37.4)
Service cost – continuing operations	**-**	**(1.8)**	**(1.8)**	-	(2.1)	(2.1)
Service cost – discontinued operations	**-**	**-**	**-**	-	(0.1)	(0.1)
Employer contributions	**11.9**	**-**	**11.9**	9.3	-	9.3
Employee contributions	**0.6**	**(0.6)**	**-**	0.7	(0.7)	-
Actuarial gains/(losses)	**5.7**	**(10.7)**	**(5.0)**	18.9	(12.5)	6.4
Finance income/(expense)	**11.3**	**(10.7)**	**0.6**	8.3	(10.2)	(1.9)
Benefits paid	**(8.6)**	**8.6**	**-**	(6.6)	6.6	-
Curtailment benefit recognised against operating profit	**-**	**-**	**-**	-	0.2	0.2
Curtailment benefit recognised against loss on disposal	**-**	**-**	**-**	-	1.8	1.8
Reclassification from other payables	**-**	**-**	**-**	-	(0.6)	(0.6)
Currency translation and other	**7.6**	**(8.3)**	**(0.7)**	(3.5)	5.3	1.8
End of year	**187.2**	**(204.8)**	**(17.6)**	158.7	(181.3)	(22.6)

	2010		2009	
	% of scheme assets/ liabilities	**£m**	% of scheme assets/ liabilities	£m
Experience gains and losses				
Difference between actual and expected return on scheme assets	**3.6**	**5.7**	14.4	18.9
Net actuarial (losses)/gains recognised in the statement of comprehensive income	**2.8**	**(5.0)**	3.8	6.4

Sensitivity

For the significant assumptions used in determining post-retirement costs and liabilities, the following sensitivity analysis gives the estimate of the impact on the income statement and balance sheet for the year ended 31 December 2010.

	Scheme liabilities			**Annual service cost**		
	Europe £m	US £m	**Total £m**	Europe £m	US £m	**Total £m**
0.5% decrease in the discount rate	14.4	3.2	**17.6**	0.2	0.1	**0.3**
1.0% increase in the rate of inflation	18.6	n/a	**18.6**	-	-	**-**
1 year increase in life expectancy	3.5	1.3	**4.8**	-	-	**-**
0.5% increase in the discount rate	(12.7)	(2.9)	**(15.6)**	(0.2)	-	**(0.2)**
1.0% decrease in the rate of inflation	(14.9)	n/a	**(14.9)**	-	-	**-**

8. Analysis of net debt

	1 Jan 2010 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	**31 Dec 2010 £m**
Cash at bank and in hand	23.7	3.7	4.3	-	**31.7**
Short-term bank deposits and investments	8.3	-	-	-	**8.3**
Cash and cash equivalents in the statement of cash flows	32.0	3.7	4.3	-	**40.0**
Debt due within one year	-	(0.2)	-	(13.8)	**(14.0)**
Debt due after one year	(139.1)	12.9	(1.5)	10.9	**(116.8)**
Net debt	(107.1)	16.4	2.8	(2.9)	**(90.8)**

The non-cash movement is the amortisation of prepaid bank facility fees, acquired finance leases and movement of debt due after one year to debt due within one year.

9. Acquisitions

On 26 February 2010, Filtrona acquired the entire issued share capital of both Summercombe 110 Ltd and BP Secure Solutions Limited, which together carry on the business of BP Labels. BP Labels, based in Cardiff, UK, is a manufacturer of high quality, creative and secure self adhesive labels and is highly complementary with Filtrona’s Coated & Security Products division.

On acquisition the assets and liabilities of the business acquired were adjusted to reflect their fair values to Filtrona. The fair value adjustments are provisional and subject to finalisation for up to one year from the date of acquisition.

BP Labels contributed £2.8m to revenue and £0.1m to operating profit before intangible amortisation in the period from acquisition to 31 December 2010 after deducting acquisition expenses of £0.1m.

On 22 November 2010, Filtrona acquired the entire issued share capital of Stera Holdings Limited, trading as Stera Tape, from family and employee shareholders of the acquired company. Stera Tape, based in Bridlington, UK, is a manufacturer of high quality speciality adhesive tapes and is highly complementary to Duraco, a business within Filtrona’s Protection & Finishing Products division.

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

Stera Tape contributed £0.6m to revenue and an operating loss of £0.2m in the period from acquisition to 31 December 2010 after deducting acquisition expenses of £0.2m.

9. Acquisitions continued

A summary of the acquisitions is detailed below:

	Book value at acquisition £m	Reclassification £m	Revaluation £m	Fair value of assets acquired £m
Property, plant and equipment	1.6	(0.1)	-	1.5
Inventories	0.9	-	(0.1)	0.8
Receivables	1.8	(0.1)	-	1.7
Cash and cash equivalents	0.4	-	-	0.4
Deferred tax	(0.2)	-	(2.0)	(2.2)
Payables	(1.3)	0.2	(0.1)	(1.2)
Finance leases	(0.4)	-	-	(0.4)
	2.8	-	(2.2)	0.6
Customer relationships				5.9
Other intangible assets				0.5
Goodwill				5.8
Consideration				12.8
Satisfied by:				
Initial cash consideration				12.4
Deferred contingent consideration				0.3
Other deferred consideration				0.1
Cash consideration				12.4
Cash and cash equivalents acquired				(0.4)
Net cash outflow in respect of the acquisitions				**12.0**

The reclassification adjustment to property, plant and equipment, receivables and payables reflects the impact of reclassifying a government grant used to purchase machinery and a receivable balance due from a Filtrona group company.

The adjustment to deferred tax is the tax affect of recognising customer relationships and other intangibles.

Payables and inventories were reassessed to their fair value.

Deferred contingent consideration of £0.3m is payable by the Group if BP Labels exceeds a targeted revenue and gross profit margin in the period of 12 months to 30 April 2011.

Included in the £5.8m of goodwill recognised above is the value of the unique revenue and cost synergies and an assembled workforce. Due to its nature this asset cannot be individually identified or measured.

It is estimated that if the acquisition of Stera Tape and BP Labels had been completed on 1 January 2010 the contribution to 2010 Group revenue would have been £9.7m and to Group operating profit before intangible amortisation would have been £1.4m.

10. Discontinued operations

On 27 March 2009, Filtrona completed the disposal of its North American Plastic Profile & Sheet business ('Filtrona Extrusion') to Saw Mill Capital Partners, L.P. for an initial gross consideration of £59.2m. The disposal resulted in a loss before tax of £8.6m which was recognised as discontinued operations in the income statement.

On 22 June 2010, Filtrona received further consideration of £8.7m from Saw Mill Capital LLC for the settlement of an earn-out in relation to the disposal. The settlement resulted in a profit after tax of £6.8m which has been recognised as discontinued operations in the income statement.

In June 2010, Filtrona received £2.7m from the Itavema Group which represented the third instalment due in relation to the deferred consideration for the disposal on 29 June 2007 of Globalpack, its Brazilian consumer packaging business.

11. Dividends

	Per share		**Total**	
	2010	2009	**2010**	2009
	p	p	**£m**	£m
2009 interim: paid 30 October 2009		2.70		5.5
2009 final: paid 30 April 2010		5.08		10.4
2010 interim: paid 29 October 2010	**3.00**		**6.2**	
2010 proposed final: payable 28 April 2011	**6.00**		**12.3**	
	9.00	7.78	**18.5**	15.9

12. Transactions with related parties

Filtrona has not entered into any material transactions with related parties other than the compensation of key management. Furthermore, throughout 2010 and 2009, no Director had a personal interest in any significant transaction of Filtrona.

13. Non-GAAP 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 intangible amortisation which is considered not relevant to measuring the performance of the business. In 2009, management also adjusted for major restructuring costs and exceptional acquisition fees on the basis of their size and incidence. Operating cash flow is adjusted operating profit before depreciation, share option expense and other non-cash items, less working capital movements and net capital expenditure as shown below:

	2010	2009
	£m	£m
Operating profit	**72.0**	42.3
Intangible amortisation	3.0	3.1
Major restructuring costs	-	8.9
Exceptional acquisition fees	-	1.9
Adjusted operating profit	**75.0**	56.2
Depreciation and other amounts written off property, plant and equipment	21.9	21.7
Share option expense	2.8	2.4
Other non-cash items	(0.9)	0.8
Working capital movements	(5.1)	2.2
Net capital expenditure	(18.8)	(10.8)
Operating cash inflow	**74.9**	72.5

14. 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 statement. 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.

15. Directors' responsibilities statement

We confirm that to the best of our knowledge

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities and financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and

- This announcement includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Mark Harper Chief Executive	Steve Crummett Group Finance Director

24 February 2011

Principal risks

Effective management of risk and opportunity is essential to the protection of Filtrona's reputation and the achievement of sustainable shareholder value.

The management of risk underpins the Company's strategy, focusing on the challenges which arise in the international environment in which Filtrona conducts business and reflecting the Company's appetite for risk in the delivery of its business objectives. The underlying principles are that risks are continuously monitored, associated action plans reviewed, appropriate contingencies are provisioned and that information is reported through established management control procedures.

Filtrona recognises that the ability to monitor, assess and respond to business risks can often provide competitive advantage. Reporting within the Group is structured so that key issues are escalated through the management team, ultimately to the Board if appropriate. Each area of the business is required to formally and regularly review its principal areas of risk and uncertainty so that major risks are reviewed at all levels across the Group. This is an ongoing process, ensuring that there are clear consistent procedures for monitoring, updating and implementing appropriate controls to manage identified risks.

The performance, both long-term and short-term, of the Group can be impacted by any number of risks and uncertainties not all of which are within the Company's control.

The Company is subject to the general risks and uncertainties which impact on any other international business, including political instability in the countries in which the Company operates and sources raw materials, the impact of natural disasters and changes in general economic conditions, including currency and interest rate fluctuations, tax regimes and raw material costs.

Detailed below are the principal risks and uncertainties which the Board believes are specific to Filtrona together with the Company risk management response thereto. The details provided are not exhaustive and do not purport to be a complete explanation of all potentially relevant issues. There may be other risks and uncertainties which are unknown to the Board or which may not be deemed by the Board to be material now but which could turn out to be material in the future.

Disruption to operational sites/loss of critical assets

<table>
<tr><td colspan="2">Risk
A catastrophic loss of the use of all or a portion of any of Filtrona's manufacturing or distribution facilities due to accident, labour issues, fire, weather conditions, terrorist attack, natural disaster or otherwise and whether short or long-term could adversely affect the Company's ability to meet the demands of its customers. Some of the assets maintained by the Company, such as tooling and IT systems, are critical to the manufacture and delivery of particular products.</td></tr>
<tr><td>Impact
A material disruption to operational facilities or the loss of critical assets may negatively affect the Company's:
production capability and asset base
supply chain management
customer relationships
reputation
revenue
profit
financial condition.</td><td>Mitigation
Filtrona seeks to manage the risk of potential disruption of the supply of its customers by:
operating within a flexible global infrastructure
installing fire and other risk prevention systems
implementing disaster recovery and business continuity plans
assessing operational risks
maintaining insurance</td></tr>
</table>

Competitive pressures

<table>
<tr><td colspan="2">Risk
Filtrona faces pressures from direct competitors as well as competition from alternative technologies. Some of the Company's competitors may derive competitive advantage from the benefits of greater financial resources, economies of scale, additional purchasing power or lower cost bases and Filtrona may face aggressive pricing practices.</td></tr>
<tr><td>Impact
Demand for competitors' products and the development of competing technologies may result in:
loss of market positions
erosion of margins
intellectual property challenges
decline in revenue
decline in profitability
reduction in financial condition</td><td>Mitigation
Filtrona's seeks to drive its strong competitive market positions by:
sustained investment in research and development to develop the quality and breadth of its product and service offering
exploiting its innovative and manufacturing capabilities in new technologies, products and services
protecting its intellectual property rights
expanding its international distribution, sales and marketing expertise
investing in both organic and acquisition growth opportunities</td></tr>
</table>

Relationship with tobacco industry

<table>
<tr><td colspan="2">Risk
A significant part of Filtrona's business relates to the supply of filter products and tear tape to manufacturers in the tobacco industry. Future performance may be affected by changes in the conditions within those sections of the tobacco industry which the Company supplies, such as changes in the consumption of filter products, self manufacture and increasingly restrictive regulations affecting the industry. Tobacco related litigation could also adversely affect Filtrona, although there is no history of the Company being involved in such claims.</td></tr>
<tr><td>Impact
Filtrona's relationship with the tobacco industry may lead to:
reduced revenue
restructuring costs
profit decline
reputational damage
deterioration in financial condition</td><td>Mitigation
In seeking to minimise the impact of the challenges arising out of its exposure to the tobacco industry, Filtrona:
focuses on low cost filter production
invests in the research and development of innovative value added products and services
targets growth opportunities outside the manufacture of filter products
takes internal and external legal advice to manage litigation risk</td></tr>
</table>

Customer concentration

<table>
<tr><td colspan="2">Risk
In some of Filtrona's businesses, particularly filter products and tear tape, the customer base is relatively concentrated. Trends in certain markets, particularly within the oil and gas industry may reduce the demands for the Company's products. Should Filtrona's customers decide to satisfy their requirements internally or from other suppliers and if Filtrona was unable to secure new business this could result in a significant loss of business.</td></tr>
<tr><td>Impact
The loss of certain of Filtrona's key customers exposes the Company to
reduced revenue
restructuring costs
profit decline
deterioration in financial condition
reputational damage</td><td>Mitigation
To counteract the Company's exposure to a number of key customers, Filtrona:
invests in innovative, high quality, value added products and services
develops long-term relationships with customers at a senior level
seeks new markets and growth opportunities to expand the customer base</td></tr>
</table>

Raw material supply

Risk	
The Company uses significant quantities of plastic resins which are subject to price fluctuations from supply shortages and changes in the prices of natural gas, crude oil and other petrochemical intermediaries from which resins are produced. Some of Filtrona's businesses are dependent on the availability of specialist raw materials or components which are incorporated into the Company's products. If there are rapid increases in resin or other raw materials prices, including energy costs, or supply shortages, the Company's revenue and profitability may be materially and adversely affected.	
Impact	**Mitigation**
If Filtrona is exposed to raw material price increases or supply shortages, the Company may suffer • reduced revenue • increased costs • profit decline • disruption to supply	To counteract the Company's exposure to increases in raw material costs or supply shortages, Filtrona seeks to: • adopt appropriate procurement practices • secure longer term supply agreements • implement cost recovery programmes • ensure the availability of alternative supply options

Intellectual property development and protection

Risk	
A key component to Filtrona's future success is the ability to develop new and innovative products and services. In addition to seeking patent and trademark rights applied around the world, the Company relies on unpatented proprietary know-how and trade secrets. In the event that Filtrona is unable to respond to competitive technological advances or to protect its intellectual property portfolio, the future performance of the Company may be adversely affected.	
Impact	**Mitigation**
Failure to develop and protect intellectual property rights exposes the Company to • reduced revenue • profit decline • litigation • reputational damage	To counteract the Company's exposure to the erosion of its intellectual property portfolio, Filtrona: • invests in R&D • secures formal registrations of patent and trademark rights • adopts appropriate confidentiality and licensing practices • monitors potential infringements and takes appropriate enforcement actions

Challenges of business development

<table>
<tr><td colspan="2">Risk
Filtrona has achieved the development of its business and growth through the benefit of acquisitions and the success of start-up operations. The rate of any future business development may in part be dependent on the success of additional acquisitions and new start-up operations. There can be no assurance that the Company will be able to successfully identify, complete and integrate suitable acquisitions and successfully develop and expand further start-up operations.</td></tr>
<tr><td>Impact
If Filtrona fails to meet the challenges of business development arising from acquisitions and start-up operations, the Company may experience:
• increased costs
• reduced profitability
• lower growth rates
• delay in the achievement of strategic objectives</td><td>Mitigation
Filtrona's addresses the challenges presented by the development of its businesses on an international basis with:
• experienced and skilled management
• detailed due diligence and planning
• project risk reviews
• external expert advice</td></tr>
</table>

Loss of key executives and certain employees

<table>
<tr><td colspan="2">Risk
Filtrona's international operations are dependent on existing key executives and certain other employees in order to sustain, develop and grow its businesses and there can be no assurances that these employees will remain with the Company. The success of the Company will reflect its ability to retain, attract and motivate highly qualified executives and other personnel equipped to deliver on Filtrona's strategic objectives.</td></tr>
<tr><td>Impact
If Filtrona fails to retain, attract or motivate the required calibre of employees, its operational performance and financial condition may be materially impacted by the loss of :
• experience
• expertise
• commercial relationships</td><td>Mitigation
In order to manage the risk of personnel change, the Company:
• provides long-term share-based incentive plans
• conducts management development schemes and other training programmes
• reviews personal development and succession planning</td></tr>
</table>

Pension funding

<table>
<tr><td colspan="2">Risk
Filtrona is exposed to funding risks in relation to the defined benefits pension schemes and other post retirement benefit plans which it operates. The funding of the liabilities associated with those pension arrangements is dependent to a large extent on the performance of stock markets which are subject to volatility. Certain of the pension arrangements are currently under funded as determined by the latest actuarial valuations.</td></tr>
<tr><td>Impact
Subject to the accuracy of actuarial assumptions and the performance of stock markets, Filtrona could be exposed to:
• additional liabilities
• additional contributions to eliminate any pension funding deficits
• deterioration in financial condition
• reputational damage</td><td>Mitigation
Filtrona seeks to manage its pension funding risk by:
• maintaining regular communication with the trustees of the various pension schemes to ensure they are aware of the Company's financial position
• reviewing the benefits payable under the pension arrangements and proposing changes designed to manage future liabilities
• securing the active management of pension scheme assets and liabilities with external expert advice.</td></tr>
</table>