ESSENTRA

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ESSENTRA

Annual Report 2016

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Cautionary forward-looking statement
This Annual 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 by the forward-looking statement. Each forward-looking statement speaks only as of the date of this Report. The Company accepts no obligations to revise or update publicly 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.

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BASIS OF PREPARATION

FY 2016 results at a glance:

	FY 2016 £m	FY 2015 £m	% change Actual FX	% change Constant FX
Revenue – total	1,104	1,098	+1	-8
Revenue – continuing	*999*	*1,007*	*-1*	*-9*
Adjusted operating profit – total	132	172	-23	-29
Adjusted operating profit – continuing	*109*	*153*	*-29*	*-35*
Adjusted pre-tax profit – total	119	161	-26	-32
Adjusted net income – total	96	124	-23	-31
Adjusted basic earnings per share – total	36.3p	47.6p	-24	-31
Adjusted basic earnings per share – continuing	*29.2p*	*42.1p*	*-31*	*-37*
Dividend per share	20.7p	20.7p	–	
Reported operating (loss) / profit – continuing	(50)	84		
Reported pre-tax (loss) / profit – continuing	(63)	74		
Reported net (loss) / income – total	(40)	69		
Reported basic (loss) / earnings per share – total	(15.4)p	26.2p		

The financial information in this FY 2016 Annual Report is prepared in accordance with IFRS as adopted by the European Union and IFRS as issued by the International Accounting Standards Board, and with the accounting policies set out on pages 93 to 99.

Basis of preparation

Non-GAAP measures
Throughout this FY 2016 Annual Report, the following terms are used to describe Essentra's financial performance.

Constant exchange rates
Movements in exchange rates relative to sterling affect actual results as reported. The constant exchange rate basis adjusts the comparative to exclude such movements, to show the underlying performance of the Company.

For the principal exchange rates for Essentra for the year ended 31 December 2016 ("FY 2016"), see the table below. Re-translating at FY 2016 average exchange rates increases the prior year revenue and adjusted operating profit by £98.7m and £15.0m respectively.

Principal exchange rates	US$:£	€:£
Average		
FY 2016	1.36	1.23
FY 2015	1.53	1.37
Closing		
FY 2016	1.24	1.17
FY 2015	1.47	1.36

Like-for-like basis
The term "like-for-like" describes the performance of the business on a comparable basis, excluding the impact of acquisitions, disposals and foreign exchange. The FY 2016 results are adjusted for Clondalkin Specialist Packaging Division ("Clondalkin SPD", acquired on 30 January 2015), and are therefore based on the eleven months from 31 January to 31 December 2016.

Adjusted basis
The term "adjusted" excludes the impact of intangible amortisation and exceptional operating items, less any associated tax relief. In FY 2016, intangible amortisation was £32.9m (FY 2015: £31.7m), and there was an exceptional pre-tax charge of £133.7m (FY 2015: £39.1m); of this charge, £123.9m was the impairment in carrying value of the Health & Personal Care Packaging business, with the balance of £9.8m relating to the integration and restructuring costs arising from the afore mentioned acquisition, together with costs associated with the divestment of Porous Technologies and other site footprint consolidation.

Constant exchange, like-for-like 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 14.

Reconciliation of GAAP to non-GAAP measures
The following tables are presented by way of reconciling the metrics which management uses to evaluate the Essentra Group to GAAP measures.

Summary growth in revenue by Strategic Business Unit ("SBU")

% growth	Like-for-like	Acquisitions / disposals	Foreign exchange	Total reported*
Component Solutions	-3	–	+9	+6
Component Solutions ex-PPT **	*-1*	–	+9	+8
Health & Personal Care Packaging	-9	+4	+7	+2
Filtration Products	-14	–	+9	-5
Total Company	**-9**	**+2**	**+8**	**+1**

* From continuing and discontinuing operations
** Pipe Protection Technologies

Net income

£m	FY 2016	FY 2015
Adjusted net income	**95.5**	**124.4**
Intangible amortisation	(32.9)	(31.7)
Exceptional operating items	(133.7)	(39.1)
Exceptional tax items	–	1.7
Tax on adjustments	31.5	13.4
(Loss) / profit after tax	**(39.6)**	**68.7**

Cash flow

	FY 2016	FY 2015
Operating profit – adjusted	**131.9**	**171.5**
Depreciation	34.8	31.9
Share option expense / other movements	(3.4)	2.8
Change in working capital	1.7	(52.8)
Net capital expenditure	(38.3)	(54.8)
Operating cash flow – adjusted	**126.7**	**98.6**
Tax	(17.4)	(15.7)
Cash spent on exceptional items	(10.6)	(22.1)
Pension obligations	0.8	(5.1)
Other	15.2	0.1
Add back: net capital expenditure	38.3	54.8
Net cash inflow from operating activities	**153.0**	**110.6**
Operating cash flow – adjusted	**126.7**	**98.6**
Tax	(17.4)	(15.7)
Net interest paid	(11.3)	(9.4)
Pension obligations	0.8	(5.1)
Free cash flow – adjusted	**98.8**	**68.4**

Continuing operations

Unless otherwise stated, the FY 2016 results and narrative contained in this Annual Report reflect the total revenue and the total adjusted operating profit of the Essentra Group, which are analysed as continuing and discontinuing operations in Note 23 on page 131.

SBU performance

The revenue and adjusted operating profit for each SBU is stated before the elimination of intersegment revenue and the cost of central services, as reconciled to the reported results set out in Note 1 on pages 102–103.

ESSENTRA AT A GLANCE

With effect from 1 January 2016, Essentra evolved its reporting structure from four to three SBUs, with a view to providing even greater focus to the organisation.

The Health & Personal Care Packaging SBU groups Essentra's pharmaceutical, health & personal care and consumer goods packaging activities with Speciality Tapes, which shares many common features in terms of manufacturing process and footprint.

The activities of the Component Solutions SBU – being Components, Pipe Protection Technologies, Extrusion and Security – each serve customers in light and heavy industry.

The Filtration Products SBU, which comprises the Filter Products and Porous Technologies activities, share many common raw material and production processes.

Health & Personal Care Packaging

A leading global provider of packaging and authentication solutions to a diversified blue-chip customer base in the pharmaceutical, health & personal care, consumer and specialist packaging sectors. The business focuses on delivering value-adding innovation, quality and service through the provision of a wide range of printed products and solutions, including cartons, pressure-sensitive tapes, leaflets, foils, labels and authentication technologies.

In addition, the business is a leading manufacturer and distributor of adhesive-coated tape products for a wide range of industries and applications, in particular the point of purchase and white goods sectors.

Supported by an in-house design studio and multi-million pound print facilities, the business is positioned to deliver the very best in quality, service and reliability through its worldwide manufacturing and sales structure.

2016 summary

> Revenue decline owing to integration challenges at certain Clondalkin SPD facilities in the US and UK, and pruning of less profitable business

> Weakness in tobacco tear tape, owing to despecification of value-added features

> Further commercialisation of innovative new packaging and authentication solutions

> Launch of the Design Hub in the UK, combining structural and creative packaging design with the technical expertise of Essentra's product development

> Completion of the acquisition of the pharmaceutical assets of Kamsri Printing & Packaging Pvt. Ltd. in India

Component Solutions

The Components business is a global, market-leading manufacturer and distributor of plastic injection moulded, vinyl dip moulded and metal items. Operating units in 29 countries serve a very broad industrial base of customers with a rapid supply of products for a variety of applications in sectors such as equipment manufacturing, automotive, fabrication, electronics and construction.

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 a range of industries.

One of Europe's most advanced suppliers of co-extrusion and tri-extrusion to all branches of industry, Essentra is a leading custom profile extruder located in the Netherlands, which offers a complete design and production service.

The Security business has access to a wide portfolio of products and services, including printers, software and consumables from leading manufacturers.

2016 summary

> Components growth in Continental Europe and Asia offset by softness in the UK and US

> Increase in access solutions hardware, boosted by new product platforms

> Incremental revenue opportunities in custom injection moulding

> Continued decline in Pipe Protection Technologies, owing to challenges in the oil & gas sector

> Excellent growth in Extrusion, supported by new business wins for complex, technical profiles

Filtration Products

The Filter Products business is the only global independent cigarette filter supplier. The nine worldwide locations, including a dedicated Technology Centre supported by three regional development facilities, provide a flexible infrastructure strategically positioned to serve the tobacco industry. The business supplies a wide range of value-adding high-quality innovative filters, packaging solutions to the roll your own segment, fully-functional and packaged smokeless products and analytical laboratory services for ingredient measurement to the industry.

The Porous Technologies business is a leading developer and manufacturer of innovative custom fluid-handing components used in a variety of end-markets, engineered from a portfolio of technologies that includes bonded and non-woven fibre, polyurethane foam and porous plastics.

2016 summary

- Revenue decline in Filter Products owing to a number of short-term challenges, in particular the maturing of a certain sizeable contract in Europe
- Commercialisation of new special filters, notably smaller diameter, capsule and tube variants
- Efficiency benefits from reconfiguration of site footprint and investment in high-speed, flexible combining equipment
- Growth in Porous Technologies led by healthcare, and supported by speciality wipes, household and writing instruments
- Disposal of Porous Technologies to Filtration Group on track for completion in Q1 2017

Financial summary by SBU

Health & Personal Care Packaging

Revenue
2016: £430.2m 2015: £422.6m +1.8%

Operating profit[1]
2016: £34.5m 2015: £57.5m -40.0%

Further details
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Component Solutions

Revenue
2016: £302.6m 2015: £285.9m +5.8%

Operating profit[1]
2016: £54.4m 2015: £58.1m -6.4%

Further details
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Filtration Products

Revenue
2016: £374.4m 2015: £394.2m -5.0%

Operating profit[1]
2016: £59.0m 2015: £72.1m -18.2%

Further details
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[1] Excluding intangible amortisation and exceptional operating items

WHAT WE DO

Our business model

At a Company level the priority and responsibilty is managing the overall portfolio of business activities, to create sustainable long-term value for shareholders. Essentra has established processes and practices in place to ensure effective and efficient management across all of the categories which the Company serves.

Clear portfolio management

We have a defined model for managing our portfolio of business activities

Strategic framework
Essentra's business and financial objectives call for balanced, profitable growth. Each of the businesses is responsible for contributing to Essentra's overall strategic priorities, to ensure the Company's ongoing success and, hence, the creation of sustainable long-term shareholder value.

Risk management
Effective management of risk and opportunity is essential to the protection of Essentra's reputation and the achievement of sustainable shareholder value. The Board of Directors is responsible for determining the risk attitude of the Company and for communicating to the organisation what constitutes acceptable risk-taking. The Board, supported by the Audit Committee, also oversees the management process for the identification, assessment and mitigation of risk across Essentra.

Talent management
Essentra's employees are a vital resource in the pursuit of operational excellence and provision of quality products and service. The skills and experience of Essentra's employees drive the innovation which enables the Company to provide added value to its customers, enhance supply chain logistics with its suppliers and reduce the environmental impact of its operations. The Company regularly reviews its organisational structure to ensure that the business has the necessary personnel to deliver its strategic priorities.

Legal requirements and compliance
Essentra is committed to ensuring that all of its activities are conducted in accordance with all applicable legal and regulatory requirements and the highest standards of ethical business conduct. The Company's Code of Business Ethics policy aims to guide stakeholders, including employees, on the elements that drive the conduct of Essentra businesses. The way in which Essentra does business reflects its commitment to profitable growth, sustainable development and integrity, and the Company's policies continue to promote fair and ethical dealings with customers and competitors as a matter of law and conscience.

Shared business priorities

Leverage our scale
We have a well-invested and flexible international sourcing, supply chain and production infrastructure. This enables businesses across the Company the opportunity to use our existing infrastructure and management to exploit new opportunities efficiently and cost-effectively. Our international distribution network ensures the delivery of cost-competitive and high-quality products in response to customers' requirements. High levels of service and broad geographic reach are an important competitive differentiator.

Operate efficiently
We have a comprehensive international production and distribution footprint, which can be flexed to respond to customers' needs, whether they be product, service, cost or supply chain driven. We are focused on being a low-cost producer, to secure revenue growth at attractive margins, and continuous improvement programmes serve to reduce conversion costs.

Invest in new product innovation
The continued successful launch and commercialisation of new products and services is a key driver of our future growth. Investment in research and development functions, supported by the identification of additional product sourcing opportunities to deliver product innovation and range development, provides the platform to further enhance our competitive positions. Quality systems maintained to internationally accredited standards assist the fulfilment of customers' demands.

Benefit from our experienced management team and talent base
We have a highly experienced and well-regarded management team and employee base. Their insight into customer needs and market trends allows us to respond proactively to changing priorities and to drive performance. Technical expertise is reflected in production and supply chain efficiencies and product innovation.

Develop long-term customer relationships
We develop and maintain a close relationship with a wide portfolio of blue-chip customers, who are successful leaders in their respective markets. The high standards of service and supply demanded by such customers help to drive continuous improvement across the Company. Our manufacturing and distribution expertise adds value in response to customer demands, and our innovative capabilities drive the joint development of new products and services with key strategic partners.

Delivering value

Building on our leading international market positions
We have secured leading international positions in many of our served markets in each of our businesses. With our investment in international infrastructure, technology, innovation and people, the strength of our businesses within their respective markets enables us to deliver balanced, profitable growth.

FULL YEAR 2016 REVIEW

FY 2016 was a challenging year for Essentra, during which progress in a number of respects was overshadowed by certain material commercial and operational issues, in particular relating to the integration of a handful of – but significant revenue-generating – Clondalkin SPD sites in Health & Personal Care Packaging.

However, with a double-digit adjusted operating margin and solid free cash flow generation, Essentra remains a fundamentally strong company. And under new Chief Executive, Paul Forman, 2017 will be a year of stabilising the organisation, with a view to formulating and implementing a new corporate strategy under which sustainable, medium-term growth is restored and which maximises the potential of the many good businesses which Essentra has.

Financial performance

In FY 2016 like-for-like revenue for the total Group declined 9.1%, owing to challenges in a number of activities – but most notably in Health & Personal Care Packaging and Filter Products, with substantial integration issues and tobacco tear tape weakness weighing on the former and certain short-term issues on the latter. However, with a significantly positive foreign exchange translation benefit, together with a modest gain from change in scope owing to an additional month's revenue from Clondalkin SPD in FY 2016, total Group revenue increased 0.5% to £1,103.7m.

On an adjusted basis, operating profit was down 29.3% (at constant exchange) at £131.9m. The 370bps reduction in the margin (at constant exchange) to 12.0% was largely driven by the afore mentioned issues, notably the profit drop-through from lower revenue – as well as operational challenges and double-running site costs – in Health & Personal Care Packaging. There was a c. £2m increase in our financing costs resulting from a higher average net debt position during the year: as a result, and notwithstanding a further 280bps improvement in the tax rate to 20.0%, adjusted earnings per share (at constant exchange) decreased by 31.2% to 36.3p.

In light of the imminent divestment of our Porous Technologies business in Q1 2017 (of which more below), the FY 2016 results for the Essentra Group are split into "continuing" and "discontinuing" operations in Note 23 to the Financial Statements on page 131.

Taking into account intangible amortisation of £32.9m and an exceptional pre-tax charge of £133.7m – mainly relating to the impairment in carrying value of the Health & Personal Care Packaging business in light of the afore mentioned challenges – we reported an operating loss of £(34.7)m (FY 2015: operating profit of £100.7m) and the loss per share was (15.4)p (FY 2015: earnings per share of 26.2p).

During the year, there was further investment in our footprint and equipment, with FY 2016 net capital expenditure of £38.3m – albeit some £16.5m below FY 2015, which saw significant acquisition-related spend further to the Clondalkin SPD transaction. Following a weaker result in HY 2016, second-half progress in net working capital management supported an improvement in overall cash conversion, with a FY 2016 outturn of 96.1%. As such, our financial ratios remain robust, with net debt to EBITDA of 2.3x and interest cover of 11.0x as at 31 December 2016: these metrics will improve further with the anticipated divestment of the Porous Technologies business, with expected net proceeds in the region of £185-190m (taking into account tax leakage, and costs pertaining to the divestment / necessary reorganisation of the Company) being used to repay existing debt facilities. As a result, the Board is recommending a final dividend of 14.4p per share – implying a FY 2016 dividend of 20.7p per share, unchanged versus FY 2015.

Further to the announcement in October 2015 that we had signed an agreement to acquire the pharmaceutical packaging assets of Kamsri Printing & Packaging Pvt. Ltd. ("Kamsri") in India, the transaction completed in January 2016 as anticipated. Having transferred the equipment to Essentra's multi-capability manufacturing site in Bangalore, a second carton line was installed to help support growth in this attractive market and which additional capacity has facilitated new business wins with domestic customers.

Separately, in August, we announced the disposal of the Porous Technologies business for a gross transaction value of £220m to Filtration Group, an affiliate of Madison Industries. As a leading developer and manufacturer of custom vapour, and fluid-handling components, Porous Technologies is well-known for its ability to leverage its technical expertise in collaboration with its customers, to provide them with innovative, high-quality, reliable solutions. However, as Essentra continues to evolve, the positive characteristics of its Porous Technologies activities were considered to fit less well with the Company's overall portfolio. As such, the transaction not only generates value for Essentra's shareholders, but also provides our Porous Technologies business with a strong platform for future successful development under the strategic ownership of Filtration Group. The disposal is expected to result in a significant exceptional gain in FY 2017.

Operational performance

In 2016, we continued to rationalise our site footprint, through continuing to adopt a more Company-wide approach to our manufacturing and distribution capabilities. In China, we consolidated our Components activities at our facility in Ningbo and closed the operation in Xiamen, while in Hungary the transfer of filter manufacturing, product development and innovation activities from Jarrow, UK was completed. In addition, further efficiency and financial savings arose from the relocation of writing instrument nib production from South Korea to our manufacturing facility in Indonesia in the prior year period, which helped to support growth from a more competitive cost base during 2016.

However, the complex site integration programme relating to the Clondalkin SPD transaction – which entailed the consolidation of nine of the 24 sites acquired – proved to be overly ambitious in terms of both scope and timeline, resulting in material operational and commercial challenges at the three largest facilities in the US and the UK in 2016. In each case, the "receiving" site struggled to cope with the additional volume of business, with a consequent detrimental impact on manufacturing efficiency and customer service: these issues were exacerbated by the expeditious closing of the "sending" facilities, such that we were without alternative production options within the Essentra footprint to provide any respite. In addition to the consequent revenue and profit implications of dissatisfied customers moving certain volumes elsewhere, we additionally delayed the integration of two of the four Clondalkin SPD sites in the UK into Newport, which resulted in double-running costs versus our ingoing expectations. With performance continuing to significantly deteriorate into year-end, these facilities in the US and UK are the focus of short-term, remedial action in order to stabilise their respective performance, led by Paul Forman and the relevant senior management team – together with external expertise where appropriate.

Talent

At all levels, our employees are a vital resource in the Company's pursuit of operational excellence and the provision of quality products and services to our customers.

Indeed, as an international organisation, it is important that we attract an appropriate level of local talent and enhance mobility through increasing cross-divisional moves. In this respect, we made progress during the year, both in terms of developing our existing employees as well as adding to our talent base from outside the Company. Notably, notwithstanding the afore mentioned challenges at certain Health & Personal Care Packaging facilities, we successfully reinforced our Operations team in the US and recruited a new General Manager at Newport, whose collective experience will be critical in our efforts to stabilise these sites.

In addition – and as part of the revision to the complex Group organisation structure announced post year-end – a new Managing Director of Health & Personal Care Packaging, Europe was appointed, who will join the company on 1 March 2017.

Having introduced assessment-based Leadership Development Centres in 2014, a total of 98 colleagues across all geographical regions have now attended the two key development programmes globally. Further initiatives were also introduced during the year, including a high-potential coaching programme to support critical talent in their development and transition to new challenges; a new performance appraisal process (including pre-implementation global training for managers); and a revised selection process, entailing better use of data insights to help improve hiring decisions, effectiveness and transition as well as reduce associated costs. Finally, we concluded a global grading structure, based on the key characteristics, competencies and accountability of roles across the organisation. Having such a framework in place for the first time, this global alignment will improve our ability to manage career development and succession planning across the Company, and result in a more flexible structure which is better able to recruit and retain talent.

The Essentra Graduate Development Programme enjoyed further success in 2016. The two-year graduate programme has provided a talent pipeline for a number of years and, in 2016, 19 people joined the scheme, which continues to expand its international reach. The 2016 intake will join the 19 graduates recruited in 2015, and will have the opportunity to develop their management skills through bespoke training which takes place around Essentra's sites, giving graduates exposure to the business while carrying out an operational role from day one. Separately, in January 2017, the 2014 graduate intake completed their programme, with a number of successful presentations hosted in Milton Keynes, UK. Representatives from senior management were invited to watch the graduate teams drawn from across functions and geographies present on topics focusing on Project & Performance Management, Talent Management of Essentra Graduates and Challenges Facing Large Organisations during Periods of Acquisition.

While the Board and the Group Management Committee ("GMC") remains committed to ensuring that Essentra is a great place to work, it is clear that a year of challenge and change has had a negative impact on employee motivation and morale – particularly at those sites where integration issues have arisen. This manifested itself in a number of the responses to our third engagement survey, which was launched during the year and further to which action plans are already being developed and implemented. Indeed, with the stated commitment of creating a safe, respectful and diverse workplace, Paul Forman is focused on improving employee engagement under his stewardship.

Accordingly, with additional communications already having taken place since his joining the business on 1 January 2017 – together with close monitoring and review of the afore mentioned action plans – a further engagement survey will be undertaken in the second half of 2017, to gauge progress in this respect and to ensure that we are maximising the considerable talent we have as a Company.

Leveraging Group capabilities

Over the last few years, we have communicated our efforts to operate in a more co-ordinated fashion across the Essentra Group and to better leverage our scale benefits. During 2016, there were further examples of improvement in this respect.

First, we appointed a new Group Procurement Director, who has already completed a full review of the projects, processes and people under his remit. This has resulted in a reorganisation of the Procurement group into a small centralised team which covers all businesses and geographies, with a transition from tactical / localised purchasing to strategic category management of major spend items across both direct materials and indirect costs.

In 2017, the main areas of focus for the team will be the roll-out of a global Procurement policy, category management and sourcing, and purchase-to-pay and supplier performance management, which will entail long-term partnering agreements with key suppliers and KPI-based performance measurement with regular reviews. Clear financial targets – with accountability and measurements – have already been set, together with a programme to standardise payment terms, with progress anticipated going forward.

Second, we have further aligned our general IT procedures and processes, with progress also being made in terms of addressing the growing risks which all companies face in the cyber security domain.

In respect of the former, projects included the investment in a more agile and consistent IT helpdesk service for the Essentra Group, together with more unified, real-time communications capabilities and the initial roll-out in the Americas of a global Human Resources-related platform (to help streamline payroll, time and attendance metrics etc, and improve transparency across the organisation). At the same time, further progress was made during the year with regard to simplifying the estate of legacy hardware infrastructure into fewer, larger centres of excellence, which are more resilient and cost-effective. In addition, the team continues to support the roll-out of a Quality Management System which, while initially focused on Health & Personal Care Packaging, will ultimately take effect across the entire Essentra Group.

And in respect of the latter, further investment in both capability and awareness were undertaken in 2016, including leading technology solutions to improve threat detection and intrusion prevention, as well as improving training to enhance the Company's response capabilities.

Health and safety ("HSE")

Essentra's overriding concern in the workplace continues to be the health, safety and welfare of all its employees and those who visit the Company's locations, as well as those who carry out work on our behalf.

As reported in the 2015 Annual Report, the annual Safety, Health, Environment & Quality Awards programme was expanded during 2016. This initiative has the objective of recognising employees and facilities that have achieved – or are progressing towards – excellence in HSE performance, including the development, sustainment and continuous improvement of a positive and supportive culture.

The five categories awarded during the year were as follows:

> Certificate of Operational Safety Performance: to the four sites which achieved zero lost-time accidents, an Essentra Safety and Health Management System Level 3 rating and OHSAS 18001 certification

> Health & Safety Best Practice Project and Improvement: our Components site in Kidlington, for developing a best practice approach to Control of Substances Hazardous to Health assessments

> Environmental & Social Responsibility: our Bangkok facility, for a number of energy efficiency initiatives and their support of a local school through HSE awareness training programmes and safety standards improvements

> Quality Best Practice & Improvement: our Dubai joint venture operation, for the development of an improved machine gear box, that reduced downtime and improved quality due to reduced part failures

> Safety, Health, Environment & Quality Champion: Mr Joe Grundza of our Charlotte Health & Personal Care Packaging site, for his significant efforts in promoting safety awareness among fellow colleagues and contractors during a time of extensive machine changes

During the year, an Essentra-wide "back to basics" initiative was launched, to ensure that the foundations are in place from which to build further HSE improvements. Indeed, while the regional leadership structure continues to help drive further close alignment of HSE with their respective Operations teams and site General Managers, nonetheless the number of lost-time accidents has plateaued following the downward trend evident in the prior year period. Based on analysis of the data from the initiative, a revised strategy will be launched in 2017 with a particular focus on those risk areas which contribute to lost-time accidents;

namely, ergonomics / manual handling, machine safety standards and culture. With the global legislative backdrop continuing to change apace – the Board and GMC are committed to ensuring that HSE remains at the forefront of the Company's agenda, so that we make continuous improvement, benefit from local expertise and share best practice around the organisation in this critical area.

Our responsibilities

Essentra is committed to the highest standards of corporate governance and responsibility, to ensure that the way in which we manage our activities reflects the expectations of all the Company's stakeholders. As a member of both the FTSE4Good Index and the Carbon Trust, we recognise that our interaction with the environment and local communities is a critical component of the international reputation and quality of Essentra's businesses, as well as a cornerstone of developing a responsible, progressive and winning culture.

All our principal manufacturing facilities hold the ISO 14001 environmental accreditation and, with the exception of recently acquired sites (which, as per Essentra policy, have a period of 24 months to reach the required standard), they have also achieved the Occupational Health & Safety Management Systems OHSAS 18001. During the year, a number of our other sites – including Brazil and Turkey in Components, and the Malaysia and Thailand seals operations – also achieved these certifications, although certain principal Clondalkin SPD sites have still to attain the necessary standards and there is a significant focus on so doing as soon as possible.

Attaining a Group-wide ISO 50001 energy management standard – and aligning the varied certifications in operation across the organisation – remains our objective. While our target of end-2016 was not achieved, nonetheless, we anticipate making further material progress towards this goal during 2017.

Summary

In light of our previously stated objectives, FY 2016 was clearly disappointing – with a number of unscheduled trading updates highlighting certain commercial and operational challenges materially impacting the Company versus ingoing expectations. However, the fundamental dynamics of Essentra's various end-markets are essentially unchanged (if not, slightly more positive), such that the issues evident in FY 2016 are considered to be largely self-inflicted – and, thus, capable of being addressed. While Paul Forman's immediate focus is on stabilising the organisation in light of the issues evident in 2016, the work which he has already initiated in terms of articulating a sustainable, data-driven corporate strategy will put the various activities which comprise the Essentra Group back on a more stable and sustainable footing, from which medium-term growth can be restored behind a talented and engaged workforce.

STRATEGY AND PROGRESS

Our vision
To build a leading global provider of essential components and solutions.

Our objective
To create sustainable long-term value for our shareholders.

Our strategic priorities
> Integration: Operate a global, integrated Essentra Group generating synergy across all regions, functions and business activities
> Relevance: Increase relevance to customers and market penetration
> Active management: Actively manage and upgrade the Group portfolio
> Excellence: Drive operational excellence
> High performance: Build a high-performing, diverse and global talent base

Our financial priorities
> Deliver balanced, profitable growth in both our existing and future opportunity markets and technologies
> Re-invest in the business for future growth
> Focus on strong translation of profit into cash
> Return cash to shareholders in the form of a progressive dividend

Our responsibilities
> Manage our activities to reflect the high expectations of all our stakeholders
> Establish safe operational procedures, and manage our impact on the environment
> Attract and develop motivated and highly skilled employees
> Conduct our business to the highest ethical standards

How we will achieve it

Integration
As Essentra becomes larger, it is imperative that we continue to evolve in order to maximise the opportunities available to the overall Group so as to outperform our underlying markets on a consistent basis. The implementation of our category-focused model and Key Account Management under a single Essentra brand, together with sharing facilities and back office functions (such as Human Resources, Finance and IT), allow us to leverage our size, scale, infrastructure and talent to better exploit available growth opportunities.

Relevance
To drive future revenue growth, we continually seek to increase our relevance to customers and the penetration of our targeted end-markets. In order to add value, we aim to leverage the collective capabilities of the Company in terms of our intellectual property, business know-how and commercial footprint, and accordingly invest in innovation and technical and / or process capabilities. Range expansion and moving into adjacent technologies also provide us with growth opportunities.

Active management
Essentra's aim is to build a market-leading portfolio of strongly performing essential components businesses focused on attractive existing and adjacent end-markets by leveraging our key capabilities. Not only does this entail complementing our balanced, profitable organic growth with value-adding acquisitions, it also involves improving or exiting businesses which do not meet our criteria for strategic and / or financial attractiveness.

Excellence
Continued investment in fewer, bigger and better facilities, combined with footprint rationalisation and co-location of our business activities, allows us to better support revenue growth opportunities as well as realise efficiency savings.

High performance
At all levels, our employees are a vital resource in the Company's pursuit of operational excellence and the provision of quality products and service to our customers. As an international organisation, it is critical that we operate a world-class global talent management process and create a high-performance culture. Accordingly, we seek to attract, retain and develop an appropriate level of local talent and enhance mobility through increasing cross-business moves.

Strategy review

Further to his appointment, Paul Forman, Chief Executive, has already implemented a comprehensive review of the Group, and will present a clearly defined, revised corporate strategy at the time of Essentra's HY 2017 results at end-July.

Strategic objectives	Progress in 2016	Priorities in 2017
Integration	> Continued to roll out Key Account Management principles > Further harmonised IT platforms, policies and controls	> Short-term focus and remedial action at challenged Clondalkin SPD sites
Relevance	> Converted manufacturing know-how and intellectual property into new product introduction across SBUs > Identified and developed cross-selling opportunities between business activities > Continued range expansion and product platform introduction	> Improve market and customer-sensing capabilities, to better respond to evolving trends and needs > Develop and initiate programmes to win back disaffected customers and normalise relations with others
Active management	> Completed the acquisition of Kamsri and transferred the assets to the site in Bangalore > Announced the divestment of Porous Technologies to Filtration Group	> Complete disposal of Porous Technologies business in Q1 2017 > Develop a clear corporate strategy aligned to a three-year plan
Excellence	> Significant integration of facilities, particularly in Health & Personal Care Packaging > Completed Filter Products transfer from the UK to Hungary > Further leveraged site footprint > Continued investment in adding / upgrading equipment	> Stabilise existing footprint > Resolve key operational issues, to bring underperforming sites to market acceptable service standards > Review and further improve HSE standards > Introduce / enhance key business processes > Potential measured, targeted investment in process and capability to support future growth
High performance	> Increased participation in Leadership Development Centres > Finalised global grading structure, to align organisational capabilities > Extended geographic reach of the Graduate Development Programme > Developed action plans in response to employee engagement survey	> Continue to grow and develop talent across Essentra > Attract appropriate level of talent for a global business > Review matrix organisation structure, to ensure clear lines of responsibility and accountability > Improve employee morale through developing a more inclusive and engaging culture > Continue to widen the geographic reach of the Leadership Development Centres and Graduate Development Programme > Undertake fourth Group-wide employee engagement survey > Focus on key business capabilities and progress towards best-in-class levels, to support new corporate strategy

The delivery of Essentra's strategic priorities is underpinned by focusing on key performance indicators which measure the Company's progress in the delivery of shareholder value, and which are unchanged versus the prior year period.

A number of these indicators have also been used as principal elements in assessing the short-term and long-term performance of the operating businesses.

The key performance indicators for FY 2016 are based on the performance of the total Essentra Group, which is analysed as continuing and discontinuing operations in Note 23 on page 131.

◇ Performance measures for the Executive Annual Bonus Plan

O Performance measures for the Executive Long-Term Incentive Plan

What we measure	Why we measure it	How did we do?
Like-for-like revenue growth[1] ◇	Measures the ability of the Company to grow sales by operating in selected geographies and categories, and offering differentiated, cost-competitive products and services	**-9** Like-for-like revenue growth (%) (2015: 1%)
Adjusted operating margin[2] ◇ Adjusted operating profit[2] as a % of revenue	Measures the profitability of the Company	**12.0** Adjusted operating margin (%) (2015: 15.6%)
Adjusted earnings per share[2] O	Measures the benefits generated for shareholders from the Company's overall performance	**36.3** Adjusted earnings per share (p) (2015: 47.6p)
Net working capital ratio ◇ Defined as inventories plus trade and other receivables less trade and other payables, adjusted to exclude deferred consideration receivable / payable, interest accruals / capital payables and other normalising items, as a % of revenue	Measures the ability of the Company to finance its expansion and release cash from working capital	**14.5** Net working capital ratio (%) (2015: 12.5%)
Cash conversion Adjusted operating cash flow as a % of adjusted operating profit	Measures how the Company converts its profit into cash	**96** Adjusted cash conversion (%) (2015: 57%)
Dividend per share	Measures the amount of cash per share which the Company returns to shareholders	**20.7** Dividend per share (p) (2015: 20.7p)
Total shareholder return O Total annual increase in value, based on the increase in share price and the dividend paid to shareholders	Measures the Company's ability to generate long-term value	**-42.6** Total shareholder return (%) (2015: 15.5%)

[1] At constant exchange rates, excluding acquisitions and disposals
[2] At constant exchange rates, excluding the impact of intangible amortisation and exceptional operating items

FINANCIAL REVIEW

Trading performance
FY 2016 revenue increased 0.5% (decreased 7.8% at constant exchange) to £1,103.7m, with a like-for-like decline of 9.1%. While the result was supported by continued product innovation, new business wins and investment in both existing and new geographical markets, this was more than offset by a continued, significant deterioration in Health & Personal Care Packaging and short-term challenges in the Filter Products business.

On an adjusted basis, operating profit was down 23.1% (-29.3% at constant exchange) at £131.9m. The 360bps reduction in the margin (-370bps at constant exchange) to 12.0% largely resulted from the afore mentioned issues, notably the profit drop-through from lower revenue – as well as operational challenges and double-running costs – in Health & Personal Care Packaging.

Including intangible amortisation of £32.9m and an exceptional pre-tax charge of £133.7m – mainly relating to the impairment in carrying value of the Health & Personal Care Packaging business – the operating loss as reported was £(34.7)m (FY 2015: operating profit of £100.7m).

Net finance expense
Net finance expense was higher at £12.5m (2015: £10.3m). The net interest charge on net debt increased to £11.6m (2015: £9.4m), the amortisation of bank facility fees was unchanged at £0.7m (2015: £0.7m) and there was an IAS 19 pension net finance charge of £0.2m (2015: £0.2m).

Tax
The effective tax rate on profit before exceptional items and tax was 20.0% (2015: 22.8%). A significant driver of the movement was a reduction in the Group's weighted average applicable tax rate from changes in the underlying geographical balance of profits and corporate tax rates in those territories.

Net income
On an adjusted basis, net income of £95.5m was down 23.2% (-30.8% at constant exchange) and earnings per share declined by 23.7% (31.2% at constant exchange) to 36.3p. On a reported basis, the net loss of £(39.6)m and the loss per share was (15.4)p compared to net income of £68.7m and earnings per share of 26.2p in FY 2015.

Dividends
The Board of Directors recommends a final dividend of 14.4 pence per share (2015: 14.4 pence), taking the FY 2016 dividend to 20.7 pence per share (unchanged versus FY 2015).

Net working capital
Net working capital is defined as "inventories plus trade and other receivables less trade and other payables, adjusted to exclude deferred consideration receivable / payable, interest accruals / capital payables and other normalising items."

Net working capital of £159.6m was £22.4m higher than the 31 December 2015 level of £137.2m, largely due to foreign exchange. The net working capital / revenue ratio increased to 14.5% (2015: 13.7%, at constant exchange).

Cash flow
Adjusted operating cash flow was higher, at £126.7m (2015: £98.6m). This included an inflow of net working capital for the year of £1.7m (2015: outflow of £52.8m) and gross capital expenditure of £42.8m (2015: £58.6m), with net capital expenditure at £38.3m (2015: £54.8m). Net capital expenditure equated to 110% (2015: 172%) of the depreciation charge (including amortisation of non-acquired intangible assets) for the year of £34.8m (2015: £31.9m). Net interest paid was £11.3m (2015: £9.4m) and tax payments increased by £1.7m to £17.4m (2015: £15.7m). The inflow in respect of pension obligations was £0.8m (2015: outflow of £5.1m).

Free cash flow of £98.8m compared to £68.4m in FY 2015.

Free cash flow reconciliation	**(£m)**
Adjusted operating profit	**131.9**
Non-cash / other items	**31.4**
Net working capital	**1.7**
Net capital expenditure	**(38.3)**
Adjusted operating cash flow	**126.7**
Tax paid	**(17.4)**
Net interest paid	**(11.3)**
Pension contributions	**0.8**
Free cash flow	**98.8**

Net debt

Net debt at the end of the period was £379.3m (31 December 2015: £373.9m), reflecting improved second-half cash conversion.

The Company's financial ratios remain robust. The ratio of net debt to EBITDA as at 31 December 2016 was 2.3x (31 December 2015: 1.8x) and interest cover was 11.0x (31 December 2015: 17.7x).

Balance sheet

As at the end of 2016, the Company had shareholders' funds attributable to Essentra equity holders of £595.4m (2015: £609.5m), a decrease of 2.3%. Net debt was £379.3m (2015: £373.9m) and total capital employed in the business was £982.0m (2015: £989.1m).

This finances non-current assets of £971.6m (2015: £1,009.7m), of which £321.1m (2015: £288.8m) 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 £159.6m (2015: £137.2m), current provisions of £1.3m (2015: £8.0m) and long-term liabilities other than borrowings of £116.2m (2015: £120.5m). The return on average invested capital (including intangibles) was 7.8% (2015: 13.0%), owing to lower adjusted operating profit.

Pensions

As at 31 December 2016, the Company's IAS 19 pension liability was £23.4m (2015: £0.8m).

Treasury policies and controls

Essentra has a centralised treasury function to control external borrowing and manage exchange 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.

Treasury activities are subject to 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 and suitable credit rating. Essentra monitors the credit ratings of its counterparties and credit exposure to each counterparty.

Foreign exchange risk

The majority of Essentra's net assets are in currencies other than sterling. The Company's normal policy is to limit the translation exposure and the resulting impact on shareholders' funds by borrowing in those currencies in which the Company has significant net assets. As at 31 December 2016, Essentra's US dollar-denominated assets were approximately 32% hedged by its US dollar-denominated borrowings, and its euro-denominated assets were approximately 73% hedged by its euro-denominated borrowings.

The majority of Essentra'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.

Potential impact of the United Kingdom leaving the European Union ("Brexit")

Until the precise nature of Brexit is determined, it is premature to speculate as to the impact on Essentra of the United Kingdom leaving the European Union. However, with a global footprint of some 53 manufacturing sites in 33 countries, the Company believes that it remains well-positioned to service its global customers with the diverse range of enabling components for which it is well-known. In FY 2016, Essentra generated c. 13% revenue in the UK, with the value of production manufactured domestically and exported to the EU considered to be immaterial in the context of the overall Group.

Essentra conducts business in several foreign currencies, notably the US dollar and the euro. Therefore, the Company is subject to currency exposure due to exchange rate movements which affect the translation of results and underlying net assets of its operations and their transaction costs.

STEFAN SCHELLINGER
Group Finance Director
17 February 2017

OPERATIONAL REVIEW

Health & Personal Care Packaging

A leading global provider of specialist packaging and authentication solutions to a diversified blue-chip customer base.

Revenue		
2016: £430.2m	2015: £422.6m	+1.8%
Operating profit[1]		
2016: £34.5m	2015: £57.5m	-40.0%
Operating margin[1]		
2016: 8.0%	2015: 13.6%	-560bps
Revenue per employee		
2016: £111k	2015: £113k	-1.8%

Revenue by destination	(%)
Europe & Africa	56.2
Americas	39.6
Asia including Middle East	4.2

Revenue by end-market	(%)
Health & personal care	69.1
Food & beverage	11.0
Tobacco	7.4
Paper, board & point of purchase	6.4
Other	6.1

[1] Before intangible amortisation and exceptional operating items

Who we are and what we do

A leading global provider of packaging and authentication solutions to a diversified blue-chip customer base in the pharmaceutical, health & personal care, consumer and specialist packaging sectors. The business focuses on delivering value-adding innovation, quality and service through the provision of a wide range of printed products and solutions, including cartons, pressure-sensitive tapes, leaflets, foils, labels and authentication technologies.

Our product portfolio is led by our pharmaceutical and health & personal care offerings, positioned under the single Essentra brand throughout Europe and the Americas – and expanding in Asia. Our cartons, pressure-sensitive tapes, leaflets, foils, labels and brand protection technologies can combine to provide a multi-functional product choice for our customers. Accordingly, our range of solutions helps to ensure that the consumer does not get frustrated by opening packs, and receives products that have been protected in transit, have not been tampered with and can be confirmed as genuine.

In addition, the business is a leading manufacturer and distributor of adhesive-coated tape products for a wide range of industries and applications, in particular the point of purchase and white goods sectors.

Supported by an in-house design studio, R&D and multi-million pound print facilities, Essentra is positioned to deliver the very best in quality, service and reliability through its worldwide manufacturing and sales structure.

How we do it

Our objective is to use our business development philosophy and resource to identify innovation opportunities and translate these into novel, workable solutions. We seek to leverage our well-invested, international footprint to provide market-leading quality and service on a global basis, and to add value to both customers and consumers.

Operating from manufacturing sites across Europe, the Americas and Asia, Essentra is a leading global supplier of a broad suite of innovative specialist secondary packaging and authentication solutions to meet the rapidly changing requirements of the pharmaceutical and health & personal care markets. Working in effective partnership with customers and strategic suppliers, Essentra is committed to quality, flexibility and creativity, and is well placed to meet the exacting needs of an international customer base.

In consumer packaging, Essentra is recognised as the leading manufacturer and supplier of pressure-sensitive tear tape, and a growing provider of other solutions such as cartons, labels, closures, seals, bags, sacks and commercial print. Essentra's range not only provides functional advantages for packaged consumer goods, such as easy opening or resealability, but can also be used as a medium for carrying branding and communication messages or brand protection features, including overt, covert and forensic technologies.

Serving a broad range of end-markets, Essentra has expertise in coating multiple adhesive systems in numerous technologies. With close to 3,000 adhesive products available for same-day shipping, Essentra's products can meet all high-performance needs, from foam, magnetic, finger-lift and acrylic high bond tapes to hook and loop and non-skid foam.

How we performed in 2016

Financial performance
Revenue increased 1.8% (decreased 5.5% at constant exchange) to £430.2m. Adjusting for the acquisition of Clondalkin SPD on 30 January 2015, like-for-like revenue declined 9.0%, reflecting integration challenges at certain acquired facilities, the Company's previously-communicated efforts to address less profitable healthcare packaging activities and further weakness in tobacco tear tape.

The result in health & personal care was supported by the further roll-out of the Company's Key Account Management strategy to its global customer base, as well as progress with the pruning of certain Clondalkin SPD business which had previously been identified as not meeting Essentra's return and profitability metrics. However, as communicated in the announcements of 9 June and 21 November 2016 – as well as the post-close update on 23 January 2017 – three facilities in the US and UK experienced significant integration issues, resulting in deteriorating performance during the year which has continued into the start of 2017. These challenges – being to the detriment of customer service and quality – not only materially impacted revenue and operating profit at the affected sites, but also entailed double-running costs elsewhere as a result of postponing certain closures to later in the year than originally scheduled. In addition, our ability to grow the business in line with previous expectations was correspondingly constrained. In light of the further significant decline in the last months of 2016 – nor the current expectation of a near-term improvement in 2017 – the business is receiving specific short-term focus and remedial action from Paul Forman and other relevant senior management.

In Tapes, sales of tear tape to the tobacco industry continued to come under pressure, owing to the ongoing trend of removing value-added features.

In speciality tapes, the performance reflected a normalising of the point of purchase segment in the US following a softer first-half: in addition, there were some early encouraging results from the application of Key Account Management principles in terms of cross-selling opportunities between Europe and the Americas, largely in the white goods and automotive sectors and with foam and box-closing tapes.

Notwithstanding the consolidation issues, 2016 was a year of further packaging innovation and the commercialisation of recently launched products. Benefiting from investment in additional equipment and technology in 2015, we continued to develop our serialised carton and label offering in the healthcare segment, thereby helping customers to ensure that they are well placed to meet the rapidly evolving legislative requirements in respect of tracking, tracing and authenticating their products throughout the supply chain. We also developed our tamper evidence solutions through the further commercialisation of our range of fibre-tear, void-release and frangible labels which allow consumers to easily identify if packaging has been interfered with, thus providing a crucial brand and user protection function.

In consumer packaging, our broad range of "freshness" labels continued to perform well, particularly in the tobacco sector. These labels, which can be tailored to customer requirements, help to keep the product as fresh as possible for as long as possible and – in the case of tobacco – create a barrier to ensure that, once the pack has been opened, the contents do not go stale, dry out or lose their distinctive flavour.

Adjusted operating profit decreased 40.0% (-44.1% at constant exchange) to £34.5m, equating to a margin of 8.0%. The 560bps decline in the margin (-550bps at constant exchange) was due to the afore mentioned integration challenges, together with the mix effect of the decline in value-added tear tape in the tobacco category. Further to the completion of the detailed year-end testing of asset carrying values, an impairment of £123.9m with respect to the Health & Personal Care Packaging business has been reflected in the Company's results on a reported basis.

Operational developments
Further to the acquisition of Clondalkin SPD, the subsequent integration of nine of their 24 sites since mid-2015 has evidently been a challenging and complex process. In the UK, the consolidation entailed the transfer of activities during the year from four sites to a new operation in Newport, UK, adjacent to our existing site which was officially opened at the end of 2014. While there is still much to do in terms of stabilising the operational performance of the facility, the substantial investment in this second location will enable us to offer customers a broad range of packaging solutions – from labels and cartons to foils and design capability – from under one roof, thereby reducing supply chain complexity. With the consumer packaging activities at Denekamp in the Netherlands also being absorbed by the Leeuwarden site during 2016, the integration of the Clondalkin SPD sites was thus completed by year-end.

Further to the completion of the acquisition of the pharmaceutical packaging assets of Kamsri at the end of January 2016, the relevant equipment and customers were successfully transferred to our facility in Bangalore, India. Following the business relocation, a second carton manufacturing line was installed to ensure that Essentra is optimally positioned to serve customers in this strategically important market, and which has already supported new domestic customer wins.

Also in January 2016, we launched the Design Hub, being a new approach to design and delivery which combines structural and creative packaging design with the technical expertise of Essentra's product development teams to deliver standout packaging which differentiates customers' brands on-shelf. This new service – being a direct response to customer and consumer preferences for aesthetically-pleasing packaging that is easy to use, environmentally conscious and brand enhancing – additionally allows us to leverage such innovative packaging features such as embossing / debossing, hot / cold foiling and specialist inks / varnishes. One of the key outputs from the Design Hub was the "Lotus Pack", a floral-inspired concept which was unveiled at a leading trade show, showcasing Essentra's extensive range of premium packaging capabilities in beauty and personal care, as well as our interpretation of current trends in these industries. As a result, we are even better placed to provide our customers with impactful, value-added packaging solutions, while simultaneously simplifying the steps from concept to finished article and reducing time to market.

As part of the revision to the complex Group organisation structure announced post year-end, a new Managing Director of Health & Personal Care Packaging, Europe was appointed, who will join the company on 1 March 2017.

2017 key initiatives

> Stabilise the health & personal packaging activities, particularly the challenged integration sites

> Improve customer service to "best in class" levels, and develop and initiate customer "win-back" programme

> Grow market share and continue to build global Key Account Management, to increase customer relevance

> Deliver creativity in market-led product development (eg, patient adherence) and further leverage in-house design expertise

> Expand healthcare packaging offering in India

> Complete roll-out of global Quality Management System, to ensure alignment of standards around the world

Market trends

Management estimates the value of the global addressable market for specialist secondary health & personal care packaging and pressure-sensitive tear tapes at c. £10bn, growing at a low to mid single-digit level depending on the end-markets served.

Increasing consumer communication
Packaging is increasingly used to communicate brand messages, and to engage with consumers via promotions or competitions.

Functionality and convenience of packaging
There is a growing demand for packaging which not only offers optimum product protection, but is also easy for consumers to access without frustration.

Brand and identity protection and verification
Brand owners have a continued need to protect their assets from counterfeiters, while public and private organisations require secure identification of individuals.

Legislation
Increasing regulatory requirements, such as the European Falsified Medicines Directive, are driving demand for tamper-evident packaging, while the more standardised pack requirements of the EU Tobacco Products Directive potentially limit the scope for innovative solutions.

Sustainability and waste reduction
There is a growing need for packaging to be resealable so as to maintain freshness and reduce waste, as well as to have a lower environmental impact.

Provision of total solutions
Customers are increasingly seeking a partner which can deliver a complete offering – from design to end-supply – as well as individual products capable of providing multiple pack benefits.

Key new product opportunities

> Investment in technology, to develop novel, value-added packaging and brand protection solutions

> Functional packaging benefits, such as opening, closing and tamper-evidence

> Eco-friendly packaging solutions, such as closing and resealing

> Creative and secure design solutions to provide enhanced communication and authentication opportunities

What we measure

INNOVATION – PERCENTAGE OF REVENUE DERIVED FROM RECENTLY DEVELOPED PRODUCTS

Why we measure it
Demonstrates the success of new products and technologies

How we have done
6.3% of revenue generated from products launched in the last three years, reflecting the impact of the acquisition of Clondalkin SPD

ON TIME IN FULL

Why we measure it
Drives performance of quality systems and service delivery

How we have done
91.6% compares to 92.9% in 2015, reflecting the impact of integration challenges at certain facilities

CUSTOMER SATISFACTION – CUSTOMER COMPLAINTS

Why we measure it
Drives performance of quality systems and performance delivery

How we have done
103% increase from 2015, reflecting the impact of integration challenges at certain facilities

Component Solutions

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

Revenue		
2016: £302.6m	2015: £285.9m	+5.8%
Operating profit[1]		
2016: £54.4m	2015: £58.1m	-6.4%
Operating margin[1]		
2016: 18.0%	2015: 20.3%	-230bps
Revenue per employee		
2016: £136k	2015: £119k	+14.3%

Revenue by destination	**(%)**
Europe & Africa	**56.1**
Americas	**34.6**
Asia including Middle East	**9.3**

Revenue by end-market	**(%)**
Electronics	**27.1**
Fabrication machinery	**24.8**
Automotive	**9.8**
Paper, board & point of purchase	**7.7**
Oil & gas	**6.0**
Construction	**5.2**
Hydraulics / pneumatics	**2.5**
Health & personal care	**0.3**
Other	**16.6**

1 Before intangible amortisation and exceptional operating items

Who we are and what we do

The Components business is a global market-leading manufacturer and distributor of plastic injection moulded, vinyl dip moulded and metal items. Operating units in 29 countries serve a very broad industrial base of customers with a rapid supply of products for a variety of applications in sectors such as equipment manufacturing, automotive, fabrication, electronics and construction.

The Pipe Protection Technologies ("PPT") business specialises in the manufacture of high-performance innovative products from commodity resins to engineering-grade thermoplastics and polymer alloys for use in a range of industries. Locations in four countries, combined with a wide distributor network, serve customers around the world.

Essentra Extrusion 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 in 1956, Essentra is now one of Europe's most advanced suppliers of co-extrusion and tri-extrusion to all branches of industry.

The Security business is a provider of ID card printers, systems and accessories to direct and trade customers, providing a broad product offering and competitive value.

How we do it

The objective of our Components business is to leverage its extensive customer base, product range and distribution capability, using our efficient sourcing and manufacturing operations and integrated IT platform, to respond to the demands of our diverse customer base. Our tool library, product development skills and manufacturing experience, combined with our inventory and logistics infrastructure, are unique assets. We have sophisticated business-to-business, multi-channel marketing expertise, and support this with our knowledgeable sales resource and comprehensive product catalogues, which are available in many languages and online.

We target organic growth through increasing the range of products and effective marketing, expanding our customer base and entering new geographic markets. We also see opportunities to grow through acquisition, where it can move our business into complementary product categories or end-markets, or further our geographic distribution capability.

As a global leading supplier to the oil & gas sectors, our PPT business provides the broadest range of custom thread and pipe protection productions for a complete range of OCTG tubulars, line pipe and drilling pipe applications. Our objective is to leverage our state-of-the-art manufacturing footprint headquarters in Houston, US, to meet global demand while ensuring adherence to the latest industry regulations.

Offering a full range of value-adding design and production services, Essentra Extrusion is well placed to provide purpose-developed products based on unique specifications. Our objective is to leverage our extensive in-house capabilities – including a laboratory, R&D department and tooling expertise – to partner with customers from the earliest stages of new product development and provide them with a compelling value proposition, no matter how complex the finished product.

The Security business has access to a wide portfolio of products and services, including printers, software and consumables from leading manufacturers. Our systems produce durable, high-quality, credit card-style photo ID cards, which are compatible with the majority of security systems, and which can be specified to incorporate magstripes, barcodes, contactless chips or smart cards.

How we performed in 2016

Financial performance
Revenue increased 5.8% (decreased 3.0% at constant exchange) to £302.6m, with a strong result in Extrusion being offset by further weakness in PPT and softness in both the UK and US Components businesses. Excluding PPT, revenue increased 7.9% (decreased 1.1% at constant exchange).

The result in Components was supported by continued broad-based growth in Continental Europe, and reflected a more stable second-half performance in the UK following the relocation of the majority of the Commercial team to a dedicated distribution centre in Jarrow from our European manufacturing hub in Kidlington, UK. Growth in Asia came particularly from China and Singapore in the electronics segment, and we continued to benefit from further expansion of the regional distribution centre where the number of SKUs was doubled during the year and service levels continued to improve. Trading in the US was more challenging, particularly in the Maintenance, Repair & Overhaul ("MRO") segment, where a number of initiatives aimed at better segmentation of the customer base and product offering were implemented during the second half of the year, including the relaunch of a dedicated industrial supply catalogue featuring 40,000 mechanical products (of which 4,000 new).

The suite of access solutions hardware performed well, and was boosted by the launch of five new product ranges which were added both to the catalogue and to a dedicated website, providing customers with an even more comprehensive offering and highlighting Essentra's technical capability in this field. New category marketing materials were also introduced in all three geographic regions, reinforcing the breadth of Essentra's capabilities and supporting the focus on large customers in targeted segments such as white goods and automotives. In addition, the objective of expanding custom injection moulding activity continued to yield encouraging future incremental revenue opportunities, with the successful development of tooling to support contract wins particularly in the automotives segment.

Like-for-like revenue in PPT decreased 33.4% to £12.5m owing to developments in the oil & gas industry, with a further decline in the North American rig count continuing to drive a consequent reduction in drilling activity and demand from the pipe mills for much of the year. However, the business successfully added a number of new customers during the period, and an improving oil price towards the end of the year additionally saw a number of OCTG manufacturers re-establish production in Q4, with a resulting positive impact on order book trends (albeit from low levels). Notwithstanding the challenging backdrop, our MaxX® American Petroleum Institute-compliant, premium and standard thread protectors performed well – as did the Ultra® premium range – both continuing to benefit from being specified by certain large customers as their product of choice. In addition, the business benefited from the geographic expansion of its footprint undertaken in 2015, with incremental revenue generated both in the Middle East and in Asia, where product availability and commercial expertise was further built to help support future potential opportunities in Singapore and Australia.

Additional contract wins boosted the excellent result in Extrusion, where the business continued to benefit from its expertise in complex, technical profiles. These included extruded finishing parts used in the furniture sector, such as plinths and edge bands, where further good growth was seen with a major global retailer during the year; across a range of internal and external applications (notably for swimming pools) in construction; and plastic profiles used in the purification of drinking and processed water in both industrial and municipal installations.

Adjusted operating profit decreased 6.4% (-12.4% at constant exchange) to £54.4m, equating to a 230bps decline in the margin to 18.0% (-200bps at constant exchange). Operating efficiency savings, together with further benefits from the consolidation of the site footprint, were offset by softness in the US in Components, the impact of the decline in revenue in PPT and the mix effect of strong growth in the lower margin Extrusion business.

Operational developments
During the year, we undertook further operational initiatives.

In Components, we continued to rationalise our footprint, with the transfer of activities from Xiamen to our facility in Ningbo, China, with productivity at the seals facilities in Rayong, Thailand and Ipoh, Malaysia benefiting from the automation of certain manufacturing processes. In addition, a global inventory reduction programme was implemented, with improvements in the stockholding position being delivered against a backdrop of rising service levels.

In PPT, we concluded the process of adding robotics and automated parts handling systems to our presses at our facility in Houston, which was commenced in 2015, resulting in further improvements in quality and labour cost savings. Taken in conjunction with such other investments we have made over the last two years – from large capacity, energy efficient injection presses and the development of the latest in part moulding tooling, to new sales and warehouse distribution sites such as Leduc, Canada – we believe that we are well positioned for a recovery in the oil & gas industry.

Having installed innovative high-speed equipment and a second line for the manufacture of high-quality profiles incorporating foil application in 2015, we added Extrusion production capability at our Components facility in Turkey towards the end of the year. This additional investment in our footprint to support our capability in the point of purchase segment means that we remain well placed to respond to the requirements of our retail customer base and exploit potential new business opportunities.

2017 key initiatives

- Introduce further new product lines into the core Components business
- Successfully deliver key custom components, and continue to exploit new business opportunities in the automotives and white goods segments
- Improve Components performance in the UK and the US
- Ensure that PPT is optimally positioned to respond to any industry recovery
- Further develop commercial opportunities in oil & gas beyond the US
- Continue to drive growth in technical extruded plastic profiles and potentially expand geographic reach (within the Essentra footprint), to support further value-added opportunities

Components

Market trends

Given their very wide application, the global market for industrial components is large, fragmented and ill-defined for both suppliers and customer. However, management estimates the value of the available market for low-cost direct material components at c. £4.5bn pa.

Manufacturing GDP growth rate

With low-cost direct material components being used in a very broad spectrum of industrial end-markets, those countries with a higher manufacturing GDP growth rate are particularly attractive.

Increased use of standard components

There is an increasing move to small, specialised manufacturing businesses, which assemble their parts and equipment from a range of standard components. This approach provides them with flexibility, and the ability to move quickly to provide their own customers with the service they require.

Just-in-time delivery

As customers are required to deliver their own products "just-in-time", so their demand for critical components from their suppliers is increasingly on the same basis.

Increasing labour costs

Standardised manufacturing processes and components typically require less labour, thereby helping customers reduce their cost base. There is also a trend among larger customers to design in "higher technology" markets such as the US, UK, Germany, Japan and Singapore, and then to manufacture in lower labour cost regions (eg, eastern Europe, China and India), which benefits components suppliers with global reach.

Industry specification

As end-markets become more sophisticated and demanding, so the requirement for higher-quality components increases. Over and above this more general trend, certain customers are increasingly facing regulatory guidelines in terms of the specification of the components they use.

Weight reduction

Increasing focus on fuel efficiency in the automotives industry is resulting in weight reduction targets and a trend of replacing metal components with plastic.

Growing functionality

Increased product sophistication, particularly in the automotives and white goods sectors, is resulting in growing demand for cable management solutions.

Key new product opportunities

- Continue range expansion, to provide customers with the broadest selection of components
- Develop new sectors for existing customer base, such as hardware
- Globalise successful local products through established supply chain
- Enter new and adjacent product markets, such as point of purchase
- Launch products which are compliant with new industry standards

What we measure

NUMBER OF ACTIVE CUSTOMERS

Why we measure it

Reflects marketing effectiveness and measures the potential population for further growth opportunities

How we have done

7.7% decrease in active customer accounts on the prior twelve months, largely reflecting softer performance in the UK and US

NET PROMOTER SCORE

Why we measure it

Reflects our customers' overall satisfaction with our products and service, as well as loyalty to our brand

How we have done

Given the remedial initiatives implemented to address weakness in the UK and the US, the survey was postponed to Q1 2017

ON TIME IN FULL

Why we measure it

Demonstrates the ability to meet delivery demands

How we have done

89.2% compares to 88.3% in 2015

Pipe Protection Technologies

Market trends
The global oil & gas market is prone to volatility in supply, with the consequent fluctuations in energy prices having an impact on the level of drilling activity and rig count.

Evolving oil and gas production techniques
Over the cycle, the significant increase in shale gas and oil will result in the development of more efficient drilling rigs and the adoption of new technologies, which benefit suppliers with the ability to invest in supporting industry growth.

Industry specification
As end-markets become more sophisticated and demanding, so the requirement for higher quality components increases. Over and above this more general trend, customers are increasingly facing regulatory guidelines in terms of the specification of the components they use.

Cost
Continued customer focus on their cost base benefits suppliers with a broad product offering across price points and the ability to invest in more efficient equipment and manufacturing processes.

Key new product opportunities
- Continue to invest in state-of-the-art manufacturing capability and further capacity, to meet industry demands
- Launch products which are compliant with new industry standards
- Leverage new product development expertise, to provide customers with the most comprehensive and cost-competitive range

What we measure

SALES PER MACHINE HOUR
Why we measure it
Indicative of business mix and productivity

How we have done
15% decrease in sales per machine hour, reflecting the slowdown in the oil & gas industry during much of 2016

NEW CUSTOMERS ADDED
Why we measure it
Reflects our ability to successfully target new growth opportunities

How we have done
137 compares to 85 in 2015

ON TIME IN FULL
Why we measure it
Demonstrates the ability to meet delivery demands

How we have done
88.9% compares to 94.6% in 2015, owing to order book recovery in Q4 – albeit from low levels

Extrusion

Market trends
Management estimates the global addressable market for extruded plastic products at around €400m, with low to high single-digit growth. The underlying growth rates and key trends vary depending on the end-market served and the respective solution being provided.

Increased demand for fully-engineered and rapid solutions
Customers are increasingly seeking more sophisticated and bespoke solutions to their needs, which typically require more value-added equipment and a more technically-educated workforce. In addition, with solutions required ever more rapidly, the ability to provide prototype tooling (for example, through the use of 3D printing), as well as to integrate the design and manufacturing process, is becoming more important.

Practicality and reliability
In many end-markets, particularly in construction and furniture, the use of plastic is increasingly displacing more traditional materials (such as wood and metal) in a wide variety of applications – from finishing to protection, and for interiors and exteriors alike.

Regulatory requirements and sustainability
As regulation evolves and sustainability concerns increase, so there is a growing demand for products which use more environmentally-friendly, non-PVC raw materials.

Key new product opportunities
- Continue to invest in high value-added tooling and design capabilities, to meet demand for technical and efficient high-end profile solutions and reduce lead times
- Actively outsource tools where appropriate, to provide greater capacity flexibility
- Investigate alternative suppliers and / or raw materials to meet regulatory / sustainability requirements and customer need

What we measure

NEW CUSTOMERS WON FROM MADE QUOTES
Why we measure it
Demonstrates the ability to translate quotes into revenue-generating opportunities

How we have done
17% compares to 18% in 2015

WASTE
Why we measure it
Drives productivity and the efficient use of materials

How we have done
15.6% compares to 15.5% in 2015

Filtration Products

A leading global provider of specialised filtration solutions to an international customer base in a diverse range of end-markets, including tobacco, health & personal care and consumer goods.

Revenue		
2016: £374.4m	2015: £394.2m	-5.0%
Operating profit[1]		
2016: £59.0m	2015: £72.1m	-18.2%
Operating margin[1]		
2016: 15.8%	2015: 18.3%	-250bps
Revenue per employee		
2016: £176k	2015: £175k	+0.6%

Revenue by destination	**(%)**
Americas	**39.5**
Asia including Middle East	**30.3**
Europe & Africa	**30.2**

Revenue by end-market	**(%)**
Tobacco	**72.0**
Writing instruments	**7.4**
Health & personal care	**7.4**
Clean-rooms	**5.8**
Household products	**3.7**
Printer systems	**3.0**
Other	**0.7**

[1] Before intangible amortisation and exceptional operating items

Who we are and what we do

Our Filter Products business is the only global independent supplier of filters. Not only do we manufacture standard filters, but as the leading supplier of special filters we also provide innovative solutions that meet the consumer-driven demands of the tobacco industry against a backdrop of ongoing legislative changes. In addition, our offering extends to nicotine delivery solutions, where we have a number of fully-functional and packaged e-cigarette products, which draw upon the broad range of solutions which the entire Essentra Group can deliver.

We also increasingly provide adjacent services to the tobacco industry. Our Scientific Services facility located in the UK was one of the first independent, externally accredited laboratories for the testing of cigarettes, cigarette filters, smokeless devices including e-cigarettes and low ignition propensity ("LIP") for cigarette papers, and has over 20 years' experience of providing analytical services to state monopolies, and both independent and multi-national customers. Additionally, we offer a full bespoke range for the design, packing and packaging of filters for roll your own brands, providing an efficient and cost-effective solution to delivering retail-ready products to the market.

The Filter Products business supplies over 700 product specifications to c. 300 customers, including all the multi-national tobacco companies. We have eight manufacturing facilities in seven countries, supported by a dedicated research facility and three regional development centres.

Essentra Porous Technologies is a leading developer and manufacturer of custom fluid-handling components, engineered from a portfolio of technologies that includes bonded and non-woven fibre, polyurethane foam and porous plastics. Representing innovations used in healthcare, consumer and industrial applications, its enabling components are found in a wide range of products from medical diagnostics tests to advanced wound care pads, inkjet printer cartridges, writing instruments, clean-room wipes and air fresheners.

How we do it

Innovation is at the heart of our Filter Products business, and our objective is to develop value-creating partnerships with our customers. We seek to leverage our long-standing experience, expertise and insight to provide brand differentiation and identity solutions, as well as excellence in both manufacturing and service. Our recognised ability to provide new value-added products and services is key to the future growth of our business, as market dynamics in the tobacco industry continue to evolve.

Research in filters is carried out at a dedicated Technology Centre, supported by three regional development facilities. Together, they work closely with customers to understand their specific needs, and strive to deliver innovative solutions which will give their brands differentiation and relevance, at a pace appropriate to local market conditions and legislative requirements. Our offering is further enhanced by our ability to complement our customers' own strengths and assets in a variety of tolling, or outsource management, relationship arrangements, as well as our growing adjacent services activities.

We continuously upgrade our technology and footprint, to ensure we exceed our customers' expectations and remain at the forefront of market trends. Our flexible manufacturing capability allows us to respond rapidly to market changes and customer demand for surge volumes, while a consistent focus on high standards of quality, cost control and production efficiency act as further sources of competitive advantage.

In Porous Technologies, our objective is to leverage our technical expertise in collaboration with our customers, to provide them with innovative, high-quality, reliable, quick-to-market solutions to their respective fluid- and vapour-handling challenges. Our R&D teams focus on each of our three material technologies and constantly develop new intellectual property regarding materials, processes and applications, with a view of providing new and existing customers with unique solutions.

How we performed in 2016

Financial performance
Revenue decreased 5.0% (-13.7% at constant exchange) to £374.4m, with growth of 14.8% (+2.7% at constant exchange) in Porous Technologies being offset by a significant decline of 11.0% (-19.0% at constant exchange) in Filter Products.

In Filter Products, underlying volumes were below the prior year. As announced in the trading updates of 9 June and 21 November 2016, the business was impacted by a number of commercial challenges, the most material of which being the impact of a sizeable contract in Europe which matured during the year (and was not replaced with an equivalent new business win, as anticipated). In addition, destocking in the Chinese market, the temporary impact of transferring particular line of business from the US to Asia and the slower than expected ramp-up in new contracts weighed on performance, with lower volume across much of the site footprint having a consequent impact on both revenue and operating profit.

While 2016 presented a number of issues, nonetheless the acknowledged capabilities of the business – in terms of delivering value-added filters which meet the evolving requirements of the tobacco industry – continued to be successfully commercialised during the period.

Specifically, we introduced new Superslim variants into China to meet the growing consumer trend for smaller diameter format filters, as well as supporting a multi-national customer with a sizeable number of tube capsule filters for certain markets as these two largest innovative segments for shaped and flavoured special filters start to combine. Accordingly, the business maintained its track record of supporting customers in the development of bespoke solutions tailored to their specific needs as they seek to respond to global tobacco market trends, with an increase in the number of joint development projects during the year.

Continuing to leverage its extensive experience and expanded portfolio of accredited testing methods, the Scientific Services laboratory played a positive role in supporting customers with analytical laboratory services – particularly in respect of innovations in both the traditional tobacco and non-tobacco segments – to ensure the delivery of high-quality analysis which remains at the forefront of industry trends and evolving regulatory requirements.

Modest like-for-like growth in Porous Technologies was supported by new business and the further development of recent awards. A strong increase in health & personal care was boosted by commercial wins / acceleration of existing contracts in advanced wound care and diagnostic components, and was supported by an increase in cosmetic foam. Global growth in speciality wipes came from new product introductions / applications in critical care environments and ongoing distribution channel expansion. The performance in writing instruments benefited from further success in nibs with both new and existing customers (as well as the ongoing trend for adult colouring), while household continued to gain from further development and scaling up of innovative air care wicks. Versus a declining end-market, a stable result in printer systems reflected the ramp-up of new product development with major OEM customers.

In 2016, the business continued its track record of converting its intellectual property into commercial success. This included further sampling, verification and qualification of our infused antimicrobial advanced wound care foam, which provides enhanced infection prevention / control to address this growing market trend, as well as the application of increasingly sophisticated techniques (such as colour marbling) in our cosmetic foam offering. In household, our development of flexible and robust fragrance-handling components continued to meet the needs of the increasingly trend-driven air care segment, while investment in alternative ink technologies – including metallics – helped to support growth in the more mature printer systems and writing instruments categories.

Adjusted operating profit decreased 18.2% (-25.5% at constant exchange) to £59.0m (of which £21.5m related to Porous Technologies) and the margin declined by 250bps (-240bps at constant exchange) to 15.8%. Further efficiency improvements as well as a more stable outturn in higher margin printer systems, led to a 140bps (+150bps at constant exchange) improvement in the Porous Technologies' margin. However, in Filter Products, production gains were offset by the volume and mix effect of a weaker result in special filters, resulting in a 420bps margin decrease (-410bps at constant exchange).

Operational developments
Both Filter Products and Porous Technologies benefited from a number of operational initiatives during the year.

In order to ensure that it continues to deliver value, our Filter Products business is committed to maintaining a flexible and competitive global manufacturing base. In 2016, this was reinforced during the year by the transfer of activity to Hungary from the UK which – while not without short-term operational challenges leading to additional integration costs in the first half of the year – helps to ensure that our manufacturing footprint remains aligned with customers' shift of production from western to eastern Europe and Asia. In addition, our joint venture facility in Dubai continued to deliver excellent growth in the opportunity markets of the Middle East and Africa, both through increasing share with existing customers and via geographic expansion.

During the year, we also continued our investment in modern, high-speed equipment to underpin our objective of improving our capability and capacity – notably in our Thai and Indonesian facilities, where we enhanced our capability in shaped and capsule filters to serve these growth segments in the market. Further to these investments, we now have installed capacity to support over one-third of the tube – and approximately 10% of the capsule – filters markets, and currently supply a number of multi-national, as well as independent, customers with these technologies.

In Porous Technologies, the transfer of our nibs capability from South Korea to our state-of-the-art manufacturing facility in Indonesia in 2015 continued to yield further productivity benefits: in conjunction with an additional writing instrument ink reservoir line in India, these investments mean that we are well placed to serve our global customer base with a full technology platform from a more competitive cost base. In addition, expansion of our fibre capabilities in China, combined with the establishment of further capabilities for acrylic nib rod formation and grinding, helped to underpin new product development and growth in the healthcare and writing instruments categories.

On 25 August, we announced that we had signed an agreement to divest our Porous Technologies business to Filtration Group, an affiliate of Madison Industries, for a gross transaction value of £220m. As previously communicated, the divestment is expected to complete in Q1 2017.

2017 key initiatives

> Continue to align geographic footprint with market shift in production volume

> Continue to invest in advanced filter capability to support further growth, particularly in the Middle East and Asia

> Improve value proposition in more competitive mature tobacco markets

> Maintain focus on delivering further productivity and quality improvements

> Drive further benefits from investment in high-speed, more flexible filter manufacturing equipment

> Continue to focus on infection prevention / control for new medical components and antimicrobial wound care foam

> Target higher-end, branded personal care and cosmetics products (eg, colours, shapes)

> Continue to drive global growth opportunities in wipes, fuelled by product portfolio, new distributors and branded products

> Maintain focus on expanding the writing instrument nib portfolio, including polyester and acrylic variants

Filter Products

Market trends
The global tobacco market is valued at c. US$810bn, with broadly flat cigarette retail volume growth.

Regulation
The tobacco industry is heavily regulated around the world on health grounds, with significant restrictions on the way in which products can be marketed to consumers. Legislation continues to evolve, both in respect of traditional cigarettes and innovations such as e-cigarettes, as well as surrounding the testing and packaging requirements for these products.

Illicit trade
Counterfeiting of tobacco products is a significant and increasing challenge for the industry, undermining brand value, presenting a risk to consumers from low-quality goods and reducing tax revenues. The illicit trade accounts for approximately 10% of duty-paid cigarette volumes and is estimated to be growing at c. 9% pa – well ahead of the overall industry.

"Beyond tobacco" products
The market for products beyond traditional cigarettes continues to evolve rapidly. There is increased interest in other nicotine delivery mechanisms which offer "heat not burn", in particular in e-cigarettes which are reportedly delivering rapid growth (albeit from a low base) and which are forecast to continue doing so.

East versus west
Accounting for approximately 70% of total world cigarette volume, the growth markets of Asia dominate the global tobacco industry and are forecast to continue to increase.

Consumer engagement
As per capita income rises – particularly in eastern markets – so lifestyles change and new segments are created, with different consumer expectations and aspirations from the products which they purchase. As such, there is an increasing demand for new products to reflect these changes.

Consumer need
Consumers are increasingly concerned with environmental matters, such as sustainability and pollution, and the impact of products which they purchase. Such needs are often unspoken but create challenges for the industry to supply products which address such considerations.

Cost and price
As the price of cigarettes has continued to increase, growth opportunities have been created for other industry segments including roll your own and Other Tobacco Products, such as chewing tobacco.

Key new product opportunities
> Lifestyle solutions (eg, Slims / Superslims, low / ultra-low tar, "eco" ranges)
> Brand-specific requirements, such as recessed filters
> Enhanced user experience, such as capsules, flavoured thread and activated carbon
> Full bespoke service for roll your own brands
> Provision of scientific services
> Adjacent sectors such as e-cigarettes and "heat not burn" products

What we measure

CONVERSION COSTS AS A PERCENTAGE OF REVENUE
Why we measure it
Continued focus delivers financial performance

How we have done
22.3%, a 220bps increase from 21.1% in 2015

ON TIME IN FULL
Why we measure it
Demonstrates the ability to meet delivery demands

How we have done
92.7% compares to 92.9% in 2015

QUALITY COMPLAINTS PER BILLION RODS
Why we measure it
Drives productivity and the efficient use of material

How we have done
5.9 complaints per billion rods, an increase from 4.9 in 2015

WASTE
Why we measure it
Drives productivity and the efficient use of material

How we have done
6.4%, a decrease from 6.8% in 2015

Porous Technologies

Market trends
Management estimates the global addressable market for our Porous Technologies products at around £1.2bn, ranging from mid single-digit negative to high single-digit growth. The underlying growth rates and key trends vary depending on the end-market served and the respective fluid- or vapour-handling challenge being addressed.

Printer systems: platform extension and performance improvements
Customers continue to introduce new platforms, as well as enhance the performance of their products (such as through the use of increasingly complex inks).

Healthcare: infection prevention / control, enhanced fluid-handling capabilities and changing customer / patient needs
Infection prevention and control is increasingly a critical requirement, prompting the development of antimicrobial components.

Market growth is also partly driven by the migration from slower and more expensive laboratory-based testing to results being provided at the point to care.

In addition, a globally ageing population is resulting in a change in the incidence of medical conditions (such as diabetes) which require advance wound care products.

Household and personal care: emerging market growth and "lifestyle" trends
Consumers are increasingly transitioning to more sophisticated household and personal care products. In addition, insecticide products continue to evolve from solvent to water-based systems.

Non-woven products: growing requirement for sensitive environments
Industries such as electronics operate in controlled environments, while others (eg, hospitals) have a requirement for clean-room conditions to combat infection and / or contamination risk. Such controlled environments are increasingly being adopted as best practice on a global basis.

Writing instruments: range expansion
Customers are increasingly looking for a total solutions provider – from ink reservoirs to nibs.

Key new product opportunities

> Improved technologies to further enhance fluid- and vapour-handling capability

> Additional technology platforms, to take advantage of new end-market opportunities

> Further range expansion

> Investment in faster-growing product end-markets, such as medical

> Continued focus on customer partnerships

What we measure

INNOVATION – PERCENTAGE OF SALES DERIVED FROM NEW PRODUCTS
Why we measure it
Demonstrates the success of new products and technologies

How we have done
9.4% of revenue generated from products launched in the last three years

SUSTAINED IP DEVELOPMENT
Why we measure it
Continued development of intellectual property to support future growth and strong development project pipeline

How we have done
Currently 30 (2015: 34) patents in force in the US, with 13 (2015: 10) applications pending

CUSTOMER COMPLAINTS
Why we measure it
Drives performance of quality systems and service delivery

How we have done
79 complaints, being a 38.6% increase versus 2015

MAN HOURS PER MACHINE HOUR
Why we measure it
Indicative of shop floor productivity

How we have done
1.66 (2015: 1.85) man hours per machine hour

REGIONAL REVIEW

Summary growth in revenue by Region (by destination)

% growth	Like-for-like	Acquisitions / disposals	Foreign exchange	Total reported
Europe	-11.7	1.2	6.0	-4.5
Americas	-9.1	2.2	11.1	4.2
Americas ex-PPT	*-8.0*	*2.3*	*11.4*	*5.7*
Asia	-1.4	–	9.7	8.3
Total Company	**-9.1**	**1.3**	**8.3**	**0.5**

Europe

	£m	% growth Actual exchange	% growth Constant exchange
Revenue	522.7	-4.5	-10.5

Revenue decreased 4.5% (-10.5% at constant exchange) to £522.7m, with a like-for-like decline of 11.7%.

The performance was driven by weakness in both the tobacco and health & personal care segments. In the former, the impact of a sizeable contract which matured during the year more than offset the introduction of innovative new filter products, with a continued negative mix effect in tear tape also weighing on the result. In the latter, growth in speciality wipes and medical foam, together with business wins in the core packaging portfolio, failed to compensate for site integration challenges in the UK where ongoing operational issues resulted in a significant decline in both revenue and profitability.

Range expansion in metal hardware, combined with contract awards for more technical extruded plastic components, contributed to the outturn in industrial and furniture end-markets. Further commercialisation of recent launches in porous components, tapes and labels supported the performance in FMCG sectors.

Further to delays in consolidating four Clondalkin SPD sites into the Essentra footprint in the UK – which not only constrained our ability to grow the business, but also resulted in significant additional double-running costs – the integration process was completed by year end.

Americas

	£m	% growth Actual exchange	% growth Constant exchange
Revenue	387.3	4.2	-6.9
Revenue ex-PPT	*375.4*	*5.7*	*-5.7*

Revenue increased 4.2% (decreased 6.9% at constant exchange) to £387.3m: like-for-like revenue was down 9.1% (-8.0% excluding PPT).

Trading in the Americas was challenging in the broad industrial segment, where progress with custom opportunities in automotives and gains in general protection were offset by weakness in electronics and challenges in the MRO segment. In respect of the latter, second-half improvement initiatives – including a catalogue re-launch – helped to arrest the rate of decline evident in HY 2016, although have yet to deliver a consistently improving trend. Performance in the oil & gas sector also deteriorated against a challenging backdrop for much of the year, although the business encouragingly continued to add new customers and was supported by the breadth of its offering and its efficient manufacturing processes.

The overall result in health & personal care reflected operational issues arising from the integration of two sizeable Clondalkin SPD facilities. However, this was partly mitigated by further channel expansion in speciality wipes, together with new launches and business wins in medical and cosmetic foam and gains in both labels and literature. An increase in household was boosted by growth in writing instruments, particularly the commercialisation and sale of polyester nibs to major customers, as well as further progress in air care with porous plastic components. While development activity in both special filters and the Company's e-cigarette offering continued, the result in tobacco reflected the short-term impact of transferring a particular line of existing business from the US to Asia.

Asia

	£m	% growth Actual exchange	% growth Constant exchange
Revenue	193.7	8.3	-1.4

Revenue increased 8.3% (decreased 1.4% at constant exchange) to £193.7m.

The result in Asia was driven by tobacco, where further expansion of the joint venture facility in Dubai and new market entry in the Middle East was offset by the impact of de-stocking in China.

The performance of the industrial segment was supported by growth in electronics in a number of markets, and the consolidation of Components activities in China was also completed during the year. In health & personal care, the pharmaceutical packaging assets of Kamsri were transferred to Essentra's facility in Bangalore, with a second carton line also being installed; in addition, porous components for medical applications performed strongly, with speciality wipes benefiting from further range and footprint expansion. The household segment continued to benefit from the transfer of writing instrument nib capacity to Indonesia from South Korea in the prior year, as well as new business wins in India.

MANAGEMENT OF PRINCIPAL RISKS

Risk management approach

The sound management of risk within the parameters of a clearly defined risk attitude statement underpins the successful delivery of the Company's strategy.

Unfortunately, during 2016, Essentra failed to successfully mitigate the risks identified with the integration of the Health & Personal Care Packaging businesses at certain key sites, and the impact of those failings led to a significant decline in the Company's financial performance during the year.

The Company recognises that its risk management objectives – which are designed to ensure risks are continuously monitored, associated action plans are reviewed and challenged, appropriate contingencies are provisioned and information is reported accurately through established management control procedures – did not successfully address the risks which were identified during the course of the year.

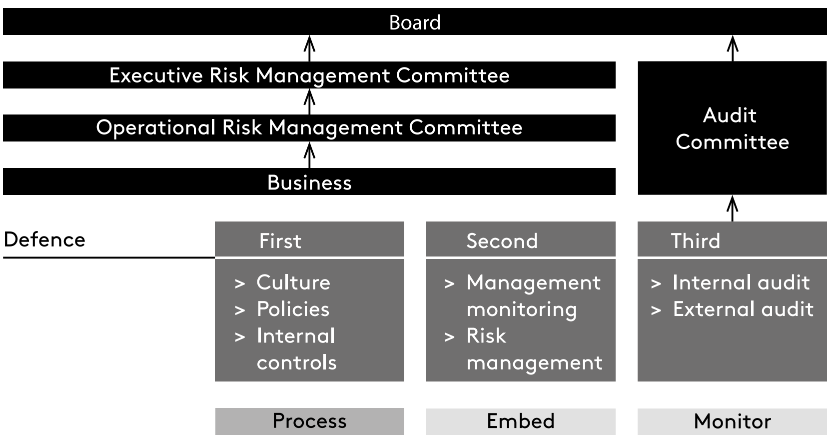
However, given that the risk governance processes could not prevent the continued deterioration of the Health & Personal Care Packaging business during the second half of 2016, the Company has initiated a review of that structure and the processes necessary to deliver improvements in the Company's identification, assessment and management of risk.

Essentra is subject to the general risks and uncertainties which impact other international organisations, including political and social 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 materials costs.

In addition, the Board believes that the principal risks and uncertainties detailed on pages 32 to 37 are specific to Essentra. 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 at present but which could prove to be so in the future. The Board will be undertaking a further comprehensive assessment of the key risks and uncertainties potentially impacting the Company as part of the strategic review being undertaken during HY 2017, and any changes to the existing assessment and mitigating actions will be reported as part of the HY 2017 results.

The Company's existing risk management structure is set out below.

Structure



Failure to address the decline in Health & Personal Care Packaging

The deterioration in the performance of the Health & Personal Care Packaging business during FY 2016 significantly impacted the overall financial results of the Company. The failure to successfully mitigate the risks associated with the integration of certain acquired Clondalkin SPD sites has seen the loss of certain customers and the reduction of volumes from certain other customers. In addition, margin erosion impacted the profitability of remaining business. Failure of the Company to successfully address the continuing decline in Health & Personal Care Packaging could lead to further significant deterioration in the overall financial performance of the Company.

Impact

Failure to address the deterioration in Health & Personal Care Packaging could lead to:

- Loss of customers
- Loss of revenue
- Margin erosion
- Quality and service failings
- Potential further impairment
- Loss of reputation

Mitigation

In seeking to redress the decline in the performance of the Health & Personal Care Packaging business, Essentra will seek to:

- Deliver operational improvements and efficiencies
- Secure quality and service improvements
- Restore customer confidence and trust
- Successfully manage customer relationships
- Secure new business

People and experience

The success of Essentra will be dependent on and will reflect its ability to retain, attract and motivate employees. This ability is necessary in order to sustain, develop and grow its businesses and deliver Essentra's strategic objectives. There can be no assurance that these employees will remain with the Company. 2016 saw a number of employees leave Essentra in response to challenges within the business, and further departures could potentially impact the Company's ability to fulfil its objectives in 2017 and beyond. It is important that the Company successfully engages with current employees to ensure their continued commitment to the further strategic development of Essentra and attracts further talent to drive future growth opportunities.

Impact

If Essentra fails to retain, attract or motivate the required calibre of employees, its operational performance and financial condition may be materially impacted by a lack of:

- Experience
- Expertise
- Commercial relationships
- Market insight
- Product innovation

Mitigation

In order to manage the risk of personnel change, Essentra:

- Regularly reviews personal development and succession planning
- Implements management development schemes and other training programmes
- Sets effective remuneration programmes
- Provides long-term share-based incentive plans
- Uses a talent management system
- Continues to recruit graduates on its development programme
- Conducts regular reviews of employee engagement

Customer profile and retention

In some of Essentra's businesses the customer base is relatively concentrated. Should Essentra's customers decide to satisfy their requirements internally or from other suppliers, and if Essentra were unable to secure new revenue streams, this could result in a significant loss of business. Essentra must serve an increasingly complex profile of customers, who will be heavily reliant on the Company in some cases. There is now an increased expectation from these customers, and Essentra risks losing business should it fail to adequately measure customer satisfaction and manage relationships. Essentra recognises that the failure to successfully mitigate the risks identified with the integration of the Health & Personal Care Packaging business to ensure the delivery of the level of quality and service expected, has led to the loss of customers and reduced volumes from certain remaining customers.

Impact	Mitigation
The loss of certain of Essentra's key customers may expose the Company to: > Reduced revenue > Restructuring costs > Profit decline > Deterioration in financial condition > Reputational damage	To counteract the Company's exposure to its customer profile, Essentra: > Invests in innovative, high-quality, value-added products and services > Develops long-term relationships and loyalty with customers at all levels through Key Account Management techniques > Seeks new markets and growth opportunities to expand its customer base

Disruption to infrastructure

A catastrophic loss of the use of all or a portion of any of Essentra's manufacturing or distribution facilities due to accident, labour issues, fire, terrorist attack, natural disaster, information technology failure, political unrest or otherwise which, 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.

An independent assessment of the nature and extent of the Company's existing business continuity plans conducted in the second half of 2016 recommended a number of improvements to better facilitate Essentra's ability to respond to this area of risk, and the Company will be implementing various new protocols during 2017 and beyond.

Impact	Mitigation
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	Essentra 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 a comprehensive insurance programme > Aligning Group information technology resources

Tobacco industry market dynamics

A substantial part of Essentra's business relates to the supply of filter products and packaging solutions to manufacturers in the tobacco industry. Future performance may be affected by market dynamics within the industry, including commercial pressures from customers, global consumption shift from western to eastern markets, overall declining market growth, customer self-manufacture, next-generation product development (such as e-cigarettes) and evolving legislation. Essentra cannot be competitive unless it manages and adapts its operational capacity in line with these trends. Tobacco-related litigation could also adversely affect Essentra, although there is no history of the Company being involved in such claims.

Impact	Mitigation
Tobacco industry market dynamics may lead to: > Reduced revenue > Restructuring costs > Profit decline > Reputational damage > Deterioration in financial condition > Litigation risk	In seeking to minimise the potential impact of the exposure to the tobacco industry, Essentra: > Invests in the research and development of innovative and new value-added products and services > Targets growth opportunities outside the manufacture of filter products > Focuses on low-cost filter production > Takes internal and external legal advice to manage litigation risk > Seeks to add value with a range of low-cost and innovative packaging solutions

Emerging technologies and new competition pressures

Essentra faces pressure from direct competitors, as well as new competition from alternative technologies. Some of the Company's competitors may derive advantage from greater financial resources, economies of scale or additional purchasing power or a lower cost base, and Essentra may face aggressive pricing practices.

Impact	Mitigation
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 > Deterioration in financial condition	Essentra seeks to mitigate the risk of competitive pressure by: > Exploiting innovation and manufacturing capabilities in new technologies, products and services > Developing long-term relationships with customers at a senior level > Protecting its intellectual property rights > Expanding its international distribution, sales and marketing expertise > Investing in both organic and acquisition growth opportunities

Key raw materials supply

Some of Essentra's businesses are dependent on the availability of specialist raw materials or components which are incorporated into the Company's products. Key raw materials may be subject to price fluctuations from supply shortages. If rapid increases occur in the price of such raw materials, including energy costs, the Company's revenue and profitability may be materially and adversely affected.

Impact	Mitigation
If Essentra is exposed to raw materials price increases or supply shortages, the Company may suffer: > Disruption to supply > Increased costs > Profit decline > Reduced revenue	To counteract the Company's exposure to increases in raw materials costs or supply shortages, Essentra seeks to: > Adopt appropriate procurement practices > Secure longer-term supply agreements > Implement cost recovery programmes > Investigate the availability of alternative supply options > Use consignment stock

Information Technology systems and cyber security

The current diversity and functionality limitations of existing Information Technology systems within Essentra could inhibit the Company's ability to perform and meet its strategic objectives. A number of Essentra business processes are reliant on information technology systems, and failure to address current limitations could significantly impact on the operation and reporting of business activities. In addition, Essentra holds sensitive information relating to its customers, suppliers and employees, as well as intellectual property and financial data that needs to be held securely. Should security be breached, Essentra risks loss of customers and suppliers, information breach fines, disruption of normal operations and reputational damage.

Impact	Mitigation
Failure to have adequate measures in place may lead to: > Reduced revenue and profit > Disruption of normal operations > Litigation > Reputational damage	To counteract the limitations in the Company's existing Information Technology systems and reduce the Company's exposure to cyber security breaches, Essentra: > Invests in industry best practice security software > Maintains a Security Operations Centre and acts upon external expert advice > Undertakes internal cyber security development initiatives > Reviews options to secure alignment on information technology resources across the Company > Makes targeted investment to drive information technology systems improvements

Compliance risk

Risk related to regulatory and legislative changes involves the possible failure of the Company to comply with current, changing or new legislation or regulation. Many of Essentra's current business activities are subject to increasing regulation and enforcement activity by relevant authorities. As the Company moves into new markets and territories in pursuit of its strategic priorities, Essentra is exposed to new and additional compliance risk.

The Company recognises the fundamental importance of ensuring the appropriate ethical culture in the management of this risk, and 2017 will also see a review of the Company's governance and compliance activities to further drive the right behaviours.

Impact	Mitigation
Failure by the Company or its employees or others acting on its behalf to abide by the laws and regulations could result in: > Administrative, civil or criminal liability > Significant fines and penalties > Suspense or debarment of the Company from trading > Reputational damage > Loss of commercial relationships	In order to manage compliance risk Essentra: > Seeks to establishes a clear compliance culture > Conducts risk assessments and ongoing compliance reviews > Implements relevant policies and procedures > Provides behavioural guidance and training to all employees > Monitors compliance through internal audit review and other verification procedures > Engages local advisers as appropriate

Innovation

Essentra's development and growth has benefited from the success of start-up operations and the continued growth of already established businesses. The rate of success of any development may in part be dependent on the Group's innovation pipeline and the ability of the Company to be innovative with its operations in order to create efficiencies. There can be no assurance that the Company will anticipate market demand, develop, complete and commercialise current and suitable new products, or be successfully innovative in its operations.

Impact	Mitigation
If Essentra fails to meet the challenges of innovation, the Company may experience: > Lower growth rates > Delay in the achievement of strategic objectives > Reduced profitability	Essentra seeks to address the challenges of international business development with: > Experienced and skilled management > Detailed due diligence and planning > Continuous improvement programmes > Innovation programmes with targeted investment support

Mergers and acquisitions

Essentra's future development and growth may be derived from value-adding acquisitions. The rate of any future acquisition integration may in part be dependent on the success of identifying the correct acquisitions and having sufficient resources available to successfully deliver cost savings, synergies or to otherwise add value. There can be no assurance that the Company will be successful in completing and integrating suitable acquisitions. The failure to manage and integrate projects successfully may lead to customer loss, revenue decline and margin erosion.

Essentra recognises that the failure to successfully mitigate the risks identified in the integration of the Health & Personal Care Packaging business led to subsequent deterioration in the performance of the business.

Impact	Mitigation
If Essentra fails to meet the challenges of business development arising from acquisitions, the Company may experience:	In future, Essentra will seek to address the challenges of mergers and acquisitions and any subsequent integration activities with:
> Lower growth rates	> Experienced and skilled management
> Delay in the achievement of strategic objectives	> Detailed due diligence and planning
> Increased costs	> Project risk reviews
> Reduced profitability	> External expert advice
> Customer loss	> Targeted investment to manage change within acquired businesses

CORPORATE RESPONSIBILITY

Corporate responsibility encompasses a broad range of philosophies, activities and standards.

Essentra considers the issues that are material to its business and seeks to respond to them in a manner appropriate to the interests of all its stakeholders.

Essentra recognises the significance and importance of being a responsible corporate citizen in the workplace, marketplace, environment and community. The Company's international operations fulfil their responsibility to record, monitor and make publicly available the potential impact of its activities. In pursuing its corporate strategy, Essentra's aim is to adopt business practices that are economically, socially and environmentally sustainable, and to promote these to its stakeholders in order to strengthen relationships, share knowledge and encourage best practice.

The Company's risk management processes include consideration of the potential impact of corporate responsibility issues on Essentra's performance. The Company's investment decisions take into account appropriate evaluations of the potential consequences for its employees, customers and suppliers and the environment.

The Essentra Values are fundamental to the Company's adoption of the highest standards of business ethics and integrity that underpin its relationships with both internal and external stakeholders. Essentra's culture is one of openness, integrity and accountability Employees are encouraged to act fairly in their dealings with fellow colleagues, customers, suppliers and business partners.

The Essentra Values can be found on the Company's website www.essentraplc.com.

Priorities / goals	How do we manage it?
No significant adverse impact to the local environment and commitment to achieving the highest standards of environmental performance	> Establish and regularly review Group Environmental strategy > Identify and understand the environmental aspects and impacts associated with our activities > Establish Group minimum expectations for environmental management > Understand current environmental performance, and establish Group expectations for improvements and results > Implement initiatives to reduce waste and increase recycling
Achieving the highest standards of health and safety	> Establish and regularly review Group Health and Safety strategy > Identify and understand the health and safety risks posed by our activities > Establish Group minimum expectations for the management of health and safety
Ensure the highest standards of business integrity and conduct	> Promote Essentra Values > Establish clear policies and guidance > Secure employee awareness and engagement

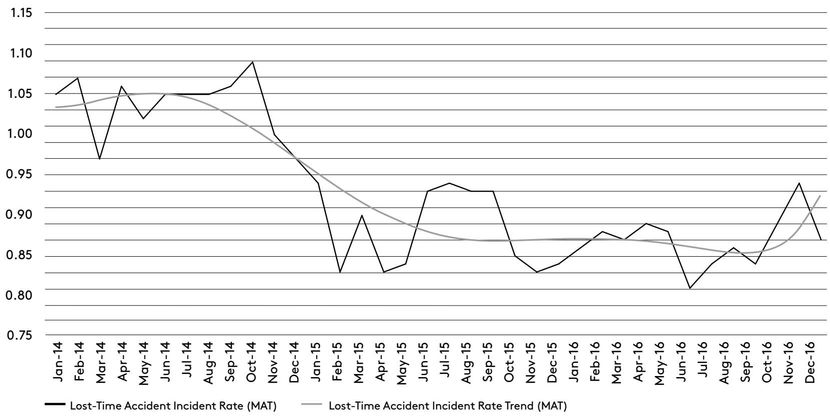
	How did we do?	How will we do it?
> Implement initiatives to improve our energy efficiency, including exploring the use of energy-saving technology in manufacturing > Develop new techniques with suppliers and customers for environmentally friendly products > Encourage employee participation in developing and driving environmental improvement initiatives > Gain ISO 14001 accreditation at all manufacturing sites > Gain ISO 50001 accreditation at all manufacturing sites	> Reviewed Group Health, Safety and Environmental strategy, with the revised version formally approved by the Chief Executive > Updated and re-issued Group Health & Safety and Group Environmental policies, to reflect new HSE strategy. The environmental policy specifically includes energy management as part of the environmental management system > Gained certification to OHSAS 18001 in Brazil, Malaysia and the Components site in Thailand > Gained certification to ISO 14001 in Brazil and Turkey > Gained certification to ISO 50001 in Turkey > Introduced targeted HSE intervention programmes > Continued site consolidation and investment in more flexible equipment, to improve energy efficiency and reduce overall environmental impact	Focus on the four key pillars of our current health, safety and environmental strategy: **Proportionate and robust management systems, standards and processes** > Continue to drive achievement of ISO 14001, ISO 50001 and OHSAS 18001 accreditation for all manufacturing facilities > Establish Group-wide core minimum standards for the identification and control of health and safety risks and environmental impacts **People** > Establish clear expectations for the HSE competency of specialist support staff and all employees > Continue to drive culture and employee engagement through employee consultation forums, communication programs and HSE culture improvement plans **Shared learning** > Establish clear mechanisms for both internal and external benchmarking, the sharing of best practice and the sharing of lessons learnt from incidents **Targeted intervention** > Build upon established processes for providing additional assistance and targeted interventions to underperforming sites, and in support of any serious or potentially serious incidents
> Understand current health and safety performance, and establish Group expectations for improvements and results > Encourage employee participation in developing and driving health and safety improvement initiatives > Gain OHSAS 18001 accreditation at all manufacturing sites		
> Continue to promote Right to Speak policy > Regular review of adherence with policies and guidance by Group Assurance	> Continued communication of core policies through e-Learning and reviews in Essentra Group System > Continued to promote compliance systems > Continued to train employees in Code of Business Ethics	> Respond to new risks and requirements > Provide further training > Drive employee responsibility and cultural change > Investigate complaints

Workplace

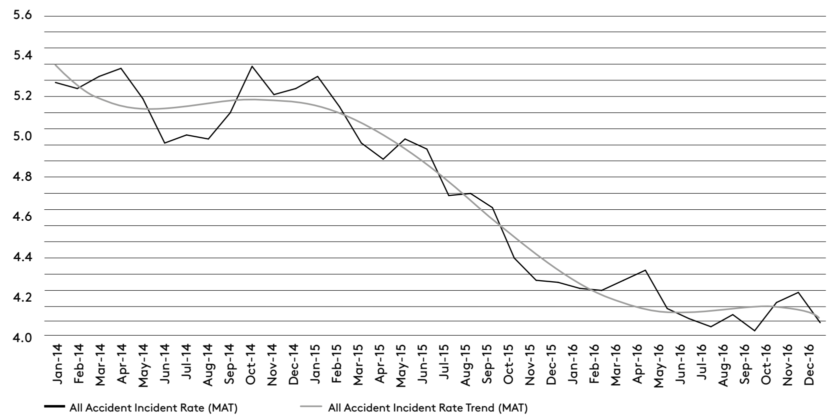
Health and safety

Essentra's overriding commitment in the workplace continues to be the health, safety and welfare of its employees and all those who visit the Company's operations, as well as those who carry out work on behalf of the Group. The Board provides health and safety leadership and the Chief Executive has primary responsibility for setting the principal health and safety objectives within which the detailed policies operate, and for reviewing progress against those objectives.

Lost-Time Accident Incidence Rate (MAT) (No. lost time accidents per 100 employees)



All Accident Incidence Rates (MAT) (No. all accidents per 100 employees)



After the downward trend in accident rates seen in 2015, performance in this area plateaued throughout most of 2016. Although there was an upturn in the lost-time accident incidence rate during October and November, encouragingly this was followed by no lost-time accidents being reported in December. There were a total of 73 lost-time accidents in 2016, compared to 72 in 2015.

During 2016, a Group-wide "back-to-basics" initiative was introduced, with a view to ensuring that a solid foundation existed on which to build future health and safety improvements. This programme identified a number of common areas of potential concern across the Group and, as a result, a new HSE strategy was developed to drive improvements in performance and culture. This strategy initially focuses on four key pillars:

> Proportionate and robust management systems, standards and processes
> People (competence and culture)
> Shared learning
> Targeted interventions

The Company manages occupational health by identifying key risk activities, undertaking health assessments and, where appropriate, implementing health surveillance programmes.

All our principal manufacturing facilities have achieved the Occupational Health & Safety Management Systems ("OHSAS") 18001 standard. We continue to drive OHSAS 18001 into all our manufacturing sites and, at the end of 2016, 52% of these facilities had achieved accreditation.

We continue to use the Essentra Environment, Safety and Health Self-Assurance Model ("ESHAM") to assist sites in continually developing the maturity of their local HSE management arrangements. This tool has now been rolled out to all manufacturing and significant distribution sites (except two small manufacturing facilities and one distribution site, which will come on board in 2017). Steady improvements in scores have been seen during the year but, in line with the new HSE strategy, greater focus will be placed on this during 2017.

As part of the strategy for targeted interventions, a new programme was introduced in the Q2 2016, where underperforming sites and those that had significant incidents were subject to additional scrutiny and support.

Details of Essentra's health and safety policy and accident performance data can be viewed on the Company's website www.essentraplc.com.

Employees

Essentra's employees are a vital resource in the pursuit of operational excellence and the provision of quality products and service to its customers. The skills and expertise of Essentra's employees drive the innovation which enables the Company to provide added value to its customers, enhance supply chain logistics with its suppliers and reduce the environmental impact of its operations.

The Company regularly reviews its organisational structure to ensure that the business has the necessary personnel to deliver its strategic priorities.

Essentra understands the importance of having the right people with the right skills – now and in the future – to deliver the exceptional service and expertise which is the bedrock of the Company's long-term relationships with its customers. To deliver that service and expertise, Essentra is continually improving its comprehensive talent pool, from graduates to senior management. Essentra runs a very successful graduate training programme, which continues to expand its international reach.

Key strategic aspects of recruitment, training and development are overseen or co-ordinated at a Group level, to ensure consistency of approach, to identify strategic threats and opportunities, and to open up a wider range of opportunities for employees.

Essentra encourages its employees to develop and manage their own careers. It facilitates this by providing relevant job training and, where appropriate, aims to fill vacancies with existing staff where employees are suitably qualified and experienced.

Essentra encourages the involvement of employees in the Company's performance through employees' share schemes.

Essentra is committed to improving employee engagement and learning more about the needs of its workforce. In addition to the impact of the training and development programmes, employee engagement is enhanced by the communication practices which have been adopted across the businesses. Essentra values highly the commitment of its employees and recognises the importance of communication to good working relationships and practices. The Company seeks to ensure that employees are informed on matters relating to their employment and on financial and economic factors affecting the businesses. The Company actively seeks feedback and ideas from employees to improve its operations, and forums appropriate to Essentra's local businesses have been established to allow employees to voice their views as to how the Company should fulfil the demands of all its local and international stakeholders. The Company's European Information and Consultation Forum facilitates the discussion of issues across all of its operations in the European Union.

During 2016, the challenges which beset Essentra clearly had a negative impact on employee motivation and morale, particularly at the sites where issues arose. The Board and GMC are committed to improving communication and engagement as a critical success factors for the future development of the Company.

The Company recognises the importance of, and the benefits to be derived from, diversity across its international operations and is committed to offering equal opportunities to all people without discrimination of any form. Essentra remunerates fairly with respect to skills, performance and local market conditions.

The gender of Essentra's employees as at 31 December 2016 was:

	Male	Female
Non-Executive Directors	4	1
Executive Directors	2	0
Senior Managers	40	2
All employees	5,775	2,583

The Company gives full and fair considerations to employment applications by disabled people. In the event of employees becoming disabled, every effort is made to ensure that the training, career development and promotion opportunities available to disabled persons are as far as possible identical to those of non-disabled employees.

Throughout its global activities Essentra supports human rights as set down by the United Nations Declaration and its applicable International Labour Organisation conventions. Operations based in India, Indonesia and Thailand are also accredited to SA 8000 which details fundamental principles of human rights.

The Group's activities are carried out in developed countries that have strong legislation governing human rights. The Group complies fully with appropriate legislation in the countries in which it operates. Essentra's commitment to human rights is repeated in its Values and Code of Business Ethics policy.

Marketplace

Essentra's reputation with its customers and suppliers, and in the communities where it operates, is based not only on the quality of its performance, but also on the integrity of its management of the workplace and environment, and its ethical and responsible conduct in the marketplace. The development and continuation of long-term business relationships reflects the trust placed in the Company, and such commitments are an important component in the ongoing success of Essentra.

Essentra's Code of Business Ethics policy is applicable to all its businesses around the world. The policy details the standards expected by Essentra in the conduct of its business and its relationships with third parties, including free and fair competition, plus the prohibition of bribery and political donations, and provides general guidance on honest and fair dealings with suppliers, customers and local and national authorities.

Essentra is committed to working with its suppliers to ensure the welfare of workers and employment conditions within its supply chain meet or exceed internationally recognised standards.

Environment

Towards the end of 2016, a new health, safety and environment strategy was developed to drive improvements in performance and culture. This strategy initially focuses on four key pillars:

- Proportionate and robust management systems,standards and processes
- People (competence and culture)
- Shared learning
- Targeted interventions

This does not fundamentally change the Essentra approach to managing its environmental impact, which focuses on:

- Implementing and maintaining environmental and energy management systems certified to ISO 14001 and ISO 50001, on a global basis
- Measuring and monitoring consumption and emissions, and setting targets to improve performance
- Conducting environmental impact assessments and developing site management plans
- Providing training to employees, and engaging with customers and suppliers to raise environmental awareness
- Providing facilities to segregate and reuse or recycle waste

Essentra is listed in the FTSE4Good index which is designed to measure the performance of companies striving to meet globally recognised corporate responsibility standards, and to facilitate investment in those companies where corporate responsibility issues are an influencing factor in an investor's decision-making process.

In the UK, Essentra's sites comply with the Carbon Reduction Commitment ("CRC") legislation and we continue to apply the principles of the CRC to global operations.

All our principal manufacturing facilities have achieved the Environmental Management Systems ISO 14001 standard. We continue to drive ISO 14001 into all our manufacturing sites; at the end of 2016, 69% of these sites had achieved accreditation. Similarly, Essentra is working to achieve the Energy Management Systems ISO 50001 standard across all manufacturing facilities; at the end of 2016, 23% of these sites had achieved accreditation. However, following a review of the ISO 50001 implementation plan, it has been decided to drop some of the certifications, and to develop and standardise central approval to this via a Group certification programme.

Essentra uses a variety of indicators to monitor environmental performance, but the following core impacts are identified for the Group as a whole:

- Greenhouse gas emissions from energy use, including electricity, natural gas, heating fuel, transport and travel
- Use of resources, including water
- Generation and disposal of waste

Essentra is continuously seeking ways to improve its utilisation of natural resources. A process of continuous improvement is applied not only to the impact of its usage, but also to the measurement and capture of key environmental data. The Group has research and development facilities in the UK, Asia and the US to investigate the use of renewable resources and recyclable biodegradable versions of products.

The following assumptions, methodology, definitions and data validation processes have been used to report the Group's key environmental performance indicators in 2016. The reported data complies with the Companies Act, for the Mandatory Reporting of Greenhouse Gases.

- Boundary scope: Data from all locations over which the Company has operational control is collected and measured
- Primary data sources: These include billing, invoices and other systems provided by the supplier of the energy to communicate energy consumption
- Secondary data sources: These include the Company's internal systems used to record and report the above consumption data
- Internal data validation: The process used to review and compare primary data with secondary data. All invoices and data loggers for locations consuming more than 1 million Kwh

per year are cross-checked with the data held within the Company's own internal data capture systems

> Conversion factors: The "CO_2 Emissions from Fuel Combustion (2016 edition)", published by the International Energy Agency, has been used for converting gross emissions

> Intensity metric: Total carbon emissions per £m of revenue are used to calculate the Company's intensity metric

Site consolidation activities – together with ongoing energy improvement initiatives – have led to a decreased use of energy across the Group, as measured using total carbon emissions per £million revenue as the normalisation criteria.

Tonnes of CO_2 e (gross)

	Year ended 31 Dec 2015	Year ended 31 Dec 2016	% change from 2015
Scope 1	**11,543**	10,479	-9.2%
Scope 2[1]	**104,820**	95,748	-8.7%
Total gross emissions	**116,363**	106,228	-8.7%
Total carbon emissions per £m revenue	**104.95**	96.23	-8.3%

[1] Emissions from overseas electricity are in CO_2 only

Similarly reductions have been seen in water consumption, as measured using volume consumed per £million revenue as the normalisation criteria.

Water

	Year ended 31 Dec 2015	Year ended 31 Dec 2016	% change from 2015
m^3 per £million revenue	**299.5**	286.1	-4.5%

During the year, changes were made to the collection and classification of waste statistics to provide a more comprehensive set of data; it is, therefore, not possible to draw direct comparisons of waste streams in 2016 with those in 2015.

Waste

	Year ended 31 Dec 2016
General waste[1] (tonnes)	**6,530**
Factory waste[2] (tonnes)	**23,020**
Incinerated waste (tonnes)	**1,704**
Hazardous / special waste[3] (tonnes)	**726**

[1] Sent to landfill
[2] Sent to recycling
[3] Sent to special disposal

Given the diversity and scale of Essentra's international operations, the use of energy and raw materials has both environmental and commercial importance. Where possible, and financially viable, raw materials and energy from renewable resources are utilised to limit environmental impact, commercial risk and costs. Local management drives environmental performance in accordance with Group policy (copies of which can be found on the Company's website) and local legislation.

Community

Essentra's commitment to being a responsible corporate citizen extends to support for appropriate non-political and non-sectarian projects across a range of organisations and charities. Regardless of regional or national boundaries, the Company aims to support the creation of prosperous, educated, sustainable and healthy communities in the countries and cultures in which it operates. In its attempts to bring benefits back to those communities whose support provides a basis for Essentra's success, the Company has focused on education and enterprise, health and welfare and the environment, with support driven at a local, rather than a corporate level. The approach is to support and enhance employee efforts in their communities through the application of the Company's resources. In pursuit of its aims within the community, Essentra has developed targeted programmes for local communities, often involving commercial sponsorship and significant employee engagement through direct involvement or secondment.

Ethics

Essentra's culture is one of openness, integrity and accountability. Employees are required to act fairly in their dealings with fellow colleagues, suppliers, customers and business partners. All employees undertake training in the Company's Code of Business Ethics policy which is updated annually. In addition, all employees are required to review and confirm their acceptance of critical Group policies, with the majority of employees being required to review and accept all of the Group's policies. Essentra operates a confidential whistleblowing policy called "Right to Speak", with an external call centre which enables all Group employees to raise any concerns.

Essentra adopts a zero tolerance approach to bribery and corruption, which extends to all business dealings and transactions in which the Company is involved. This includes prohibiting political donations, offering or receiving inappropriate gifts and making facilitation payments.

GROUP MANAGEMENT COMMITTEE

Paul Forman
Chief Executive

Paul's biographical details can be found on page 46.

Stefan Schellinger
Group Finance Director

Stefan's biographical details can be found on page 47.

Jon Green
Company Secretary & General Counsel

Jon Green joined Essentra in 2005, and was appointed Company Secretary & General Counsel in July 2005. Prior to joining Essentra, Jon worked as an in-house lawyer for a number of large international businesses, including Hays plc and Unilever plc. Jon is a qualified solicitor.

PT Sreekumar
Managing Director, Filter Products / Managing Director Asia

PT Sreekumar joined Essentra in 1995, being initially responsible for the Company's joint venture in India. Before being appointed to the role of Managing Director, Filter Products in 2005, Sreekumar was Regional Director for Asia Pacific, responsible for the business in Asia and the Middle East. Prior to joining Essentra, Sreekumar worked for the Indian tobacco company Godfrey Philips.

Joanna Speed
Corporate Affairs Director

Joanna Speed joined Essentra in 2011 as Corporate Affairs Director, having previously held the position of Investor Relations Director at Reckitt Benckiser Group plc and Scottish & Newcastle plc. Prior to this, Joanna was an equity analyst and worked in investment banking for a number of international banks. Joanna is a Chartered Accountant, having qualified with Arthur Andersen.

Gavin Leathem
Group Human Resources Director

Gavin Leathem joined Essentra as Group Human Resource Director in 2014. Prior to joining Essentra, Gavin was Vice President of HR for Europe, Middle East and Africa at Emerson Network Power Systems, before which he was Group HR Director at Chloride Group plc during his 13-year career there. Gavin is a Chartered Fellow of the Institute of Personnel & Development.

Brett York
President, Americas

Brett York joined Essentra in 2001 as Vice President of Sales & Marketing for the US Components business. Before being appointed to his current role in January 2014, Brett held the position of President of Component Distribution Americas from 2012 and President of the Speciality Tapes business from 2007. Prior to joining Essentra, Brett held a variety of increasingly senior commercial and operational positions at a number of companies, including Industrial Molding Corp., Waddington and PepsiCo.

Malcolm Waugh
Group Commercial Director / Managing Director, Health & Personal Care Packaging

Malcolm Waugh joined Essentra in 2007 as Managing Director of the Tear Tape business, and was appointed to the role of Group Commercial Director in January 2012. Prior to joining Essentra, Malcolm was Commercial Director at Tetra Pak UK and Ireland, holding a variety of business development and commercial positions during his 18-year career there.

Scott Fawcett

Managing Director, Component Solutions

Scott Fawcett joined Essentra in 2010 as Managing Director of the European Components business, and was appointed to his current role in January 2014. Prior to joining Essentra, Scott was Head of eCommerce at Electrocomponents plc, where he held a variety of increasingly senior sales, marketing and eCommerce positions during his 17-year career there.

Hugh Ross

Managing Director, Europe

Hugh Ross joined Essentra in 1999. Before being appointed to his current role in January 2014, Hugh was President of the Speciality Tapes business in the US, prior to which he held increasingly senior roles in the Filter Products and the Packaging & Securing Solutions businesses in North America. Hugh is a Chartered Accountant, having qualified with PwC, and served as an Officer in the British Army.

BOARD OF DIRECTORS

Paul Lester, CBE

Non-Executive Chairman
Appointed to the Board: December 2015

Skills and experience

Paul is currently Chairman of the FTSE 250 company John Laing Infrastructure Fund, Greenergy – the second largest private company in the UK – Forterra plc and Knight Square Holdings. Paul brings a wealth of experience to Essentra, gained in increasingly senior operational and strategic executive roles, and has also served on a number of Boards in a non-executive capacity for more than 20 years.

Paul assumed the role of Non-Executive Chairman following the Company's 2016 AGM on 20 April 2016.

Other appointments

Chairman of John Laing Infrastructure Fund, Greenergy, Forterra plc and Knight Square Holdings.

Past appointments

Chairman of Parabis Group, Chief Executive of VT Group plc and Graseby plc, Group Managing Director of Balfour Beatty plc, President of the Society of Maritime Industries, the BSA and the Engineering Employers Federation.

Paul Forman

Chief Executive
Appointed to the Board: January 2017

Skills and experience

Prior to joining Essentra, Paul was Group Chief Executive of Coats Group plc – the world's leading industrial thread manufacturer – for seven years, where he oversaw company rationalisation as well as growth through acquisition, instigated and delivered a clear vision and corporate strategy, drove material improvements in financial performance and built the momentum to position the business as an innovative and global industry leader.

Before assuming the role of Group Chief Executive, Paul held a number of increasingly senior operational and strategic positions at a variety of companies, and has a proven track record of international manufacturing experience at the highest level.

Other appointments

Non-Executive Director of Tate & Lyle plc.

Past appointments

Group Chief Executive of Coats Group plc and Low & Bonar PLC, Non-Executive Director of Brammer plc.

Terry Twigger

Senior Independent
Non-Executive Director
Appointed to the Board: June 2009

Skills and experience

Terry has considerable mergers and acquisitions experience and has also held a number of senior finance roles, including having previously been Finance Director at Meggitt PLC. Prior to his retirement in 2013, Terry was Chief Executive of Meggitt PLC.

Other appointments

Senior Independent Non-Executive Director and Chairman of the Audit Committee of X Power Limited.

Past appointments

Chief Executive of Meggitt PLC, Director of Lucas Aerospace.

Committee membership

Chairman of the Audit Committee, member of the Remuneration and Nomination Committees.

Stefan Schellinger

Group Finance Director
Appointed to the Board: October 2015

Skills and experience
Stefan joined Essentra in 2013, and prior to being appointed to his current position in 2015, he was Corporate Development Director where he played a key role in the development of the Company's strategy and in building its mergers and acquisitions activity. Before joining Essentra, Stefan was Finance Director – Emerging Markets at Gilbarco Veeder Root from 2011, having initially joined the Danaher Corporation as Director, Corporate Development – Europe in 2005. Stefan has extensive investment banking and accountancy experience, having previously worked at JP Morgan and Arthur Andersen.

Tommy Breen

Non-Executive Director
Appointed to the Board: April 2015

Skills and experience
Tommy is currently Chief Executive of DCC plc, an international sales, marketing, distribution and business support services group, headquartered in Dublin and with operations in 13 countries. Tommy brings significant experience to Essentra, in particular of growing diverse businesses both organically and via acquisition during his 30-year career with DCC.

Other appointments
Chief Executive of DCC plc.

Committee membership
Member of the Audit, Remuneration and Nomination Committees.

Peter Hill, CBE

Non-Executive Director
Appointed to the Board: July 2013

Skills and experience
Peter is currently Non-Executive Chairman of Volution Group plc – a leading supplier of ventilation products, of Keller Group plc – the world's largest geotechnical contractor, and of Imagination Technologies Group plc – a global leading technology provider. Peter brings a wealth of experience to Essentra gained in particular in increasingly senior operational and strategic executive roles, and has also served on a number of Boards in a non-executive capacity for over 20 years.

Other appointments:
Chairman of Volution Group plc, Keller Group plc and Imagination Technologies plc, Non-Executive Director of the Royal Air Force.

Past appointments:
Chairman of Alent plc, Chief Executive of Laird PLC, Executive Director of Costain Group PLC, Non-Executive Director of Cookson Group plc, Meggitt PLC and Oxford Instruments plc, Non-Executive Board member of UK Trade and Investment.

Committee membership
Member of the Audit, Remuneration and Nomination Committees.

Lorraine Trainer

Non-Executive Director
Appointed to the Board: July 2013

Skills and experience
Lorraine began her executive career at Citibank, and has some 20 years' experience in Human Resources at such blue-chip companies as the London Stock Exchange and Coutts NatWest Group. Lorraine currently combines her Board work with consultancy at and around board level in Director development.

Other appointments
Non-Executive Director, Senior Independent Director and Chairman of the Remuneration Committee of Jupiter Fund Management plc, Non-Executive Director of Sonae – SGPS, S.A.

Past appointments
Non-Executive Director of Aegis Group plc and Colt Group S.A.

Committee membership
Chairman of the Remuneration Committee, member of the Audit and Nomination Committees.

Colin Day stepped down as Chief Executive with effect from 31 December 2016, and will retire from the Board and the Company following Essentra's 2017 Annual General Meeting on 20 April 2017

CHAIRMAN OF THE BOARD'S LETTER

Dear Shareholder,

FY 2016 was a year of challenge and change for our Company. Essentra, however, remains a fundamentally strong organisation with many positive features to build further upon, and I look forward to leading the Board and working with our new Chief Executive, Paul Forman, as we move forward behind the common objectives of delivering sustainable, long-term shareholder value, excellent customer service and a motivated and engaged workforce.

Board composition

Following the Company's 2016 AGM in April, I was pleased to assume the role of Non-Executive Chairman, upon the retirement of Jeff Harris. Jeff was appointed as Chairman upon the listing of Essentra as an independent company in 2005, and on behalf of my Board colleagues I would like to acknowledge and thank him for his dedication, commitment and counsel during his ten-year tenure.

Separately, at the time of our interim results in July we announced that, consistent with his long-term ambitions, Colin Day had advised the Board of his intention to focus increasingly on his Non-Executive activities in the future. As a result, and consistent with its planning processes, the Board initiated a search for an appropriate successor and, at end-October, announced the appointment of Paul Forman as Chief Executive with effect from 1 January 2017. Paul has joined Essentra from Coats Group plc ("Coats") – the world's leading industrial thread manufacturer – where he was Group Chief Executive since January 2010. Paul brings a proven track record of international experience at the highest level – notably at Coats, where he has overseen company rationalisation as well as growth through acquisition, instigated and delivered a clear vision and corporate strategy, driven material improvements in financial performance and built the momentum to position the business as the innovative and global industry leader it is today. His prior experience as an adviser in strategy and acquisitions will also prove extremely relevant in the future evolution of Essentra. The Board would like to thank Colin for his contribution to the development and performance of Essentra since 2011, and for his commitment and dedication during that time: we wish him well as he pursues his career beyond the Company.

Peter Hill has advised the Board of his intention to step down from his role as Non-Executive Director following the Company's 2017 AGM, given his Chairman commitments elsewhere. On behalf of my colleagues, I would like to thank Peter for his considerable and valued contribution, as well as his wise counsel, during his four-year tenure.

Strategic review

Following a challenging FY 2016, Paul's stated near-term priority is on stabilising the organisation – not least those handful of manufacturing sites where we have evidently experienced operational issues over the last twelve months. At the same time – and with the full support of the Board – he has already initiated a wholesale strategic review of the Company, to provide a clear and objective assessment of the current status and positioning of the various business activities within the Essentra organisation, together with their future potential. The output of this review will be a clear corporate strategy (with options) which is aligned to a three-year plan, and provides a data-driven view of the areas which may require measured additional investment in capability / process and of how we intend to drive future growth. Further to discussion with, and approval by, the Board, it is intended that Paul presents this revised strategy alongside our interim 2017 results at end-July.

In conjunction with this strategic review, the Board will evaluate the appropriate deployment of capital in the business – including the amount which is returned to shareholders by way of dividends.

People and culture

On behalf of the Board, I would like to thank all our employees for their dedication and commitment: Essentra is proud of its international presence in 33 countries, and we recognise the significant contribution of our c. 9,000 employees. Indeed, as part of my introduction to the Company as Chairman, I had the pleasure of visiting a number of our facilities – from our European Components manufacturing hub in Kidlington and Americas headquarters in Westchester, US, to our Filter Products joint venture site in Dubai and Health & Personal Care Packaging operations in Charlotte, US, Portsmouth, UK and twice to Newport – and can testify to the skill and hard work of our people.

It is clear, however, that a year of challenge and change has had a detrimental impact on employee morale and motivation – particularly at those sites which have experienced integration issues. This was manifested in certain responses to our 2016 engagement survey, which highlighted a number of areas where we need to make improvement.

As part of his afore mentioned strategic review of the business, Paul is similarly very much focused on building employee engagement, not least in terms of communicating the principles he believes are fundamental to a winning organisation and, thus, making the most of the considerable talent which we have. He is also committed to ensuring that the local action plans and Company-wide initiatives which are suggested by the post-survey focus groups are monitored and executed in an appropriately timely fashion. I and my Board colleagues wholeheartedly support him in this approach – in terms of ensuring we maintain a safe, respectful and diverse working environment which duly engages and helps to maximise the talent of all our employees. Indeed, the Board is encouraged by the improved communication with employees which has already taken place since Paul's appointment, and which is planned as part of the strategic review process and beyond.

Reinforcing the Board's commitment to the health, safety and welfare of our employees, those who visit the Company's locations and those who carry out work on our behalf, I have initiated a programme of "safety walks", with each Non-Executive Director independently visiting at least one of our facilities per year and undertaking a review of HSE policies and procedures while on-site.

Board evaluation

As the Company continues to develop, one of the greatest challenges facing the Board is to ensure that we have in place the right people, culture and processes to exploit fully the opportunities available to Essentra, and to manage effectively the risks to which the organisation is exposed. Accordingly, it is essential that the Company has a fully engaged and committed Board with an appropriate mix of skills, experience and knowledge, which is capable of engaging in positive and constructive debate to meet these challenges. With the forthcoming departure of Peter Hill, the Board is looking afresh at composition, with a view to targeting recruitment to increase diversity and international experience relevant to the Company.

In light of the change in Chairman during the year – and the arrival of a new Chief Executive at the very outset of 2017 – it was not considered appropriate to commission a Board evaluation during the year. Rather, a review is currently underway, with a key area of focus being to establish the ways in which the Board can maximise its impact in support of Paul and the senior management team, behind a new strategy and a reinvigorated and engaging culture. The Company has re-engaged Lintstock, an independent third party, to oversee and co-ordinate the process. Given the decision to postpone the Board evaluation to early 2017, Essentra was not in compliance with provision B.6.1 of the UK Corporate Governance Code 2014 throughout 2016.

Summary

I strongly believe that good governance is a cornerstone of a successful company, founded on the principles and behaviours established by the Board and communicated throughout the Company. My fellow colleagues and I are therefore encouraged by the positive interaction which has already been initiated by our new Chief Executive, and our collective commitment to promoting a strong culture of the highest standards of business ethics based on clear principles. In support of Paul's new strategy to deliver sustainable, long-term shareholder value, the Board will thus seek to continue to strengthen internal controls and reporting in order to establish an appropriate framework of policies, processes and management systems, subject to an agreed balance of risk and reward in the Company's pursuit of its objectives.

PAUL LESTER, CBE
Chairman
17 February 2017

CORPORATE GOVERNANCE FRAMEWORK

The Board
In fulfilling its role, the Board:

- Sets, continually reviews and tests the Company's strategic aims
- Determines the nature and extent of acceptable risks in achieving its strategic objectives
- Oversees the establishment of formal and transparent arrangements for the application of corporate reporting, risk management and internal control requirements and principles
- Ensures that the necessary financial and human resources are in place for the Company to meet its objectives
- Sets the Company's values and standards
- Reviews the performance of the Company's executive management
- Presents a fair, balanced and understandable assessment of the Company's position and prospects to its shareholders

The Audit Committee supports the Board in establishing formal and transparent arrangements for considering how it should apply the required financial reporting, internal control principles and risk management processes, and the audit of the Financial Statements of the Company.

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policy and aligning senior executives' remuneration with the interests of shareholders and other stakeholders, particularly in the design of the performance-related elements of remuneration packages.

The Nomination Committee is responsible for selecting and recommending candidates for appointment as Executive and Non-Executive Directors of the Company, taking into account the balance, structure and composition of the Board, and the future challenges and opportunities facing the Company.

The terms of reference for each of the Audit, Remuneration and Nomination Committee can be found on the Company's website www.essentraplc.com.

The Group Management Committee ("GMC") provides general executive management of the Company within agreed delegated authority limits determined by the Board.

In fulfilling its role, the GMC:

- Develops and implements strategy, financial and operational plans, and targets and allocates resources
- Monitors and delivers financial and operating performance
- Maintains an effective internal control framework and is responsible for compliance
- Implements an effective management structure and develops comprehensive succession plans
- Is responsible for effective internal and external reporting and communication

The Group Leadership Team ("GLT") comprises the most senior managers from across the Group who are collectively charged with driving the Company's strategic objectives. The GLT plays a key role in reinforcing the behaviours that contribute to a robust governance culture across the Group.

CORPORATE GOVERNANCE REPORT

Board membership and meeting attendance
Board Chairman: Paul Lester

Paul Lester	8 (8)
Colin Day	8 (8)
Terry Twigger	8 (8)
Stefan Schellinger	8 (8)
Tommy Breen	8 (8)
Peter Hill	8 (8)
Lorraine Trainer	8 (8)
Jeff Harris	2 (2)

Figures in brackets denote the maximum number of meetings that could have been attended.

The Essentra Board is accountable to all the Company's stakeholders for the standards of governance which are maintained across Essentra's diverse range of global businesses.

During the year, Essentra was and continues to be subject to the UK Corporate Governance Code ("the Code") 2014 published by the Financial Reporting Council, a copy of which can be found on its website www.frc.org.uk.

The Board has reviewed its operations and governance framework and confirms that, as at the date of this report, the Company has complied with the provisions set out in the UK Corporate Governance Code, except for B.6.1.

Given the succession and transition processes associated with the appointment of Paul Lester as Chairman with effect from April 2016, and of Paul Forman as Chief Executive with effect from 1 January 2017, the Board concluded that its future needs would be best served by delaying a Board evaluation until February 2017. The Board is currently undertaking a review process in conjunction with an external facilitator, Linstock. The evaluation process has a clear focus on identifying areas where the Board can improve its performance to support the new strategic objectives being developed by the new Chief Executive.

There is no related party connection with Linstock, and this assignment is being undertaken on an arms' length basis.

The Company applies the Code's principles of openness, integrity and accountability through its own behaviour, corporate governance best practice and by adopting, as appropriate and proportionate for a company of the size and nature of Essentra, recommendations of relevant professional bodies.

The Board is collectively responsible for the long-term success of the Company, and its role is to provide entrepreneurial leadership within a framework of prudent and effective controls, which enables risk to be assessed and managed in the pursuit of the Company's strategic objectives.

Board composition and independence
As at the date of this report, the Board has eight members, comprising a Non-Executive Chairman, three Executive Directors, and four Non-Executive Directors. The names of the Directors serving during the year and at the date of this report are set out below.

Paul Lester	Non-Executive Chairman
Paul Forman	Chief Executive, appointed 1 January 2017
Terry Twigger	Senior Independent Non-Executive Director
Tommy Breen	Non-Executive Director
Peter Hill	Non-Executive Director
Lorraine Trainer	Non-Executive Director
Stefan Schellinger	Executive Director
Colin Day	Executive Director
Jeff Harris	Non-Executive Chairman retired 20 April 2016

The Board believes that it and its Committees have the appropriate composition to discharge their respective duties effectively with the appropriate level of challenge and level of independence, and that the members of the Board in conjunction with the senior executive teams are well equipped to drive, and are capable of delivering, the Company's strategic objectives. The Board is of the view that it has a highly competent Chairman who, together with each of the other Non-Executive Directors, has considerable international experience at a senior level in the management of activities broadly similar to those carried out by Essentra and the material issues likely to arise for the Group.

The roles of the Chairman and the Chief Executive are separately held and are so defined as to ensure a clear separation of responsibilities. Details are available on the Company's website www.essentraplc.com. The Chairman leads the Board and ensures its effectiveness, and the Chief Executive is responsible for the executive management and performance of Essentra's operations. Together with the primary responsibilities of the Senior Independent ("SI") Non-Executive Director, the other Non-Executive Directors and the clear definition of reserved matters and delegated authorities, there is a system which exists of checks and balances in which no individual has unfettered decision-making power.

Chairman

> Leads the Board

> Ensures effective communication with shareholders

> Ensures effective communication flows between Directors

> Facilitates the effective communication of all Directors

Chief Executive

> Implements strategy

> Develops manageable goals and priorities

> Leads and motivates the management teams

> Develops proposals to present to the Board on all areas reserved for its judgement

Company Secretary

The Company Secretary maintains a record of attendance at Board meetings and Committee meetings. The Company Secretary's other responsibilities include ensuring good information flows to the Board and its Committees, and between senior management and the Non-Executive Directors, advising the Board on all legal and corporate governance matters, and assisting the Chairman in ensuring that the Directors have suitably tailored and detailed induction and ongoing professional development programmes.

The Board maintains that, for the year ended 31 December 2016, the Non-Executive Directors were each considered to be independent.

In assessing independence, the Board considers that the Chairman and Non-Executive Directors are independent of management and free from business and other relationships which could interfere with the exercise of independent judgement now and in the future. The Board believes that any shareholdings of the Chairman and Non-Executive Directors serve to align their interests with those of the shareholders.

The Board considers that the Non-Executive Directors provide an independent view in Board discussions and in the development of the Company's strategy. Non-Executive Directors also ensure a sound basis for good corporate governance for the Company, challenging management's performance and, in conjunction with the Executive Directors, ensuring that rigorous financial controls and systems of risk management are maintained as appropriate to the needs of the businesses within Essentra.

The Board is content that the Non-Executive Directors devote sufficient time to the business of Essentra.

Executive Directors may accept outside appointments, provided that such appointments do not in any way prejudice the ability to perform their duties on behalf of Essentra.

Paul Forman, Chief Executive, currently holds one external non-executive position, but the Board is of the view that this is not detrimental to the performance of his duties given the time requirements involved.

During 2016, Colin Day held three external non-executive positions. Colin Day stepped down as Chief Executive on 31 December 2016 to focus on his external appointments, and he will retire from the Company and the Board with effect from the close of the 2017 AGM.

The letters of appointment for Non-Executive Directors are available for review at the Company's registered office and prior to the AGM.

The Company's Articles of Association require that all new Directors seek election to the Board at the AGM following their appointment. In addition, the Board has agreed that, in compliance with the Code, all eligible Directors will put themselves forward for re-election on an annual basis. The Board is satisfied that each of the Directors being put forward for re-election at the AGM continues to be effective and that their ongoing commitment to the role is undiminished.

The conduct of Board matters

In managing the affairs of the Company, the Board has adopted a schedule of reserved matters which are to be reviewed annually including:

> Strategy and resources
> Annual plan
> Treasury policies
> Major capital and operating expenditure proposals
> Major acquisitions and disposals
> Debt facilities
> Key Group policies
> Appointments to the Board
> Systems of internal control
> Dividend payments
> Categories of public announcements

The detailed implementation of all these, and general operational matters, are the responsibility of executive senior management and regular formal reports are provided to the Board.

During 2016, the Board was closely engaged in the detailed monitoring of performance and the actions necessary to maintain the balanced, profitable growth of the Company in accordance with its strategic objectives, details of which can be found on the Company's website www.essentraplc.com.

Boards and Committees

During the year, there were eight scheduled Board meetings. In addition to these scheduled formal meetings, the Board met on a number of other occasions as required and, in particular, reviewed in detail the ongoing performance reports of the Company.

The Chairman and Chief Executive maintain regular contact with the Directors, and the Chairman also holds as appropriate, from time to time, informal discussions with Non-Executive Directors individually or collectively without any of the Executive Directors being present, to review performance, discuss succession issues, to monitor corporate control mechanisms and to discuss any other material matters relevant to the Board.

The Chairman, in conjunction with the Company Secretary & General Counsel, sets the programme for the Board during the year. The Board considers reports from the Chief Executive and the Group Finance Director covering operational, financial performance and other significant business issues together with regular updates on any material issues which may impact the Group. Board meetings are structured to allow open discussion, and all Directors participate in determining the Group's strategy and regularly reviewing the trading and financial performance of the Company.

Committees are a valuable part of the Company's corporate governance structure, and the Board looks to the Audit Committee in particular to undertake the majority of the work involved in monitoring and seeking assurance as to compliance with the controls within this framework. However, the Board as a whole maintains oversight of such important matters and, after each Committee meeting, the Chairman of the Audit Committee reports on the matters which have been reviewed.

Other specific responsibilities are delegated to the Nomination and Remuneration Committees. These Committees report as appropriate to the Board. Each of the Committees has terms of reference approved by the Board, copies of which are available on the Company's website www.essentraplc.com or on request from the Company Secretary & General Counsel.

Operational matters and the responsibility for the day-to-day management of the businesses are delegated to the Chief Executive, supported by members of senior executive management as appropriate, within delegated authority limits and in accordance with clearly defined systems of internal control.

The Board was supported during the year by the GMC, which ensures a strong link between Essentra's overall corporate strategy and its implementation within an effective internal control environment.

The GMC, which provides general executive management of the Company within agreed delegated authority limits determined by the Board, consists of senior executive management, and the regional and SBU heads.

Engagement with management
The Board received detailed presentations from senior management across a range of businesses within the Company during the course of the year, in addition to reviewing the strategic plans and budgets of the Company. The Board also considers reports from senior functional management about matters of material importance to the Company which arise from time to time.

There is a programme of meetings, both formal and informal, with members of the senior executive management, and the Board has the opportunity to engage with local management during site visits. The Board derives a better understanding of the Company's operations and business model as a result of such contact.

Applying Essentra's Corporate Responsibility principles
The Chief Executive is the Director with primary responsibility for the implementation and integration of Essentra's Corporate Responsibility principles across the Company. During 2016, the Group Human Resources Director, supported by the Company Secretary & General Counsel, was responsible for co-ordinating the operation of detailed policies on health and safety, ethics and the environment which support Essentra's commitment to its Corporate Responsibility principles. Further details of these policies can be viewed in the Corporate Responsibility report on page 38 and on the Company's website www.essentraplc.com.

Conflict of interests
Directors have a statutory duty to avoid actual or potential conflicts of interest. The Company's Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company. In addition, the Company has a Conflict of Interests policy governing the responsibilities of Directors in such situations. The decision to authorise a conflict of interest can only be made by non-conflicted Directors (ie, those who have no interest in the matter being considered) and, in making such a decision, the Directors must act honestly and in good faith when giving authorisation where they think this is appropriate, and will be most likely to promote the Company's success. The Company Secretary & General Counsel maintains a register of Directors' interests so that any potential concerns are addressed before any material concerns may arise. During the course of the year, there were no material conflicts of interest impacting on the conduct of the Board's activities.

Information and professional development
The Chairman, supported by the Company Secretary & General Counsel, takes responsibility for ensuring that the Directors receive accurate, timely and clear information.

On appointment, an induction programme tailored to their individual needs is available to Directors, and is designed to assist them in their understanding of Essentra and its operations. Throughout a Director's tenure, they are encouraged to develop their knowledge of the Group through meetings with senior management and site visits. Directors are also provided with updates, as appropriate, on matters such as fiduciary duties, Companies Act requirements, share dealing restrictions and corporate governance matters.

Since joining the Board as a Non-Executive Director on 23 December 2015, Paul Lester has embarked on a comprehensive induction programme to the Essentra Group, which has involved him visiting a number of sites, both in the UK and overseas. Paul has also engaged with the senior management team on a regular basis, in order to gain a better understanding of the Group and the key challenges surrounding its future strategic objectives.

All Directors have access to the advice and services of the Company Secretary & General Counsel, who is responsible to the Chairman for ensuring that Board procedures are complied with, and that applicable rules and regulations are followed. During the year under review, the Company Secretary & General Counsel's advice was sought in relation to share dealings. In the furtherance of their duties, there are agreed procedures for the Directors to take independent professional advice, if necessary, at the Company's expense. No Director took independent professional advice during the year.

Shareholder communications
The Board recognises the importance of effective communication, and seeks to maintain open and transparent relationships with its shareholders and other stakeholders, including providers of finance, customers and suppliers. This is achieved by regular updates through public announcements, the corporate website and other published material.

All shareholders have the opportunity to meet any of the Directors of the Company should they so wish. Feedback from meetings with shareholders is provided to the Board so they are aware of any issues or concerns, and ensures that the Board has a balanced view from the major investors. Additionally, the Board uses the AGM as an occasion to communicate with all shareholders, including private investors, who are provided with the opportunity to question the Directors. At the AGM, the level of proxy votes lodged on each resolution is made available, both at the meeting and subsequently on the Company's website. Each substantially separate issue is presented as a separate resolution, and the Chairmen of the Audit, Nomination and Remuneration Committees are available to answer questions from shareholders.

The Company also communicates regularly with its major institutional shareholders and ensures that all the Directors, including the Non-Executive Directors, have an understanding of the views and concerns of major shareholders, and are able to explain business developments and financial results as appropriate. The Chief Executive, Group Finance Director and Corporate Affairs Director have primary responsibility for investor relations. Presentations for analysts and shareholders were held during the year, and meetings were also undertaken with key institutional investors to discuss strategy, financial performance and investment activities. Slide presentations are made immediately available after the full and half-year results, and are also available on the Company's website to view and download. The Company ensures that any price-sensitive information is released to all shareholders at the same time, in accordance with regulatory requirements.

Board roles
The SI Non-Executive Director, currently Terry Twigger, can be contacted via the Company's registered office. In that role, he is available to shareholders to discuss and develop an understanding of their issues and any concerns which cannot be resolved by discussions with the Chairman, the Chief Executive or Group Finance Director, or where such contact is inappropriate.

Financial reporting
The Directors have acknowledged, in the Statement of Directors' Responsibilities set out on page 87, their responsibility for preparing the Financial Statements of the Company and the Group. The Directors are responsible for preparing the Annual Report and Accounts, and they consider that the Annual Report and Accounts taken as a whole are fair, balanced and understandable. The external auditor has included a statement about their reporting responsibilities in the Independent Auditor's Report, set out on pages 146 to 150.

The Directors are also responsible for the publication of Half Year Results, as required by the Disclosure and Transparency Rules of the Financial Conduct Authority. This provides a general description of the financial position and performance of the Company and the Group during the relevant period.

Directors' and Officers' insurance
In accordance with the Company's Articles of Association, and to the extent permitted by the laws of England and Wales, the Directors are granted an indemnity from the Company in respect of those liabilities incurred as a result of their office. In respect of those matters for which the Directors may not be indemnified, the Company maintained a Directors' and Officers' Liability Insurance policy throughout the year. It is anticipated this policy will be renewed. Neither the Company's indemnity, nor the insurance provides cover, to the extent that a Director is proven to have acted dishonestly or fraudulently.

Internal controls
In accordance with the Code, the Board acknowledges its overall responsibility to shareholders to ensure that an adequate system of risk management and internal control is in place. This is essential for reliable financial reporting and also for the effective management of the Group.

Overseeing the effectiveness of the system has been delegated to the Audit Committee, which assesses the quality of the control environment when monitoring and reviewing the integrity of the Group's Financial Statements, and any significant judgements that were made in their preparation. Essentra's internal controls are designed to safeguard the Company's assets, and to ensure the integrity and reliability of information used both within the businesses and for public announcements. The Board has overall responsibility for the Company's system of internal control and risk management, and for reviewing the effectiveness of this system. Such a system can only be designed to mitigate, rather than eliminate, the risk of failure to achieve business objectives, and can therefore only provide reasonable, and not absolute, assurance against material misstatement or loss.

The following procedures are in place which enable the Board to review the effectiveness of the system of internal control:

- The Audit Committee meets regularly and reviews the effectiveness of the internal control environment of the Group
- The Audit Committee is supported by the Group Assurance function, which undertakes extensive internal audit responsibilities across the Group. Risk management reports are presented which detail an analysis of the key risks at a Group level, summarise developments potentially impacting the Group from a risk, governance or compliance perspective and propose actions for the Company in response to such developments
- The Board has the opportunity to review the internal control environment at local sites when Board meetings are held away from the Company's head office

- Every month, each region and SBU submits detailed operating and financial reports covering all aspects of performance. These are reviewed within the Group's central finance function, and summary reports are communicated to the GMC and the Board
- Certificates are required from the businesses to confirm compliance with the Group's policies and procedures
- Self-certification is required from all businesses, at both the half year and year end, to confirm compliance with Group financial policies and procedures

Policies and procedures, which are subject to ongoing review and updated as required in response to strategic, operational, business, legal or regulatory developments, with the approval of the Board or its respective Committees as appropriate, are communicated across the Group. Essentra's internal controls are designed to ensure significant risks, investment decisions and management issues are identified, considered and escalated as necessary at the earliest opportunity. Regional Managing Directors and Presidents are responsible for ensuring the communication of, and compliance with, Essentra's internal controls across their respective regions.

Control of significant risks

The Board's responsibility for risk and risk management in Essentra encompasses:

- Determining the Company's approach to risk
- Setting and instilling the appropriate culture throughout the Company
- Identifying the risks inherent in the Company's business model and strategy, including risks from external factors
- Monitoring the Company's exposure to risk and the key risks that could undermine its strategy, reputation or long-term viability
- Providing an effective oversight of the risk management processes in the Company
- Ensuring the Company has effective crisis management systems

A Group risk framework is in place which supports the Board in fulfilling these responsibilities and serves to reinforce the risk review processes embedded within the businesses.

The Audit Committee enhances the quality of the Board's oversight of the risk management process within Essentra, but does not determine the Company's attitude and tolerance for risk.

The risk management activities within the Company are supported by the Operational Risk Management Committee, which reports to the Audit Committee through the Group Head of Assurance, and the Executive Risk Management Committee which reports to the Board through the Chief Executive.

The respective risk committees met on a regular basis during the year and reported to the Board or Audit Committee, as appropriate, on the Company's identification and mitigation of risk within the parameters established by the Board.

The Board has carried out a robust assessment of the principal risks facing the Company. Descriptions of those risks and explanations of the Company's approach to risk management are detailed at pages 31 to 37 of the report. An ongoing process for identifying, evaluating and managing principal risks faced by the Company was in place throughout 2016, and up to the date of approval of the 2016 Annual Report. This process has been reviewed by the Audit Committee and is assessed routinely, to ensure that the system of internal control and risk management remains fit for purpose.

Notwithstanding the operational processes which were in place, and designed to mitigate potential issues, the Company acknowledges that there was a failure to successfully mitigate risks identified with the integration of the Health & Personal Care Packaging business. As such, the Board has requested a review of the Company's approach to risk mitigation and the processes necessary to deliver improvements in the Company's identification, assessment and mitigation of risk. The failure to address the decline in Health & Personal Care Packaging has been identified by the Board as a principal risk facing the Company and is addressed at page 32 of the report.

Nomination Committee
Committee Chairman: Paul Lester

Membership and attendance during the year

Paul Lester Non-Executive Chairman	4 (4)
Terry Twigger SI Non-Executive Director	4 (4)
Tommy Breen Non-Executive Director	4 (4)
Peter Hill Non-Executive Director	4 (4)
Lorraine Trainer Non-Executive Director	4 (4)
Jeff Harris[1] Non-Executive Chairman	0 (0)

[1] Jeff Harris was a member of the Committee up to his date of retirement in April 2016. During this time there were no Nomination Committee meetings

Figures in brackets denote the maximum number of meetings that could have been attended.

The Company Secretary & General Counsel acts as Secretary to the Nomination Committee.

Other attendees
The Chief Executive and the Group Human Resources Director attended by invitation as appropriate.

The Nomination Committee is responsible for selecting and recommending candidates for appointment as Executive and as Non-Executive Directors of the Company. In the furtherance of these duties, and when considering succession planning, the Nomination Committee looks at the balance, structure and composition of the Board and takes into account the future challenges and opportunities facing the Company.

During the year, the Nomination Committee met four times to discuss general succession planning for the Board and the appointment of a new Chief Executive.

The Nomination Committee, and the Board as a whole, supports the spirit of the recommendations set out in the Lord Davies Report "Women on Boards". Securing the right combination of skills, experience and expertise allows the Board to effectively lead the sustainable growth and success of the Company for the benefit of all stakeholders. The fundamental objective must be to ensure that the best people are appointed to do the best job for Essentra, taking into consideration other factors, such as market and international experience, and diversity of thought and background. Appointing people on merit, without any form of discrimination, is a key component of Essentra policies across all its international operations at all levels.

Nomination Committee 2016 key activities

- Reviewed the composition and structure of the Company's Board and the Committees
- Reviewed the succession planning for the Board and senior executives, and in doing so considered diversity, experience, knowledge and skills
- Reviewed the capabilities of external consultants to assist the Committee in the search for, and evaluation and appointment of, new individuals to the Board and its Committees
- Developed, in conjunction with external consultation, the key requirements for the new appointments to the Board, and assessed the capabilities of potential candidates
- Made recommendations to the Board for the appointment of Paul Forman as the new Chief Executive

The Nomination Committee was satisfied that the appointment of Paul Forman will provide the Board and the Group with the necessary skills and current experience relevant to the activities of the Company and its future development. The biography of Paul Forman is available on pages 46.

Zygos was engaged to assist the Nomination Committee's review and evaluation of potential candidates for the role of Chief Executive.

Korn Ferry was engaged to assist the Nomination Committee in the potential recruitment of additional Non-Executive Directors as part of the succession planning activities.

There is no related party connection with Zygos or Korn Ferry, and their respective assignments were undertaken on an arms' length basis.

AUDIT COMMITTEE CHAIRMAN'S LETTER

Dear Shareholder,

As Chairman of the Essentra plc Audit Committee, I am pleased to present the 2016 Audit Committee Report to shareholders and to be able to confirm, on behalf of the Board, that the Annual Report is fair, balanced and understandable.

In order for the Audit Committee to provide positive assurance to the Board, that the Annual Report, when taken as a whole, is fair, balanced and understandable – and also provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy – the following processes and controls have been put in place:

- An annual update is made to the Audit Committee on the fair, balanced and understandable requirement, including early notification of the matters under consideration for inclusion or otherwise in the narrative reporting of the 2016 results
- An experienced core team is responsible for the co-ordination of content submission, verification, detailed review and challenge
- Senior management confirms that the content regarding their respective area of responsibility is considered to be fair, balanced and understandable

These processes provide comfort to the Board, and allows them to make the statement as required by the 2014 UK Corporate Governance Code.

As reported in the 2015 Annual Report, and consistent with EU requirements, during the year the Company initiated a re-tender for the appointment of an external auditor for the 2017 audit. This competitive tender was overseen by the Audit Committee, and the selection process involved members of the Audit Committee as well as the Board and senior members of the Finance team.

The Audit Committee set out clear criteria under which each of the tender parties could be assessed, with the process including the sharing of both financial and non-financial information. In addition, meetings were held with me and members of executive management, and a number of site visits were carried out further to which gathering of information each party submitted their respective proposal document and gave a presentation to the Audit Committee.

Upon the conclusion of the process, the Audit Committee reviewed the performance of each tender party against its criteria and recommended to the Board that PricewaterhouseCoopers LLC ("PwC") were selected as the external auditor to be put forward for appointment at the 2017 AGM.

Assuming shareholder approval at the 2017 AGM, preparations are being put in place to ensure the smooth transition of the external audit responsibility from KPMG to PwC. On behalf of the Audit Committee, I would like to thank KPMG for their substantial contribution to Essentra since 2005, and for their professional approach to completing the transition.

I hope that you will support the Resolution at the 2017 AGM to appoint PwC as the Company's external auditor.

Another continued key area of focus for the Audit Committee during the year was cyber security, and the potential for such threats to affect the Company at all levels. While Essentra operates in industries which are generally perceived to be a relatively lower priority for attackers, the risk of such incidents is likely to increase over the next few years due to increasing external cyber threats (particularly focusing on manufacturing and design systems). Alongside regular updates from the Group Chief Information Officer, Ernst & Young ("EY") was appointed to provide an independent assessment of the current status of Essentra's cyber security capabilities.

I am pleased to report the conclusion was that the Company has made good progress with the development of its cyber security activities, and our results are for the most part in line with our FTSE peers – notwithstanding areas for continued improvement. Further scenario testing is planned during 2017 at an executive level, together with educational training across the wider organisation.

In conclusion, the Audit Committee is satisfied that the Company has maintained robust risk management and internal controls throughout the year, and that the internal audit programme is appropriately formulated and sufficiently resourced to confirm that these controls are effective.

The report aims to provide the following information:

> How the Audit Committee operates and engages with the Company, including the Group Assurance function and the Executive Directors

> The key activities which were reviewed by the Audit Committee, including those items of regular annual review and other current areas of focus

> The discussions and actions undertaken, in conjunction with the external auditor, on any significant judgements and / or issues

> Details of the ongoing review of the external auditor and the amount of non-audit work undertaken

TERRY TWIGGER
Audit Committee Chairman
17 February 2017

REPORT OF THE AUDIT COMMITTEE

Committee Chairman: Terry Twigger

Committee membership and meeting attendance

Terry Twigger SI Non-Executive Director	4 (4)
Tommy Breen Non-Executive Director	4 (4)
Peter Hill Non-Executive Director	3 (4)
Lorraine Trainer Non-Executive Director	4 (4)

Figures in brackets denote the maximum number of meetings that could have been attended.

Peter Hill was unable to attend one meeting due to a conflicting commitment.

The Company Secretary & General Counsel acts as Secretary to the Audit Committee.

Other attendees

The external auditor, Chairman of the Board, Group Finance Director, Group Financial Controller, Group Head of Assurance and members of the GMC attended meetings by invitation, as appropriate. During the year, the Audit Committee met the external auditor, KPMG LLP, and the Group Head of Assurance without the Executive Directors being present.

Governance

All the Audit Committee members are independent Non-Executive Directors, and have financial and / or related business experience gained in senior positions in other large diverse organisations.

Terry Twigger has been the Chairman of the Audit Committee since 2009, and the Board is satisfied that Terry has recent and relevant financial experience, further details of which can be found on page 46.

The Audit Committee supports the Board and reports to it on a regular basis, certainly no less frequently than at every Board meeting following a meeting of the Audit Committee.

There is an annual cycle of items that are to be considered by the Audit Committee. The timetable of these items is scheduled in accordance with the requirements of the annual audit cycle and any other requirements of the Audit Committee.

Responsibilities

The Board has approved terms of reference for the Audit Committee, which are available at www.essentraplc.com and are reviewed annually, and these provide a framework for the Audit Committee's work during the year. The terms are an oversight of the:

> Appropriateness of the Group's external financial reporting

> Relationship with, and performance of, the external auditor

> Group's system of internal control, including the risk management framework and the work of the internal audit function;

> Group's system of compliance activity

> Review of significant accounting judgements

Significant financial judgements for 2016

Tax liabilities

The Group is, from time to time, subject to tax assessments that may represent potential future tax exposures, which arise in the ordinary course of business from tax authorities in a number of the jurisdictions in which the Group operates. The Group assesses all such exposures in the context of the tax laws of the countries in which it operates and, where applicable, makes provisions for any settlements which it considers appropriate.

The Audit Committee reviewed the tax liabilities which existed at the start of the year, and those created during the year and the effective tax rate – together with their corresponding assumptions. The Audit Committee questioned and challenged the Group Finance Director as to the Company's risk attitude in this area.

Having considered the explanations and rationale provided by the Company, and taking this into consideration – along with the conclusion of the external auditor – the Audit Committee was satisfied that the tax liabilities were appropriate, and that the Group's tax disclosures were adequate given the nature of the activity undertaken by the Group.

Revenue recognition

There are a large number of sales transactions that are incurred across the Group. Given the risk that revenue may be recognised in the incorrect period over reporting dates, the Group needs to ensure that there are effective controls regarding the recording of sales transactions.

Revenue recognition continued to be a key area of audit focus, and the external auditor addressed the potential issue with the Audit Committee during the planning and scope of the external audit process. The Group Finance Director outlined the direction given to the Finance and Commercial organisations on all aspects of revenue recognition, as well as the reviews undertaken by management.

The Group Finance Director also acknowledged the degree of reliance on local judgement, but emphasised that local business controls and internal reporting requirements would make it unlikely that there were material or systematic errors.

Goodwill and intangible assets
As required by IAS 36, the Company undertakes assessment of the carrying value of intangible assets on an annual basis, or more frequently if there is an indication of impairment. The details of the work carried out and the results are in Note 8 of the Notes to the Financial Statements.

The operational challenges in the Health & Personal Care Packaging business provided an indication of impairment, and the Audit Committee reviewed and challenged the assumptions used in the impairment analysis for this SBU with the Group Finance Director. The Group Finance Director confirmed that the assumptions used were based on the Company's understanding of the markets in which the SBU operates and the forecast performance in these markets over the short and long term. The result of the analysis is an impairment of £123.9m.

The external auditor carried out an independent assessment of the impairment analysis and assumptions used by Essentra, taking into consideration fair value versus value in use and the applicable UK accounting standards. The external auditor concluded and confirmed to the Audit Committee that the assumptions used were reasonable. After careful consideration of the report, the Audit Committee was satisfied with the assumptions made and the judgements applied, and was satisfied that the Company's approach to the impairment review was appropriate and in line with accounting standards.

The Group Finance Director confirmed to the Audit Committee that no further businesses had been identified as having impairment triggers during the period.

Exceptional items
The Audit Committee is satisfied that the Group's definition of exceptional items remains clear, and that further disclosure is included where appropriate. The definition remains consistent with the prior year and in the current year, the Audit Committee has been involved in assessing the appropriateness of including impairment and restructuring within this disclosure, on the basis that they are one-off material items not relating to the Group's ongoing activities. Further details can be found in note 2 for further detail.

Audit Committee 2016 key activities

Financial Statements and reports

> Examined the 31 December 2016 Annual Report and Accounts and the 30 June 2016 Half Year Report. This involved reviewing, challenging and recommending for approval the going concern basis of preparation, the accounting policies and disclosures, the financial reporting issues and the assumptions and judgements made

> Reviewed in detail the key judgements of the Financial Statements and levels of disclosure

> Reviewed the effectiveness of the Group's internal controls and disclosures made in the Annual Report and Financial Statements

> Considered whether there were any new IFRS pronouncements that would be applicable to Essentra for the 2016 financial period and reviewed plans for the implementation, in future years, of IFRS 15 *Revenue from Contracts with Customers* and IFRS16 *Leases*.

> Reviewed the key responsibilities of the Directors, particularly in relation to the issues which should be considered in order to conclude the annual accounts are fair, balanced and understandable

> Considered the accounting principles to be adopted in the preparation of the 2017 accounts

Risk management and internal audit

> Reviewed and considered reports from the Group Head of Assurance, including any issues relating to internal controls and the status of actions taken in response to any identified concerns

> Monitored the development of risk management practices through the Group Assurance function

> Received reports from the Group Head of Assurance regarding the activities of the Operational Risk Management and the Executive Risk Management Committees

> Reviewed a Report prepared by the Group Assurance Finance on "Experience, Development and Retention of People in the Americas & Europe"

> Assessed the areas of focus for internal audit and the adequacy of coverage, having regard to the potential risks impacting the Group

> Reviewed the output from the Group processes used to identify, evaluate and mitigate risk, and considered the key risks arising from the Company's activities and the response of senior management to those challenges

> Reviewed an independent report prepared by EY on cyber security, and continued to receive regular reports from the Chief Information Officer on the development of the Company's response to cyber security and information technology risks

> Reviewed the adequacy of the Company's resources in relation to financial reporting, tax and treasury management requirements

> Oversaw compliance activities while monitoring the regulatory environment, and assessed any impact to the business

- Reviewed the Company's whistleblowing processes and reports made during the year under its Right to Speak policy
- Reviewed an independently commissioned report on the development and testing of the Company's business continuity plans and incident management practices

The Audit Committee takes responsibility for reviewing the Group's internal controls through its engagement with the Group Assurance function. The Group Head of Assurance is responsible for providing assurances as to the adequacy of internal controls throughout the Company, and attends each Audit Committee meeting. Prior to the start of each year, the Audit Committee agrees the annual internal audit plan, which is drawn up on a risk-based approach across a broad section of the Company's activities. Any significant findings from internal control audits undertaken during the year have been appropriately investigated, and necessary action taken to address and rectify any weaknesses that may have been identified.

With the significant growth and acquisition activity undertaken by the Company, and the expansion into new markets and geographies, the Audit Committee has sought assurance that the internal controls, together with risk management and compliance activities, have continued to develop in accordance with all relevant requirements, and that appropriate resource is being made available to respond to those demands.

During the year, it was reported to the Audit Committee that the quality of internal control in the businesses acquired in 2015 had not yet reached the expectations previously set by the Company. The audit reports produced by Group Assurance showed that, while progress has been made, there are still further improvements required in these businesses to ensure the standards are fully aligned with the rest of the Company. The Group Finance Director assured the Audit Committee that the appropriate resources were being put in place to ensure that the appropriate standards were being achieved, and that there was sufficient oversight from regional and Group financial management in this area.

As previously discussed in the Chairman of the Audit Committee's letter there, was produced and reviewed during the year an independent report from EY on the current adequacy of the Company's controls in relation to cyber security, and the potential procedures and systems which need to be implemented to guard against this risk. Alongside this, the Audit Committee continued to review the Company's cyber security capabilities and received regular presentations from both the Group Finance Director and the Chief Information Officer.

The Audit Committee continued its focus on the Group's compliance activities and received regular presentations from the Company Secretary & General Counsel. The Audit Committee noted the investment made by the Company in new systems designed to better facilitate compliance policy management and training across the Group, and deliver due diligence processes to assist in the management of third-party risk.

External auditor and non-audit work

- Reviewed and agreed the scope of the audit work to be undertaken by the external auditor
- Agreed the terms of engagement and fees to be paid to the external auditor for their audit of the 31 December 2016 Financial Statements
- Reviewed the qualifications, expertise, resources and independence of the external auditor, and assessed their performance
- Reviewed proposals for the engagement of the external auditor for non-audit services, and confirmed that their independence was safeguarded

The internal procedures implemented by the Company to ensure the Board maintains overall control for all material strategic, financial, operational and compliance matters affecting the Company are included within the internal control section of this Report.

The Board establishes the standards and values that govern the Group, and agrees the structure of the Group's internal controls.

Engagement of the external auditor

In order to protect independence and objectivity and provide fresh challenge to the business, the external auditor periodically changes the audit partners at a Group, divisional and country level in accordance with professional and regulatory standards. Such changes are carefully planned, to ensure that the Group benefits from staff continuity without incurring undue risk of inefficiency.

In line with the changes made to the UK Corporate Governance Code in 2012, which recommended that the external audit is put out to tender at least every ten years, last year it was advised that an external tender would commence after the 2016 AGM for the 2017 audit.

The tender process, initiated in July 2016, involved an audit tender team led by the Chairman of the Audit Committee, and comprising the Audit Committee, the Group Finance Director, the Group Financial Controller, as well as support from representatives of the Finance, IT, Legal and Company Secretarial teams. Three firms participated in the process, which included an Expression of Interest, Request for Proposal and a presentation followed by a question and answer session. The firms were given the opportunity to meet with management across the business enabling a detailed proposal document to be prepared by each firm, incorporating an audit and transition plan, team structure, approach to working with management, independence assessment and details of the firm's credentials, team experience and cost proposals. Detailed evaluation criteria and a scoring matrix were used to assist the Audit Committee in making its decision, which included input from all management meetings.

Following the conclusion of the formal tender process in November, the Board announced its intention to recommend to shareholders, for approval at the 2017 AGM, the appointment of PricewaterhouseCoopers as the Group's external auditor for the year ending 31 December 2017.

The tender was carried out in compliance with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 effective 1 January 2015, as issued by the Competition & Markets Authority in the UK.

The external auditor provides the Audit Committee with relevant reports, reviews, information and advice throughout the year, as set out in the terms of their engagement. Their performance was formally assessed by the Audit Committee in conjunction with the executive management team, and the Audit Committee is satisfied that the external auditor remained effective and provided appropriate independent challenge of the Company's management. In making its assessment of the external auditor, the Audit Committee had due regard to their expertise, resourcing and independence.

The Audit Committee has been kept up-to-date with the development of new EU-wide regulations concerning audit tenure and the longevity of audit firm relationships with companies they audit.

To fulfil its responsibility regarding the independence of the external auditor during 2016, the Audit Committee reviewed:

> Changes in senior audit personnel in the audit plan for the current year
> A report from the external auditor describing the arrangements to identify, report and manage any conflicts of interest
> The extent of non-audit services provided by the external auditor

To assess the effectiveness of the external auditor, the Audit Committee reviewed:

> The external auditor's fulfilment of the agreed audit plan and variations therefrom, and reports highlighting the major issues that arose during the course of the audit
> Feedback from the businesses, evaluating the performance of each audit team

The external auditor is engaged to express an opinion on the Financial Statements. The audit includes the review and test of the system of internal financial control and the data contained in the Financial Statements, to the extent necessary for expressing an audit opinion on the truth and fairness of the Financial Statements.

Non-audit services policy

The importance of maintaining the objectivity and independence of the external auditor, by minimising its involvement in projects of a non-audit nature, is of fundamental concern to the Audit Committee. It is, however, also acknowledged that, due to its detailed understanding of the Company's business, it may sometimes be necessary to involve the external auditor in non-audit related work, principally comprising further assurance services relating to due diligence and other duties carried out in respect of acquisitions, disposals, tax services, and other services. The Audit Committee has adopted a policy in relation to the engagement of the external auditor to supply non-audit services, with defined parameters and approval requirements in relation to any such appointments.

Details of the fees paid to KPMG LLP during the year can be found in note 2 to the Financial Statements on page 104.

REMUNERATION COMMITTEE CHAIRMAN'S LETTER

Dear Shareholder,

First let me say 2016 has been a very disappointing year for shareholders as a result of the various commercial and operational issues identified in the Full Year 2016 Review.

The design of our remuneration arrangements rewards good performance but also pays zero for missed targets. As a result, the Executive Directors and the wider Leadership Group will not be receiving any bonuses this year, and their 2014 LTIP awards will fully lapse.

Aligning pay and strategy

As outlined in the Full Year 2016 Review, a new corporate strategy will be formulated and implemented during 2017. The Remuneration Committee will be working alongside Paul Forman as his strategy work progresses. Our aim will be to develop a pay structure that complements the new strategy, and retains and engages the workforce required to deliver it.

Our proposals will be reflected in a revised Remuneration Policy for which shareholder approval will be sought at the 2018 AGM. We look forward to constructive discussion with our shareholders as we develop our proposals over the coming year.

Pay arrangements for 2017

As highlighted, the Executive Directors and the wider Leadership Group will be focused in 2017 on taking the necessary steps to put Essentra back on a more stable and sustainable footing from which medium-term growth can be restored. The Remuneration Committee's key pay decisions in relation to 2017 are designed to support this period of stabilisation.

> **Base salaries**
> There will be no salary increases in 2017 for the Executive Directors and the wider Leadership Group. This emphasises the focus on tight cost control within the stabilisation process.

> **Annual bonus**
> We have re-evaluated the Income Statement measures within the 2017 bonus, and will use operating profit and net income as independent performance measures (in 2016, operating profit and revenue were used as a combined measure).
>
> Also, in order to place greater emphasis on balance sheet management, an increased 30% (2016: 10%) of the 2017 bonus will be determined by net working capital performance.

> **LTIP**
> In 2015, we pledged to grant LTIP awards to the senior management team over a fixed number of shares for each year in the period 2015-17. Although the share price has fallen by more than 50% since the 2015 award, LTIP awards will continue to be granted in 2017 on this basis.
>
> It is important that the performance measures for the 2017 LTIP awards should be aligned with our strategy and be meaningful and robust. Accordingly, the Remuneration Committee will grant the awards and set the performance measures after the completion of the strategic review which we expect to be in July. Full details of the performance measures will be disclosed to shareholders when the awards are granted in July and in next year's Remuneration Report.

Full details of the Executive Directors' pay arrangements for 2017 are set out on pages 80 to 82.

Change in Chief Executive

Colin Day was replaced as Chief Executive by Paul Forman in January 2017. A summary of Paul Forman's remuneration arrangements, which are consistent with our current Remuneration Policy, is set out below:

- Salary of £625,000 subject to annual review at January 2018
- Pension provision worth 25% of salary, car allowance and standard other benefits
- Maximum annual bonus potential of 150% of salary, with half of any bonus deferred in shares for three years
- An annual award of performance shares under the LTIP Plan over shares worth 200% of salary
- A one-off additional award of performance shares under the LTIP over shares worth 100% of salary. This award was agreed by the Remuneration Committee to compensate him for the value of share awards granted by his previous employer that lapsed when he joined Essentra. The Remuneration Committee believes that this award was appropriate to secure Paul Forman's recruitment. The award will be wholly linked to Essentra's long-term performance, will have a longer vesting period and will be of lower value than the forfeited awards
- Shareholding guideline of 300% of salary

The Remuneration Committee has also considered termination pay arrangements for Colin Day. Full details of those arrangements are set out on page 79 of the Annual Report on Remuneration.

2017 AGM remuneration resolutions

There will be an advisory shareholder vote on the Annual Report on Remuneration (the "ARR") at the 2017 AGM. The ARR is on pages 71 to 82 and contains details of the remuneration received by the Directors during 2016, together with full details of how we intend to implement the Remuneration Policy during 2017.

The Remuneration Policy ("the Policy") was approved by shareholders at the 2015 AGM and will remain effective until the 2018 AGM. There is therefore no vote on the Policy at the 2017 AGM although, for shareholder reference, a summary of the Policy is on pages 66 to 70.

I hope you will find this Report to be clear and helpful in understanding our remuneration practices and, as ever, the Remuneration Committee welcomes any comment from shareholders.

LORRAINE TRAINER
Remuneration Committee Chairman
17 February 2017

REMUNERATION POLICY REPORT

Our Remuneration Policy Report ("the Policy") sets out the policies under which the Executive and Non-Executive Directors are remunerated. The Policy is designed to be in full compliance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the UK Corporate Governance Code 2008 (as amended) issued by the Financial Reporting Council and the Listing Rules.

The Policy was approved by shareholders at the 2015 AGM and was effective from 1 January 2015. The Policy can be found in full in the Essentra Annual Report 2014, a copy of which can be obtained from the Company's registered office or downloaded from www.essentraplc.com. A summary of the Policy is set out below, with appropriate updates to reflect the changes in Executive Directors since the Policy was approved. The Policy will not be subject to a vote at the 2017 AGM.

Summary of components of Executive Directors' remuneration

The Remuneration Committee structures senior executive remuneration in two distinct parts: (i) fixed remuneration of basic annual salary, pension and benefits; and (ii) variable performance-related remuneration in the form of cash bonuses, deferred share bonus and long-term incentive arrangements.

Remuneration for Executive Directors is structured so that the variable performance-related pay element forms a significant portion of each package. The majority of total remuneration at the maximum performance level will derive from the Company's long-term incentive arrangements. All incentives are designed to be aligned to delivery of Essentra's strategic priorities.

Policy table

Purpose and link to strategy	Operation	Opportunity	Performance measures
Basic annual salary			
To reflect the particular skills and experience of an individual and to provide a competitive basic salary	For the duration of this Remuneration Policy, basic salaries of Executive Directors in post when this Policy was approved by shareholders will be set at levels not exceeding those set out in this table. These salaries have been set by reference to a rounded assessment which considers: > The skills, performance and experience of the individual > Their roles and responsibilities > External market data	Colin Day: £675,000 (fixed until 31 December 2017) Salaries of the Executive Directors that have joined the Board since the Policy was approved by shareholders are set out on page 80 of the Annual Report on Remuneration	Not applicable
Annual bonus			
To incentivise the delivery of Company performance-related objectives, to aid retention and to align Directors' interests with those of the Company's shareholders	One half of the total annual bonus is paid in cash shortly after the announcement of the annual results. The other half is deferred into shares in the Deferred Annual Share Bonus award ("the DASB"), which will normally vest after three years subject to continued service Performance is assessed against measures and targets which are established on an annual basis by the Remuneration Committee. As performance increases so does the percentage payable up to the maximum The bonus is subject to malus and clawback provisions for a period of three years following the determination of the bonus. Circumstances in which these provisions could be applied by the Remuneration Committee are material misstatement in the Company's Financial Statements, error in assessing the performance conditions, serious misconduct by an individual or serious reputational damage to the Company or a relevant business unit An additional payment (in the form of cash or shares) may be made in respect of shares which vest under deferred awards to reflect the value of dividends which would have been paid on those shares during the vesting period (this payment may assume that dividends had been reinvested in Company shares on a cumulative basis)	Chief Executive – 150% of basic salary Group Finance Director – 125% of basic salary	The bonus will be based on performance assessed over one year using appropriate financial, strategic and individual performance measures The majority of the bonus will be determined by measure(s) of the Company's financial performance The remainder of the bonus will be based on financial, strategic or operational measures appropriate to the individual Director

Policy table

Purpose and link to strategy	Operation	Opportunity	Performance measures
Long-Term Incentive Plan 2015 ("LTIP 2015")			
To drive the long-term delivery of the Company's strategic objectives, to aid retention and to align Directors' interests with those of the Company's shareholders	An annual award of performance share awards with a three-year performance and usually with a three – year vesting period Awards are subject to malus and clawback provisions for a period of three years following the vesting of the awards Circumstances in which these provisions could be applied by the Remuneration Committee are material misstatement in the Company's Financial Statements, error in assessing the performance conditions, serious misconduct by an individual or serious reputational damage to the Company or a relevant business unit An additional payment (in the form of cash or shares) may be made in respect of shares which vest under LTIP 2015 awards, to reflect the value of dividends which would have been paid on those shares during the vesting period (this payment may assume that dividends had been reinvested in Company shares on a cumulative basis)	An award to any Executive Director is limited to a maximum of 300% of salary[1]	Vesting will be subject to performance conditions, as determined by the Remuneration Committee on an annual basis. The performance conditions will usually consist of relative TSR performance and adjusted EPS performance, measured over a three-year period The Remuneration Committee may adjust the weightings of the performance conditions to include an additional or alternative performance measure which is aligned to the corporate strategy. 25% of each element vests at threshold performance, usually rising on a straight-line basis for performance up to the maximum level for full payment

[1] The policy states that Executive Directors in post at the start of the policy, Colin Day and Matthew Gregory, were to receive an annual award over a fixed number of performance shares during the lifetime of the policy. When Stefan Schellinger replaced Matthew Gregory as Group Finance Director during 2015, the Remuneration Committee determined that he should receive an annual award in 2016 and 2017 over the same number of performance shares as would have been received by his predecessor

Policy table

Purpose and link to strategy	Operation	Opportunity	Performance measures
All employee plans			
To create alignment of employees' interests with those of shareholders, and an awareness of the Company's share price performance	Under the UK Sharesave, employees (including Executive Directors) are invited to enter a savings contract of three years or five years, whereby the proceeds can be used towards the exercise of an option granted at the time they participate. The option price can be up to a 20% discount to the share price at the time invitations to participate are issued An equivalent US Plan is operated in a similar manner to the UK Sharesave, although with a two-year savings contract and an option price of up to a 15% discount	For the UK plan, shares worth up to the value of the savings an Executive Director agrees to make over the saving period at the previously agreed option price. The savings amount is subject to the HMRC limit, currently £500 per month The US Plan is limited to the monthly dollar equivalent of the UK Sharesave plan	No performance conditions apply to all employee plans
Pension			
To provide cost-effective long-term benefits comparable with similar roles in similar companies	A contribution to a defined contribution plan or paid as a cash supplement	Chief Executive – 25% of basic salary Group Finance Director – 20% of basic salary	Not applicable
Other benefits			
To provide cost-effective benefits comparable with similar roles in similar companies	Other benefits include medical expenses, life insurance, a company car and / or car allowance and fuel allowance The Remuneration Committee may vary these benefits from time to time to suit business needs, but they will be provided on broadly similar terms to those offered to other Group employees Executive Directors are entitled to reimbursement of reasonable expenses	There is no overall maximum, as the level of benefits depends on the annual cost of providing individual items in the relevant local market and the individual's specific role	Not applicable

Policy table

Purpose and link to strategy	Operation	Opportunity	Performance measures
Shareholding requirement			
To align the interests of Executive Directors and shareholders, and to encourage a focus on long-term performance and risk management	These shareholding guidelines are to be built up over five years from date of appointment The Remuneration Committee will review progress towards the guidelines on an annual basis, and has the discretion to adjust the guidelines in what it feels are appropriate circumstances	The guideline minimum level is 300% of basic salary for the Chief Executive and 200% of basic salary for the Group Finance Director Non-Executive Directors are encouraged to hold a minimum of 7,500 shares	Not applicable
Non-Executive Directors fees			
To attract high-calibre Non-Executive Directors with the relevant experience and skills	The fee for the Chairman of the Board is determined by the Remuneration Committee, while the fees for Non-Executive Directors are determined by the Board as a whole A basic fee is payable to all Non-Executive Directors with supplementary fees for those with additional responsibilities, such as acting as Senior Independent Director or chairing a Board Committee Fees are reviewed on an annual basis with reference to market levels in companies of a comparable size and complexity, and taking account of the responsibilities and time commitment of each role No Non-Executive Director participates in the Group's incentive arrangements or pension plan, or receives any other benefits other than where travel to the Company's registered office is recognised as a taxable benefit, in which case a Non-Executive Director may receive the grossed-up costs of travel as a benefit Non-Executive Directors are entitled to reimbursement of reasonable expenses	Fees for the current year are stated in the Annual Report on Remuneration Fee increases may be greater than those of the wider workforce in any particular year, as they reflect changes to responsibilities and time commitments, and the periodic nature of any increases	Not applicable

ANNUAL REPORT ON REMUNERATION

Committee Chairman: Lorraine Trainer

Committee membership and meeting attendance

Lorraine Trainer Non-Executive Director	5 (5)
Tommy Breen Non-Executive Director	5 (5)
Terry Twigger SI Non-Executive Director	5 (5)
Peter Hill Non-Executive Director	5 (5)

The Company Secretary & General Counsel acts as Secretary to the Remuneration Committee.

Other attendees
During the year, the Chairman, Chief Executive, Group Finance Director and the Group Human Resources Director were invited by the Remuneration Committee to provide views and advice.

In addition, services and advice were received from the following independent and expert consultants:

- Deloitte LLP, who are a member of the Remuneration Consultants Group and have signed up to its Code of Conduct, provided advice to the Remuneration Committee on the Company's incentive plans, and on the remuneration of the Executive Directors and other senior executives within the Company. Fees charged for the year under review were £65,000. Deloitte also provided other remuneration and tax services to the Company during 2016
- New Bridge Street, a part of Aon Hewitt, who are a member of the Remuneration Consultants Group and have signed up to its Code of Conduct, provided advice on the Company's long-term share incentive plans. Fees charged for the year under review were £15,000. Aon Hewitt also provided actuarial advice to the Company for its US pension scheme and are appointed as the Group's insurance broker

The Remuneration Committee continuously monitors and reviews the Company's relationship with independent advisers. The Company is comfortable that no conflict of interests exist.

Remuneration Committee 2016 key activities

- Approved the Remuneration Report for the 2015 Annual Report
- Reviewed and approved a UK Sharesave invitation for 2016
- Reviewed and approved a US Stock Purchase plan invitation for 2016
- Approved the cash bonus paid in 2016, based on the achievements of the 2015 objectives
- Approved the bonus rules and targets for 2016, including the personal objectives for the Group Management Committee
- Approved the LTIP 2015 grant of awards made in Februaury 2016
- Monitored the Group Leadership Team's shareholding requirements
- Considered and approved, as appropriate, good leaver terms, for participants in the Company's share incentive plans who left the business during 2016
- Reviewed the senior executive remuneration risk policy
- Reviewed shareholder feedback on the 2015 Remuneration Report, including the 2016 AGM voting results
- Reviewed the remuneration for the Group Management Committee
- Reviewed and agreed the remuneration package for the new Chief Executive and confirmed the termination pay arrangements for the outgoing Chief Executive
- Reviewed the Remuneration Committee's Terms of Reference
- Carried out an external consultant review and confirmed the Remuneration Committee remains satisfied with the appointment of Deloitte LLP

This section of the Remuneration Report will be subject to an advisory vote at the 2017 AGM.

Total Single Remuneration Table for 2016 (audited)
The remuneration received by Executive Directors for the year ended 31 December 2016 (and the 31 December 2015 comparative) was as follows:

	Year	Salary and fees for the year or from date of appointment £000	Taxable benefits[1] £000	Cash in lieu of pension[2] £000	Bonus (cash and deferred shares)[3] £000	Long-Term Incentive Plan £000	Other £000	Total £000
Executive Directors								
Colin Day	2016	675	32	169	–	–[4]	–	876
	2015	675	31	169	312[3]	1,079[5]	15[6]	2,281
Stefan Schellinger	2016	360	14	72	–	–[4]	–	446
	2015[7]	84	3	17	31[3]	160[5]	–	295
Matthew Gregory	2016	–	–	–	–	–	–	–
	2015[8]	224	9	45	–	–	–	278
Non-Executive Directors								
Paul Lester	2016	215	–	–	–	–	–	215
	2015[9]	3	–	–	–	–	–	3
Tommy Breen	2016	52	–	–	–	–	–	52
	2015[9]	36	–	–	–	–	–	36
Peter Hill	2016	52	–	–	–	–	–	52
	2015	52	–	–	–	–	–	52
Lorraine Trainer	2016	63	–	–	–	–	–	63
	2015	63	–	–	–	–	–	63
Terry Twigger	2016	70	–	–	–	–	–	70
	2015	70	–	–	–	–	–	70
Jeff Harris	2016[10]	61	–	–	–	–	–	61
	2015	200	–	–	–	–	–	200

1 Taxable benefits comprise a fully expensed car and / or cash allowance plus private medical insurance and life insurance cover
2 Colin Day received a pension contribution of 25% of basic salary while Stefan Schellinger received a pension contribution of 20% of basic salary (inclusive of 5% of salary paid into the Company scheme by the Company)
3 50% of any annual bonus is deferred into shares for a period of three years. There was no bonus in relation to the performance in 2016
4 These values represent the estimated value of vesting of LTIP B awards whose performance conditions ended (or were substantially complete) on 31 December 2016. The actual vesting date for these awards will be during 2017. It is not anticipated that the performance conditions for the LTIP B vesting in 2017 will be met
5 For Colin Day's LTIP B March 2013 award, this reflects a 50% vesting and a share price of £8.30 as at 21 March 2016, compared to the estimated 64.2% vesting and a share price of £8.37 disclosed as at 31 December 2015. For Stefan Schellinger's LTIP B April 2013 award, this reflects a 50% vesting and a share price of £8.12 as at 29 April 2016, compared to the estimated 50% vesting and a share price of £8.37 disclosed as of 31 December 2015. Neither Colin Day nor Stefan Schellinger exercised the LTIP B options during 2016
6 Exercise of a three-year savings contract in the Company's Sharesave scheme. The valuation is the difference between the exercise price and the option price on the date of exercise
7 Stefan Schellinger's pay is shown from the date of his appointment to the Board on 8 October 2015
8 Salary, benefits and pension were paid, as a Director, to the date of resignation, 28 August 2015. Matthew Gregory continued as an employee until 30 November 2015. All incentive plans including Deferred Bonus Plan awards lapsed as at the date of leaving
9 Non-Executive fees paid from date of appointment
10 Non-Executive fees paid until date of retirement after the 2016 AGM

Outside appointments (unaudited)
Colin Day held the following Non-Executive Director appointments during the year ended 31 December 2016; AMEC Foster Wheeler plc, Meggitt PLC and FM Global. Colin received and retained fees of £351,000 in respect of these directorships.

Annual bonus (audited)
Under the terms of the annual bonus arrangements for 2016, Colin Day was potentially entitled to a maximum bonus of up to 150% of basic salary and Stefan Schellinger was potentially entitled to a maximum bonus of up to 125% of basic salary.

Bonus payments are normally made one half in cash and one half in shares in the Company, the entitlement to such shares being deferred for three years, in accordance with the rules of the DASB.

For the year ended 31 December 2016, the performance measures for the Executive Directors were based upon balanced growth, working capital and personal objectives. Balanced growth combines revenue and operating profit performance measured via a balanced scorecard. There is no payout under the balanced growth measure if either revenue growth or operating profit growth fails to achieve a base level of performance.

Performance measure	Proportion of bonus determined by measure		Base performance	Target performance	Stretch performance	Actual performance	% of maximum bonus payable
Balanced growth	80%	Operating profit	2.4% growth	5.1% growth	7.2% growth	-26.9% growth	0%
		Revenue	1.2% growth	4.8% growth	6.6% growth	-7.4% growth	
			10% of bonus payable	40% of bonus payable	80% of bonus payable		
Working capital	10%	Based on the working capital ratio at the year end[1]				Nil target achieved	0%
Personal objectives[2]	10%	Chief Executive: Measures relating to the integration of acquisitions, succession planning to deliver and implement the strategy, and driving the effectiveness of the Board and the executive team					0%
		Group Finance Director: Transitional development in new role					0%
Total							Chief Executive 0%
Total							Group Finance Director 0%

[1] The targets relating to the working capital measure are regarded as commercially sensitive by the Board
[2] In light of the poor financial and share price performance during the year, the Remuneration Committee also determined that there should be no payment to the Executive Directors under the personal objectives element of the bonus plan

Equity incentives (audited)
Details of the awards granted and outstanding during the year to the Executive Directors under the LTIP Part B, LTIP 2015 and DASB are as follows:

	Date of grant	At 1 Jan 2016	Lapsed in year	Awarded in year	Transferred in year	At 31 Dec 2016	Share price at date of grant	Earliest vesting date	Expiry date
Colin Day									
LTIP Part B	21 March 2013	260,115	130,058	–	–	130,057	692.00p	21 March 2016	20 March 2019
LTIP Part B	24 February 2014	211,643	–	–	–	211,643	876.00p	24 February 2017	23 February 2020
LTIP 2015	30 April 2015	203,109	–	–	–	203,109	950.50p	30 April 2018	29 April 2021
LTIP 2015	23 February 2016	–	–	203,109	–	203,109	828.50p	23 February 2019	22 February 2022
DASB	21 March 2013	61,100	–	–	61,100	–	692.00p	1 March 2016	1 March 2016
DASB	24 February 2014	51,369	–	–	–	51,369	876.00p	1 March 2017	1 March 2017
DASB	1 April 2015	26,926	–	–	–	26,926	993.50p	1 March 2018	1 March 2018
DASB	1 March 2016	–	–	18,820	–	18,820	828.50p	1 March 2019	1 March 2019
Stefan Schellinger[1]									
LTIP Part B	29 April 2013	39,505	19,753	–	–	19,752	706.00p	29 April 2016	28 April 2019
LTIP Part B	24 February 2014	45,662	–	–	–	45,662	876.00p	24 February 2017	23 February 2020
LTIP 2015	30 April 2015	36,158	–	–	–	36,158	950.50p	30 April 2018	29 April 2021
LTIP 2015	23 February 2016	–	–	74,222	–	74,222	828.50p	23 February 2019	22 February 2022
DASB	24 February 2014	5,279	–	–	–	5,279	876.00p	1 March 2017	1 March 2017
DASB	1 April 2015	3,872	–	–	–	3,872	993.50p	1 March 2018	1 March 2018
DASB	1 March 2016	–	–	3,792	–	3,792	828.50p	1 March 2019	1 March 2019

[1] Stefan Schellinger's outstanding LTIP B, LTIP 2015 and DASB awards granted in 2013, 2014 and 2015 were all granted when he was a member of the Group Management Committee and before he was appointed as an Executive Director

A total of 894,904 (2015: 915,597) share incentive awards under the LTIP 2015 and the DASB were granted during the year ended 31 December 2016 to Executive Directors and other senior executives, including members of the Group Leadership Team.

LTIP awards included in the Total Single Remuneration Table (audited)
All LTIP B and LTIP 2015 awards are subject half to a relative TSR performance condition and half to an adjusted EPS performance condition.

The TSR performance conditions are measured against the FTSE 250 (excluding investment trusts) index at the beginning of the performance period, over a three-year performance period from the date of grant. 25% of the TSR element of the awards vests if Essentra is median ranked, increasing to 100% vesting if Essentra is upper quartile ranked.

The adjusted EPS performance targets for February 2014 awards are 8.5% pa to 15.5% pa; and for April 2015 and April 2016 awards, the targets are 8.0% pa. to 15.0% pa. 25% of the EPS element of the awards vests for achieving the lower target, increasing to 100% vesting for achieving the higher target.

The performance outturn for the LTIP awards included in the 2016 Total Single Remuneration Table is summarised below.

The LTIP B awards granted to Colin Day and Stefan Schellinger in February 2014 will vest in February 2017. The EPS performance period for these awards is complete. The TSR performance period will end in February 2017 so the figures below are estimates as at 31 December 2016.

Performance condition	Condition definition	Threshold	Maximum	Actual outturn	Vesting
Relative TSR (50% of the total award)	TSR measured against the constituents of the FTSE 250 (excluding investment trusts) index over the three years from date of grant	If median rank is achieved, 25% of the TSR element vests	If upper quartile rank is achieved 100% of the TSR element vests	-40.4% Rank 166 out of 184 companies	0%
EPS (50% of the total award)	Annualised adjusted EPS growth	8.5% pa for 25% of the EPS element to vest	15.5% pa for 100% of the EPS element to vest	2.8%	0%

Subject to confirmation of the TSR outcome when the performance period ends in February 2017 it is anticipated that the outturn of the performance conditions for the LTIP B grant will result in no LTIP B vesting during 2017.

Long-term incentive awards granted during the year (audited)
The following LTIP 2015 awards were granted to Executive Directors on 23 February 2016.

Executive	Type of award	Number of awards granted	Share price on grant	Face value[1]	Percentage which vests at threshold
Colin Day	Performance share	203,109	£8.285	£1,682,758	25%
Stefan Schellinger	Performance share	74,222	£8.285	£614,929	25%

[1] Face value is based on the mid-market closing share price on 22 February 2016

Save As You Earn scheme (audited)

The Company also operates a Save As You Earn share option scheme ("SAYE"). Details of the awards granted and outstanding under the SAYE are as follows:

	Date of grant	At 1 Jan 2016	Granted in year	At 31 Dec 2016	Option price	Earliest vesting date	Expiry date
Colin Day							
SAYE	1 May 2015	4,500	–	4,500	770.4p	1 May 2018	31 October 2018
Stefan Schellinger[1]							
SAYE	1 May 2014	5,250	–	5,250	701.0p	1 May 2017	31 October 2017
SAYE	1 May 2015	2,250		2,250	770.4p	1 May 2018	31 October 2018

[1] These SAYE options were granted when Stefan Schellinger was a member of the Group Management Committee

The middle market price of an ordinary share in the Company on 31 December 2016 was £4.61. The middle market price of an ordinary share in the Company during the year ranged from £3.83 to £8.91.

Directors' shareholdings (audited)

The beneficial interests of the current Directors in office at 31 December 2016, and the date of this Report, in the issued ordinary share capital of the Company were as follows:

	Beneficially owned		% of salary held under shareholding guideline	LTIP B / LTIP 2015 awards		DASB	SAYE	Total
	31 Dec 2015	31 Dec 2016		Vested	Unvested	Unvested	Unvested	31 Dec 2016
Executive Directors								
Colin Day	545,948	562,109	384%	260,115	617,861	97,115	4,500	1,364,710
Stefan Schellinger	–	–	–	39,505	156,042	12,943	7,500	137,976
Non-Executive Directors								
Paul Lester	–	7,500						7,500
Tommy Breen	–	–						–
Peter Hill	10,000	10,000						10,000
Lorraine Trainer	7,714	7,942						7,942
Terry Twigger	7,500	7,500						7,500

Salary used is the prevailing annual salary as at 31 December 2016.

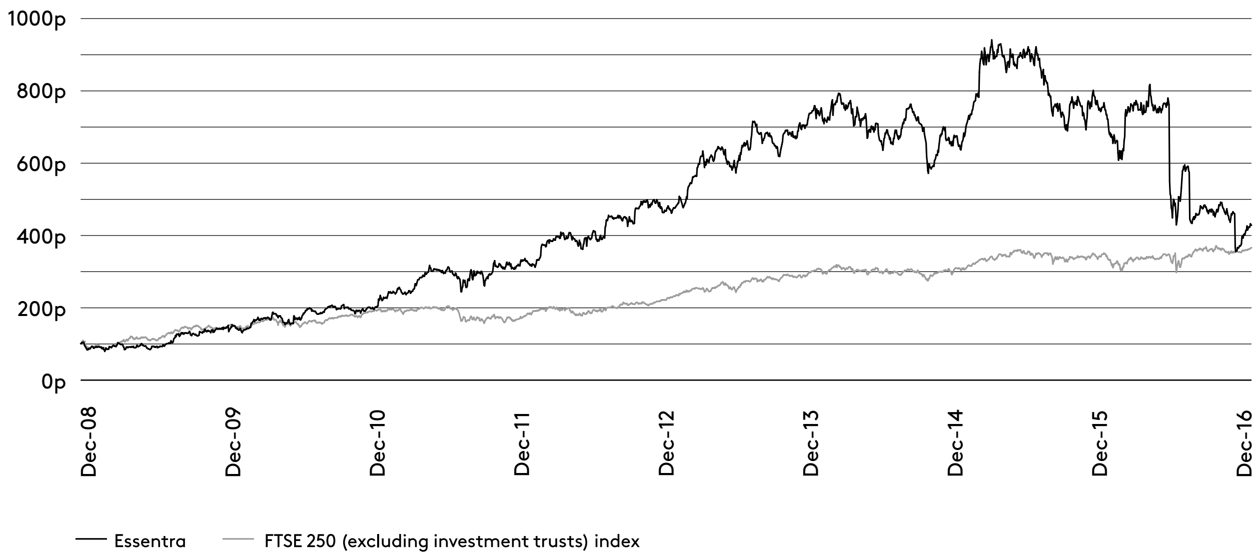
An additional 17,583 shares are also held by Colin Day's family members.

Colin Day has met the 300% of salary requirement of the Essentra shareholding policy by holding shares worth 384% of salary. Stefan Schellinger is required to build up a shareholding worth 200% of salary from the date of appointment.

The Executive Directors are regarded as being interested in 1,517,883 (2015: 1,828,789) ordinary shares in Essentra plc currently held by the Essentra Employee Benefit Trust ("EBT") as they are, together with other Essentra employees, potential beneficiaries of the EBT. These shares are held in order to satisfy employee entitlements relating to the Company's share plans.

As at 31 December 2016, potential and actual share issuance through employee related share plans totalled 1.67%, which is well below UK institutional shareholder limits of 10% of the Company's issued share capital.

Performance graph (unaudited)
The graph below represents the comparative TSR performance of the Company versus the FTSE 250 (excluding investment trusts) index for the last eight years. This index has been selected as it is considered the most appropriate published general index in which the Company is a constituent.



Eight-year Chief Executive table (unaudited)

	Mark Harper				Colin Day				
	2009	2010	1 Jan-14 April 2011	April-31 Dec 2011	2012	2013	2014	2015	2016
Total remuneration (£000)	1,038	2,932	1,715	1,046	1,570	3,824	5,661	2,281	876
Annual bonus (%)	20%	100%	100%	100%	100%	100%	60.0%	46.2%	0%
LTIP vesting (%)	73%	100%	100%	n/a	n/a	100%	100%	50%	0%

Mark Harper retired on 14 April 2011 and Colin Day was appointed as a Director on 1 April 2011.

The annual bonus and LTIP figures show the payout as a percentage of the maximum.

Percentage increase in the remuneration of the Chief Executive Officer (unaudited)

	2016 £000	2015 £000	% change	% change UK GMC
Salary	675	675	–	11.0
Benefits	32	31	–	5.7
Bonus	–	312	-100	-100

The table above shows the percentage movement in the salary, benefits and annual bonus for the Chief Executive and members of the UK GMC between the current and previous financial year.

UK senior executives have been chosen as the most appropriate comparator group, as they represent those employees eligible to participate in the same reward plans as the Chief Executive. Group-wide figures can be distorted by different reward practices in different geographies and movements in the number of employees.

Relative importance of spend on pay (unaudited)

	2016 £m	2015 £m	% change
Staff costs[1]	272.7	260.2	4.8
Distributions to shareholders	54.0	49.0	10.2
Revenue	1,103.7	1,098.1	0.5
Adjusted operating profit	131.9	171.5	-23.1

[1] Staff costs are as per note 5 on page 106

Termination arrangement for departing Director (audited)

Termination payments to Colin Day have been determined by the Remuneration Committee taking into account his contractual entitlements and the rules of the Company's incentive plans. The payments determined were as follows.

1. Payments up to the date of retirement and in lieu of notice
During Colin Day's notice period (which ends on 31 December 2017), Colin is entitled to receive his normal base salary (£675,000 pa) and his normal contractual benefits. The Remuneration Committee has exercised its discretion to terminate his notice period effective from the 2017 AGM and, following his retirement, make a payment in lieu of notice of £599,911 for the reminder of the notice period (based on salary and the value of benefits). A payment in respect of any accrued holiday untaken will also be made as soon as practicable following retirement.

2. Annual bonus
The Remuneration Committee has determined that no bonus payment will be paid to Colin Day in relation to 2017.

3. Outstanding share awards
Colin Day's outstanding share incentives will be treated in accordance with the rules of the applicable plans and will remain subject to the terms contained therein.

DASB: Colin Day holds outstanding DASB awards granted in 2014, 2015 and 2016 which relate to annual bonuses earned in respect of performance in 2013, 2014 and 2015 respectively. The 2014 awards will vest as originally scheduled in March 2017, and the Remuneration Committee has determined that the 2015 and 2016 awards should vest upon his retirement in April 2017.

LTIP: Colin Day holds outstanding LTIP awards granted in 2015 and 2016. The Remuneration Committee has determined that the 2015 and 2016 awards will vest on their normal vesting date (three years from the date of grant) on a time pro-rated basis (reflecting the proportion of the three-year vesting period that he is employed by Essentra) and subject to EPS and relative TSR performance conditions assessed over the full three-year performance period for each award. He will not be granted a LTIP award during 2017.

SAYE: Colin Day's outstanding options held under the SAYE scheme will be exercisable upon retirement in accordance with the rules of the plan.

Implementation of Remuneration Policy for 2017 (unaudited)

Salary
Basic salary for each Executive Director is determined by the Remuneration Committee, taking into account the roles, responsibilities, performance and experience of the individual.

Paul Forman's salary upon appointment was set by taking into consideration all relevant factors including his experience, the pay level of his predecessor and the Company's general pay principles.

Stefan Schellinger's salary will not be increased during 2017.

	Paul Forman	Stefan Schellinger
Annual salary effective from 1 January 2017	£625,000	£360,000
Annual salary effective from 1 January 2016	–	£360,000

Benefits
Executive Directors are provided with the following benefits:
> Car, fuel and / or car allowance

> Private medical insurance with family level cover

> Life insurance cover of four times basic salary

Pension
Paul Forman will receive a supplementary payment equal to 25% of annual salary to permit him to secure pension benefits.

Stefan Schellinger will receive a supplementary payment of 20% of his basic salary to permit him to secure pension benefits.

Annual bonuses
Each year, the Remuneration Committee reviews the annual bonus, to ensure the performance measures and targets remain appropriate and aligned with the Company's short-term strategy, while remaining within the appropriate risk profile.

Under the terms of the annual bonus arrangements for 2017, Paul Forman is potentially entitled to a maximum bonus of up to 150% of basic salary and Stefan Schellinger is potentially entitled to a maximum bonus of up to 125% of basic salary. Bonus payments are normally made one half in cash and one half in shares in the Company, the entitlement to such shares being deferred for three years, in accordance with the rules of the DASB.

It is an important principle of Essentra's pay philosophy that the structure of pay should complement and support business strategy. Following consultation with the Board, the Remuneration Committee has agreed performance measures for 2017 incentives that are consistent with the Company's priorities.

Performance criteria	Weighting (%)
Adjusted operating profit	25.0
Adjusted net income	25.0
Net working capital	30.0
Personal objectives	20.0

The Remuneration Committee believes that adjusted operating profit, adjusted net income and net working capital targets are commercially sensitive, and will not disclose the targets on a prospective basis. The targets and actual performance against them will be disclosed on a retrospective basis where possible.

In addition to the financial measures, the Remuneration Committee has also set the personal performance measures for Paul Forman and Stefan Schellinger which are designed to deliver further progress by the Company towards its strategic objectives.

The Remuneration Committee has the discretion, within a three-year period after the determination of the bonus, to withhold or recover annual cash bonuses or DASB awards through malus and clawback provisions in specified circumstances. These circumstances take into account where the original bonus was paid to a greater extent than it should have done, due to a material misstatement in the Company's Financial Statements or due to an error in assessing the applicable performance conditions or if there has been serious misconduct by an individual or if there has been serious reputational damage to the Company or a relevant business unit.

Essentra Long-Term Incentive Plan 2015 ("LTIP 2015")

An award granted under LTIP 2015 consists of a conditional right to receive shares in the Company, subject to satisfaction of performance conditions.

The following LTIP awards will be granted to the Executive Directors during 2017

	Paul Forman	Stefan Schellinger
One-off compensatory recruitment award[1]	Shares worth 100% of salary	
Standard annual award	Shares worth 200% of salary	74,222[2] shares

[1] This award was agreed by the Remuneration Committee to secure Paul Forman's recruitment and to compensate him for the value of shares granted by his previous employer as explained in the Remuneration Chairman's letter on page 65

[2] Stefan Schellinger is to be granted the 2015 fixed award number of shares as per the current policy

A share award under LTIP 2015 will not normally be exercisable before the third anniversary of its award, and may only be exercised to the extent that the applicable performance conditions have been satisfied. The awards are structured as nil cost options.

As outlined in the Remuneration Committee Chairman's letter, it is important that the performance measures for the 2017 LTIP awards should be aligned with Essentra's strategy and be meaningful and robust. Accordingly, the Remuneration Committee will grant the awards and set the performance measures after the completion of the strategic review, which is expected to be in July 2017. Full details of the performance measures will be disclosed to shareholders when the awards are granted in July, and in next years Remuneration Report.

Awards granted under the LTIP 2015 are subject to malus and clawback provisions for a period of up to three years following the vesting date of the award. Potential circumstances in which the malus and clawback provisions may be applied are consistent with those applying to annual bonus awards as described above.

Non-Executive Director fees (audited)
The fees for the Chairman are set by the Remuneration Committee, while fees for the Non-Executive Directors are determined by the Board as a whole.

	Chairman	Non-Executive Director	Senior Independent Non-Executive Director	Additional fee for chairing a Committee
Annual fee effective from 1 April 2017	250,000	52,000	7,000	11,000
Annual fee effective from 1 January 2016	200,000	52,000	7,000	11,000

Statement of shareholder voting (unaudited)
The results of shareholder voting in relation to the approval of the Directors' Remuneration Report at the 2016 AGM and the Remuneration Policy at the 2015 AGM were as follows:

	Directors' Report on Remuneration		Annual Remuneration Policy Report	
	No. of votes	%	No. of votes	%
Votes cast in favour	221,255,379	97.15	219,899,772	98.25
Votes cast against	6,464,266	2.85	3,915,395	1.75
Total votes cast	227,719,595		223,815,167	
Abstentions	45,194		1,813,589	

This Report of the Remuneration Committee has been approved by the Board.

By order of the Board

LORRAINE TRAINER
Remuneration Committee Chairman
17 February 2017

OTHER STATUTORY INFORMATION

The Directors present their Report prepared in accordance with the Companies Act 2006, which requires the Company to provide a fair review of the business of the Group during the financial year ended 31 December 2016, and audited Financial Statements of the Company and its subsidiary undertakings for the year ended 31 December 2016.

The Company's Registered Office is Avebury House, 201-249 Avebury Boulevard, Milton Keynes, MK9 1AU.

The Directors' Report comprises pages 44 to 87 and the sections of the Annual Report incorporated by reference are as set out below:

Membership of Board during 2016 financial year	page 51
Financial instruments and financial risk management	page 95
Greenhouse gas emissions	page 43
Corporate Governance report	pages 50 to 57
Future developments of the business of the Group	page 11
Employee equality and diversity	page 41

In accordance with the UK Financial Conduct Authority's Listing Rules (LR 9.8.4C), the information to be included in the Annual Report and Accounts, where applicable, under LR 9.8.4 is set out in the Directors' Report.

Results and dividends
The loss on ordinary activities after taxation of the total Group for the year ended 31 December 2016 was £39.6m (2015: profit £68.7m).

The loss on ordinary activities after taxation of the continuing operations for the year ended 31 December 2016 was £51.0m (2015: profit £56.3m).

As at 17 February 2017, the Company has paid the following dividend in respect of the year ended 31 December 2016:

	Per share p	Total £m
Interim dividend paid 30 October 2016	6.3	16.5

The Directors recommend that a final dividend of 14.4p (2015: 14.4p) per share be paid, making a total dividend distribution for the year of 20.7p (2015: 20.7p).

The final dividend, subject to shareholder approval at the AGM, will be paid on 2 May 2017 to shareholders on the register on 17 March 2017.

Directors
As at 31 December 2016, the Board of Directors comprised:

Paul Lester	Non-Executive Chairman
Colin Day	Chief Executive
Terry Twigger	SI Non-Executive Director
Stefan Schellinger	Group Finance Director
Tommy Breen	Non-Executive Director
Peter Hill	Non-Executive Director
Lorraine Trainer	Non-Executive Director

The Company is adopting the requirements of the UK Corporate Governance Code September 2014 in relation to Directors' appointments, and in particular the annual re-election of all Directors.

Paul Forman was appointed as Chief Executive on 1 January 2017 and will be putting himself forward for election at the 2017 AGM, having been appointed since the 2016 AGM.

Colin Day stood down as Chief Executive on 31 December 2016. Colin remains as an Executive Director until the 2017 AGM, after which he will retire and therefore will not be standing for re-election.

Peter Hill will be retiring as a Non-Executive Director following the 2017 AGM and therefore will not be standing for re-election.

Except for the above, in accordance with provision B.7.1 of the UK Corporate Governance Code, all the Directors previously elected at an AGM, and being eligible, will offer themselves up for re-election.

None of the Non-Executive Directors have service contracts.

In accordance with the Company's Conflict of Interests policy, Directors are required to review their potential conflict of interests at least on an annual basis and to notify any changes to the Company Secretary & General Counsel as soon as possible. The current register was approved by the Board in October 2016, and no material conflicts of interest were identified during the year.

At no time during the year has any Director had any material interest in a contract with the Group, being a contract of significance in relation to the Group's business. A statement of Directors' interests in shares of the Company is on page 76.

Share capital
The issued share capital of the Company is shown in note 19 to the Financial Statements on page 129.

On 31 December 2016, there were 264,129,170 ordinary shares of 25p each in issue. There were 1,286,952 ordinary shares of 25p each held in treasury.

The rights and obligations attaching to the Company's ordinary shares, and the provisions governing the appointment and replacement of, as well as the powers of, the Company's Directors, are set out in the Company's Articles of Association, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary.

There are no restrictions on the voting rights attaching to the Company's ordinary shares or on the transfer of securities in the Company, except, in the case of transfers of securities:

- That certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws)
- Whereby, pursuant to the Listing Rules of the Financial Conduct Authority, certain employees of the Company require approval of the Company to deal in the Company's ordinary shares

No persons hold securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

Unless expressly specified to the contrary in the Articles of Association of the Company, the Company's Articles of Association may be amended by special resolution of the Company's shareholders.

Substantial shareholders
At the close of business on 17 February 2017, the Company was advised of the following voting rights attaching to the Company's shares in accordance with the Disclosure and Transparency Rules:

	% of total voting rights
Standard Life Investments (Holdings) Limited	12.9
FMR LLC	9.2
Royal London Asset Management Limited	3.0

Employees
As at 31 December 2016, the Company employed 8,358 people globally and 1,423 people in the UK. Information on the Group's policies on employee recruitment, engagement and the employment of disabled persons can be found in the Corporate Responsibility Statement on page 41.

Political contributions
In line with Group policy, the Company made no political contributions (2015: £nil).

Environmental
The disclosures concerning greenhouse gas emissions required by law are included in the Strategic Report on page 43.

Directors' indemnities
During the year, and as at the date of this Report, indemnities are in force under which the Company has agreed to indemnify the Directors and the Company Secretary & General Counsel, in addition to other senior executives who are Directors of subsidiaries of the Company, to the extent permitted by law and the Company's Articles of Association, in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities as a Director or Officer of the Company or any of its subsidiaries, including the pension scheme trustee companies. The scope of the indemnities extends to include liabilities to third parties.

Significant agreements
The Company has committed bank facilities consisting of two five-year multi-currency revolving credit facilities of £271.0m and €167.5m. Under the terms of these facilities, the banks can give notice to Essentra to repay outstanding amounts and cancel the commitments where there is a change of control of the Company.

Under a note purchase agreement dated 29 April 2010 relating to US$80m senior notes due 29 April 2017 and US$80m senior notes due 29 April 2020, on a change of control the Company must make an offer to prepay all the notes at par, without any premium of any kind, together with accrued and unpaid interest thereon.

All of the Company's share schemes contain provisions relating to a change in control. Outstanding options and awards normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

There are a number of other agreements, involving the Company or its subsidiaries, that take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as commercial contracts and joint venture agreements. None are considered to be significant in terms of their potential impact on the business of the Group as a whole, to any potential bidder for the Company or Group.

Annual General Meeting
The AGM of the Company will be held at the Holiday Inn Hotel, 500 Saxon Gate West, Milton Keynes, Buckinghamshire, MK9 2HQ on Thursday 20 April 2017 at 12 noon.

In addition to the ordinary business of the AGM, resolutions in respect of the following matters of special business are included in the Notice of Annual General Meeting:

Authority to allot unissued shares
At the 2016 AGM, the Directors were granted authority to allot relevant securities up to a nominal amount of £21,867,720, which expires at the end of the forthcoming AGM.

At this year's AGM, shareholders will be asked to grant the Directors' authority to allot shares or grant rights to subscribe for or convert any security into shares: (i) up to an aggregate nominal amount of £21,903,518 representing approximately one-third of the Company's issued share capital, excluding treasury shares, at 17 February 2017 (such an amount to be reduced by the nominal amount allotted or granted under section (ii) below in excess of such sum); and (ii) comprising equity securities up to an aggregate nominal amount of £45,807,036 representing approximately two-thirds of the issued share capital, excluding treasury shares, at 17 February 2017 (such an amount to be reduced by any allotments or grants made under section (i) above) in connection with an offer by way of a rights issue.

The proposal conforms to the guidelines issued by the institutional investment protection bodies to ensure that existing shareholders' interests are safeguarded. The Directors have no present intention of exercising either of these authorities, which will expire at the end of next year's AGM (or, if earlier, the close of business on 20 June 2018) except in relation to share options.

Allotment of shares for cash
At the 2016 AGM, shareholders approved a special resolution to enable the Directors to allot shares for cash without first offering them to existing shareholders in proportion to their existing shareholdings. That approval expires at the end of the forthcoming AGM and resolutions 13 and 14 in the Notice of AGM seeks to renew it.

As per previous years, the Company seeks a resolution which authorises disapplication of pre-emption rights in respect of up to an aggregate nominal amount of £3,286,106 (representing 13,144,424 ordinary shares). This aggregate nominal amount represents approximately 5% of the issued ordinary share capital of the Company (excluding treasury shares).

In addition to the above Resolution, the Company seeks a Resolution which authorises disapplication of pre-emption rights in respect of up to an aggregate nominal amount of £3,286,106 (representing 13,144,424 ordinary shares) in connection with acquisitions and other capital investments as contemplated by the Pre-Emption Group's Statement of Principles. This aggregate nominal amount represents an additional 5% of the issued ordinary share capital of the Company (excluding treasury shares).

These authorities will expire at the conclusion of the following AGM or, if earlier, on 20 June 2018. The proposal conforms to the guidelines issued by the institutional investment protection bodies to ensure that existing shareholders' interests are safeguarded.

Purchase of own shares
At the 2016 AGM, shareholders approved a special resolution to enable the Company to purchase its own shares. That approval expires at the end of the forthcoming AGM.

At this year's AGM, the Directors consider it expedient to seek shareholders' approval to enable the Company to purchase, in the market, up to 10% of its issued share capital (excluding any treasury shares) for cancellation, or to be held in Treasury, such power to apply until the end of next year's AGM (or if earlier, 20 June 2018). In accordance with the requirements of the Listing Rules of the Financial Services Authority, the minimum price (exclusive of expenses) which may be paid for a share is its nominal value and the maximum price (exclusive of expenses) for shares which may be paid is the highest of: (i) an amount equal to 105% of the average market value for a share for the five business days immediately preceding the date of the purchase; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out.

The Directors have no present intention of exercising the authority to make market purchases, however the authority provides the flexibility to allow them to do so in the future. The Directors will only utilise this authority if satisfied that to do so would be in the best interests of the Company and its shareholders generally, and could be expected to result in an increase in earnings per share of the Company.

During the financial year ending 31 December 2016, 481,570 ordinary shares were transferred out of Treasury by the Company to satisfy share options under the Company's Sharesave and executive share incentive plans.

No dividends have been paid on shares while held in Treasury and no voting rights attach to the treasury shares.

External auditor
KPMG LLP will resign as the external auditor following the publication of the Annual Report.

PricewaterhouseCoopers have expressed their willingness to be appointed as external auditor of the Company. Upon the recommendation of the Audit Committee, resolutions to appoint them as external auditor and to authorise the Directors to determine their remuneration will be proposed at the AGM.

Recommendation
The Directors believe that the resolutions in the Notice of Annual General Meeting are in the best interests of the Company and its shareholders as a whole, and unanimously recommend that shareholders vote in favour of each resolution.

Derivatives
Information related to derivatives is included in the Accounting Policies on page 95 and in note 14.

Going concern statement
The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly have adopted the going concern basis in preparing the consolidated Financial Statements.

Further information regarding the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 15 to 16. In addition, note 1 to the Financial Statements on pages 101 to 103 includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and exposures to credit, market and liquidity risk. Cash balances and borrowings are included in note 21 on page 130. This disclosure has been prepared in accordance the with Financial Reporting Council's "Guidance on Risk Management and Internal Control and Related Financial and Business Reporting (September 2014)".

Viability statement
In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, the Directors have assessed the viability of the Group over a period longer than the twelve months required by the "Going Concern" statement. In making this assessment, the Directors have taken into account the Group's current position and the potential impact of the principal risks documented on pages 31 to 37. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities over the three-year period to 31 December 2019.

The Directors have determined that a three-year period to 31 December 2019 is an appropriate period over which to provide its viability statement. This is the period reviewed by the Group Board in its strategic planning process. The Directors believe that this presents a reasonable degree of confidence over this longer-term outlook.

In making this statement, the Board's assessment has been made with reference to the resilience of the Group and its strong financial position, the Group's strategy, the Board's risk appetite and the Group's principal risks, including those that would threaten its business model, future performance, solvency or liquidity, and how these are managed, as described in the Strategic Report on pages 31 to 37.

The Board considers annually and on a rolling basis a three-year, bottom-up strategic plan. The output of this plan is used to perform central debt and headroom profile analysis, which includes a review of sensitivity to "business as usual" risks, such as profit growth and working capital variances and severe but plausible events. It also considers the ability of the Group to raise finance and deploy capital. The results take into account the availability and likely effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the identified underlying risks.

The geographical and sector diversification of the Group's operations and markets reduces the risk of serious business interruption or catastrophic damage to its reputation. Furthermore, the business model is structured so that the Group is not reliant on one particular group of clients or sector, and has the ability to flex the cost base which protects the Company's viability in the face of adverse economic conditions and / or political uncertainty.

While this review does not consider all of the risks that the Group may face, the Directors consider that this sensitivity testing-based assessment of the Group's prospects is reasonable in the circumstances of the inherent uncertainty involved.

Directors' statement as to disclosure of information to the external auditor
As required by section 418(2) of the Companies Act 2006, the Directors who were members of the Board at the time of approving this Report, having made enquiries of fellow Directors and of the external auditor, confirm that:

- As far as each Director is aware, there is no relevant audit information of which the Company's external auditor is unaware
- Each Director has taken all steps that he ought to have taken as a Director to ascertain any relevant audit information, and to ensure that the Company's external auditor is aware of that information

The Strategic Report and Directors' Report, including the Report of the Remuneration Committee, were approved by the Board on 17 February 2017.

By order of the Board

JON GREEN
Company Secretary
17 February 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

In respect of the Annual Report and the Financial Statements, the Directors are responsible for preparing the Directors' Report, the Remuneration Report, the Strategic Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law, they have elected to prepare the Financial Statements in accordance with International Reporting Standards ("IFRS") as adopted by the EU, and the Company Financial Statements and the Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice, "UK GAAP"). In preparing the Financial Statements, the Directors have also elected to comply with IFRS, issued by the International Accounting Standards Board ("IASB"). Under Company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these Financial Statements, the Directors are required to:

> Select suitable accounting policies and then apply them consistently

> Make judgements and estimates that are reasonable and prudent

> State whether they have been prepared in accordance with IFRS as issued by the IASB and IFRS as adopted by the EU and, with regard to the Company Financial Statements, that applicable UK Accounting Standards have been followed

> Prepare Financial Statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Engaging professional accountants to compile the Financial Statements cannot be regarded as providing assurance on the adequacy of the Company's systems or on the incidence of fraud, non-compliance with laws and regulations or weaknesses in internal controls, and does not relieve the Directors of their responsibilities in this respect.

Each of the Directors, whose names and functions are listed on pages 46 to 47 confirms that:

> To the best of their knowledge, the Financial Statements and the Company Financial Statements, which have been prepared in accordance with IFRS as issued by the IASB and IFRS as adopted by the EU and UK GAAP respectively, give a true and fair view of the assets and liabilities, financial position and profit or loss of the Company

> To the best of their knowledge, the Strategic Report contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Company on a consolidated and individual basis, together with a description of the principal risks and uncertainties that it faces; and

> They consider that the Annual Report and Accounts taken as a whole are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

PAUL FORMAN
Chief Executive

STEFAN SCHELLINGER
Group Finance Director
17 February 2017

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Note	2016 £m	2015 £m
Revenue	1	**998.5**	1,006.5
Operating profit before intangible amortisation and exceptional operating items		**108.7**	152.5
Amortisation of acquired intangible assets		**(30.2)**	(29.3)
Exceptional operating items	2	**(128.5)**	(39.1)
Operating (loss) / profit		**(50.0)**	84.1
Finance income	3	**2.1**	1.5
Finance expense	3	**(14.6)**	(11.8)
(Loss) / profit before tax		**(62.5)**	73.8
Income tax credit / (expense)	4	**11.5**	(17.5)
(Loss) / profit from continuing operations		**(51.0)**	56.3
Profit from discontinued operations	23	**11.4**	12.4
(Loss) / profit for the year		**(39.6)**	68.7
Attributable to:			
Equity holders of Essentra plc		**(40.3)**	67.9
Non-controlling interests		**0.7**	0.8
(Loss) / profit for the year		**(39.6)**	68.7
(Loss) / earnings per share attributable to equity holders of Essentra plc:			
Basic	6	**(15.4)p**	26.2p
Diluted	6	**(15.4)p**	25.8p
(Loss) / earnings per share from continuing operations attributable to equity holders of Essentra plc:			
Basic	6	**(19.8)p**	21.4p
Diluted	6	**(19.8)p**	21.1p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 £m	2015 £m
(Loss) / profit for the year		**(39.6)**	68.7
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	17	**(16.8)**	1.9
Deferred tax credit / (charge) on remeasurement of defined benefit pension schemes	4,15	**5.0**	(0.2)
		(11.8)	1.7
Items that may be reclassified subsequently to profit or loss:			
Effective portion of changes in fair value of cash flow hedges:			
Net change in fair value of cash flow hedges transferred to the income statement		**–**	(0.5)
Net change in fair value of cash flow hedges transferred to the carrying amount of non-financial assets		**–**	(6.2)
Effective portion of changes in fair value of cash flow hedges		**(0.3)**	3.3
Foreign exchange translation differences:			
Attributable to equity holders of Essentra plc:			
Arising on translation of foreign operations		**145.9**	(6.8)
Arising on effective net investment hedges		**(56.9)**	(6.0)
Income tax charge on effective net investment hedges	4	**–**	(0.1)
Income tax credit in respect of tax losses not previously recognised	4	**1.0**	–
Attributable to non-controlling interests		**1.1**	0.1
		90.8	(16.2)
Other comprehensive income for the year, net of tax		**79.0**	(14.5)
Total comprehensive income		**39.4**	54.2
Attributable to:			
Equity holders of Essentra plc		**37.6**	53.3
Non-controlling interests		**1.8**	0.9
Total comprehensive income		**39.4**	54.2

CONSOLIDATED BALANCE SHEET

At 31 December 2016

	Note	31 December 2016 £m	31 December 2015 £m
Assets			
Property, plant and equipment	7	**285.9**	288.8
Intangible assets	8	**581.7**	691.6
Long-term receivables		**3.5**	0.8
Deferred tax assets	15	**2.6**	4.6
Retirement benefit assets	17	**11.6**	23.9
Total non-current assets		**885.3**	1,009.7
Inventories	9	**115.1**	118.7
Income tax receivable		**7.5**	4.7
Trade and other receivables	10,18	**218.4**	253.2
Derivative assets	14,18	**1.2**	0.4
Cash and cash equivalents	11,18	**54.0**	30.2
Total current assets		**396.2**	407.2
Assets in disposal group held for sale	23	**130.7**	–
Total assets		**1,412.2**	1,416.9
Equity			
Issued share capital	19	**66.0**	66.0
Merger relief reserve		**298.1**	298.1
Capital redemption reserve		**0.1**	0.1
Other reserve	20	**(132.8)**	(132.8)
Cash flow hedging reserve		**(0.3)**	–
Translation reserve		**68.6**	(21.4)
Retained earnings	20	**295.7**	399.5
Attributable to equity holders of Essentra plc		**595.4**	609.5
Non-controlling interests		**7.3**	5.7
Total equity		**602.7**	615.2
Liabilities			
Interest bearing loans and borrowings	13,18	**374.9**	403.5
Retirement benefit obligations	17	**34.7**	24.7
Provisions	16	**4.9**	2.8
Deferred tax liabilities	15	**65.8**	93.0
Total non-current liabilities		**480.3**	524.0
Interest bearing loans and borrowings	13,18	**65.1**	0.6
Derivative liabilities	14,18	**1.7**	0.4
Income tax payable		**24.4**	26.8
Trade and other payables	12,18	**204.3**	241.9
Provisions	16	**1.2**	8.0
Total current liabilities		**296.7**	277.7
Liabilities in disposal group held for sale	23	**32.5**	–
Total liabilities		**809.5**	801.7
Total equity and liabilities		**1,412.2**	1,416.9

The consolidated Financial Statements on pages 88 to 133 were approved by the Board of Directors on 17 February 2017 and were signed on its behalf by:

Paul Forman
Chief Executive

Stefan Schellinger
Group Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

									2016
	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 2016	**66.0**	**298.1**	**0.1**	**(132.8)**	**–**	**(21.4)**	**399.5**	**5.7**	**615.2**
(Loss) / profit for the year							**(40.3)**	**0.7**	**(39.6)**
Other comprehensive income					**(0.3)**	**90.0**	**(11.8)**	**1.1**	**79.0**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(0.3)**	**90.0**	**(52.1)**	**1.8**	**39.4**
Share options exercised							**2.3**	**–**	**2.3**
Share option expense							**2.0**	**–**	**2.0**
Tax relating to share-based incentives							**(2.0)**	**–**	**(2.0)**
Dividends paid							**(54.0)**	**(0.2)**	**(54.2)**
At 31 December 2016	**66.0**	**298.1**	**0.1**	**(132.8)**	**(0.3)**	**68.6**	**295.7**	**7.3**	**602.7**

									2015
	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 2015	66.0	298.1	0.1	(132.8)	3.4	(8.5)	366.5	5.0	597.8
Profit for the year							67.9	0.8	68.7
Other comprehensive income					(3.4)	(12.9)	1.7	0.1	(14.5)
Total comprehensive income for the year	–	–	–	–	(3.4)	(12.9)	69.6	0.9	54.2
Purchase of employee trust shares							(1.0)	–	(1.0)
Share options exercised							5.4	–	5.4
Share option expense							5.7	–	5.7
Tax relating to share-based incentives							2.3	–	2.3
Dividends paid							(49.0)	(0.2)	(49.2)
At 31 December 2015	66.0	298.1	0.1	(132.8)	–	(21.4)	399.5	5.7	615.2

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 £m	2015 £m
Operating activities			
(Loss) / profit for the year		**(39.6)**	68.7
Adjustments for:			
Income tax (credit) / expense		**(7.6)**	21.7
Net finance expense	3	**12.5**	10.3
Intangible amortisation	2,8	**33.4**	31.7
Exceptional operating items	2	**133.7**	39.1
Depreciation	2,7	**34.3**	31.9
Share option expense	17	**2.0**	5.7
Hedging activities and other movements		**13.3**	(0.5)
Decrease / (increase) in inventories		**10.9**	(14.6)
Decrease / (increase) in trade and other receivables		**36.9**	(51.2)
(Decrease) / increase in trade and other payables		**(46.1)**	13.0
Cash outflow in respect of exceptional operating items		**(10.6)**	(22.1)
Adjustment for pension contributions		**0.8**	(5.1)
Movements in provisions		**(3.5)**	(2.3)
Cash inflow from operating activities		**170.4**	126.3
Income tax paid		**(17.4)**	(15.7)
Net cash inflow from operating activities		**153.0**	110.6
Investing activities			
Interest received		**0.7**	0.6
Acquisition of property, plant and equipment		**(42.8)**	(58.6)
Proceeds from sale of property, plant and equipment		**8.4**	3.8
Payments for intangible assets		**(3.9)**	–
Acquisition of businesses net of cash acquired	23	**(0.1)**	(304.5)
Net cash outflow from investing activities		**(37.7)**	(358.7)
Financing activities			
Interest paid		**(12.0)**	(10.0)
Dividends paid to equity holders		**(54.0)**	(49.0)
Dividends paid to non-controlling interests		**(0.2)**	(0.2)
Repayments of short-term loans		**–**	(4.9)
Repayments of long-term loans		**(298.6)**	–
Proceeds from long-term loans		**274.0**	292.8
Purchase of employee trust shares		**–**	(1.0)
Proceeds from sale of employee trust shares		**2.3**	5.4
Net cash (outflow) / inflow from financing activities		**(88.5)**	233.1
Net increase / (decrease) in cash and cash equivalents	21	**26.8**	(15.0)
Net cash and cash equivalents at the beginning of the year		**30.2**	46.0
Net increase / (decrease) in cash and cash equivalents		**26.8**	(15.0)
Net effect of currency translation on cash and cash equivalents		**3.7**	(0.8)
Net cash and cash equivalents at the end of the year	11,18	**60.7**	30.2

ACCOUNTING POLICIES

A. 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 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 Company has elected to prepare its individual company financial statements in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"); these are presented on pages 134 to 145.

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

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

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

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

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 is expected to complete in the first quarter of 2017. The results of Porous Technologies are presented as results from a discontinued operation in the consolidated income statement, and the comparative information has been re-presented accordingly. The assets and liabilities of Porous Technologies have also been presented as held for sale on the balance sheet as at 31 December 2016.

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

Information regarding the financial position of the Group, its cash flows, liquidity position, and borrowing facilities are described in the Financial Review on pages 15 to 16. In addition, note 18 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and exposures to credit, market and liquidity risk. Cash balances and borrowings are detailed in note 21. The Directors have prepared plans and forecasts for a period of at least twelve months from the date of signing these financial statements. Based on these, and taking into consideration the risks detailed in note 18, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and accordingly have adopted the going concern basis in preparing the consolidated financial statements. This disclosure has been prepared in accordance with the Financial Reporting Council's UK Corporate Governance Code.

Changes in accounting policies

In the current financial year, Essentra adopted the following pronouncements:

> Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation:* These amendments clarify that the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate PPE and can only be used to amortise intangibles in very limited circumstances

> Amendments to IAS 1 Disclosure Initiative: These amendments clarify that an entity should use professional judgement in determining what information should be disclosed in the financial statements, and the location and order of presentation in financial disclosures

> Amendments to IAS 27 Separate Financial Statements *Equity Method in Separate Financial Statements*

> Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

> Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*

> Amendments to IFRS 11 *Accounting for Interests in Joint Operations*

A. Basis of preparation continued
The adoption of these amendments did not have an impact on the Group in relation to measurement, recognition and presentation. Other than these, the accounting policies and presentation in this set of financial statements are consistent with those applied in the prior years.

The following standards or interpretations have not yet been adopted by the Group. The Group is currently assessing the impact of IFRS 15, IFRS 9 and IFRS 16, and does not currently expect the adoption of the other standards or interpretations to have a material impact on the consolidated results or financial position of the Group:

IFRS 15 *Revenue from Contracts with Customers* establishes a new five-step model that will apply to revenue arising from contracts with customers, and provides a more structured approach to measurement and recognition of revenue.

IFRS 9 *Financial Instruments* introduces new requirements for classification and measurement, impairment and hedge accounting, and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9.

IFRS 16 *Leases* eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model under which a lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and depreciation of lease assets separately from interest on lease liabilities in the income statement.

Amendments to IAS 7 *Disclosure Initiative* require disclosure of information about changes in liabilities arising from financing activities, including cash flows and non-cash changes. As Essentra provides disclosure on reconciliation of individual elements of net debt, these amendments are not expected to have a significant impact.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* clarify how to account for deferred tax assets related to debt instruments measured at fair value.

Narrow-scope amendments to IFRS 2 *Share-based Payment – Classification and Measurement of Share-based Payment Transactions* provide guidance on accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations and modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

IFRIC 22 *Foreign Currency Transactions and Advance Considerations* addresses the exchange rates to be used for advance consideration paid or received in a foreign currency.

Amendments to IAS 40 *Transfer of Investment Property* clarify the accounting requirements on transfers to or from investment property.

B. Basis of consolidation
(i) Subsidiaries
Subsidiaries are entities controlled by Essentra. Control exists when Essentra is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

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

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

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

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

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

D. Financial instruments
In accordance with IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"), interest bearing loans and borrowings and other financial liabilities (excluding derivatives) are held at amortised cost, unless they are included in a hedge accounting relationship. See note 14 for separate disclosure of hedge types.

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

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

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

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

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

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

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

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

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

F. Leases
Rentals associated with operating leases are expensed to the income statement on a straight line basis. Lease incentives are amortised in the income statement over the life of the lease.

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

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

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

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

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

(iii) Other intangible assets
An intangible asset acquired in a business combination is recognised at fair value to the extent it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. Intangible assets principally relate to customer relationships, which are valued using discounted cash flows based on historical customer attrition rates, and developed technology, which is valued using an income approach. The cost of intangible assets is amortised through the income statement on a straight line basis over their estimated useful economic life. Other intangible assets which are not acquired through a business combination ("non-acquired intangible assets") are recognised at cost to the extent it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably, and amortised on a straight line basis over their estimated useful economic life.

H. Impairment
All assets are reviewed annually to determine whether there is any indication of impairment. Goodwill and intangible assets are tested annually.

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

I. Inventories
Inventories are valued at the lower of cost (on a first in, first out basis) and net realisable value. For work-in-progress and finished goods, cost includes an appropriate proportion of labour cost and overheads.

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

K. Loans and borrowings
Loans and borrowings are initially measured at cost (which is equal to fair value at inception) and are subsequently measured at amortised cost using the effective interest method. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of borrowings is recognised in the income statement over the term of the borrowings.

L. Trade and other receivables
The carrying amount of trade and other receivables is estimated as the present value of future cash flows less impairment losses.

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

N. Catalogue costs
The costs associated with the production and printing of catalogues are expensed to the income statement when access is received to those goods.

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

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

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

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

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

P. Revenue
Revenue from the sale of goods is recognised in the income statement net of expected warranty claims when the significant risks and rewards of ownership have been transferred to the customer.

P. Revenue continued
A significant proportion of the Group's businesses sell goods on an ex-works basis, where the Group as a seller makes its goods ready for collection at its premises on an agreed upon sales date and the buyer incurs all transportation and handling costs and bears the risks for bringing the goods to their chosen destination. The Group operates non ex-works terms with customers in some of its businesses, and in these businesses, revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer. These terms include some consignment stock agreements, where revenue is recognised when the customer removes the goods from consignment stock.

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

R. Segment reporting
A segment is identified on the basis of internal reports that are regularly reviewed by the Group Management Committee (refer to Corporate Governance Report) in order to allocate resources to the segment and assess its performance.

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

(ii) Defined benefit schemes
The significant pension schemes in Europe and the US have been accounted for on a defined benefit basis.

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

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

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

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

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

U. One-off items in the consolidated income statement
The exceptional operating items below are separated from other items by virtue of their size and incidence (considered for each operating segment). They are shown as a separate line item within operating profit on the face of the income statement in order for the reader to obtain a clearer understanding of the financial information and the underlying performance. These items exclude amortisation of acquired intangible assets which are also presented separately in the income statement.

(i) Transaction costs relating to acquisitions and disposals of businesses
In 2016 and 2015, Essentra incurred one-off costs (such as professional fees) as a result of acquisitions including transactions that did not complete in 2015 (refer to note 23). In addition, costs incurred in the current year in relation to the disposal of Porous Technologies (which are presented as discontinued operations) are also included in this category (refer to note 23).

U. One-off items in the consolidated income statement continued

(ii) Acquisition integration and restructuring costs

Costs relating to the integration of acquired businesses and restructuring associated with acquisitions.

(iii) Other exceptional items

In 2016, this represented impairment loss on certain assets of the Health & Personal Care Packaging strategic business unit, further costs arising from the closure of the Filters site in Jarrow, offset by the net release of property provisions on disposal of properties, and an adjustment on contingent deferred considerations on a prior acquisition. In 2015, this represented the costs associated with the closure of the Filters site in Jarrow, offset by a release in respect of warranty obligations for the disposal of Globalpack, an entity disposed of in 2007, and an adjustment on contingent deferred considerations on prior acquisitions.

V. Investment in own shares

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

W. Provisions

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

X. Government grants

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

Y. Net debt

Net debt is defined as cash and cash equivalents, net of interest bearing loans and borrowings.

Z. Dividends

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

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

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

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

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

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

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

I. Pensions

Essentra accounts for its defined benefit pension schemes in accordance with IAS 19. The application of IAS 19 requires the exercise of judgement in relation to the assumptions used and for each assumption there is a range of possible outcomes (see note 17). In consultation with Essentra's actuaries, management decides the point within those ranges that most appropriately reflects Essentra's circumstances. Small changes to these assumptions can have a significant impact on valuations. The Group performs a sensitivity analysis for the significant assumptions used in determining post-retirement costs and liabilities, as detailed in note 17.

II. Business combinations and intangible assets

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

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

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

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

III. Taxation

Liabilities for tax contingencies require management judgements and estimates in respect of tax audit issues and exposures in each of the jurisdictions in which it operates. Management is also required to make an estimate of the current tax liability together with an assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. Where management conclude that a tax position is uncertain, a current tax liability is held for anticipated taxes that are considered probable based on the information available. Key judgement areas for the Group include the pricing of intercompany goods and services as well as the tax consequences arising from restructuring operations. Included in the tax payable is a liability of £15.1m (2015: £14.1m) for transfer pricing matters and £10.6m (2015: £10.7m) for other uncertain tax positions. The movement is due to adjustments for current year transactions, foreign exchange movements, expiry of statute of limitations following the passage of time and agreement reached with tax authorities on previous matters. Management may engage with professional advisors in making their assessment and, if appropriate, will liaise with the relevant taxation authorities to resolve the matter. The tax liability is reassessed in each period to reflect management's best estimate in light of information available. If the final outcome of these matters differs to the liability held in the financial statements, the difference may impact the income tax charge/(credit) in the year the matter is concluded.

NOTES

1. Segment analysis

In accordance with IFRS 8, Essentra has determined its operating segments based upon the information reported to the Group Management Committee. With effect from 1 January 2016, Essentra has implemented a new organisation structure, comprising three strategic business units. The Components, Pipe Protection Technologies, Extrusion and Security businesses form a strategic business unit named Component Solutions. The Speciality Tapes business is now included within the current Health & Personal Care Packaging strategic business unit. The Filter Products and Porous Technologies businesses form a new strategic business unit named Filtration Products. The scope of Central Services remains the same. The prior year segmental information has been re-presented accordingly to reflect the new organisation structure.

The operating segments are as follows:

Component Solutions consists of the Components business, the Extrusion business, the Pipe Protection Technologies business and the Security business. The Components business is a global market leading manufacturer and distributor of plastic injection moulded, vinyl dip moulded, and metal items. 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 a range of end-markets. The Security business has been at the forefront of ID technology for over 30 years, and has access to the widest portfolio of products and services, including printers, software and consumables from leading manufacturers.

Health & Personal Care Packaging consists of the Health & Personal Care Packaging business and the Speciality Tapes business. Health & Personal Care Packaging is a leading global provider of packaging and authentication solutions to a diversified blue-chip customer base in the health & personal care, consumer and specialist packaging sectors, and to the paper and board industries. The Speciality Tapes business has expertise in coating multiple adhesive systems in numerous technologies.

Filtration Products consists of the Filter Products business and the Porous Technologies business. The Filter Products business is the only global independent provider of filters and related solutions to the tobacco industry, and supplies not only standard filters but also special variants which provide innovative solutions that meet the consumer-driven demands of the sector against a backdrop of ongoing legislative changes. The Porous Technologies business is a leading developer and manufacturer of innovative custom fluid-handling components used in a variety of end-markets, engineered from a portfolio of technologies that included bonded and non-woven fibre, polyurethane foam and porous plastics.

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 is expected to complete in the first quarter of 2017. The results of Porous Technologies are presented as results from a discontinued operation in the consolidated income statement, and the comparative information has been re-presented accordingly. The assets and liabilities of Porous Technologies have also been presented as held for sale on the balance sheet as at 31 December 2016. No finance income or expense related to discontinued operations, and the income tax expense related to discontinued operations amounted to £3.9m (2015: £4.2m).

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 strategic business units and regions based on an internal management methodology. Therefore for continuing operations, the adjusted operating profit presented below of £110.4m (2015: £154.1m) differs from the amount presented as operating profit before intangible amortisation and exceptional operating items of £108.7m (2015: £152.5m) as a result of costs allocated to Porous Technologies of £1.7m (2015: £1.6m) under the internal management methodology.

1. Segment analysis continued

	Component Solutions £m	Health & Personal Care Packaging £m	Filtration Products £m	Eliminations £m	Central Services[1] £m	Total Continuing Operations £m	Discontinued Operations £m	Total £m
								2016
External revenue	301.8	427.6	269.1	–	–	998.5	105.2	1,103.7
Intersegment revenue	0.8	2.6	0.1	(3.5)	–	–	–	–
Total revenue	**302.6**	**430.2**	**269.2**	**(3.5)**	**–**	**998.5**	**105.2**	**1,103.7**
Operating profit / (loss) before intangible amortisation and exceptional operating items	54.4	34.5	37.5	–	(16.0)	110.4	21.5	131.9
Amortisation of acquired intangible assets	(8.8)	(21.4)	–	–	–	(30.2)	(2.7)	(32.9)
Exceptional operating items	(0.8)	(126.7)	(1.0)	–	–	(128.5)	(5.2)	(133.7)
Operating profit / (loss)	**44.8**	**(113.6)**	**36.5**	**–**	**(16.0)**	**(48.3)**	**13.6**	**(34.7)**
Segment assets	188.4	253.7	170.4	–	10.4	622.9	72.9	695.8
Intangible assets	190.2	391.4	0.1	–	–	581.7	51.1	632.8
Unallocated items[2]	–	–	–	–	76.9	76.9	6.7	83.6
Total assets	**378.6**	**645.1**	**170.5**	**–**	**87.3**	**1,281.5**	**130.7**	**1,412.2**
Segment liabilities	41.9	96.9	54.0	–	17.6	210.4	14.4	224.8
Unallocated items[2]	–	–	–	–	566.6	566.6	18.1	584.7
Total liabilities	**41.9**	**96.9**	**54.0**	**–**	**584.2**	**777.0**	**32.5**	**809.5**
Other segment items								
Capital expenditure (cash spend)	8.0	25.4	6.8	–	4.5	44.7	2.0	46.7
Depreciation	10.1	10.8	8.2	–	1.5	30.6	3.7	34.3
Average number of employees	2,230	3,893	1,606	–	179	7,908	521	8,429

[1] Central Services includes executive and non-executive management, group finance, tax, treasury, legal, group assurance, human resources, information technology, corporate development, corporate affairs 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

Continuing operations' net finance expense of £12.5m (2015: £10.3m) and income tax expense of £11.5m (2015: £17.5m) cannot be meaningfully allocated by segment.

No customer accounted for more than 10% of revenue in either 2016 or 2015. Analysed by destination, revenue to Europe and Africa is £523.0m (2015: £547.5m), revenue to Americas is £387.3m (2015: £371.6m) and revenue to Asia and Middle East is £193.6m (2015: £178.8m). Revenue to the UK is £141.7m (2015: £165.7m), with other significant countries being the USA with revenue of £307.2m (2015: £298.4m), Ireland £47.4m (2015: £46.7m) and Germany £47.0m (2015: £45.2m). Non-current assets in the UK total £234.8m (2015: £230.9m), with the other significant location being the USA with £455.4m (2015: £396.8m).

Included within revenue is an amount of £nil arising from the change in the fair value of forward exchange cash flow hedges transferred to the income statement (2015: a net gain of £0.5m).

1. Segment analysis continued

	Component Solutions £m	Health & Personal Care Packaging £m	Filtration Products £m	Eliminations £m	Central Services[1] £m	Total Continuing Operations £m	Discontinued Operations £m	Total £m
								2015
External revenue	285.2	419.3	302.0	–	–	1,006.5	91.6	1,098.1
Intersegment revenue	0.7	3.3	0.6	(4.6)	–	–	–	–
Total revenue	**285.9**	**422.6**	**302.6**	**(4.6)**	**–**	**1,006.5**	**91.6**	**1,098.1**
Operating profit / (loss) before intangible amortisation and exceptional operating items	58.1	57.5	54.7	–	(16.2)	154.1	17.4	171.5
Amortisation of acquired intangible assets	(8.1)	(21.2)	–	–	–	(29.3)	(2.4)	(31.7)
Exceptional operating items	1.8	(31.3)	(11.5)	–	1.9	(39.1)	–	(39.1)
Operating profit / (loss)	**51.8**	**5.0**	**43.2**	**–**	**(14.3)**	**85.7**	**15.0**	**100.7**
Segment assets	178.2	237.7	169.3	–	9.7	594.9	66.6	661.5
Intangible assets	160.3	485.6	–	–	–	645.9	45.7	691.6
Unallocated items[2]	–	–	–	–	63.8	63.8	–	63.8
Total assets	**338.5**	**723.3**	**169.3**	**–**	**73.5**	**1,304.6**	**112.3**	**1,416.9**
Segment liabilities	44.8	115.7	61.6	–	18.0	240.1	12.6	252.7
Unallocated items[2]	–	–	–	–	549.0	549.0	–	549.0
Total liabilities	**44.8**	**115.7**	**61.6**	**–**	**567.0**	**789.1**	**12.6**	**801.7**
Other segment items								
Capital expenditure (cash spend)	12.6	27.3	10.1	–	4.7	54.7	3.9	58.6
Depreciation	9.2	10.4	8.8	–	0.1	28.5	3.4	31.9
Average number of employees	2,402	3,754	1,723	–	176	8,055	535	8,590

[1] Central Services includes executive and non-executive management, group finance, tax, treasury, legal, group assurance, human resources, information technology, corporate development, corporate affairs 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

2. Net operating expense

	2016 £m	2015 £m
Changes in inventories of finished goods and work-in-progress	**(4.0)**	(4.9)
Raw materials and consumables	**499.0**	479.3
Personnel expense (note 5)	**272.7**	260.2
Depreciation of property, plant and equipment	**34.3**	31.9
Amortisation of intangible assets	**33.4**	31.7
Exceptional operating items	**133.7**	39.1
Operating lease expense	**15.0**	9.1
Exchange differences recognised in profit or loss	**(1.1)**	(2.2)
Other operating expenses	**155.4**	153.2
Net operating expense (including discontinued operations)	**1,138.4**	997.4

No income or expense (2015: £nil) was recognised in operating expense during the year in respect of ineffective cash flow hedges. Essentra's hedges of net investments were also entirely effective in 2016 and 2015, as defined by IAS 39, and therefore no hedge ineffectiveness has been recognised in net operating expense in 2016 (2015: £nil). Research and development expenses (including relevant staff costs) charged to profit or loss during the year amounted to £5.0m (2015: £6.0m). Other operating expenses include manufacturing, selling, general and administrative overheads.

2. Net operating expense continued

Exceptional operating items (including discontinued operations)

	2016 £m	2015 £m
Transaction costs relating to acquisitions and disposals of businesses[1]	**5.0**	0.2
Acquisition integration and restructuring costs[2]	**4.5**	34.1
Other[3]	**124.2**	4.8
	133.7	**39.1**
Exceptional tax items[4]	**–**	(1.7)

1 Transaction costs relating to acquisitions and disposals of businesses are made up of £0.3m in respect of the acquisition of Kamsri Printing & Packaging Pvt. Ltd. are based in India, and £4.7m costs in relation to the disposal of Porous Technologies (including costs incurred on corporate reorganisation carried out as part of the closing conditions to complete the transaction, and cost of a claim settlement associated with the exit from Porous Technologies). In 2015, transaction costs of £0.2m related to the acquisition of Specialty Plastics.

2 Acquisition integration and restructuring costs are incurred during the period in respect of:

> additional integration costs (primarily people costs directly associated with the restructuring activities, costs of site closures and directly attributable costs of sites which businesses are transferred into under the integration plan) in relation to the ongoing integration of the Clondalkin SPD business (£4.5m) offset with the gain on disposal of certain properties which were acquired with that business (£1.7m); and

> the costs associated with the closure of the Components site at Xiamen, China, and integration of those operations into other sites in Asia as part of the Components Asia restructuring programme following the Abric acquisition (£1.7m)

The items in 2015 related to Clondalkin SPD, Abric and Speciality Plastics, including the effect of unwinding the fair value adjustment on inventory in relation to the acquisition of Clondalkin SPD, amounting to £1.9m.

3 Other exceptional items in 2016 relate to:

> £123.9m impairment loss in relation to the Health & Personal Care strategic business unit. Further details are provided in note 8;

> further costs of £2.7m associated with the closure of the Filters site in Jarrow and integration of previous Jarrow operations into the Hungary site offset with the net release of property provisions of £1.3m on the disposal of certain properties in Filtration Products (including a £0.5m loss of property disposal in Porous Technologies); and

> the release of a provision of £1.1m for contingent deferred consideration in relation to a prior period acquisition.

Other exceptional items in 2015 related to costs associated with the closure of the Filters site in Jarrow of £11.5m, offset by a release of £1.9m in respect of warranty obligations for the 2007 disposal of Globalpack and a £4.8m credit adjustment for contingent deferred consideration in relation to prior period acquisitions.

4 Exceptional tax items in 2015 related to the release of tax indemnity provisions of £1.7 million in respect of the 2007 Globalpack disposal.

The tax effect of the exceptional items is a credit of £24.9m (2015: £6.1m).

Auditor's remuneration (including discontinued operations)

	2016 £m	2015 £m
Audit of these financial statements	**0.3**	0.3
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**1.1**	0.9
Audit-related assurance services[1]	**0.1**	0.3
Other services	**0.2**	–
Total fees	**1.7**	1.5

1 Fees for other services in 2016 related principally to the review of the half year financial statements. Fees for other services in 2015 related principally to the review of the half year financial statements and assurance services relating to the review of opening balance sheet in connection with the acquisition of Clondalkin SPD

2 Fees of £15,335 (2015: £15,335) were paid in relation to the audit of the Essentra pension schemes

3. Net finance expense

	2016 £m	2015 £m
Finance income		
Bank deposits	**0.7**	0.6
Other finance income	**0.4**	–
Net interest on net pension scheme assets (note 17)	**1.0**	0.9
	2.1	1.5
Finance expense		
Interest on loans and overdrafts	**(12.5)**	(9.5)
Amortisation of bank facility fees	**(0.7)**	(0.7)
Other finance expense	**(0.2)**	(0.5)
Net interest on pension scheme liabilities (note 17)	**(1.2)**	(1.1)
	(14.6)	(11.8)
Net finance expense	**(12.5)**	(10.3)

4. Income tax

	2016 £m	2015 £m
Amounts recognised in the consolidated income statement		
Current tax	**18.0**	22.8
Prior years' tax	**0.5**	0.5
Double tax relief	**–**	–
Deferred tax (note 15)	**(26.1)**	(1.6)
Income tax (credit) / expense (including discontinued operations)	**(7.6)**	21.7
Amounts recognised in the consolidated statement of comprehensive income		
Deferred tax (credit) / charge on remeasurement of defined benefit pension schemes	**(5.0)**	0.2
Income tax charge on effective net investment hedges	**–**	0.1
Income tax credit in respect of tax losses not previously recognised	**(1.0)**	–
Income tax (credit) / charge (including discontinued operations)	**(6.0)**	0.3

Factors affecting income tax for the year

Essentra operates in many countries and is subject to income tax in many different jurisdictions (the most significant jurisdiction being the UK, US, Singapore, Hungary, Thailand and Indonesia). Essentra calculates its average expected tax rate as a weighted average of the applicable corporate income tax rates in the tax jurisdictions in which it operates.

	2016 £m	2015 £m
(Loss)/profit before income tax (including discontinued operations)	**(47.2)**	90.4
Tax at weighted average tax rate (2016: 39.8%; 2015: 20.9%)[1]	**(18.8)**	18.9
Effects of:		
Permanent disallowable items (including exceptional costs)[2]	**1.7**	2.1
Non-deductible impairment of goodwill[3]	**8.5**	–
Non-taxable exceptional items[4]	**(0.3)**	(1.4)
Overseas state and local tax	**1.4**	1.2
Unrecognised tax attributes arising / (utilised)[5]	**(0.5)**	(0.2)
Adjustments in respect of prior periods	**1.6**	(2.3)
Withholding tax on unremitted earnings[6]	**1.7**	3.0
Change in tax rates[7]	**–**	(0.9)
Other items[8]	**(2.9)**	1.3
Income tax (credit) / expense (including discontinued operations)	**(7.6)**	21.7

4. Income tax continued

Income tax credit in the UK is £9.0m (2015: £0.7m expense). This is primarily due to the trading performance and exceptional costs of the UK businesses.

[1] The change in the weighted average applicable tax rate is caused by a change in the geographical balance of the Group's profits and by changes in corporate tax rates in these geographies and the impact of the impairment loss relating to the Health & Personal Care Packaging strategic business unit
[2] This includes primarily depreciation on assets not qualifying for capital allowances and costs incurred in relation to the disposal of the Porous Technologies businesses. Permanent disallowable items may vary in future years dependent on the nature of future expenditure
[3] The impairment loss on goodwill of the Health & Personal Care Packaging strategic business unit is disallowable for tax purposes. See note 8 for further information
[4] See note 2 and analysis of other exceptional operating items. Income from adjustment for contingent deferred consideration in relation to prior acquisitions are non-taxable. In 2015, income from the release of warranty obligation in relation to the disposal of Globalpack and an adjustment for contingent deferred consideration in relation to prior acquisitions was included at the UK rate of 20.25%
[5] See further information regarding deferred tax asset recognition in note 15
[6] Essentra is able to control the timing and amount of remitted earnings, and therefore this amount may vary in future years
[7] During the year, there have been no significant changes to enacted corporate tax rates. This may vary in future years. In the prior year, the UK corporate tax rate reduced from 21% to 20% on 1 April 2015, and further reductions to 19% from 1 April 2017 and to 18% from 1 April 2020 have been enacted during 2015. A further reduction in the tax rate to 17% from 1 April 2020 was substantively enacted in 2016. The impact of these enacted changes on deferred tax for the UK is £nil (2015: £0.6m)
[8] Adjustments to current year uncertain tax positions and sundry items

5. Personnel expense

	2016 £m	2015 £m
Wages and salaries	**238.6**	224.8
Social security expense	**24.2**	23.5
Pension expense (note 17)	**7.9**	6.2
Share option expense (note 17)	**2.0**	5.7
Total personnel expense (including discontinued operations)	**272.7**	260.2

The Report of the Remuneration Committee on pages 71 to 82 sets out information on Directors' remuneration.

Key management remuneration

	2016 £m	2015 £m
Short-term employee benefits	**3.6**	4.7
Post-employment benefits	**0.5**	0.6
Share-based payments	**0.7**	3.6
	4.8	8.9

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

6. Earnings per share

	2016 £m	2015 £m
Earnings: Continuing operations		
(Loss) / earnings attributable to equity holders of Essentra plc	**(51.7)**	55.5
Adjustments		
Amortisation of acquired intangible assets	**30.2**	29.3
Exceptional operating items	**128.5**	39.1
	158.7	68.4
Tax relief on adjustments	**(30.8)**	(12.8)
Exceptional tax item	**–**	(1.7)
Adjusted earnings	**76.2**	109.4
Earnings: Discontinued operations		
Earnings attributable to equity holders of Essentra plc	**11.4**	12.4
Adjustments		
Amortisation of acquired intangible assets	**2.7**	2.4
Exceptional operating items	**5.2**	–
	7.9	2.4
Tax relief on adjustments	**(0.7)**	(0.6)
Exceptional tax item	**–**	–
Adjusted earnings	**18.6**	14.2
Weighted average number of shares		
Basic weighted average ordinary shares in issue (million)	**261.1**	259.5
Dilutive effect of employee share option plans (million)	**–**	3.7
Diluted weighted average ordinary shares (million)	**261.1**	263.2
Earnings per share: Continuing operations (pence)		
Basic (loss) / earnings per share	**(19.8)p**	21.4p
Adjustment	**49.0p**	20.7p
Basic adjusted earnings per share	**29.2p**	42.1p
Diluted (loss) / earnings per share	**(19.8)p**	21.1p
Diluted adjusted earnings per share	**29.2p**	41.6p
Earnings per share: Discontinued operations (pence)		
Basic earnings per share	**4.4p**	4.8p
Adjustment	**2.7p**	0.7p
Basic adjusted earnings per share	**7.1p**	5.5p
Diluted earnings per share	**4.4p**	4.7p
Diluted adjusted earnings per share	**7.1p**	5.4p
Earnings per share: Total Group (pence)		
Basic (loss) / earnings per share	**(15.4)p**	26.2p
Adjustment	**51.7p**	21.4p
Basic adjusted earnings per share	**36.3p**	47.6p
Diluted (loss) / earnings per share	**(15.4)p**	25.8p
Diluted adjusted earnings per share	**36.3p**	47.0p

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

6. Earnings per share continued

For the current year, the employee share options are not considered as dilutive, as they would increase loss per share from continuing operations.

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

7. Property, plant and equipment

				2016
	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
Cost				
Beginning of year	**111.6**	**383.3**	**60.4**	**555.3**
Acquisitions (note 23)	–	0.5	–	**0.5**
Additions	2.3	36.0	2.0	**40.3**
Disposals	(14.8)	(13.0)	(3.6)	**(31.4)**
Transfer to intangible assets	–	–	(2.6)	**(2.6)**
Transfer to assets in disposal group held for sale	(27.5)	(42.5)	(6.5)	**(76.5)**
Currency translation	15.7	61.8	6.0	**83.5**
End of year	**87.3**	**426.1**	**55.7**	**569.1**
Depreciation and impairment				
Beginning of year	**24.4**	**208.5**	**33.6**	**266.5**
Depreciation charge for the year	2.4	25.1	5.5	**33.0**
Impairment	0.3	3.4	–	**3.7**
Disposals	(9.1)	(11.8)	(3.3)	**(24.2)**
Transfer to intangible assets	–	–	(0.5)	**(0.5)**
Transfer to assets in disposal group held for sale	(6.9)	(29.4)	(5.7)	**(42.0)**
Currency translation	5.3	36.9	4.5	**46.7**
End of year	**16.4**	**232.7**	**34.1**	**283.2**
Net book value at end of year	**70.9**	**193.4**	**21.6**	**285.9**

7. Property, plant and equipment continued

				2015
	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
Cost				
Beginning of year	91.8	337.6	57.8	487.2
Acquisitions	16.5	17.6	1.5	35.6
Additions	4.9	48.6	7.0	60.5
Disposals	(1.7)	(20.2)	(5.9)	(27.8)
Currency translation	0.1	(0.3)	–	(0.2)
End of year	111.6	383.3	60.4	555.3
Depreciation and impairment				
Beginning of year	21.6	201.9	33.2	256.7
Depreciation charge for the year	3.2	23.8	4.9	31.9
Impairment	0.7	1.1	1.1	2.9
Disposals	(0.6)	(17.4)	(5.5)	(23.5)
Currency translation	(0.5)	(0.9)	(0.1)	(1.5)
End of year	24.4	208.5	33.6	266.5
Net book value at end of year	87.2	174.8	26.8	288.8

Included within land and buildings and plant and machinery are assets in the course of construction of £28.2m (2015: £18.4m) which were not depreciated during the year.

Contractual commitments to purchase property, plant and equipment (including Porous Technologies) amounted to £3.8m at 31 December 2016 (2015: £3.3m). The net book value of assets under finance leases amounted to £3.3m as at 31 December 2016 (2015: £3.6m).

Impairment charge in 2016 of £3.7m related primarily to the write-down of certain plant and machinery in the Health & Personal Care Packaging Strategic Business Unit as a result of detailed impairment assessment of assets held by the individual cash generating units in that strategic business unit. Further details are included in note 8.

Impairment charge in 2015 of £2.9m related to assets written down as part of the restructuring of certain of the Group's operations.

8. Intangible assets

	Goodwill £m	Customer relationships £m	Other intangible assets £m	Total £m
				2016
Cost				
Beginning of year	**367.2**	**397.2**	**15.7**	**780.1**
Acquisitions (note 23)	0.5	2.1	0.1	**2.7**
Additions	–	–	3.9	**3.9**
Transfer from property, plant and equipment	–	–	2.6	**2.6**
Transfer to assets in disposal group held for sale	(29.6)	(25.4)	(9.0)	**(64.0)**
Currency translation	42.4	53.3	0.8	**96.5**
End of year	**380.5**	**427.2**	**14.1**	**821.8**
Amortisation and impairment				
Beginning of year	**–**	**80.0**	**8.5**	**88.5**
Charge for the year	–	30.6	1.8	**32.4**
Impairment	32.5	88.0	–	**120.5**
Transfer from property, plant and equipment	–	–	0.5	**0.5**
Transfer to assets in disposal group held for sale	–	(8.3)	(6.6)	**(14.9)**
Currency translation	–	13.1	–	**13.1**
End of year	**32.5**	**203.4**	**4.2**	**240.1**
Net book value at end of year	**348.0**	**223.8**	**9.9**	**581.7**

	Goodwill £m	Customer relationships £m	Other intangible assets £m	Total £m
				2015
Cost				
Beginning of year	211.8	235.6	15.0	462.4
Acquisitions	158.7	164.5	–	323.2
Currency translation	(3.3)	(2.9)	0.7	(5.5)
End of year	367.2	397.2	15.7	780.1
Amortisation				
Beginning of year	–	49.3	6.7	56.0
Charge for the year	–	30.2	1.5	31.7
Currency translation	–	0.5	0.3	0.8
End of year	–	80.0	8.5	88.5
Net book value at end of year	367.2	317.2	7.2	691.6

Other intangible assets principally comprise trade names acquired with Reid Supply, developed technology acquired with Richco, order backlog and eCommerce development costs. Amortisation of intangible assets arising from business combinations ('acquired intangible assets') is presented separately on the face of the income statement. The eCommerce development costs were not acquired through a business combination, and their amortisation is included within operating profit before intangible amortisation and exceptional operating items as presented on the face of the income statement.

8. Intangible assets continued

The weighted average useful economic lives of customer relationships and other intangible assets (including Porous Technologies) at the end of the year were 14.1 years and 8.9 years (2015: 14.2 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 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	
Operating segment	**2016 £m**	**2015 £m**
Component Solutions	**93.3**	74.0
Health & Personal Care Packaging	**254.7**	266.6
Filtration Products[1]	**31.4**	26.6
	379.4	367.2

[1] These are included in assets in disposal group held for sale as at 31 December 2016

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

		Customer relationships and other intangible assets	
Business	**Operating segment**	**2016 £m**	**2015 £m**
Components – Businesses of former Moss and Skiffy	Component Solutions	**17.5**	12.6
Components – Businesses of former Richco	Component Solutions	**35.2**	32.8
Components – Business of former Reid Supply	Component Solutions	**7.6**	7.6
Components – Business of former Mesan	Component Solutions	**11.8**	13.1
Components – Abric	Component Solutions	**11.6**	10.9
Healthcare – Europe	Health & Personal Care Packaging	**79.7**	208.4
Healthcare – Americas	Health & Personal Care Packaging	**46.6**	–
Healthcare – Asia	Health & Personal Care Packaging	**2.1**	–
Porous St. Charles[1]	Filtration Products	**3.3**	4.0
Porous Chicopee[1]	Filtration Products	**14.5**	13.4
Porous Asia[1]	Filtration Products	**1.9**	1.8
Packaging	Health & Personal Care Packaging	**2.2**	3.7
Speciality Tapes	Health & Personal Care Packaging	**8.2**	12.7
Multiple businesses	Multiple segments	**11.2**	3.4
		253.4	324.4

[1] These are included in assets in disposal group held for sale as at 31 December 2016

The Health & Personal Care Packaging business faced significant operational and commercial challenges during 2016. Integration of the acquired Clondalkin operations and the associated site rationalisation programme has met with significant issues and resulted in losses of customers, particularly in the UK, the US and the Netherlands. Furthermore, there has been significant scaling back of high margin security feature business in the tear tape operations. Issues were also experienced in the integration of the European speciality tapes activities into the European tear tapes business.

8. Intangible assets continued

In the light of these events, management has performed a detailed impairment assessment of the assets in the Health & Personal Care Packaging Strategic Business Unit. As a result of this impairment assessment, impairment losses were recognised for £32.5m of goodwill, £88.0m of customer relationship intangible asset and £3.4m of property, plant and equipment (primarily plant and machinery).

The impairment assessment for intangible assets (excluding goodwill) and property, plant and equipment is performed on the cash generating units within the Health & Personal Care Packaging Strategic Business Unit. The cash generating units are primarily the manufacturing sites. Goodwill is tested at the strategic business unit 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 cash generating units. For assets in the cash generating units assessed to be impaired, their fair value less costs to sell is also considered in determining the impairment loss to be recognised, if any. In these cases the fair value less costs to sell is based on estimated market prices reflecting the age and condition of the asset.

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

> Cash flows for the next year are based upon the Group's annual Plan ("the Plan"). The key assumptions in the cash flow projections for the Plan are the revenue growth and operating margin for each strategic business unit. Operating margin is primarily based on the levels achieved in 2016, which are disclosed in note 1, adjusted by targets set for revenue expansion and cost control and reduction for each individual division within the Plan period.

> In relation to the test for the Health & Personal Care Packaging Strategic Business Unit, 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 1.0%-1.5% subsequently. The growth and profit margin assumptions are based on management's assessment of market condition and scope for cost and profitability improvement, taking into account realisable synergies following the recent integration activities. In relation to the test for the Component Solutions Strategic Business Unit, cash flows beyond the Plan period are based on Plan cash flows with growth rates specific to each business of up to 2% (2015: 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 8.2% (2015: 9.3%). The specific pre-tax discount rates applied for each group of cash generating units to which significant goodwill is allocated are as follows: 10.6% for Health & Personal Care Packaging, 10.6% for Component Solutions and 10.6% for Filtration Products (2015: 16.2% for Distribution, 11.4% for Health & Personal Care Packaging and 12.7% for Specialist Technologies).

> For the Filtration Products Strategic Business Unit, goodwill and intangible assets are held by Porous Technologies and none is held by Filter Products. The impairment test for the intangible assets of Porous Technologies is carried out on the basis of fair value less costs to sell, to reflect the impending disposal. The Group expects to realise a significant gain on the disposal of Porous Technologies based on the consideration agreed with the buyer, and therefore no impairment loss is required. This transaction is expected to complete in the first half of 2017.

Following the recognition of impairment losses in the Health & Personal Care Packaging Strategic Business Unit, a reasonably possible change in a key assumption will cause the carrying amount after impairment to exceed the recoverable amount, as follows:

> An increase in discount rate of 10 basis points would increase the impairment loss by £7.5m.

> A reduction in terminal annual growth rate of 10 basis points would increase the impairment loss by £5.4m.

> A reduction in each year's growth rate by 10 basis points for the five-year projection period would increase the impairment loss by £5.4m.

> A reduction of 100 basis points in the operating profit margin in the fifth year of the five-year period for the key locations impacted by impairment would increase the impairment loss by £13.7m.

9. Inventories

	2016 £m	2015 £m
Raw materials and consumables	**45.4**	56.5
Work-in-progress	**10.4**	10.5
Finished goods and goods held for resale	**59.3**	51.7
	115.1	118.7

The amount of inventories written down in both 2016 and 2015 was not material.

10. Trade and other receivables

	2016 £m	2015 £m
Trade receivables	**187.8**	224.9
Other receivables	**22.6**	19.8
Prepayments and accrued income	**8.0**	8.5
	218.4	253.2

11. Cash and cash equivalents

	2016 £m	2015 £m
Bank balances	**27.4**	23.8
Short-term bank deposits and investments	**26.6**	6.4
Cash and cash equivalents	**54.0**	30.2
Amount in disposal group held for sale	**6.7**	–
Cash and cash equivalents in the statement of cash flows	**60.7**	30.2

12. Trade and other payables

	2016 £m	2015 £m
Trade payables	**134.0**	144.0
Other tax and social security contributions	**11.8**	11.5
Other payables	**15.1**	32.3
Accruals and deferred income	**43.4**	54.1
	204.3	241.9

13. Interest bearing loans and borrowings

	2016 £m	2015 £m
Non-current liabilities		
Unsecured bank loans	**310.1**	294.1
US Private Placement Loan Notes	**64.2**	108.3
Finance lease liabilities	**0.6**	1.1
	374.9	403.5
Current liabilities		
US Private Placement Loan Notes	**64.5**	–
Finance lease liabilities	**0.6**	0.6
	65.1	0.6

13. Interest bearing loans and borrowings continued

At 31 December 2016, the Group had £170m (2015: £nil), $nil (2015: $283m) and €165m (2015: €140m) of unsecured bank loans drawn in sterling and euros at floating rates of interest set by reference to LIBOR. Essentra's two $80m US Private Placement Loan Notes are at interest rates of 5.37% and 5.91% per annum respectively.

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

	2016		2015	
	Carrying value £m	Nominal value £m	Carrying value £m	Nominal value £m
Sterling	170.1	170.5	0.9	0.9
US dollar	128.7	129.0	300.1	301.3
Euro	141.2	141.7	103.1	103.8
	440.0	**441.2**	404.1	406.0

The difference between the total nominal and carrying value of loans and borrowings relates to the amortised value of prepaid facility fees of £1.2m (2015: £1.9m).

14. Derivatives

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

	Assets		Liabilities	
	Fair values £m	Contractual or notional amounts £m	Fair values £m	Contractual or notional amounts £m
At 31 December 2016				
Derivatives at fair value through profit or loss				
Forward foreign exchange contracts	0.2	3.7	(0.4)	15.8
Cash flow hedges				
Forward foreign exchange contracts	1.0	43.5	(1.3)	166.7
	1.2	**47.2**	**(1.7)**	**182.5**

	Assets		Liabilities	
	Fair values £m	Contractual or notional amounts £m	Fair values £m	Contractual or notional amounts £m
At 31 December 2015				
Derivatives at fair value through profit or loss				
Forward foreign exchange contracts	0.1	45.1	(0.1)	30.0
Cash flow hedges				
Forward foreign exchange contracts	0.3	15.9	(0.3)	20.1
	0.4	61.0	(0.4)	50.1

14. Derivatives continued

Cash flow hedges are hedges of the currency and interest rate risk exposure to variability in cash flows. They related to usual trading transactions in foreign currencies.

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

The net fair value gains on open forward foreign exchange contracts that hedge foreign currency risk of anticipated future sales and purchases will be transferred to the income statement when the forecast sales and purchases occur. All of the hedged transactions are expected to occur over the next 15 months and all derivative instruments mature within the next 15 months.

Essentra had US dollar and euro denominated borrowings which it designated as hedges of its net investments in subsidiary undertakings. The exchange losses of £40.8m (2015: gains of £13.7m) on the US dollar borrowings and the losses of £16.1m (2015: losses of £7.7m) on the euro borrowings were recognised in other comprehensive income.

Finance income and expense arising on financial assets and financial liabilities held at amortised cost are those amounts, excluding interest on pension scheme assets and interest on pension scheme liabilities, detailed in note 3.

15. Deferred tax

Deferred tax assets and liabilities (including amounts relating to disposal group held for sale) are attributable to the following:

			2016			**2015**
	Assets £m	**Liabilities £m**	**Net £m**	**Assets £m**	**Liabilities £m**	**Net £m**
Property, plant and equipment[1]	**(1.3)**	**22.6**	**21.3**	(2.2)	17.1	14.9
Intangible assets[2]	**–**	**69.4**	**69.4**	–	83.3	83.3
Employee benefits[3]	**(12.0)**	**2.1**	**(9.9)**	(10.9)	5.3	(5.6)
Other[4]	**(12.9)**	**5.8**	**(7.1)**	(8.1)	3.9	(4.2)
Tax (assets) / liabilities	**(26.2)**	**99.9**	**73.7**	(21.2)	109.6	88.4
Set off of tax	**23.6**	**(23.6)**	**–**	16.6	(16.6)	–
Net tax (assets) / liabilities	**(2.6)**	**76.3**	**73.7**	(4.6)	93.0	88.4

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

[2] A deferred tax liability is provided on temporary differences arising on the Group's intangible assets as in the majority of cases the local tax authorities do not allow deduction for the amortisation of these intangible assets. The decrease during the year is due to the impairment loss relating to the Health & Personal Care Packaging Strategic Business Unit, partly offset by foreign exchange movements

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

[4] This includes expenditure that will be deductible in future periods for tax purposes when the amounts are settled in cash, and withholding tax on overseas earnings from group companies expected to be remitted in the foreseeable future of £4.2m (2015: £3.0m)

15. Deferred tax continued

Movements in the year:

	2016 £m	2015 £m
Beginning of year	**88.4**	42.9
(Credit) / charge to the income statement in respect of current year	**(27.1)**	1.2
Charge / (credit) to the income statement in respect of prior years	**1.0**	(2.8)
(Credit) / charge to other comprehensive income	**(5.0)**	0.2
Charge to reserves on share-based incentives	**3.0**	2.3
Acquisitions	**–**	45.3
Currency translation	**13.4**	(0.7)
End of year	**73.7**	88.4
Included in:		
Disposal group held for sale (see note 23)	**10.5**	–
Rest of Group	**63.2**	88.4
	73.7	88.4

No deferred tax liability is provided in respect of unremitted earnings of foreign subsidiaries where Essentra is able to control the remittance of earnings and it is probable that such earnings will not be remitted in the foreseeable future, or where no liability would arise on the remittance. At the year end it is expected that earnings from certain overseas group companies will be remitted and a deferred tax liability of £4.2m (2015: £3.0m) has been recognised accordingly. This represents withholding taxes payable on the remittance of these earnings under local tax laws. The amount of temporary differences associated with investments in subsidiaries and branches for which deferred tax liabilities have not been recognised is £113.7m as at 31 December 2016 (2015: £102.0m), and the associated amount of unrecognised deferred tax is £11.7m (2015: £13.9m).

Based on available information, management determined whether it is probable for some or all of the deferred tax assets to be realised. In determining this management considered the cumulative losses in prior years, the history of tax losses, the manner in which assets can be used (including time limitations under local laws), future earnings potential and expectation of future reversal of taxable temporary differences. Following management assessment, gross deferred tax assets of £0.2m (2015: £0.2m) in respect of capital losses and unutilised tax losses of £46.1m (2015: £30.9m) have not been recognised where their realisation is not considered probable. The capital losses have an unlimited expiry date. The tax losses expire as follows: £2.2m within 5 years, £6.1m in 5-10 years, £nil in over 10 years and £37.8m with no expiry. If future conditions change the amount of unrecognised gross deferred tax assets will be reassessed. This may impact the income tax expense /(credit) in that year.

16. Provisions

			2016
	Reorganisation £m	Other £m	Total £m
Beginning of year	**2.9**	**7.9**	**10.8**
Provisions made during the year	–	0.4	**0.4**
Provisions released during the year	(1.9)	(1.2)	**(3.1)**
Utilised during the year	(0.8)	(2.0)	**(2.8)**
Transfer from accruals and other payables	–	0.1	**0.1**
Transfer to liabilities in disposal group held for sale	–	(0.1)	**(0.1)**
Currency translation	–	0.8	**0.8**
End of year	**0.2**	**5.9**	**6.1**
Non-current	–	4.9	**4.9**
Current	0.2	1.0	**1.2**
	0.2	**5.9**	**6.1**

16. Provisions continued

				2015
	Discontinued £m	Reorganisation £m	Other £m	Total £m
Beginning of year	2.5	0.5	4.6	7.6
Provisions made during the year	–	2.5	1.1	3.6
Provisions released during the year	(2.0)	–	(2.7)	(4.7)
Utilised during the year	–	–	(0.3)	(0.3)
Acquisitions	–	0.1	5.4	5.5
Transferred to accruals and other payables	–	(0.2)	–	(0.2)
Currency translation	(0.5)	–	(0.2)	(0.7)
End of year	–	2.9	7.9	10.8
Non-current	–	–	2.8	2.8
Current	–	2.9	5.1	8.0
	–	2.9	7.9	10.8

Reorganisation provisions are held against restructuring and redundancy costs, primarily related to the integration of acquired businesses and restructuring associated with acquisitions. Other provisions relate primarily to vacant properties, lease dilapidations, employees' compensation claims, other claims, environmental liabilities and product warranties. Non-current provisions are generally long-term in nature with uncertain timing of utilisation. The release of other provisions during the year relates mostly to claims, property related provisions and warranty liabilities. Discontinued provisions in 2015 related to warranties made on the disposal of Globalpack, which was released in 2015.

17. Employee benefits

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

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

Pension costs of the defined benefit schemes are assessed in accordance with the advice of independent professionally qualified actuaries. Full triennial actuarial valuations were carried out on the principal European defined benefit schemes as at 5 April 2015 and annual actuarial valuations are performed on the principal US defined benefit schemes. The assets and liabilities of the defined benefit schemes have been updated to the balance sheet date from the most recently completed actuarial valuations taking account of the investment returns achieved by the schemes and the level of contributions.

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

17. Employee benefits continued

The amounts included in the consolidated Financial Statements are as follows:

	2016 £m	2015 £m
Amounts expensed against operating profit		
Defined contribution schemes	**6.2**	6.7
Defined benefit schemes – service cost	**1.5**	2.4
Defined benefit schemes – curtailment gain	**–**	(3.0)
Other post-employment obligations	**0.2**	0.1
Total operating expense (including discontinued operations)	**7.9**	6.2
Amounts included as finance (income) / expense		
Net interest on defined benefit scheme assets (note 3)	**(1.0)**	(0.9)
Net interest on defined benefit scheme liabilities (note 3)	**1.2**	1.1
Net finance expense (including discontinued operations)	**0.2**	0.2
Amounts recognised in the consolidated statement of comprehensive income		
Return on defined benefit scheme assets excluding amounts in net finance income	**(24.0)**	8.5
Impact of changes in assumptions and experience to the present value of defined benefit scheme liabilities	**40.8**	(10.4)
Remeasurement of defined benefit schemes (including discontinued operations)	**16.8**	(1.9)

During 2015, the principal defined benefit pension schemes in the UK and the US were closed to future accrual, and curtailment gains were recognised in profit or loss accordingly. 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:

	2016 Europe	2016 US	2015 Europe	2015 US
Increase in salaries (pre-2010)[1]	n/a	n/a	n/a	3.00%
Increase in salaries (post-2010)[1]	n/a	n/a	n/a	3.00%
Increase in pensions[1]				
at RPI capped at 5%	3.30%	n/a	3.10%	n/a
at CPI capped at 5%	2.40%	n/a	2.20%	n/a
at CPI minimum 3%, capped at 5%	3.20%	n/a	3.30%	n/a
at CPI capped at 2.5%	2.00%	n/a	1.80%	n/a
Discount rate	2.70%	4.15%	3.80%	4.37%
Inflation rate	2.90%	n/a	2.70%	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.

17. Employee benefits continued

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

	2016 Europe	2016 US	2015 Europe	2015 US
Male retiring today at age 65	**22.7**	**20.8**	22.4	21.2
Female retiring today at age 65	**24.5**	**22.8**	24.8	23.2
Male retiring in 20 years at age 65	**24.4**	**22.5**	24.3	22.9
Female retiring in 20 years at age 65	**26.4**	**24.4**	26.7	24.9

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

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

					2016
		Europe £m		US £m	Total £m
Equities	32%	69.9	61%	34.5	**104.4**
Corporate bonds	18%	39.0	38%	21.6	**60.6**
Government bonds	50%	111.1	–	–	**111.1**
Other	–	0.9	1%	0.8	**1.7**
Fair value of scheme assets		220.9		56.9	**277.8**
Present value of scheme liabilities		(212.3)		(86.6)	**(298.9)**
Net retirement benefit assets / (obligations)		**8.6**		**(29.7)**	**(21.1)**

					2015
		Europe £m		US £m	Total £m
Equities	32%	63.4	63%	30.3	93.7
Corporate bonds	18%	35.6	36%	17.6	53.2
Government bonds	50%	99.0	–	–	99.0
Other	0%	0.5	1%	0.3	0.8
Fair value of scheme assets		198.5		48.2	246.7
Present value of scheme liabilities		(174.6)		(71.2)	(245.8)
Net retirement benefit assets / (obligations)		23.9		(23.0)	0.9

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

17. Employee benefits continued

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

The average expected duration of the Group's European defined benefit pension liability at 31 December 2016 is 20.0 years (2015: 20.0 years). The average expected duration of the Group's US defined benefit pension liability at 31 December 2016 is 12.8 years (2015: 12.9 years).

The Group's contributions to its defined benefit pension schemes are determined in consultation with trustees, taking into consideration actuarial advice, investment conditions and other local conditions and practices. In 2017, the Group expects to make defined benefit contributions of $1.9m to its US schemes. As the Group's European schemes are in a surplus position the Group does not expect to make further contributions in 2017.

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

	2016				2015			
	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	**246.7**	**(245.8)**	**(1.7)**	**(0.8)**	245.6	(245.1)	(2.2)	(1.7)
Service cost and administrative expense	**(1.1)**	**(0.4)**	**(0.2)**	**(1.7)**	(1.3)	(1.1)	(0.1)	(2.5)
Employer contributions	**0.8**	**–**	**0.2**	**1.0**	3.9	–	0.1	4.0
Employee contributions					0.1	(0.1)	–	–
Return on plan assets excluding amounts in net finance income	**24.0**	**–**	**–**	**24.0**	(8.5)	–	–	(8.5)
Actuarial (losses) / gains arising from change in financial assumptions	**–**	**(45.2)**	**(0.3)**	**(45.5)**	–	6.2	–	6.2
Actuarial gains arising from change in demographic assumptions	**–**	**3.4**	**–**	**3.4**	–	–	–	–
Actuarial gains arising from experience adjustment	**–**	**1.3**	**–**	**1.3**	–	4.2	–	4.2
Finance income / (expense)	**9.6**	**(9.8)**	**–**	**(0.2)**	9.3	(9.5)	–	(0.2)
Benefits paid	**(11.2)**	**11.2**	**–**	**–**	(10.7)	10.7	0.5	0.5
Curtailments	**–**	**–**	**–**	**–**	–	3.0	–	3.0
Currency translation	**9.0**	**(13.6)**	**(0.3)**	**(4.9)**	2.9	(3.8)	–	(0.9)
Business combination	**–**	**–**	**–**	**–**	5.4	(10.3)	–	(4.9)
End of year	**277.8**	**(298.9)**	**(2.3)**	**(23.4)**	246.7	(245.8)	(1.7)	(0.8)

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 2016.

	Scheme liabilities		
	Europe £m	US £m	Total £m
0.5% decrease in the discount rate	(22.8)	(5.6)	**(28.4)**
1.0% increase in the rate of inflation	(21.7)	n/a	**(21.7)**
1.0% increase in rate of salary / pension increases	n/a	n/a	**n/a**
1 year increase in life expectancy	(6.6)	(2.4)	**(9.0)**
0.5% increase in the discount rate	19.8	5.0	**24.8**
1.0% decrease in rate of salary / pension increases	n/a	n/a	**n/a**
1.0% decrease in the rate of inflation	17.5	n/a	**17.5**

17. Employee benefits continued

Share-based incentives

Essentra operates equity-settled share-based incentive plans for its Executive Directors and employees. The total expense (including discontinued operations) in respect of these plans during the year was £2.0m (2015: £5.7m). Details of these plans are set out below:

Share options outstanding

												2016
	At 1 Jan 2016	Weighted average exercise price	Granted during the year	Weighted average exercise price	Lapsed during the year	Weighted average exercise price	Exercised during the year	Weighted average exercise price	At 31 Dec 2016	Weighted average exercise price	Exercisable at 31 Dec 2016	Weighted average exercise price
LTIP Part A	**1,707,546**	614.2p	429,212	828.5p	(265,040)	887.0p	(291,553)	466.9p	**1,580,165**	**653.9p**	**735,847**	**380.6p**
LTIP Part B	**2,270,114**	–	843,025	–	(561,196)	–	(208,242)	–	**2,343,701**	**–**	**185,308**	**–**
DASB	**329,396**	–	51,879	–	(19,376)	–	(123,549)	–	**238,350**	**–**	**–**	**–**
SAYE 3-year plan	**641,923**	691.6p	104,466	787.0p	(330,333)	743.4p	(147,077)	525.7p	**268,979**	**755.7p**	**–**	**–**
SAYE 5-year plan	**321,708**	588.9p	64,569	787.0p	(133,465)	720.5p	(70,405)	276.4p	**182,407**	**683.4p**	**–**	**–**
US SAYE 2-year plan	**94,116**	713.6p	32,552	367.0p	(65,842)	713.2p	–	–	**60,826**	**528.6p**	**7,919**	**713.6p**
	5,364,803		1,525,703		**(1,375,252)**		**(840,826)**		**4,674,428**		**929,074**	

												2015
	At 1 Jan 2015	Weighted average exercise price	Granted during the year	Weighted average exercise price	Lapsed during the year	Weighted average exercise price	Exercised during the year	Weighted average exercise price	At 31 Dec 2015	Weighted average exercise price	Exercisable at 31 Dec 2015	Weighted average exercise price
LTIP Part A	2,859,889	428.6p	383,266	997.0p	(154,755)	668.3p	(1,380,854)	328.6p	1,707,546	614.2p	723,703	283.6p
LTIP Part B	3,329,285	–	822,523	–	(364,534)	–	(1,517,160)	–	2,270,114	–	–	–
DASB	424,169	–	93,074	–	(45,893)	–	(141,954)	–	329,396	–	–	–
SAYE 3-year plan	561,833	533.8p	401,767	770.4p	(137,579)	693.1p	(184,098)	380.8p	641,923	691.6p	–	–
SAYE 5-year plan	345,138	399.8p	142,109	770.4p	(57,923)	653.0p	(107,616)	187.7p	321,708	588.9p	–	–
US SAYE 2-year plan	51,968	716.1p	50,694	711.5p	(8,546)	716.1p	–	–	94,116	713.6p	–	–
	7,572,282		1,893,433		(769,230)		(3,331,682)		5,364,803		723,703	

The exercise prices of options outstanding at the end of the year range from nil to 997.0p.

The weighted average share price at the date of exercise for options exercised during the year was 768.1p (2015: 984.2p). The following table shows the weighted average fair value at the date of grant for options granted during the year:

	LTIP Part A	LTIP Part B	DASB	SAYE 3-year plan	SAYE 5-year plan
Year ended 31 December 2016	**158.7p**	**635.8p**	**777.4p**	**153.8p**	**176.3p**
Year ended 31 December 2015	181.3p	705.9p	939.8p	270.9p	304.1p

17. Employee benefits continued

Fair value model inputs for share options awarded

					2016
	LTIP Part A	LTIP Part B	DASB	SAYE 3-year plan	SAYE 5-year plan
Weighted average fair value at grant	132.4p	660.2p	850.7p	235.6p	249.8p
Weighted average share price at grant	648.0p	866.4p	900.8p	935.4p	850.8p
Weighted average exercise price	653.9p	–	–	755.7p	683.4p
Weighted average volatility	29.5%	25.2%	24.9%	24.7%	28.1%
Weighted average dividend yield	2.57%	2.07%	1.94%	1.92%	1.98%
Weighted risk free rate	1.10%	0.77%	0.80%	0.89%	1.30%
Expected employee retention rates	86.7%	100.0%	100.0%	75.0%	75.0%
Expected term	3.14 years	3.00 years	3.00 years	3.00 years	5.00 years
Valuation model	Binomial	Monte Carlo	Binomial	Binomial	Binomial

					2015
	LTIP Part A	LTIP Part B	DASB	SAYE 3-year plan	SAYE 5-year plan
Weighted average fair value at grant	127.3p	625.5p	778.6p	247.8p	240.9p
Weighted average share price at grant	606.6p	835.6p	822.5p	902.3p	764.0p
Weighted average exercise price	614.2p	–	–	691.6p	588.9p
Weighted average volatility	30.2%	25.4%	25.5%	24.9%	29.6%
Weighted average dividend yield	2.51%	1.84%	1.84%	1.77%	2.05%
Weighted risk free rate	1.17%	0.76%	0.68%	0.89%	1.66%
Expected employee retention rates	87.1%	100.0%	100.0%	75.0%	75.0%
Expected term	3.16 years	3.00 years	3.00 years	3.00 years	5.00 years
Valuation model	Binomial	Monte Carlo	Binomial	Binomial	Binomial

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

					2016 and 2015
	LTIP Part A	LTIP Part B	DASB	SAYE 3-year plan	SAYE 5-year plan
Contractual life	3-10 years	3-6 years	3 years	3 years	5 years

Details of the vesting conditions of the LTIP Part A, LTIP Part B and DASB share option schemes are set out in the Report of the Remuneration Committee on pages 71 to 82.

18. Financial risk management

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

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

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

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

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

Trade and other receivables
Essentra's exposure to credit risk is driven by the profile of its customers. This is influenced by the demographics of the customer base, including the industry and country in which customers operate. Trade and other receivables are generally due from customers who are unlikely to seek credit ratings as part of their normal course of business.

Essentra monitors significant customers' credit limits and there is an allowance for impairment that represents the estimate of potential losses in respect of trade and other receivables. The components of this allowance are a specific allowance for individual losses and a collective allowance for losses that have been incurred but not yet identified. The collective allowance takes account of historical experience and the profile of customers.

As at 31 December 2016, gross trade receivables (including amounts relating to disposal group held for sale) were £220.1m (2015: £229.2m) of which £45.0m (2015: £43.7m) were past due but not impaired. The ageing analysis of trade receivables past due but not impaired is as follows:

	2016 £m	**2015 £m**
Up to three months	**42.8**	39.5
Over three months	**2.2**	4.2
	45.0	43.7

As at 31 December 2016, trade receivables (including amounts relating to disposal group held for sale) of £4.7m (2015: £4.3m) were provided for as they were considered to be impaired. The ageing of the impaired receivables provided for is as follows:

	2016 £m	**2015 £m**
Up to three months	**–**	–
Over three months	**4.7**	4.3
	4.7	4.3

18. Financial risk management continued

The movement in the provision for impaired receivables (including amounts relating to disposal group held for sale) is as follows:

	2016 £m	2015 £m
Beginning of year	**4.3**	6.3
Impaired receivables acquired	**–**	2.1
Impairment loss recognised	**2.4**	0.3
Release in the year	**–**	(2.9)
Utilisation	**(2.0)**	(1.5)
End of year	**4.7**	4.3

Derivative assets

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

Cash and cash equivalents

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

The following credit risk table provides information regarding the credit risk exposure of Essentra by classifying derivative assets and cash and cash equivalents (including amounts relating to disposal group held for sale) according to credit ratings of the counterparties. AAA is the highest possible rating and all of the assets are neither impaired nor past due.

							2016
	AAA £m	AA £m	A £m	BBB £m	BB £m	Not rated £m	Total £m
Derivative assets	**–**	**0.2**	**0.6**	**0.4**	**–**	**–**	**1.2**
Cash and cash equivalents	**–**	**4.9**	**41.5**	**8.1**	**6.0**	**0.2**	**60.7**
	–	**5.1**	**42.1**	**8.5**	**6.0**	**0.2**	**61.9**

							2015
	AAA £m	AA £m	A £m	BBB £m	BB £m	Not rated £m	Total £m
Derivative assets	–	–	0.3	–	0.1	–	0.4
Cash and cash equivalents	–	2.2	11.7	8.5	3.6	4.2	30.2
	–	2.2	12.0	8.5	3.7	4.2	30.6

Essentra's maximum credit risk exposure is £303.9m (2015: £274.4m) and no collateral is held against this amount (2015: £nil).

(ii) Market price risk

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

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

18. Financial risk management continued

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

Hedge of net investment in foreign operations
The majority of Essentra's net assets are in currencies other than sterling. The Company's normal policy is to limit the translation exposure and the resulting impact on shareholders' funds through measures such as borrowing in those currencies in which the Group has significant net assets. Essentra's US dollar denominated assets were approximately 32% (2015: 78%) hedged by the US dollar denominated borrowings. Essentra's euro denominated assets were approximately 73% hedged by the euro denominated borrowings (2015: 58%).

Transaction exposure hedging
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.

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

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

						2016
	Weakening in sterling			Strengthening in sterling		
	10% £m	5% £m	1% £m	1% £m	5% £m	10% £m
Impact on the income statement – gain / (loss)	**3.9**	**1.8**	**0.4**	**(0.3)**	**(1.7)**	**(3.2)**
Impact on equity – gain / (loss)	**65.2**	**30.9**	**5.9**	**(5.8)**	**(27.9)**	**(53.3)**

						2015
	Weakening in sterling			Strengthening in sterling		
	10% £m	5% £m	1% £m	1% £m	5% £m	10% £m
Impact on the income statement – gain / (loss)	11.2	5.3	1.0	(1.0)	(4.8)	(9.2)
Impact on equity – gain / (loss)	45.3	21.5	4.1	(4.0)	(19.4)	(37.1)

18. Financial risk management continued

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

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

						2016
	Decrease in interest rates			Increase in interest rates		
	200bps £m	100bps £m	50bps £m	50bps £m	100bps £m	200bps £m
Impact on the income statement – gain / (loss)	**6.2**	**3.1**	**1.6**	**1.6**	**3.1**	**6.2**

						2015
	Decrease in interest rates			Increase in interest rates		
	200bps £m	100bps £m	50bps £m	50bps £m	100bps £m	200bps £m
Impact on the income statement – gain / (loss)	5.9	3.0	1.5	1.5	3.0	5.9

See note 13 for interest rate disclosure on loans and borrowings.

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

Essentra's objective is to maintain a balance between continuity of funding and flexibility. Essentra is mostly funded by two series of US$80m US Private Placement Loan Notes from various financial institutions and syndicated multi-currency 5-year revolving credit facilities of £271.0m and €167.5m from its banks. The two series of Loan Notes of US$80m have original maturities of six and nine years and the revolving credit facilities mature in July 2019. At 31 December 2016 the available bank facilities totalled £414.2m (2015: £394.2m) of which £311.0m (2015: £295.5m) was drawn down. In addition, uncommitted and overdraft facilities are maintained to provide short-term flexibility.

Amounts drawn by Essentra on its committed facilities are subject to standard banking covenants.

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

	2016 £m	2015 £m
Expiring after two years	**103.2**	98.7

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

A new term loan for £60m was signed on 4 January 2017 by the Group for a period up to 1.5 years. Its terms and conditions are similar to the Group's existing facilities and is ranked pari-passu with these facilities.

18. Financial risk management continued

The maturity of Essentra's financial liabilities (including amounts relating to disposal group held for sale), including estimated interest payments, is analysed below.

							2016
	Fair value £m	**Carrying amount £m**	**Contractual cash flows £m**	**<1 yr £m**	**1-2 yrs £m**	**2-5 yrs £m**	**>5 yrs £m**
Unsecured bank loans	**310.1**	**310.1**	**320.7**	**3.9**	**3.9**	**312.9**	**–**
US Private Placement Loan Notes	**136.5**	**128.7**	**144.1**	**70.1**	**3.8**	**70.2**	**–**
Derivative liabilities	**1.7**	**1.7**	**1.7**	**1.7**	**–**	**–**	**–**
Trade and other payables	**160.0**	**160.0**	**160.0**	**160.0**	**–**	**–**	**–**
Finance lease liabilities	**1.2**	**1.2**	**1.2**	**0.6**	**0.5**	**0.1**	**–**
	609.5	**601.7**	**627.7**	**236.3**	**8.2**	**383.2**	**–**

							2015
	Fair value £m	**Carrying amount £m**	**Contractual cash flows £m**	**<1 yr £m**	**1-2 yrs £m**	**2-5 yrs £m**	**>5 yrs £m**
Unsecured bank loans	294.1	294.1	305.3	3.7	3.7	297.9	–
US Private Placement Loan Notes	117.4	108.3	127.7	6.1	59.1	62.5	–
Derivative liabilities	0.4	0.4	0.4	0.4	–	–	–
Trade and other payables	176.3	176.3	176.3	176.3	–	–	–
Finance lease liabilities	1.7	1.7	1.8	0.7	0.6	0.4	0.1
	589.9	580.8	611.5	187.2	63.4	360.8	0.1

Total trade and other payables (including amounts relating to disposal group held for sale) carried at £218.5m (2015: £241.9m) include accruals and deferred income of £46.3m (2015: £54.1m) and other taxes and social security contributions of £12.2m (2015: £11.5m) which are not financial liabilities and are therefore excluded from the above analysis. All trade and other payables are due to be settled in less than six months.

Total financial assets and liabilities

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

				2016				2015
	Fair value £m	**Loans and receivables £m**	**Amortised cost £m**	**Total carrying value £m**	**Fair value £m**	**Loans and receivables £m**	**Amortised cost £m**	**Total carrying value £m**
Trade and other receivables	–	242.0	–	**242.0**	–	243.8	–	**243.8**
Cash and cash equivalents	–	60.7	–	**60.7**	–	30.2	–	**30.2**
Interest bearing loans and borrowings	–	–	(440.0)	**(440.0)**	–	–	(404.1)	**(404.1)**
Trade and other payables	–	–	(158.7)	**(158.7)**	–	–	(174.8)	**(174.8)**
Level 2 of fair value hierarchy								
Derivative assets	1.2	–	–	**1.2**	0.4	–	–	**0.4**
Derivative liabilities	(1.7)	–	–	**(1.7)**	(0.4)	–	–	**(0.4)**
Level 3 of fair value hierarchy								
Other current payables	(1.3)	–	–	**(1.3)**	(1.5)	–	–	**(1.5)**
	(1.8)	**302.7**	**(598.7)**	**(297.8)**	**(1.5)**	**274.0**	**(578.9)**	**(306.4)**

18. Financial risk management continued

Total trade and other receivables (including amounts relating to disposal group held for sale) carried at £250.4m (2015: £254.0m) include prepayments of £8.4m (2015: £8.5m) and consideration paid in advance in respect of business acquisition of £nil (2015: £1.7m) 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 £1.3m relating to the acquisition of Specialty Plastics and Kamsri (2015: £1.5m relating to the acquisition of Mesan Kilit A.S. and Specialty Plastics). 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 £1.1m (2015: fair value gain of £4.8m) in respect of financial instruments at level 3 fair value hierarchy was recognised within exceptional items (see note 2), and £nil (2015: £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 $160m US Private Placement Loan Notes. The Loan Notes are held at amortised cost with a carrying value of £128.7m (2015: £108.3m). The Group estimates that the total fair value of the Loan Notes at 31 December 2016 is £136.5m (2015: £117.4m).

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

The table below shows the amount of bank overdrafts offset against the bank balances under enforceable master netting agreements with banks (including amounts relating to disposal group held for sale):

	Gross amount of recognised financial assets £m	**Gross amount of recognised financial liabilities set off in the balance sheet £m**	**Net amount of financial assets presented in the balance sheet £m**
Cash and cash equivalents:			
At 31 December 2016	**61.2**	**(0.5)**	**60.7**
At 31 December 2015	30.4	(0.2)	30.2

iv) Capital structure

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

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

Essentra monitors its capital structure on the basis of the medium-term net debt-to-EBITDA ratio. EBITDA is defined as operating profit before depreciation and other amounts written off property, plant and equipment, share option expense, intangible amortisation and exceptional operating items. Net debt is adjusted to exclude prepaid facility fees. During 2016, Essentra's strategy, which was unchanged from 2015, was to maintain the medium-term net debt-to-EBITDA ratio in the range 1.0 to 2.5.

18. Financial risk management continued

The net debt to EBITDA ratios at 31 December were as follows. The adjustment to net debt relates to cash subject to non-controlling interests and restriction:

	Note	2016 £m	2015 £m
Net debt excluding prepaid facility fees		**380.5**	375.8
Adjustment		**2.9**	2.0
Net debt for covenant purposes		**383.4**	377.8
Operating profit before intangible amortisation and exceptional operating items		**131.9**	171.5
Plus depreciation and other amounts written off property, plant and equipment, and amortisation of non-acquired intangible assets		**34.8**	31.9
Plus share option expense	17	**2.0**	5.7
EBITDA		**168.7**	209.1
Net debt-to-EBITDA ratio		**2.3**	1.8

19. Issued share capital

	2016 £m	2015 £m
Issued and fully paid ordinary shares of 25p (2015: 25p) each	**66.0**	66.0
Number of ordinary shares in issue		
Beginning of year	**264,129,170**	264,129,170
Issue of shares during the year	–	–
End of year	**264,129,170**	264,129,170

At 31 December 2016 the Company held 1,286,952 (2015: 1,750,571) of its own shares in treasury.

20. Reserves

Within retained earnings the Company has deducted the value of own shares purchased for an employee trust and treasury shares held by the Company with a total cost of £15.4m (2015: £19.0m).

Employee trust shares are ordinary shares of the Company held in an employee benefit trust. The purpose of this trust is to hold shares in the Company for subsequent transfer to Executive Directors and employees relating to deferred share awards and options granted under the Company's share-based incentive plans. Full details are set out in the Report of the Remuneration Committee on pages 71 to 82. The assets, liabilities and expenditure of the trust have been incorporated in these financial statements. At 31 December 2016 the trust held 1,517,883 (2015: 1,828,789) shares, upon which dividends have been waived, with an aggregate nominal value of £0.4m (2015: £0.5m) and market value of £7.0m (2015: £15.1m).

The Company holds 1,286,952 (2015: 1,750,571) ordinary shares with a nominal value of £0.3m (2015: £0.4m) in treasury. This represents 0.5% (2015: 0.7%) of the number of ordinary shares in issue.

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

21. Analysis of net debt

	1 Jan 2016 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	31 Dec 2016 £m
Cash at bank and in hand	23.8	7.1	3.1	–	**34.0**
Short-term bank deposits and investments	6.4	19.7	0.6	–	**26.7**
Cash and cash equivalents in the statement of cash flows	30.2	26.8	3.7	–	**60.7**
Debt due within one year	(0.6)	–	–	(64.5)	**(65.1)**
Debt due after one year	(403.5)	24.6	(59.8)	63.8	**(374.9)**
Net debt	(373.9)	51.4	(56.1)	(0.7)	**(379.3)**

The non-cash movements represent the amortisation of prepaid facility fees and reclassification of part of the US Private Placement Loan Notes as current.

	1 Jan 2015 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	31 Dec 2015 £m
Cash at bank and in hand	26.5	(2.0)	(0.7)	–	23.8
Short-term bank deposits and investments	19.5	(13.0)	(0.1)	–	6.4
Cash and cash equivalents in the statement of cash flows	46.0	(15.0)	(0.8)	–	30.2
Debt due within one year	(5.8)	4.9	0.3	–	(0.6)
Debt due after one year	(102.3)	(292.8)	(7.7)	(0.7)	(403.5)
Net debt	(62.1)	(302.9)	(8.2)	(0.7)	(373.9)

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

22. Commitments

Operating leases
At 31 December Essentra had the following future minimum lease payments under non-cancellable operating leases:

	2016 £m	2015 £m
Payable within one year	**10.9**	8.8
Payable between one and five years	**38.9**	25.7
Payable after five years	**19.8**	22.2
	69.6	56.7

23. Acquisitions and disposals

2016 acquisition: Kamsri
The Group acquired the pharmaceutical assets of Kamsri Printing & Packaging Pvt. Ltd. ("Kamsri") based in India in January 2016. This acquisition was not material.

Disposal of Porous Technologies
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 is expected to complete in the first quarter of 2017. The results of Porous Technologies are presented as results from a discontinued operation in the consolidated income statement, and the comparative information has been re-presented accordingly. The assets and liabilities of Porous Technologies have also been presented as held for sale on the balance sheet as at 31 December 2016. No finance income or expense related to discontinued operations, and the income tax expense related to discontinued operations amounted to £3.9m (2015: £4.2m).

23. Acquisitions and disposals continued

The results of continuing and discontinued operations are as follows:

	Year ended 31 December 2016		
	Continuing operations £m	**Discontinued operations £m**	**Total Group £m**
External revenue	**998.5**	**105.2**	**1,103.7**
External expenses	**(889.8)**	**(82.0)**	**(971.8)**
Operating profit before intangible amortisation and exceptional operating items	**108.7**	**23.2**	**131.9**
Amortisation of acquired intangible assets	**(30.2)**	**(2.7)**	**(32.9)**
Exceptional operating items	**(128.5)**	**(5.2)**	**(133.7)**
Operating (loss) / profit	**(50.0)**	**15.3**	**(34.7)**
Finance income	**2.1**	**–**	**2.1**
Finance expense	**(14.6)**	**–**	**(14.6)**
(Loss) /profit before tax	**(62.5)**	**15.3**	**(47.2)**
Income tax credit / (expense)	**11.5**	**(3.9)**	**7.6**
(Loss) /profit after tax	**(51.0)**	**11.4**	**(39.6)**
Basic (loss) / earnings per share	**(19.8)p**	**4.4p**	**(15.4)p**
Basic adjusted earnings per share	**29.2p**	**7.1p**	**36.3p**
Diluted (loss) / earnings per share	**(19.8)p**	**4.4p**	**(15.4)p**
Diluted adjusted earnings per share	**29.2p**	**7.1p**	**36.3p**

	Year ended 31 December 2015		
	Continuing operations £m	**Discontinued operations £m**	**Total Group £m**
External revenue	1,006.5	91.6	1,098.1
External expenses	(854.0)	(72.6)	(926.6)
Operating profit before intangible amortisation and exceptional operating items	152.5	19.0	171.5
Amortisation of acquired intangible assets	(29.3)	(2.4)	(31.7)
Exceptional operating items	(39.1)	–	(39.1)
Operating profit	84.1	16.6	100.7
Finance income	1.5	–	1.5
Finance expense	(11.8)	–	(11.8)
Profit before tax	73.8	16.6	90.4
Income tax expense	(17.5)	(4.2)	(21.7)
Profit after tax	56.3	12.4	68.7
Basic (loss) / earnings per share	21.4p	4.8p	26.2p
Basic adjusted earnings per share	42.1p	5.5p	47.6p
Diluted (loss) / earnings per share	21.1p	4.7p	25.8p
Diluted adjusted earnings per share	41.6p	5.4p	47.0p

The profit from discontinued operations is attributable entirely to the equity holders of Essentra plc. The earnings per share of discontinued operations are disclosed in note 6.

23. Acquisitions and disposals continued

Cash flows of discontinued operations are as follows:

	2016 £m	2015 £m
Net cash inflow from operating activities	**23.0**	15.1
Net cash used in investing activities	**(1.0)**	(4.1)
Net cash flows for the year	**22.0**	11.0

The assets and liabilities of Porous Technologies at 31 December 2016 which are presented as assets and liabilities in disposal group held for sale, and the assets and liabilities of the rest of the Group are as follows:

	As at 31 December 2016		
	Porous Technologies £m	Rest of Group £m	Total Group £m
Property, plant and equipment	35.2	285.9	**321.1**
Intangible assets	51.1	581.7	**632.8**
Long-term receivables	–	3.5	**3.5**
Deferred tax assets	–	2.6	**2.6**
Retirement benefit assets	–	11.6	**11.6**
Inventories	9.2	115.1	**124.3**
Income tax receivable	–	7.5	**7.5**
Trade and other receivables	28.5	218.4	**246.9**
Derivative assets	–	1.2	**1.2**
Cash and cash equivalents	6.7	54.0	**60.7**
Total assets	**130.7**	**1,281.5**	**1,412.2**
Trade and other payables	14.2	204.3	**218.5**
Interest bearing loans and borrowings	–	440.0	**440.0**
Provisions	0.2	6.1	**6.3**
Retirement benefit obligations	0.3	34.7	**35.0**
Derivative liabilities	–	1.7	**1.7**
Deferred tax liabilities	10.5	65.8	**76.3**
Income tax payable	7.3	24.4	**31.7**
Total liabilities	**32.5**	**777.0**	**809.5**

The cumulative income or expenses included in other comprehensive income relating to Porous Technologies amounted to a net gain of £18.1m (2015: £5.0m).

24. Dividends

	Per share		Total	
	2016 p	2015 p	2016 £m	2015 £m
2015 interim: paid 30 October 2015		6.3		16.4
2015 final: paid 3 May 2016		14.4		37.5
2016 interim: paid 30 October 2016	**6.3**		**16.5**	
2016 proposed final: payable 2 May 2017	**14.4**		**37.6**	
	20.7	20.7	**54.1**	53.9

25. Transactions with related parties

Other than the compensation of key management (note 5), Essentra has not entered into any material transactions with related parties during 2015 and 2016.

26. Parent company

Essentra plc is a limited liability company incorporated in England and Wales and domiciled in the United Kingdom. It operates as the ultimate parent company of the Essentra Group. Its registered office is Avebury House, 201-249 Avebury Boulevard, Milton Keynes MK9 1AU, United Kingdom. The principal subsidiary undertakings of Essentra plc are listed in note 10 to the Essentra plc company financial statements.

27. Adjusted measures

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

	2016 £m	2015 £m
Operating (loss) / profit (including discontinued operations)	**(34.7)**	100.7
Amortisation of acquired intangible assets	**32.9**	31.7
Exceptional operating items	**133.7**	39.1
Adjusted operating profit (including discontinued operations)	**131.9**	171.5
Depreciation	**34.3**	31.9
Amortisation of non-acquired intangible assets	**0.5**	–
Share option expense	**2.0**	5.7
Other non-cash items	**(5.4)**	(2.9)
Working capital movements	**1.7**	(52.8)
Net capital expenditure	**(38.3)**	(54.8)
Operating cash inflow – adjusted (including discontinued operations)	**126.7**	98.6

ESSENTRA PLC COMPANY BALANCE SHEET

At 31 December 2016

	Note	2016 £m	2015 £m
Fixed assets			
Investment in subsidiary undertaking	2,10	**453.7**	451.7
Current assets			
Debtors	3	**394.2**	30.1
Current liabilities			
Creditors: amounts falling due within one year	4	**(65.7)**	(1.1)
Net current assets		**328.5**	29.0
Non-current liabilities			
Creditors: amounts falling due after more than one year	5	**(64.2)**	(108.3)
Net assets		**718.0**	372.4
Capital and reserves			
Issued share capital	7	**66.0**	66.0
Merger relief reserve		**298.1**	298.1
Capital redemption reserve		**0.1**	0.1
Profit and loss account	8	**353.8**	8.2
Shareholders' funds: equity interests		**718.0**	372.4

The Company financial statements on pages 134 to 145 were approved by the Board of Directors on 17 February 2017 and were signed on its behalf by:

Paul Forman
Chief Executive

Stefan Schellinger
Group Finance Director

ESSENTRA PLC COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Issued share capital £m	Merger relief reserve £m	Capital redemption reserve £m	Profit and loss account: Retained earnings £m	Profit and loss account: Own shares £m	Total equity £m
1 January 2016	66.0	298.1	0.1	27.2	(19.0)	**372.4**
Profit for the year				395.3		**395.3**
Other comprehensive income				–		–
Total comprehensive income for the year	–	–	–	395.3		**395.3**
Shares issued to satisfy employee share option exercises				(3.6)	3.6	**–**
Share options exercised				2.3		**2.3**
Share-based payments				2.0		**2.0**
Dividends paid				(54.0)		**(54.0)**
31 December 2016	**66.0**	**298.1**	**0.1**	**369.2**	**(15.4)**	**718.0**

	Issued share capital £m	Merger relief reserve £m	Capital redemption reserve £m	Profit and loss account: Retained earnings £m	Profit and loss account: Own shares £m	Total equity £m
1 January 2015	66.0	298.1	0.1	82.8	(34.7)	412.3
Loss for the year				(1.0)		(1.0)
Other comprehensive income				–		–
Total comprehensive income for the year	–	–	–	(1.0)	–	(1.0)
Acquisition of employee benefit trust shares					(1.0)	(1.0)
Shares issued to satisfy employee share option exercises				(16.7)	16.7	–
Share options exercised				5.4		5.4
Share-based payments				5.7		5.7
Dividends paid				(49.0)		(49.0)
31 December 2015	66.0	298.1	0.1	27.2	(19.0)	372.4

ACCOUNTING POLICIES

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

The parent company financial statements of Essentra plc ("the Company") for the year ended 31 December 2016 were authorised for issue by the Board of Directors on 17 February 2017 and the balance sheet was signed on the Board's behalf by Paul Forman and Stefan Schellinger. Essentra plc is a public limited company that is incorporated, domiciled and has its registered office in England and Wales. The Company's ordinary shares are publicly traded on the London Stock Exchange and it is not under the control of any single shareholder. These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

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

B. Basis of preparation

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

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

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

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

The following principal accounting policies have been consistently applied.

C. Investment in subsidiary undertaking

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

D. Share-based payments

The fair value of share options is measured at grant date. It is recognised as an addition to the cost of investment in the subsidiary in which the relevant employees work over the expected period between grant and vesting date of the options, with a corresponding adjustment to reserves. Detailed disclosures for the share-based payment arrangements of the Company are provided in note 17 to the consolidated financial statements.

E. Own shares

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

F. Dividends

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

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

G. Foreign currencies

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

H. Financial assets

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

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

I. Financial liabilities

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

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

J. Taxation

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

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

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

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

NOTES

1. Net operating charges

The auditor was paid £5,125 (2015: £5,100) for the statutory audit of the Company. Fees paid to the Company's auditor for services other than the statutory audit of the Company are disclosed in note 2 to the consolidated financial statements.

The Directors' remuneration, which was paid by Essentra International Limited, is disclosed in the Report of the Remuneration Committee on pages 71 to 82.

2. Investments held as fixed assets

	Investment in subsidiary undertaking	
	2016 £m	**2015 £m**
Beginning of year	**451.7**	446.0
Additions	**2.0**	5.7
End of year	**453.7**	451.7

3. Debtors

	2016 £m	**2015 £m**
Amounts receivable from subsidiary undertakings	**393.8**	29.2
Corporate taxes	**0.4**	0.9
	394.2	30.1

4. Creditors: amounts falling due within one year

	2016 £m	**2015 £m**
US Private Placement Loan Notes	**64.5**	–
Accruals and deferred income	**1.2**	1.1
	65.7	1.1

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

	2016 £m	**2015 £m**
US Private Placement Loan Notes	**64.2**	108.3

6. Maturity of financial liabilities

	Non bank loans	
	2016 £m	2015 £m
Debt can be analysed as falling due:		
Within one year	**64.5**	–
Between one and five years	**64.2**	108.3
	128.7	108.3

7. Issued share capital

	2016 £m	2015 £m
Issued and fully paid ordinary shares of 25p (2015: 25p) each	**66.0**	66.0
Number of ordinary shares in issue		
Beginning of year	264,129,170	264,129,170
Issue of shares during the year	–	–
End of year	**264,129,170**	264,129,170

At 31 December 2016 the Company held 1,286,952 (2015: 1,750,571) of its own shares in treasury.

8. Reserves

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company has not been separately presented in these financial statements. The profit attributable to equity holders included in the accounts of the Company is £395.3m (2015: loss of £1.0m).

Included in retained earnings are accumulated share-based payments of £37.0m (2015: £35.0m) which are credited directly to reserves and are not distributable. Full details of these share-based payments are set out in the Report of the Remuneration Committee on pages 71 to 82 and also in note 17 to the consolidated financial statements.

9. Dividends

	Per share		Total	
	2016 p	2015 p	2016 £m	2015 £m
2015 interim: paid 30 October 2015		6.3		16.4
2015 final: paid 3 May 2016		14.4		37.5
2016 interim: paid 30 October 2016	**6.3**		**16.5**	
2016 proposed final: payable 2 May 2017	**14.4**		**37.6**	
	20.7	20.7	**54.1**	53.9

10. Subsidiary undertakings

	Country of incorporation	Principal activity	Address of registered office
Essentra (Bangor) Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra (Bristol) Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra (Great Harwood) Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra (Hull) Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra (Kilmarnock) Limited	UK	Manufacturing	Hurlford Road, Riccarton, Kilmarnock, Scotland, KA1 4LA, United Kingdo m
Essentra (Kimbolton) Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra (Northampton) Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Components Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Filter Products Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Finance Limited	UK	Treasury activities	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Packaging & Security Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Packaging Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Pension Trustees Limited	UK	Pension Trustee	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
P. P. Payne Limited	UK	Property Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Big Blue Properties LLC	US	Property Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Cleanroom Products Inc.	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Components Inc.	US	Distribution	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Components Japan Inc.	US	Distribution	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Filter Products Inc.	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Packaging Inc.	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Packaging US Inc.	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Pipe Protection Technologies Inc.	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Plastics LLC	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Porous Technologies Corp.	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Pty Ltd	Australia	Manufacturing	32 Clyde Street, Rydalmere NSW 2116, Australia
Essentra Components GmbH	Austria	Distribution	Schubertring 6, 1010 Wien, Austria
Essentra Industria E Commercio LTDA	Brazil	Manufacturing	Rua Alvares Cabral, 979, Serraria, City of Diadema, State of Sao Paulo, 09980-160, Brazil
Essentra Limited	Canada	Distribution	100 King Street West, 41st Floor, 1 First Canadian Place, Toronto ON M5X 1B2, Canada
Essentra Components (Xiamen) Co. Ltd	China	Manufacturing	Huizuo Road98#, Xinyang Industrial Zone, Haicang District, Xiamen, Fujian Province, China

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
Essentra Components International Trading (Shanghai) Co. Ltd.	China	Distribution	Room 347, Xinmao Building, 2 Taizhong South Road, China
Essentra Plastic Trading (Ningbo) Co. Ltd.	China	Distribution	99 Huanghai Road, Beilun District, Ningbo, Zhejiang , China
Essentra Porous Technologies (Ningbo) Co. Ltd.	China	Manufacturing	99 Huanghai Road, Beilun District, Ningbo, Zhejiang Province, China
Essentra Trading (Ningbo) Co. Ltd.	China	Distribution	No.99 Huanghai Road, Beilum District, Ningbo, Zhejiang Province, China
Essentra Components sro	Czech Republic	Distribution	Dornych 47, Brno, 617 00, Czech Republic
Essentra Components SAS	France	Distribution	280 rue de la Belle Étoile – 95700 Roissy en France
Essentra Packaging S.a.r.l.	France	Manufacturing	F-27200, Sarreguemines, Rue Guillaume, Schoettke, France
Essentra Components GmbH	Germany	Distribution	Herrenpfad Süd 36, 41334, Nettetal, Germany
Essentra Packaging GmbH	Germany	Manufacturing	D-06766 Wolfen , Edisonstrasse, Germany
Essentra Porous Technologies GmbH	Germany	Manufacturing	P.O. Box 1206, Gutenbergstrasse 5/9, 21465 Reinbek, Germany
Essentra Components Kft	Hungary	Distribution	2040 Budaors Gyar u. 2., Hungary
Essentra Filter Products Kft	Hungary	Manufacturing	2310 Szigetszentmiklos, Leshegy ut 30, Hungary
Essentra (India) Private Limited	India	Manufacturing	Survey No. 46, Jala Hobli, Dodajala Village, Bangalore North – 562 157, Karnataka, India
PT Materials Technologies Private Limited	India	Manufacturing	3, 3rd Main Road, Peenya Industrial Area, Phase I, Yeshwantpur Hobli, Bangalore, Karnataka, 560 058, India
ITC Essentra Limited	India	Manufacturing	Doddajala Post, Yarthiganahally, (via) Bettahalasur, Bangalore North, 562 157, India
PT Essentra	Indonesia	Manufacturing	Jalan Berbek Industri 1, 18-20 Surabaya Industrial Estate Rungkut (SIER), Sidoario, 61256, Indonesia
PT Porous Technologies	Indonesia	Manufacturing	Jl. Berbek Industri I No. 16, Brebek, Waru District, Sidoarjo, East Java, Indonesia
Essentra Packaging Ireland Limited	Ireland	Manufacturing	8 Airways , Industrial Estate, Dublin 17, Ireland
ESNT Finance Ireland Limited	Ireland	Treasury activities	7 Airways Industrial Estate, Cloghran, Dublin 17, D17 RR88, Ireland
Essentra Finance (Euro) Limited	Ireland	Treasury activities	7 Airways Industrial Estate, Cloghran, Dublin 17, D17 RR88, Ireland
Essentra Components srl	Italy	Distribution	Via Massarenti, 1 Loc, 1 Maggio, 40013, Castel Maggiore, Italy
Essentra Packaging srl	Italy	Distribution	Via Copernico n.54, Loc. 1 Casoni Fraz., Gariga, 29027, Podenzano, Italy
Essentra Porous Technologies Co. Ltd.	Japan	Distribution	6-4-1508 Akashicho, Chuo-ku, Tokyo, Japan
Essentra Porous Technologies Ltd.	Republic of Korea	Distribution	RM309 Hyundai Knowledge Industry Center, 70, Dusan-ro, Geumcheon-gu, Seoul, 153-813, Republic of Korea
Essentra Co. Ltd Korea	Republic of Korea	Distribution	3F, 70 (Hyundai Knowledge Industry Center, Doksan-dong), Dusan-ro, Geumcheon-gu, Seoul, Republic of Korea
Essentra Asia Sdn Bhd	Malaysia	Manufacturing	Unit 1110 Block A, Pusat Dagangan Phileo Damansara II, 15 Jalan 16/11 Off Jlana Damansara, 46350 Petaling Jaya, Selangor, Malaysia
Essentra Malaysia Sdn Bhd	Malaysia	Distribution	Unit 1110 Block A, Pusat Dagangan Phileo Damansara II, 15 Jalan 16/11 Off Jalan Damansara, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Essentra Pipe Protection Technologies SA de CV	Mexico	Manufacturing	Avenida Framboyanes Lote 1, Manzana 4, Ciudad Industrial Bruno Pagliali, Veracruz, Mexico
Essentra Pipe Protection Technologies Services S de r.l de CV	Mexico	Services	Avenida Framboyanes Lote 1, Manzana 4, Ciudad Industrial Bruno Pagliali, Veracruz, Mexico

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
Servicios Filtrona S de r.l de CV	Mexico	Services	Avenida Industrias 150, Fraccionamiento Industrial PIMSA Oriente, Apodaca, N.L. 66603, Mexico
Essentra Components B.V.	Netherlands	Distribution	Den Belleman 9, 5571 NR Bergeyk, Netherlands
Essentra Extrusion B.V.	Netherlands	Manufacturing	Beatrixstraat 7, 9285 TV, Buitenpost, Netherlands
Essentra Packaging B.V.	Netherlands	Distribution	Celsiusweg 37, 8912 AM, Leeuwarden, Netherlands
Essentra Filter Products S.A.	Paraguay	Manufacturing	Calle 12, Acacary, Cuidad del Este, Paraguay
Essentra Packaging Spółka z o.o.	Poland	Manufacturing	Tokarska 25, 20-210, Lublin, Poland
Essentra Sp. z o.o.	Poland	Distribution	11 Lakowa Street, 90-562 , Lodz, Poland
Essentra Packaging Puerto Rico Inc.	Puerto Rico	Manufacturing	Los Frailes Industrial Park, Street C, Guaynabo, PR 00970
Essentra Components SRL	Romania	Distribution	Burcuresti Sectorul 1, Strada Polana, Nr. 68-72, Etaj 2 , Biroul NR.5, Romania
Essentra St Petersburg Limited Liability Company	Russia	Distribution	4a Finlyandskiy Prospect, 194044, St. Petersburg, Russian Federation
OOO Essentra Filter Products	Russia	Distribution	Moskovskyi pr. 60/129, Business Center Senator, 190005, St Petersburg, Russian Federation
Essentra Components Pte. Limited	Singapore	Distribution	51 Lorong 17 Geyland, 05-02, Superior Industrial Building, 388571, Singapore
Essentra Filter Products Leasing Pte. Limited	Singapore	Leasing Company	238A Thomson Road, 25-04/05 Novena Square, 307684, Singapore
Essentra Packaging Pte. Limited	Singapore	Distribution	238A Thomson Road, 16-10 Novena Square, 307684, Singapore
Essentra Pte. Limited	Singapore	Distribution	36 Robinson Road 17-01, City House, 068877, Singapore
Porous Technologies Private Ltd	Singapore	Manufacturing	36 Robinson Road, 17-01, City House, 068877, Singapore
Essentra Components sro	Slovakia	Distribution	Gogol'ova 18, 852 02 Bratislava, Slovakia
Essentra Components (Pty) Limited	South Africa	Distribution	PricewaterhouseCoopers, 32 Ida Street, Menlo Park, Pretoria 0081, South Africa
Essentra Components S.L.U	Spain	Manufacturing	Calle Roure Gros 1-11, Poligono Industrial Mas d'En Cisa, 08181, Spain
Essentra Packaging SA	Spain	Manufacturing	Carrer dels Fusters 18-20, Poligono Industrial Can Cuyas, Montcada I Reixac, 08110, Barcelona, Spain
Components Scandinavia AB	Sweden	Distribution	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Components AB	Sweden	Distribution	Askims Verkstadsvag 13Sweden, 436 34 Askim, Vastra Gotalands lan, Goteborg kommun, Sweden
Essentra Components Sarl	Switzerland	Distribution	Rue du Grand-Chene 2, c/o Pierre- Alain Killias, Lexartis Avocats, 1003 Lausanne, Switzerland
Essentra Eastern Limited	Thailand	Manufacturing	111/5 Moo 2 Tambon Makamku, Amphur Nikom Pattana, Rayong Province, Thailand
Essentra Limited	Thailand	Manufacturing	116/3 Soi Thiantalay 24, Bangkhunthian-Chaitalay Road, Thakam, Bangkhunthian, Bangkok, 10150, Thailand
Mesan Kilit A.S.	Turkey	Manufacturing	Ilitelli Organzie Sanayi, Bolgesi Metal Is San,Sit .7. Blok No24 Basaksehir, Istanbul, Turkey
Essentra FZE	United Arab Emirates	Manufacturing	Plot No. S20403 PO Box No.261392, Jafza, Dubai, United Arab Emirates
Essentra International GmbH	Germany	Holding Company	Gutenbergstrasse 5-9, 21465 Reinbek, Germany
ESNT (Cherry Orchard) Holdings Limited	Ireland	Holding Company	Unit 629 Ida Industrial Park Northern Extension, Old Kilmeaden Road, Watherford, Ireland

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
ESNT Holdings SpA	Italy	Holding Company	Podenzano, Loc.I Casoni Fraz. Gargia, Via Copernico no. 54, 29027, Italy
Blue NewCo 1 B.V.	Netherlands	Holding Company	Gustav Mahlerplein 68, 1082 MA, Amsterdam, Netherlands
Blue NewCo 2 B.V.	Netherlands	Holding Company	Gustav Mahlerplein 68 , Ito Tower 9th floor, MA Amsterdam, 1082, Netherlands
Blue NewCo 3 B.V.	Netherlands	Holding Company	Gustav Mahlerplein 68, Ito Tower, 9th Floor, 1082 MA, Amsterdam, Netherlands
Blue NewCo 4 B.V.	Netherlands	Holding Company	Gustav Mahlerplein 68, Ito Tower, 9th Floor, 1082 MA, Amsterdam, Netherlands
ESNT Holding B.V.	Netherlands	Holding Company	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
ESNT Holdings (Netherlands) B.V.	Netherlands	Holding Company	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
Essentra B.V.	Netherlands	Holding Company	Beatrixstraat 7, 9285 TV, Buitenpost, Netherlands
Essentra Holdings (No.2) Cooperative WA	Netherlands	Holding Company	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
Essentra Holdings Cooperative WA	Netherlands	Holding Company	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
Essentra International B.V. / LLC	Netherlands	Holding Company	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
Porous Technologies Holdings B.V.	Netherlands	Holding Company	Den Belleman 9, 5571NR , Bergeijk, Netherlands
Boxes Prestige Poland Sp. z o.o.	Poland	Holding Company	Tokarska 25, 20-210, Lublin, Poland
Essentra (MEA) Pte. Limited	Singapore	Holding Company	36 Robinson Road, 17-01 City House, 068877, Singapore
Clondalkin Pharma & Healthcare (Spain) S.A.	Spain	Holding Company	Carrer dels Fusters 18-20, Poligono Industrial Can Cuyas, Montcada I Reixac, 08110, Barcelona, Spain
Pranakorn Holding Company Limited	Thailand	Holding Company	776 Charoennakorn Road, Bukkalo, Thonburi, Bangkok 10600, Thailand
San Yai Holding Company Limited	Thailand	Holding Company	No.776 Charoennakorn Road, Khwaeng Daokhanong, Khet Dhonburi, Bangkok, Thailand
ESNT Group Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT Group Holdings Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT Filter Products Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT Holdings (No.1) Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT Holdings (No.2) Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU United Kingdom
ESNT International Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT Packaging & Securing Solutions Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Filter Products International Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra International Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Overseas Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT (Porous) Holdings Inc.	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
ESNT Holdings Inc.	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
ESNT US Holdings Corp	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Corporation	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Holdings Corp.	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
US NewCo Inc.	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Abric Commerce (China) Co. Ltd.	China	Non-trading	Room 202 Building 11, 327 East Songhui Road, Songjiang District, Shanghai, China
Abric Shanghai Co. Ltd.	China	Non-trading	8, Furong Road, Yexie Town, Songjiang District, Shanghai, 201609, China
Cigarette Components (HK) Limited	Hong Kong	Non-trading	36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Essentra (Hong Kong) Ltd.	Hong Kong	Non-trading	36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Filtrona (China) Limited	Hong Kong	Non-trading	36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
CB Packaging Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
ESNT (Cherry Orchard) Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
ESNT (Clonshaugh) Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
ESNT (Cork) Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
ESNT (Glasnevin) Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
Essentra Packaging Waterford Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
Swiftbrook Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
Venture Laminate Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
Wilkes-Cerdac Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
Essentra Filter Products SpA	Italy	Non-trading	Studio De Vivo SCIS, 84123 Salerno, Corso, Garibaldi n. 143, Italy
Essentra Packaging Luxembourg Sarl	Luxembourg	Non-trading	1, Zone Industrielle Bombicht, L-6947, Niederanven, Luxembourg
Abric Encode Sdn Bhd	Malaysia	Non-trading	Unit 1110 Block A, Pusat Dagangan Phileo Damansara II, 15 Jalan 16/11 Off Jlana Damansara, 46350 Petaling Jaya, Selangor, Malaysia
Essentra Components SEA (M) Sdn Bhd	Malaysia	Non-trading	Teamwork Management Services Sdn Bhd, 83a Jalan SS 15/5A, 47500 Subang Jaya, Selangor, Malaysia
Fijnmechanica Surhuisterveen B.V.	Netherlands	Non-trading	Beatrixstraat 7, 9285 TV, Buitenpost, Netherlands
Linde Vouwkartonnage B.V.	Netherlands	Non-trading	Hanzeweg 14, 7591 BK, Denekamp, Netherlands
Richco Benelux B.V.	Netherlands	Non-trading	Beeldschermweg 5-3, 3821 AH Amersfoot, Netherlands
Skiffy B.V.	Netherlands	Non-trading	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
ESNT Holdings Cooperative 1 WA	Netherlands	Non-trading	Beatrixstraat 7, 9285 TV, Buitenpost, Netherlands
ESNT Holdings Cooperative 2 WA	Netherlands	Non-trading	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
Essentra Filter Products Development Co. Pte. Limited	Singapore	Non-trading	238A Thomson Road, 25-04/05 Novena Square, 307684, Singapore

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
Apex Filters Company Limited	Thailand	Non-trading	31/2 Rama 3 Road, Chongnonsee, Yannawa, Bangkok 10120, Thailand
Chemical Resins (Thailand) Limited	Thailand	Non-trading	4th Floor, 77/1 Soi Ruamrudee 2, Ploenchit Road, Lumpini, Pathumwan, Bangkok 10330, Thailand
Filtrona Thailand Limited	Thailand	Non-trading	776 Charoennakorn Road, Bukkalo, Thonburi, Bangkok 10600, Thailand
Abric (Europe) Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Alexander Industrial Supplies (Essex) Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Alliance Plastics Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Cigarette Components Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT Components Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Services Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Speciality Tapes Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Filtrona Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
North West Plastics Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Securit Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Skiffy Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Stera Tape Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT Components Inc.	US	Non-trading	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
US Limited Liability Company	US	Non-trading	The Corporation Services Company, 2711 Centreville Road, Ste 400, Wilmington, Delaware 19808, United States
Filtrona Venezolana C.A.	Venezuela	Non-trading	Urbn. Parque Comercio Industrial Castillito, Lot No. P-8. Street 103 c/c Av. 66, San Diego Municipality, Valencia, Edo Carabobo, Venezuela

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

All entities above are wholly owned subsidiaries of the Group except for ITC Essentra Limited (India), Essentra (MEA) Pte. Ltd. (Singapore) and Essentra FZE (UAE), all of which are 50% owned by Group through holding of ordinary shares in these companies and accounted for as subsidiaries of the Group in the consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ESSENTRA PLC ONLY

Opinions and conclusions arising from our audit

1. Our opinion on the Financial Statements is unmodified

We have audited the financial statements of Essentra plc for the year ended 31 December 2016 set out on pages 88 to 145. In our opinion:

> the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2016 and of the Group's loss for the year then ended;

> the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;

> the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 *Reduced Disclosure Framework*; and

> the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement, in decreasing order of audit significance, that had the greatest effect on our audit were as follows:

Identified risk	Our response

Carrying value of goodwill £348.0m (2015: £367.2m) and customer relationships £223.8m (2015: £317.2m)

New risk in 2016

Refer to page 61 (Report of the Audit Committee) of the 2016 Annual Report, page 96 (accounting policy) and pages 110 to 112 (financial disclosures).

The risk – The Group has significant goodwill and intangible assets that arose on past acquisitions, whose recoverability is dependent on the ability of the businesses acquired sustaining sufficient profitability in the future and the Group realising synergy savings associated with the acquisitions.

The carrying value of these assets is assessed for impairment at least annually and whenever there is an indication that the assets may be impaired. Intangibles are tested for impairment at the level of the cash-generating unit (CGU) to which they belong, and goodwill is tested at the level of the relevant group of CGUs. The impairment reviews are based on discounted cash flow projections, reflecting a number of assumptions and estimates which require significant judgment and are inherently uncertain.

In the period, an impairment has been recognised in the Health & Personal Care Packaging group of CGUs due to operational issues from the integration of the Clondalkin acquisition completed in 2015. The risk associated with the carrying value of the remaining goodwill and customer relationships, which has not been impaired in the year, is dependent on the Group retaining its customer base and demand for the current portfolio of products.

Our procedures included evaluating the Group's key assumptions and methodology, in particular those in respect of the Health & Personal Care Packaging group of CGUs. We challenged the Group's growth assumptions and cash flow projections by comparing to recent historical trading performance, benchmarking against external data on market growth rates and assessing operating margins at sites that have experienced continuing operational issues as a result of site consolidation.

We obtained an understanding of the Group's budgeting procedures upon which the forecasts are based and considered the historical accuracy of key assumptions by comparing the accuracy of the previous estimates of revenue and cost growth to the actual amounts realised.

We used our own valuation specialists to assist us to critically challenge the discount rates used by the Group, by comparing the inputs and forecast risk against external data.

We applied sensitivities to the key judgements and assumptions, such as the discount rates and long term revenue growth rates and operating margins, used by the Group in its impairment calculations to evaluate the impact on the headroom for those CGUs or groups of CGUs with lower headroom.

To assess reasonableness of the forecast cash flows, we compared the sum of the discounted cash flows to the Group's market capitalisation.

We considered the adequacy of the Group's disclosures in respect of impairment testing, and whether disclosures in relation to the sensitivity of the outcome of the impairment assessment to changes in key assumptions properly reflected the risks inherent in the valuation of goodwill and intangible assets.

Identified risk	**Our response**

Revenue recognition £998.5m (2015: £1,006.5m)

New risk in 2016
Refer to pages 60 to 61 (Report of the Audit Committee) of the 2016 Annual Report, pages 97 to 98 (accounting policy) and pages 102 to 103 (financial disclosures).

The risk – The Group generates revenue through a high volume of transactions, with a peak towards the end of the financial year. This increases the risk that sales are not recognised in the appropriate period.

In the period, the Group has published a number of downwards revisions to its revenue and profit guidance as a result of challenging market and operational conditions. There have been significant associated decreases in the Group's share price. These circumstances give rise to an increased risk of management bias or fraud over the timing of revenue recognition.

Our procedures included testing transactions before and after period-end, by agreeing to underlying documentation, in order to assess whether sales were recorded in the appropriate period.

We compared the monthly revenue trend in the period against prior year with an emphasis on sales around the period-end, challenging the directors on rationale for significant variances, and performing additional procedures where relevant, to assess reasonableness of revenue amounts.

We inspected a sample of manually-entered revenue journal entries and assessed whether these reflected the underlying conditions or transactions and were recorded in the appropriate period.

Presentation of exceptional items for continuing and discontinued operations £133.7m (2015: £39.1m)

New risk in 2016
Refer to page 61 (Report of the Audit Committee) of the 2016 Annual Report, pages 98 to 99 (accounting policy) and page 104 (financial disclosures).

The risk – The Group's measure of underlying profit, is stated before exceptional items including goodwill impairment of £123.9m (2015: nil) and other exceptional items of £9.8m (2015: £39.1m). The Directors believe that the separate identification of exceptional items and the resulting presentation of alternative income statement measures can assist shareholders to obtain a better understanding of the Group's performance.

As there is limited specific guidance in IFRS for the definition and presentation of exceptional items in the income statement, judgement is required to identify those items of income or expense which are exceptional whilst still presenting a fair, balanced and understandable view of financial performance.

The identification of exceptional items should therefore be even handed between gains and losses, clearly disclosed and applied consistently year on year. Judgement is needed to determine if material items of the same nature and amount, which recur in multiple periods, should continue to be shown as exceptional rather than part of the Group's underlying operating activities.

Due to the increased judgement around the identification of items presented as exceptional in the current year, we have identified this as one of the key judgemental areas that our audit focused on.

We critically assessed the Group policy and criteria for exceptional items and considered whether the resulting presentation gives a fair, balanced and understandable view of the Group's performance.

We assessed whether the approach taken to identify exceptional items was consistent between gains and losses and by using our knowledge of the Group's transactions gained throughout the audit, we considered the completeness of exceptional items. We considered whether the same category of material items have been treated consistently each year.

We considered any material recurring items and challenged the Directors as to how these are one off in nature and are separately presented as exceptional.

We agreed material items to underlying documentation and supporting information.

Identified risk	Our response
Taxation liabilities £24.4m (2015: £26.8m)	
Refer to page 60 (Report of the Audit Committee) of the 2016 Annual Report, page 97 (accounting policy) and pages 105 to 106 (financial disclosures). The risk – Accruals for tax contingencies require the directors to make judgements and estimates in relation to tax issues and exposures due to the Group operating in a number of different tax jurisdictions and the complexities of transfer pricing and other international tax legislation.	We used our own tax specialists to assess the Group's tax positions, its correspondence with the relevant tax authorities, and to analyse and challenge the assumptions used to determine tax provisions based on our knowledge and experiences of the application of the international and local legislation by the relevant authorities and courts. We considered the adequacy of the Group's disclosures in respect of tax and uncertain tax positions.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £5.45m (2015: £7.2m), determined with reference to a benchmark of Group profit before taxation for continuing and discontinued operations normalised for exceptional operating items of £86.5m (2015: £129.5m) which it represents 6.3% (2015: 5.6%).

We reported to the audit committee any corrected or uncorrected identified misstatements exceeding £0.27m (2015: £0.35m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's reporting components, we subjected 48 (2015: 25) to audits for Group reporting purposes and 11 (2015: 8) to specified risk-focused audit procedures. The latter were not financially significant enough to require an audit for Group reporting purposes, but did present specific individual risks that needed to be addressed.

In aggregate our audit procedures covered 73% of total Group revenue; 92% of Group profit before taxation for continuing and discontinued operations normalised for exceptional operating items; and 80% of Group net assets.

The remaining 27% (2015: 28%) of Group revenue, 8% (2015: 3%) of Group profit before tax and 20% (2015: 22%) of Group net assets is represented by 82 (2015: 85) components, none of which individually represented more than 2% (2015: 2%) of total Group Revenue or 3% (2015: 4%) of Group profit before tax, or 4% (2015: 3%) of Group net assets. For these remaining components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materialities, which ranged from £0.1m to £2.1m (2015: £0.1m to £2.7m), having regard to the mix of size and risk profile of the Group across the components. The work on all (2015: all) components were performed by component auditors. The Group team performed procedures on the items excluded from normalised group profit before tax.

The Group audit team visited 5 (2015: 4) component locations in United Kingdom, United States and Hungary to assess the audit risk and strategy. Telephone meetings were also held with component auditors of key regions and the Group audit team attended a selection of component auditors' closing meetings with the component's local management team. At these visits and meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

> the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

> the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

> we have not identified material misstatements in those reports; and

> in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

> the directors' statement of viability on page 86, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the 3 years to 31 December 2019; or

> the disclosures in Note A of the accounting policies on page 93 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

> we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy; or

> the Report of the Audit Committee does not appropriately address matters communicated by us to the audit committee.

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

> adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

> the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

> certain disclosures of directors' remuneration specified by law are not made; or

> we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

> the directors' statements, set out on pages 86 and 93, in relation to going concern and longer-term viability; and

> the part of the Corporate Governance Statement on pages 51 to 57 of the 2016 Annual Report relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 87 of the 2016 Annual Report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Paul Sawdon (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

17 February 2017

ADVISERS AND INVESTOR INFORMATION

Secretary and Registered Office
Jon Green
Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire MK9 1AU
Company Number 05444653
www.essentraplc.com

Financial advisers and stockbrokers
Deutsche Bank
Winchester House, 1 Great Winchester Street, London EC2 2DB

Solicitors
Slaughter and May
One Bunhill Row, London EC1Y 8YY

Auditor
KPMG LLP
15 Canada Square, Canary Wharf, London E14 5GL

Principal bankers
Bank Of America Merrill Lynch International Limited
2 King Edward Street, London EC1A 1HQ

Barclays Bank Plc
Ashton House, 497 Silbury Boulevard, Milton Keynes MK9 2LD

Citibank NA
Citigroup Centre, Canada Square, Canary Wharf, London E14 6LB

DBS Bank Ltd
4th Floor, Paternoster House, 65 St Pauls Churchyard, London EC4M 8AB

HSBC Bank Plc
8 Canada Square, London E14 5HQ

ING Bank NV
60 London Wall, London EC2M 5TQ

The Royal Bank of Scotland plc
280 Bishopsgate, London EC2M 4RB

Registrar
If you have any questions about your shareholding, please contact, in the first instance:
Computershare Investor Services plc
PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH
Telephone +44 (0)370 703 6394

Computershare also has an internet facility whereby shareholders in Essentra plc are able to access details of their shareholding. You can access this service at www.computershare.com.

Electronic communication
As an alternative to receiving documentation through the post, the Company offers shareholders the option to receive by email, a notification that shareholder documents (including the Annual Reports, Notice of Shareholder Meetings, Proxy Forms etc.) are available for access on the Company's website. If you wish to make such an election, you should register online at www.computershare.com. If you have already made such an election you need take no further action. Registration is entirely voluntary and you may request a hard copy of the shareholder documents or change your election at any time.

CREST

Share Settlement System

The Company entered the CREST system on listing and the ordinary shares are available for settlement in CREST. As the membership system is voluntary, shareholders not wishing to participate can continue to hold their own share certificates.

Annual General Meeting

The Annual General Meeting of the Company will be held at the Holiday Inn Hotel, 500 Saxon Gate West, Central Milton Keynes, Buckinghamshire MK9 2HG on Wednesday 20 April 2016 at 12 noon.

Financial calendar 2017

Annual General Meeting	20 April 2017
Final Dividend	2 May 2017

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