



Delivering long-term profitable growth

Annual Report 2019

Our purpose is to provide the parts, products and services our customers need to succeed as businesses



See more online
essentraplc.com

- 

Customer-focused Operational review
from page 49
- 

Being part of a sustainable solution
from page 27
- 

Q&A with Mary Reilly Non-Executive Director
on page 76

Contents

Strategic Report

Essentra at a glance

Chairman’s Statement

Chief Executive’s Review

Investment case

Our business model

Our progress towards sustainable growth

Our journey to a more focused divisional structure

Key Performance Indicators

Non-Financial Key Performance Indicators

How we do business

Financial review

Alternative Performance Measures

Risk management report

Operational review

Group Management Committee

Directors’ Report

IFC Chairman’s Corporate Governance Statement

2 Board of Directors

4 Corporate Governance Report

8 Nomination Committee Report

10 Chairman of the Audit and Risk Committee’s Letter

12 Report of the Audit and Risk Committee

14 Risk Committee

16 Chairman of the Remuneration Committee’s Letter

18 Remuneration at a glance

20 Remuneration Report Policy summary

30 Annual Report on Remuneration

32 Other Statutory Information

34 Statement of Directors’ Responsibilities in Respect of the Financial Statements

62

Financial Statements

65 Consolidated Income Statement

66 Consolidated Statement of Comprehensive Income

68 Consolidated Balance Sheet

82 Consolidated Statement of Changes in Equity

86 Consolidated Statement of Cash Flows

88 Accounting Policies

92 Critical Accounting Judgements and Estimates

94 Notes

96 Essentra plc Company Balance Sheet

101 Essentra plc Company Statement of Changes in Equity

112 Essentra plc Company Accounting Policies

117 Essentra plc Company Notes

180 Independent auditors’ report to the members of Essentra plc

187 Independent environmental assurance statement

188 Advisers and investor information

Essentra at a glance

Specialist Components
This division was dissolved in Q3 2019 following a strategic review and the sale of four of its six businesses.

Made up of three global divisions, Essentra is a leading provider of essential components and solutions. Every day we produce and distribute millions of small but essential products

 **See Our progress towards sustainable growth on page 12**
See Operational review from page 49

Components

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

Revenue	Adjusted operating profit ¹
£283.3m	£60.3m
(2018: £279.8m)	(2018: £61.0m)

2019 summary

- Throughout a year of macroeconomic uncertainty, the business continued to deliver “hassle-free” service provision, with a record Net Promoter Score (“NPS”) of 41
- Overall performance was boosted by continued market share gains from access hardware product ranges
- The Reid Supply business was reintegrated into the division
- Continued investment in digital capabilities; new website platform now deployed in ten countries
- Continued benefit from Micro Plastics and Hertila integration synergies. Integration of Innovative Components on track
- Continued pipeline development to support future inorganic growth opportunities
- First-year milestones of the BPR programme delivered to plan

Packaging

One of very few multi-continental suppliers of a full range of secondary packaging to the pharmaceutical, personal care and beauty sectors.

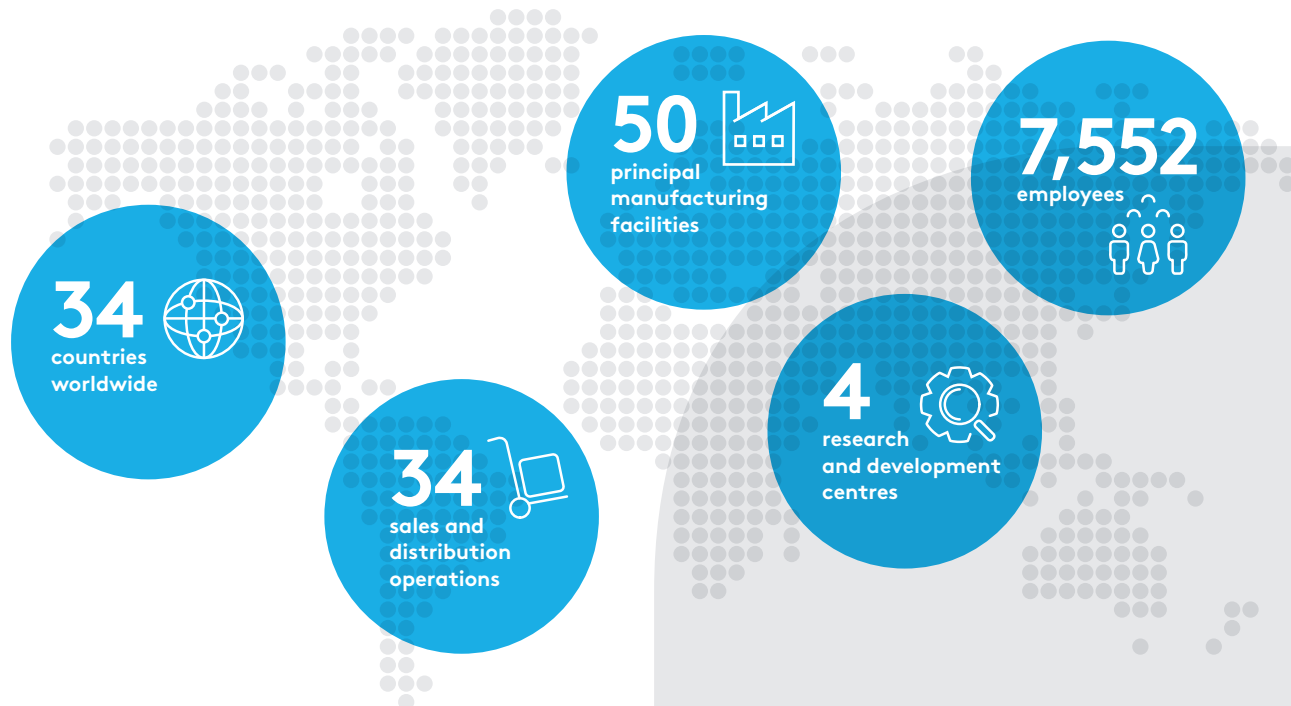
Revenue	Adjusted operating profit ¹
£352.7m	£15.1m
(2018: £342.3m)	(2018: £5.4m)

2019 summary

- 2019 was Packaging’s best financial and operational performance since 2015
- Revenue growth well above industry growth rates
- Encouraging business wins and continued improvement in customer dialogue, underpinned by ongoing stability, key service metrics and organisational improvements
- Expansion of the Design Hub in both the UK and USA, and dedicated customer project management to support projects
- Ongoing product pipeline development, to meet industry trends and customer needs
- Board’s confidence in division demonstrated through acquisition of Nekicesa Packaging, the integration of which is on track
- Continued investment targeted at capacity build and efficiency improvement

¹ Excluding amortisation of acquired intangible assets and exceptional and other adjusting items.

Our international network



Filters

The only global independent provider of filters and related solutions to the tobacco industry.

Revenue

£303.6m

(2018: £299.4m)

Adjusted operating profit¹

£36.2m

(2018: £35.1m)

2019 summary

- The business outperformed the broader tobacco market and is well positioned for medium- to long-term growth
- Operational KPIs continue to improve to ensure world-class service provided to our customers
- Deeper understanding of customer needs through implementation of key account management
- Refocus of Filters innovations teams to provide greater category focus and roll out of structured pipeline processes
- Integration of the Tear Tapes (TT) business into the division, upping the operational performance of TT, whilst further penetrating end-markets such as food and beverage and consumer
- Joint Venture agreement signed with four Chinese partners for manufacturing and development facilities based in China
- Significant outsourcing opportunity agreed with multinational partner
- Four patent applications filed for next generation product applications

Financial highlights

	FY 2019 After applying IFRS 16	FY 2019 Before applying IFRS 16	FY 2018 ¹	% change Actual FX ²	% change Constant FX ²
Revenue	£974m	£974m	£1,026m	-5	-6
Adjusted ³ operating profit	£88m	£85m	£91m	-4	-5
Adjusted ³ pre-tax profit	£73m	£73m	£80m	-9	-10
Adjusted ³ net income ⁴	£59m	£59m	£64m	-9	-11
Adjusted ³ basic earnings per share	21.3p	21.2p	23.1p	-8	-10
Dividend per share	20.7p	20.7p	20.7p	-	n/a
Net debt	£284.4m	£233.7m	£240.1m	+18	n/a
Net debt to EBITDA	2.0x	1.9x	1.8x	n/a	n/a
Free cash flow ⁵	£40.7m	£28.6m	£50.2m	n/a	n/a
Reported operating profit	£80m	£78m	£47m	+69	+66
Reported pre-tax profit	£66m	£66m	£36m	+80	+76
Reported net income ⁴	£41m	£41m	£28m	+47	+46
Reported basic earnings per share	14.7p	14.6p	9.3p	+58	+58

¹ FY 2018 results are unadjusted for IFRS 16 (see Basis of Preparation)

² Year-on-year changes are calculated by comparing data for FY 2019 after applying IFRS 16 with data for FY 2018 (which is unadjusted for IFRS 16)

³ Before amortisation of acquired intangible assets and exceptional and other adjusting items

⁴ Net income is defined as profit after tax, before minority interests

⁵ A reconciliation of free cash flow is set out in the Financial review on page 31

How we have performed this year

Revenue

£974.1m

(2018: £1,025.6m)

Adjusted operating profit

£87.5m

(2018: £90.7m)

Adjusted operating margin

9.0%

(2018: 8.8%)

Reported operating profit

£80.0m

(2018: £47.2m)

Adjusted earnings per share

21.3p

(2018: 23.1p)

Reported earnings per share

14.7p

(2018: 9.3p)

Dividend per share

20.7p

(2018: 20.7p)

Cash conversion

82%

(2018: 85%)

Operational highlights

- Stable revenue base, with underlying growth of 1.5%
- Momentum in financial recovery continues, with underlying growth of 2% in adjusted operating profit
- Maintenance of strong operating cash conversion at 82%
- Balance sheet gearing retained within target range, notwithstanding significant business investment
- All divisions on track against strategic milestones
- Stability agenda continues with progress on all metrics across the Group
- Business Process Redesign (BPR) project progressing well
- Well set for similar progress in 2020, strategically and financially



[See Financial review on page 30](#)

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 Annual 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.

Adjusted measures

Adjusted results exclude certain items because, if included, these items could distort the understanding of Essentra's performance for the year and the comparability between periods.

In management's view, such adjusted performance measures ("APMs") reflect the underlying performance of the business and provide a more meaningful comparison of how the business is managed and measured on a periodic basis. Our APMs and KPIs are aligned to our strategy and business segments, and are used to measure the performance of the Company and form the basis of the performance measures for remuneration. See page 16 for KPIs and page 32 for APMs.

Energised to deliver our purpose

Culture and values

In 2019 the Board continued to deepen its understanding of Essentra's working culture and witnessed the Six Principles become further embedded.



See How we do business
from page 20

In last year's Annual Report I was able to provide details of the successful stabilisation of the organisation across a number of levels. During 2019 progress continued to be made in the delivery of our strategic objectives and Essentra is starting to demonstrate sustainable growth – the third chapter in Essentra's roadmap.

A particular highlight of the year has been the refining of the business portfolio. The four disposals which took place were in line with the Company's strategy and were necessary to enable more focus on the growth businesses, both in terms of resource and investment allocation, improving the long-term sustainable value of the Company. The Board considered the disposal proposals for each, carefully taking into consideration the future prospects of each business and concluded that they were better placed to progress and remain successful if placed with new owners who had the resources and capability to grow these businesses, which would be beneficial to their stakeholders, and our employees.

The acquisition within the Components division – Innovative Components – has enabled the division to expand into a new territory, Costa Rica, along with its increasing presence in the USA. The Board was also pleased to approve the acquisition of Nekicesa Packaging in Spain which clearly reinforces the turnaround of the Packaging division since 2017. It is pleasing to see both businesses performing well.

Another exciting opportunity, from the Board's perspective, is that the Company is about to embark upon the manufacture of filters in China working alongside our Joint Venture partners. The Agreement, signed towards the end of 2019, cements a number of changes within the division during the year, including the acquisition of the minority stake of the business in Dubai and the announcement of a material multi-year outsourcing contract.

During the year I have personally travelled to a number of Essentra sites, in the UK, Europe, Asia and the USA, as have my Non-Executive Director colleagues; in total we have visited 11 sites. I enjoy meeting employees to discuss their thoughts and views and experience first hand the culture of the businesses, which is of utmost importance to the Board. This is particularly pertinent as we encourage our Voice of the Employee programme – discussed further in the Corporate Governance Report.

Our global Future Leaders programme continues to expand and we have recruited some very talented people. On a recent trip to Greensboro I was able to spend half a day with these future leaders, as part of their training and development week, and so informally met them all to discuss the programme and their views on Essentra; I was very impressed with their confidence and grasp on the attributes of good management skills.



Make it Work
awards page 26

In early 2019 all Non-Executive Directors attended the Leadership Conference in Barcelona, Spain, which was attended by 100 of the Company's senior managers. During the conference we took part in the discussion on the continuation of work around the strategic objectives. We also visited the two separate facilities based in Barcelona, namely Packaging and Components and participated in a panel discussion with a Q&A session. The lively debate and contribution from Essentra's senior managers continues to be hugely encouraging. One of the most positive elements of the conference that myself and my Board colleagues experienced was the Make it Work Awards and meeting the recipients of the Awards.



Paul Lester, CBE
Chairman

“The Board is pleased to support the Voice of the Employee activity and looks forward to hearing more employee thoughts during 2020”



The Board regularly discusses the make-up of the Group’s workforce, from management succession and talent plans to the employee engagement survey. It was good to see that the 2019 engagement levels have continued to increase from prior years. The details of the results and subsequent actions plans – with follow-ups – are a regular agenda item for the Board.

The commitment to our employees is further demonstrated by the appointment of a new Human Resources Director in early 2019, who has successfully invigorated this Enabling Function and introduced a new HR strategy which is aligned with the Essentra business strategy. It has a balance of culture and process initiatives, structured around the employees to ensure the best possible experience can be gained by working for Essentra.

Nicki Demby joined the Board as a Non-Executive Director, Chairman designate for the Remuneration Committee, in June 2019, and is already making a strong contribution. Lorraine Trainer will be retiring as a Non-Executive Director from Essentra after the 2020 AGM. Lorraine will have served on the Essentra Board for seven years and in addition to good counsel on the commercial aspects of the Company, Lorraine has also overseen a number of changes to the Company’s Remuneration Policy and been instrumental in ensuring employee culture remains high on the Board’s priorities and agenda, and we wish her well.

In January Mary Reilly was appointed as the Board Employee Champion and in this role she has visited a number of sites in order to meet employees and bring back to the Board their thoughts and questions. In recognition of the number of global sites within the Group, we found that Mary has needed some support and Ralf Wunderlich was appointed as the second Board Employee Champion, from 1 November. Ralf will join Mary and provide additional resource for this important Board activity.

Towards the end of 2019 a new Board Sustainability Committee was formed which elevates the previous Group Sustainability Committee to Board level and underscores the increasing importance that both the Board and the Company’s stakeholders are placing on this issue. Ralf has been appointed to the Chair of this Committee which held its first meeting in December 2019 where it formalised its purpose and objectives and I look forward to reporting on its work and progress during 2020.

The Board continues to be committed to achieving and maintaining the highest standards of occupational health, safety and environmental protection. When Board members visit Essentra sites they are required to undertake a health and safety “walk” around the site to focus on these important matters. The Board fully endorses the priority which these critical workplace practices are given under Paul Forman’s leadership.

Section 172 Director Duties

The Directors continue to have regard to the interests of the Company employees and other stakeholders, including the impact of its activities on the community, environment and the Company’s reputation, when making decisions. The Directors, acting fairly, between members and acting in good faith, consider what is most likely to promote the success of the Company for its members and stakeholders in the long-term.

Please see further information on how the Directors had regard to the matters set out in relation to S172 and the principal decisions made by the Board can be found from page 70.

The continued focus on the growth businesses within the Group, strengthening of the management team’s capability and our global footprint positions Essentra well for the foreseeable future.

Paul Lester, CBE
Chairman
28 February 2020

Delivering long-term profitable growth

2019 marked the start of the third chapter of our journey; with stability and clear strategies restored, we have worked to create three global business divisions focused on long-term growth while continuing to build a winning, engaged and diverse team and delighting our customers.

Protecting and enhancing our licence to operate

While the focus of the first chapter of our journey, stability has remained a priority as we have moved forward; indeed it is the foundation on which our progress is built.

Delivering operational stability for our customers is fundamental to our purpose – to provide the parts, products and services our customers need to succeed as businesses.

Our ability to deliver products On Time and In Full ("OTIF") remains a key customer measure as does decreasing product quality incidents, and we continue to make excellent progress against both measures. Thanks to continued investment we have also seen the reduction in major IT incidents and lost business hours as a result of IT issues. As IT can be a source of frustration for our people, this development is not only helping to increase employee engagement but also allowing our IT team to focus on other issues that are crucial to our future, such as our preparedness against cyber attack as well as proactive commercial projects, such as the roll-out of the Component's website.

During the year we continued to invest in health and safety capability, continuing training and communications as well as upgrading our machine guarding. As a result we have seen a further reduction in Lost Time Incidents, lost hours and severity versus 2018. As an organisation we continue to make safety a non-negotiable priority. In early December we held our

Adjusted earnings per share

21.3p

(2018: 23.1p)

Employee
engagement
Up to

78%

(75% in 2018)

Paul Forman
Chief Executive



first global Safety Week which was an opportunity to reinforce every employee's role in taking responsibility for driving improvements and embedding a safety culture throughout the business.

We have also continued to focus on improved risk management, governance and financial controls. During 2019, the Group fully cooperated with an investigation into some sanctioned market compliance failures in the Filters business. Essentra is committed to doing business the right way in order to maintain and earn the trust of all its stakeholders. As such, during the year we began a process to refresh our compliance programme, focusing on creating a strong compliance culture and this will be rolled out throughout the Company in 2020. In order to further embed future stability and reduce operational risk, in January 2019 we launched a five-year Business Process Redesign ("BPR") programme which combines business model redesign and Enterprise Resource Planning. While a significant investment for the Company, the quantifiable benefits of the BPR programme are estimated to offset the cost, and we remain focused on risk mitigation throughout the project.

Aligning the shape of the organisation to our ambition

In 2019 all our divisions continued to make progress against the strategies set out in 2017, but the most visible strategic development for Essentra in 2019 was the simplification of our corporate structure; moving from nine businesses across four divisions into three global divisions. This followed the sale of four of the six businesses that made up the Specialist Components division and the transfer of Reid Supply and Tear Tapes into the Components and Filters divisions respectively. The decision to sell Pipe Protection Technologies, Extrusion, Speciality Tapes and Card Solutions has ensured that we are able to focus our resource on the areas of the business that create the best value for customers and shareholders and has provided these businesses with a strong platform for future growth.

In 2019 we also added to our portfolio with some significant value-creating acquisitions aligned with our new focused structure. These acquisitions build on the successful integration of Micro Plastics and Hertila in 2018, which are both performing in line with expectations. In June we announced the purchase of Innovative Components in the USA, which builds on the Components division product offering in the USA, providing range opportunities in Europe and Asia and manufacturing capability in Costa Rica. This was followed in September with the purchase of Nekicesa in our Packaging division helping to establish us as a leading player in Spain, an attractive packaging market. In November we announced a new Filters Joint Venture in China, the world's largest tobacco market, this followed the purchase of the remaining 49% minority interest of our Joint Venture in Dubai earlier in the year. As we look forward to 2020 we continue to ensure we are well placed for inorganic opportunities, where they can move our business into complementary product categories or end-markets, or further our geographic distribution capability.

Three steps to long-term success



Chapter 3

Mid-2019 onwards

Chapter 2

Mid-2018 onwards

Chapter 1

Early 2017 onwards



Details on Our progress towards sustainable growth can be found on page 12

GROWTH
STRATEGY
STABILITY

2019 priorities

- Restoration of revenue and profit growth
- Creation of more focused portfolio of business
- Embedding our purpose to provide the parts, products and services our customers need to succeed as businesses
- Continue to build a winning, engaged and diverse team with a shared sense of purpose
- Increase market share and roll-out of new website in Components
- Turnaround in the Packaging division, stabilising the business in terms of service, quality and safety and restoring revenue and profit growth
- Development in each of the three stated "game changers" in Filters

Key highlights 2019



Building a winning, engaged and diverse team

Our people continue to be at the heart of our journey and our success in 2019 would not have been possible without their commitment, passion and energy. The arrival of a new Group Human Resources Director in January instigated the development of a powerful HR strategy which is already having a huge positive impact on the organisation. The appointment of Mary Reilly and most recently Ralf Wunderlich as Board Employee Champions is also helping to ensure the voice of the Employee is heard around the Board table, enabling all of us to better understand the impact that Board-level decisions can have on the workforce.

Inevitably the changes we made to the shape of our business during the year resulted in some of our people moving to a new employer and some new employees joining Essentra. For those leaving, we believe that they will, along with businesses we sold, be better developed by new owners and continue to thrive under new leadership. For those joining, we believe they are doing so at an exciting time in our development and we are drawing on their expertise and fresh perspectives as we integrate them into the Essentra family.

In 2019 we also continued to make progress on the diversity and inclusion agenda, one to which I, the Board and Group Management Committee are passionately committed. In September we held our first Group-wide Inclusion Week with a range of co-ordinated activities across our global sites, building on a number of initiatives throughout the year.

I am delighted that these efforts have contributed to a further uplift in our employee engagement from 75% in 2018 to 78% in 2019 and an almost 10 percentage point increase from 2017 (69%). This score puts us ahead of the global and manufacturing industry averages, a first for Essentra. Furthermore, we maintained our market-leading participation rate (90%) and at a Group-wide level we improved our result against all questions in the survey; no areas decreased.

Creating a more sustainable world for future generations

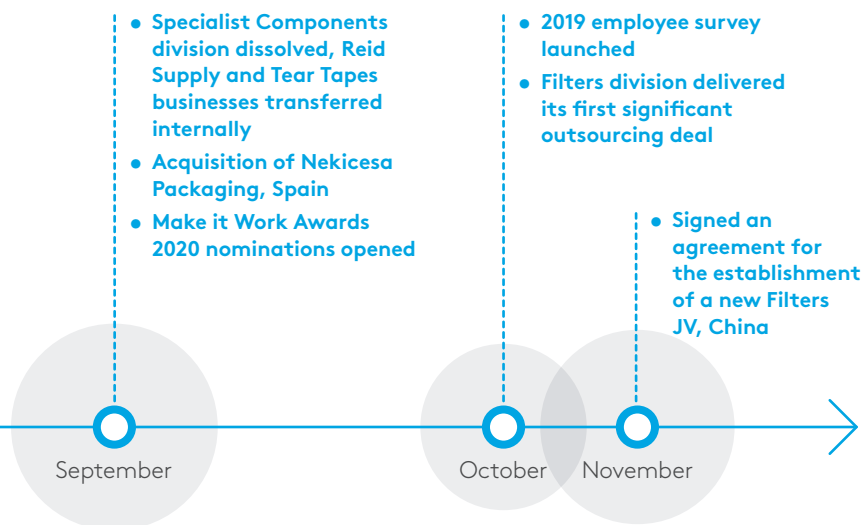
Essentra's global reach spans thousands of employees, clients and suppliers. This scale represents both commercial opportunity as well as responsibility; a responsibility to our people, the communities in which we operate and the wider environment. Environmental and Social Governance ("ESG") is crucial to our ability to maintain stability, deliver our strategies and ensure growth. Good management of this topic is therefore critical to meeting the increasing expectations of all our stakeholders including employees, customers and investors.



"We are proactively working across all divisions to offer our customers products that serve their requirements whilst minimising the impact on the environment"



See page 27 for details on sustainability



Our third chapter brought to life

Over 2019 Essentra continued to make meaningful strategic, financial and operational progress; delivering sustained underlying revenue and operating margin growth despite challenging trading conditions. The 2019 result for the Group was robust, notwithstanding significant portfolio rationalisation activities undertaken during the year which have had a significant impact on year-on-year comparisons and KPIs. In Components revenue and margins were held steady despite market declines and a record NPS of 41 was delivered alongside the roll-out of a new website platform in ten countries. 2019 was Packaging's best overall performance since 2015. The division's first acquisition, Nekicesa, performed well and the year saw further development of value-added services and progress in key service metrics. The Filters division is well set for short and long-term growth given success against all three "game changers", such as the establishment of the China Joint Venture and a six-year outsourcing opportunity.

Looking forward with strength and ambition

Despite this solid performance, 2019 was not without its challenges. Brexit and a more uncertain broader macroeconomic environment has required us to undertake regular reviews and introduce some mitigating actions. As we enter 2020 the environment continues to look uncertain. However, we begin the year a more stable and focused business, ready and well-equipped to face the challenges and opportunities ahead. In 2020 we will continue to invest in our business and support growth in all three divisions through acquisitions and continued investments such as IT stability and our people agenda.

In 2020 we will also be focusing on ensuring that we are living our purpose – to provide the parts, products and services our customers need to succeed as businesses – in every part of the organisation as well as nurturing and growing our talent so that we are better able to do so. I remain incredibly proud of the progress we are making to instil focus, embed our purpose, build our team and create growth, and am hugely confident as we move onwards on our journey.

Paul Forman
Chief Executive
 28 February 2020

In 2019 we further developed the sustainability strategy established in 2018 around four pillars: People & Communities; Energy & Climate Change; Responsible Material Usage; and Responsible Supply Chain. During the year we communicated this strategy internally under the concept of "small changes – big impact", underlining and encouraging everyone's role in contributing to the sustainability agenda. We also recognised ESG as a Principal Risk, encompassing the issues of waste management, our carbon footprint, single-use plastics and climate change. To further underscore the importance the Board places in this topic, the Group Sustainability Committee created in 2018 was elevated to a Board committee in 2019.

Furthermore, we are proactively working across all divisions to offer our customers products that serve their requirements whilst minimising the impact on the environment. We are considering the greenhouse gas emissions ("GHG") associated with products as well as the waste created throughout the product's life cycle. From the raw materials we buy, throughout the process of transformation and end of life of the final product, there are opportunities for improvement in each stage of the product lifecycle.



See Operational review from page 49



Group Management Committee

It was an honour to lead a more balanced and diverse Group Management Committee in 2019. During the year the team has worked together well: meeting challenges head-on and making the most of opportunities (Read their biographies on page 62.)

Investment case

Our key strengths...



Balanced and focused portfolio

Following portfolio rationalisation in 2019, the Group is a more focused portfolio having been reduced from nine to three businesses, serving multiple end-markets with a broad differentiated range of products and services.

The variety of end-markets served along with the mixture of cyclical and non-cyclical industries in which our businesses operate, combine to form a balanced growth portfolio with strategic opportunities both for our businesses individually and the Essentra Group.



Execution of clearly defined growth strategy

We have a clear, market-driven strategy for each of our divisions. They operate in sizeable end-markets that present opportunities for future growth, and in which we are fundamentally well-positioned to drive long-term growth and margin expansion.

The execution capability of our management team and businesses ensures we are well positioned to deliver on our divisional strategies capitalising on both organic and inorganic growth opportunities, continuing to deliver on the potential of our Packaging division in terms of both revenue and margin expansion, robust organic and inorganic growth in Components and further developing opportunities with Filters division's stated "game changers".



Customers at the centre of what we do

Our market-leading positions help us to develop and maintain a close relationship with a wide portfolio of blue-chip customers, who are successful leaders in their respective markets.

Our customer-focused proposition combined with high standards of service and supply demanded by such customers help to drive continuous improvement across Essentra.

Our dynamic operating models and hassle-free customer proposition enable us to partner and add value to customers of all sizes.

Our manufacturing and distribution expertise add value in response to customer demands, and our innovative capabilities drive collaboration and joint development of new products and services with key strategic partners.



In order to create sustainable long-term value, we seek to responsibly, effectively and efficiently manage our portfolio of global leading and diverse businesses, with a clearly articulated role for the Group underpinned by robust financial and capital allocation policies.



Proven sustainable business model

We have a well-invested and flexible international sourcing, supply chain and production infrastructure and remain committed to investing in scalable processes. This provides businesses across Essentra the opportunity to use existing infrastructure and management to exploit new opportunities efficiently and cost-effectively.

Our extensive international manufacturing and 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.

Our people are highly engaged and talented. With investment already made in key systems, ensuring operational stability, our stable operating environment and committed, engaged workforce are key enablers in the delivery of our future growth strategy.



Investment in innovation capabilities

The continued successful launch and commercialisation of new products and services is a key driver of our growth.

Investment in research and development, supported by the identification of additional product sourcing opportunities and range development, enhance our competitive positions.

Working together with our customers to innovate, solve problems and drive solutions is core to what we do; central to this is providing solutions through innovation to meet an increasing demand for environmentally responsible products.

Robust quality systems maintained to internationally accredited standards assist the fulfilment of customers' demands.



Strong financial position with robust balance sheet

Our strategy calls for a significant focus on cash flow generation, which is evidenced in well-defined financial and capital allocation policies and a strong, robust balance sheet.

Our business model

Our purpose is to provide the parts, products and services our customers need to succeed as businesses

What we do

We manufacture

Whether it is a tiny but critical component or a bespoke solution to a complex need, we have the skills and capability to manufacture a wide range of products.

We partner

We take a long-term partnership approach with suppliers and customers so we can deliver what our customers need, when they need it.

We distribute

Our global scale and market knowledge mean that we are able to anticipate and meet the needs of our customers, whether large or small, in a wide variety of end-markets and geographies.



See Operational review from page 49

How we do it

Our products and services are delivered by a team of thousands, framed by our values; our Six Principles.

A winning, engaged team

Freedom to operate
(within a framework)

Delivery
(keep our promises)

Openness, honesty and integrity

Safety, respect and diversity

Energy for change



See How we do business from page 20

Our competitive advantage

We are well positioned to responsibly and effectively manage our portfolio of global leading, diverse activities in order to create sustainable long-term value.



Strength of customer relationships

Deep customer relationships and expert customer service is at the heart of what we do. Ensuring we anticipate and deliver on our customer needs is crucial to our success as a business.



Market-leading positions

We have market-leading positions in the majority of our served markets providing us with the scale and expertise necessary to deliver for our customers.



Diverse and market-leading product and service ranges

We invest in product research and robust quality systems in order to deliver product innovation and range development.



Passion and skill of our employees

Our people are our greatest asset. We take personal ownership of what we do each day and pride in what we help to achieve as a team.



Global footprint with local execution

Our comprehensive international production and distribution footprint can be flexed to respond to customers' needs, whether they be product, service, cost or supply chain driven.

Who we serve



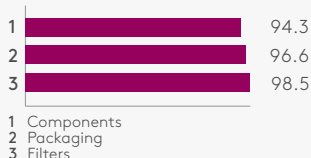
Creating value for our stakeholders

Essentra is built on diversity. Of parts, products and services. Of customers, partners and markets. Of people, perspectives and ideas.

Our customers

We put our customers first, partnering with them and delivering On Time and In Full ("OTIF").

OTIF for 2019 (%)



Our communities

We get behind local good causes while minimising our environmental impact on the wider world around us.

Reduction in waste to landfill

39.7%
(2019 vs 2018)

Our people

We prioritise safety, employee engagement, diversity and inclusion, creating an environment where our people feel respected with space to learn and grow.

Employee engagement

78%
(2018: 75%)

Our shareholders

We deliver shareholder value through the strength of our balance sheet, customer relationships and market positions.

Return on invested capital (%)



Our suppliers

We partner with a range of suppliers so that we can provide our customers with a range of products across each of our divisions.

Governments and regulators

Wherever we operate we are committed to conducting business in line with the appropriate laws and regulations.

Our progress towards sustainable growth

Stability



What we said we would do

- Continue employee engagement surveys and act on the feedback
- Continue to drive and enhance talent management and development programmes
- Drive ongoing improvements in diversity and inclusion
- Continue to improve risk management towards best practice levels
- Embed new Health, Safety and Environment information management system
- Maintain key quality and service metrics at least at industry-level standards
- Drive strategic investment in Business Process Redesign ("BPR")
- Continue to focus on cash generation

Progress in 2019

- Employee survey undertaken with market-leading response rate maintained and uplift in engagement from 75% to 78%
- Arrival of a new Human Resources ("HR") Director, creation of new people strategy and investment in a new HR system
- Ongoing improvements in diversity and inclusion, evidenced in engagement scores
- Continued focus on safety culture and further improvement in KPIs
- Continued improvement in all key quality and service metrics
- Launch of the BPR programme
- Good progress on IT stability and upgrade/rebuild capability

Main challenge in 2019

- Maintaining and improving engagement during a year of organisational change

Priorities in 2020

- We will deliver continued improvement in all key quality and service metrics
- We will continue to build a winning, engaged and diverse team with a strong focus on safety
- We will further strengthen and embed a robust compliance framework and processes, as well as a strong compliance culture
- The BPR programme will start to impact the day-to-day experience of both our employees and customers
- We will continue to invest in IT stability, machine upgrades and our talent

Key performance indicators we use

- On Time and In Full ("OTIF")
- Employee engagement
- Lost-Time incidents ("LTIs") and number of days lost
- Operating cash flow

Strategy

What we said we would do

- Continue to drive deeper customer relationships across the Group
- Identify and develop value-adding innovation opportunities, for both products and services
- Make further improvement in innovation focus and new product pipeline management
- Continue to develop our commercial capabilities
- Continue to embed and refine Sales and Operations Planning processes
- Further refine Continuous Improvement and other operational improvement initiatives
- Continue to invest in upgrading equipment, especially in Packaging and IT

Progress in 2019

- Significantly progressed key strategic initiatives in each of the three divisions
- Divestment of Pipe Protection Technologies, Extrusion, Speciality Tapes and Card Solutions
- Specialist Components division dissolved and transfer of Tear Tapes and Reid Supply to Filters and Components, respectively
- Group Sustainability Committee uplifted to a Board Committee underscoring importance attached to Environmental and Social Governance
- Continued to develop key account management, sales effectiveness and pricing programmes

Main challenge in 2019

- Pace and volume of our divestment programme

Priorities in 2020

- We will remain focused on our purpose to provide the parts, products and services our customers need to succeed as businesses
- We will continue to drive our divisional commercial strategies to serve our customers effectively
- Diversity and Inclusion Steering Group will continue to develop improvements in our policies and culture
- We will invest in research, development and innovation, in particular with a view to minimising the impact our processes and products have on the environment

Key performance indicators we use

- Net Promoter Score
- Customer complaints
- Quality incident rates



See Our journey to a more focused divisional structure from page 14, Key Performance Indicators from page 16 and Operational reviews from page 49

Growth

2017

2018

2020

What we said we would do

- Successfully integrate Micro Plastics and Hertila
- Continue to grow and develop talent across Essentra
- Identify further skill gaps, and attract appropriate talent to meet future strategic requirements
- Focus on key business capabilities and continue to progress towards best-in-class levels
- Continue to develop pipeline of potential bolt-on acquisition opportunities in Components
- Facilitate and challenge the next stage of divisional strategies
- Continue to enhance our enabling function support to deliver the strategy

Progress in 2019

- Acquisition of Innovative Components in the Components division
- Acquisition of Nekicesa Packaging in the Packaging division
- Acquisition of the remaining 49% interest in the Filters Joint Venture in Dubai
- Establishment of new Filters Joint Venture in China
- Significant multi-year outsourcing contract in Filters
- Successfully integrated the acquisitions of Micro Plastics and Hertila
- Launch of a people strategy, with large focus on talent attraction and development
- Invested further in research, development and innovation capabilities

Main challenge in 2019

- Challenging and uncertain macroeconomic environment

Priorities in 2020

- We will continue to ensure we are well placed for inorganic opportunities
- We will be well-prepared for continued macroeconomic uncertainty
- We will continue to act as a responsible corporate citizen, embedding the right culture as well as processes and policies
- We will focus on attracting, retaining and developing talent

Key performance indicators we use

- Revenue growth
- Operating profit

Transforming for the future: Business Process Redesign

As Essentra has grown, so has the number of systems and processes our business uses. This has added complexity which has curtailed our efficiency, increased cost and prevented us from serving our customers as well as we would like.

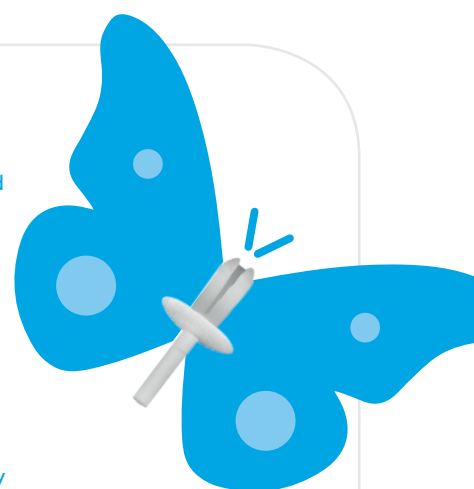
The Business Process Redesign programme is all about transformation – embracing the latest thinking and up-to-date technology to simplify and standardise the way we operate.

Our systems re-engineered
With the introduction of fast, modern integrated core technology systems including Microsoft Dynamics 365.

Our processes realigned.
With upgraded and standardised best practices across Finance, Procurement and Operations, underpinned by a single common process template.

Our business redefined
Through reduced system maintenance costs, better financial controls, enhanced data and insights, and the ability to on-board new acquisitions rapidly.

Our future refreshed
For a more efficient and empowered employee experience that liberates our people's talents – and a hassle-free customer journey that will build a truly world-class reputation.



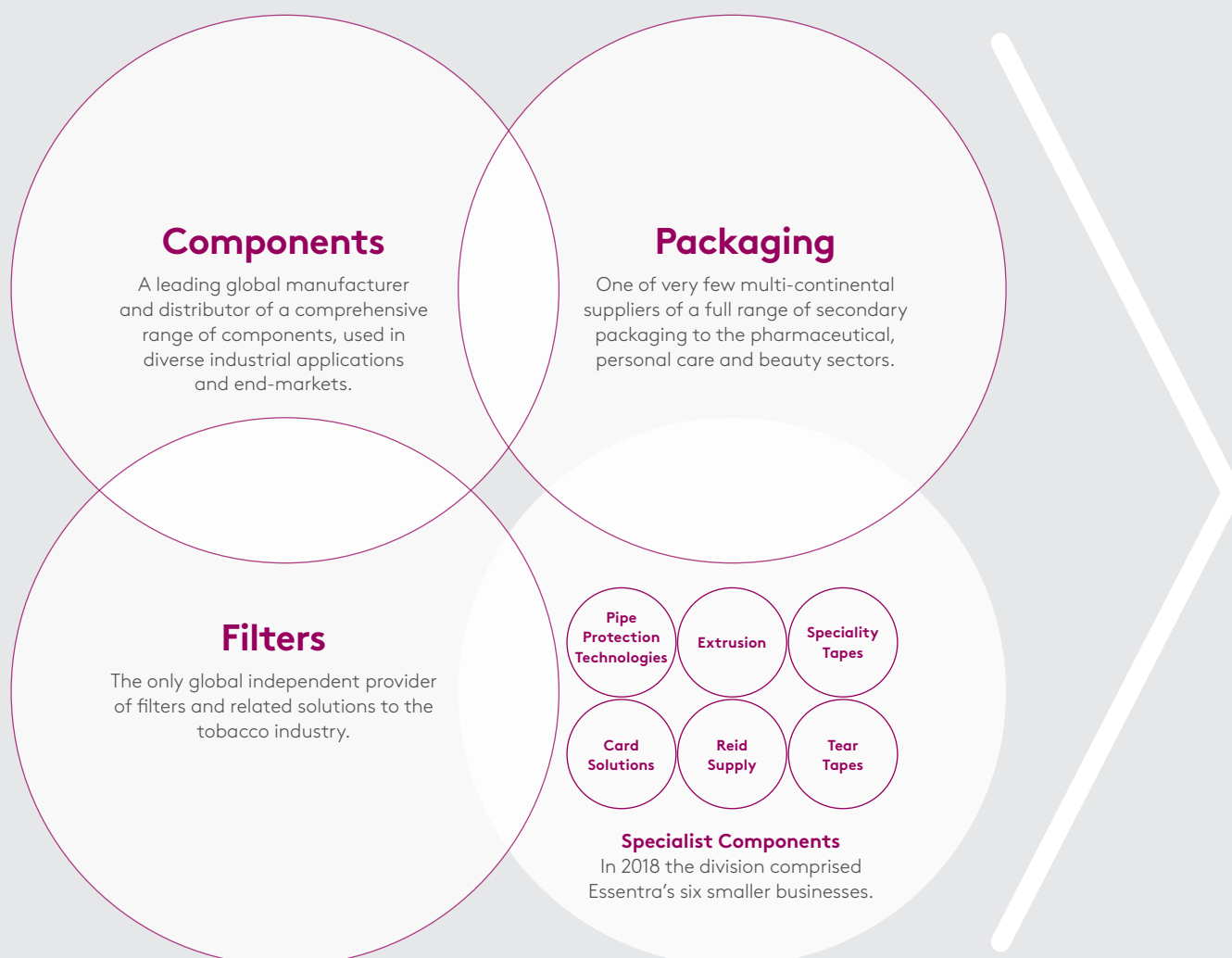
Our journey to a more focused divisional structure

2019 provided a strategic opportunity to simplify our portfolio of businesses.



From nine businesses...

These businesses served multiple end-markets with a very broad and differentiated range of products and services:



...to three focused global divisions

In Q3 2019 we dissolved the Specialist Components division, leaving us with three focused global divisions each with a strong platform for future growth:

Components

Including Reid Supply

Packaging

Filters

Including Tear Tapes

Our new structure provides clarity and focus for our people and wider stakeholders

The sale during 2019 of four of the six businesses that made up the Specialist Components division was the result of a strategic review of the division, ensuring that we were focusing our resources on the areas that create the best value for customers and shareholders.

While the decision to sell was right for those businesses, what the review also showed was that Tear Tapes and Reid Supply (formerly referred to as Industrial Supply), the two remaining businesses in Specialist Components, hold real value for Essentra. Therefore, these businesses remain part of the Essentra Group but now report into Filters (Tear Tapes) and Components (Reid Supply).

In the case of Tear Tapes, the business has strategic strength in the tobacco industry and is now able to benefit from the sector expertise and customer relationships already formed in the Filters division.

Reid Supply was part of Essentra Components before the creation of the Specialist Components division. At that time we tried to integrate the Reid Supply business too fully into the Components business model. We have learnt from the past and will focus on back office synergies which will enable the Reid Supply business to thrive and grow within the Essentra Group.

In 2019 we also added to our portfolio with the acquisition of Innovative Components, Nekicesa Packaging and the remaining stake in our Filters Joint Venture.



See Operational review from page 49

Key Performance Indicators

The delivery of Essentra's strategic priorities is underpinned by a focus on Key Performance Indicators ("KPIs") which measure Essentra's progress in the delivery of value.

Alignment of KPIs to executive remuneration

- Performance measures for the executive Annual Bonus Plan
- Performance measures for the executive Long-Term Incentive Plan

Like-for-like revenue growth (%)



How we measure it

Revenue at constant exchange rates, excluding acquisitions and disposals

Why this is important

Measures the ability of the Company to grow sales by operating in selected geographies and categories, and offering differentiated, cost-competitive products and services

Adjusted operating profit¹ (£m)



How we measure it

Operating profit at constant exchange rates, excluding the impact of amortisation of acquired intangible assets and exceptional and other adjusting items

Why this is important

Measures the profitability of the Company

Adjusted earnings per share¹ (p)



How we measure it

Earnings per share at constant exchange rates, excluding the impact of amortisation of acquired intangible assets and exceptional and other adjusting items

Why this is important

Measures the benefits generated for shareholders from the Company's overall performance

Net working capital² ratio (%)



How we measure it

Average net working capital² per month, as a % of revenue

Why this is important

Measures the ability of the Company to finance its expansion and release cash from working capital

Adjusted operating cash flow³ (£m)



How we measure it

Adjusted operating profit less non-cash/other items, net working capital and net capital expenditure

Why this is important

Measures the cash generation capability of the Company

Adjusted operating cash flow (£m)

72

(77 in 2018)

Total
Shareholder
Return (%)

33.5

(-32.3% in 2018)

Cash conversion (%)



How we measure it

Adjusted operating cash flow³ as a percentage of adjusted operating profit²

Why this is important

Measures how the Company converts its profit into cash/quality of the Company's earnings

Dividend per share (p)



How we measure it

Total dividends paid divided by the number of relevant shares in issue

Why this is important

Measures the amount of cash per share which the Company returns to shareholders

Dividend
per share (p)

20.7

(20.7 in 2018)

Return on Capital Employed (%)



How we measure it

Adjusted operating profit¹ divided by (tangible fixed assets and net working capital)

Why this is important

Measures how effectively the Company uses its operational assets

Return on Invested Capital (%)



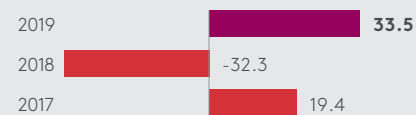
How we measure it

Adjusted operating profit¹ after tax divided by (capital employed plus intangible assets)

Why this is important

Measures the Company's ability to effectively deploy capital

Total Shareholder Return (%) ●



How we measure it

Total annual increase in value. Based on the increase in share price and the dividend paid to shareholders

Why this is important

Measures the Company's ability to generate long-term value

1 Excluding impact of amortisation of acquired intangible assets and exceptional and other adjusting items.

2 As defined in the Financial review on page 30.

3 As defined in the Alternative Performance Measures on page 32.

Non-Financial Key Performance Indicators

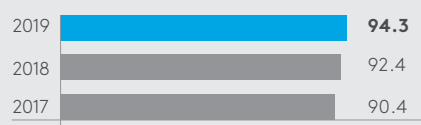
Equally important to the delivery of Essentra's strategic priorities is a focus on KPIs which measure our progress against stated priorities in terms of our customers, communities and people.



Customers

On Time and In Full (%)

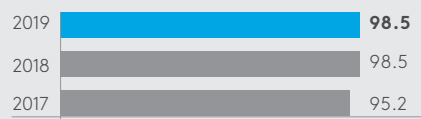
Components



Packaging



Filters



Why this is important

Our purpose is to provide the parts, products and services our customers need to succeed as businesses. Our ability to deliver quality products on time and in full has been a key focus for 2019.

Environment

CO₂ emissions (tonnes)
Reduced by

6.1%
(2019 vs 2018)

Waste to landfill (tonnes)
Reduced by

39.7%
(2019 vs 2018)

Number of sites with zero waste to landfill

8
(6 in 2018)

Why this is important

We recognise that we have a role, and interest, in environmental stewardship. This is not just a duty we owe to our neighbours, but to future generations. We know that the way we manage our environmental impacts forms an important element of our reputation and is a measure of the quality of Essentra's businesses.

Safety

Lost-Time Incidents ("LTIs")
Reduced by

8%
(33 in 2019 vs 36 in 2018)

Why this is important

Our overriding commitment in the workplace is the health, safety and welfare of our employees and all those who visit Essentra's operations. Our aim is to be in the top quartile of manufacturing companies for the lowest Incident Frequency Rates.

Number of days lost
Reduced by

13%
(2019 vs 2018)

Why this is important

This is a measure used to quantify the severity of LTIs. Where incidents do result in Lost Time, we work hard to minimise the amount and to support the injured person in their recovery by offering restricted or light duties, and through a structured return to work programme.

Employee
engagement
Increased by

4%

(2019 vs 2018)

People

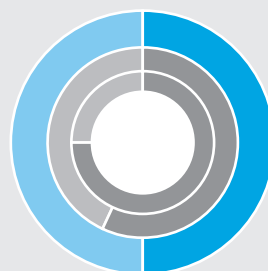
Employee engagement (%)



Why this is important

The happiness and fulfilment of our people is a key priority. Having more engaged employees reduces staff turnover, improves productivity and helps us serve and retain our customers.

Board gender diversity (%)

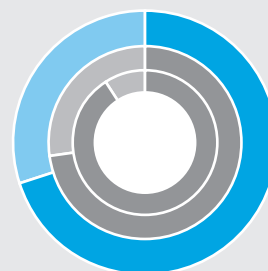


2019
● Men: 50% (4)
● Women: 50% (4)

2018
● Men: 57% (4)
● Women: 43% (3)

2017
● Men: 75% (6)
● Women: 25% (2)

Group Management Committee gender diversity (%)

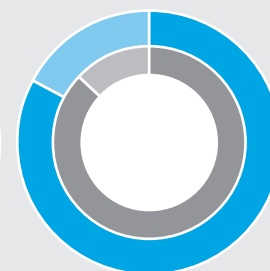


2019
● Men: 70% (7)
● Women: 30% (3)

2018
● Men: 73% (8)
● Women: 27% (3)

2017
● Men: 91% (10)
● Women: 9% (1)

Management (Levels 6-8) gender diversity (%)



2019
● Men: 83% (80)
● Women: 17% (16)

2018
● Men: 87% (82)
● Women: 13% (12)

N.B. Different data sources used.
2018 data from employee survey respondents, 2019 data from HR system.

Why this is important

The Board is committed to providing all employees with an equal opportunity to develop and advance, and for everyone to feel safe, respected, valued and able to thrive as part of a winning, engaged and diverse team.

Non-Financial information table

This table follows the requirements of Companies Act 2016 Sections 414C(7), 414CA and 414CB and is intended to help stakeholders understand our position on key non-financial matters. We have a number of Group policies and standards which govern our approach to these matters. These are detailed in this report in the sections shown.

Reporting requirement	Where to read more in this report
Environmental matters: How we do business	27
Employees: How we do business	20
Health and safety: How we do business	26
Human rights: How we do business	24
Social matters: How we do business	24
Anti-Bribery & Corruption: How we do business	24
Business model: Our business model	10
Principal risks: Risk management report	34

How we do business



Our people

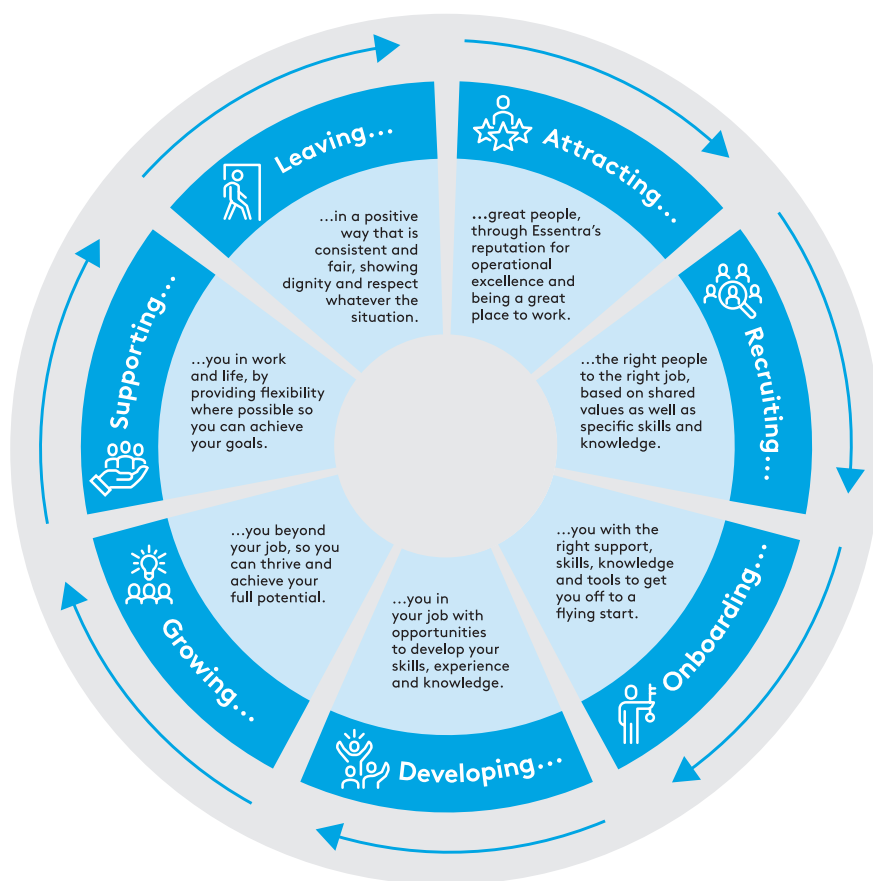
Essentra's people are at the heart of our strategic change journey. We continue to make their safety a non-negotiable priority at all our sites and are working hard to improve diversity, talent development and engagement.

Our ambition is for Essentra to be a great place to work and this is the reason we created a set of values – the Six Principles – which were developed and rolled out during 2017. Our employees are vital in ensuring we provide quality products and services to our customers and operate our business activities effectively and efficiently. Indeed, their talent and commitment drive the innovation that allows Essentra to provide added value to our customers, enhance supply chain logistics and reduce the environmental impact of operations.

Essentra Apprenticeship Programme (UK)

Apprenticeships are currently used for people joining Essentra directly from school and to upskill current employees, and are supported by both national and local providers. The programmes are completed whilst candidates are in a real job and allow for behaviours, knowledge and skills to be developed to prepare them for progression within Essentra. There are currently ten school leavers on apprenticeships (all male) enrolled on Print,

Engineering, IT, Toolmaking and Production Technician Apprenticeships. There are currently 60 people on upskill apprenticeships (43 male/17 female) enrolled on Print, Management, Warehousing, Project Management, Sales, Customer Services, Data Science, CIMA, ACCA, Commercial Procurement & Supply, Product Designer & Development, HR, Business Administration and Credit Controller.



Helping our people achieve their full potential

The next steps are about developing our people in their current jobs with opportunities to strengthen their skills, experience and knowledge and growing them beyond their current roles, so they can thrive and achieve their potential. Talent is at the top of our agenda and we are investing at all levels of the organisation. We are currently revising our leadership competencies which will underpin all our management and leadership skills programmes. In 2020 we will be taking the first steps in delivering more learning using digital and online solutions.

During 2019 we welcomed a new HR Director under whose leadership a refreshed people strategy has been created. This strategy is designed around an employee lifecycle – a model that identifies the ways in which an individual engages with Essentra and helps us shape that journey into a positive experience for everyone.



Attracting great people

The first step in our lifecycle is about attracting great people through our reputation for operational excellence and being a great place to work. The failure to attract and retain the required talent necessary to evolve our business has been identified as a Principal Risk for our business. In mid-2019 a new role of Talent Acquisition Director was created to drive this critical agenda. The initial focus has been on developing a narrative to enable more effective conversations with potential candidates. In 2020 we will look to better communicate why Essentra is a great place to work alongside further development of our employer brand, for example through the development of an external careers site.

The next step is about recruiting the right people to the right job, without discrimination and based on our shared values as well as specific skills and knowledge. Our focus in 2019 has been on developing a consistent approach to how we use external suppliers in the search for talent and our approach to direct hiring. In 2020 we will be using new and consistent tools in terms of assessing candidates.



Getting off to a flying start

The next step on the employee lifecycle is about onboarding our people with the right support, skills, knowledge and tools. In 2019 a project team reviewed our current onboarding practices across Essentra and looked at best practice in the wider industry. In 2020 we will be piloting a digital solution to onboarding that keeps the employee at the centre of the process but applies a consistent and manager-led approach. This work has also addressed "offboarding" which relates to the final part of the employee lifecycle which is about helping people leave Essentra in a positive way that is consistent, fair and in which people are treated with dignity and respect whatever the situation.

The Essentra Future Leaders Programme

The programme, rebranded from the Essentra Graduate Programme, is a structured three-year course delivered while the Future Leader ("FL") undertakes a real job from day one. The FLs are given the opportunity to learn about the Essentra business and are developed in four key areas: behaviours; business skills; leadership; and elements specific to their role.

In the last six months of the programme, the FLs work in groups on a business-focused project and present their findings to senior leaders of the business. In 2019 12 FLs joined the scheme (ten male/two female) originating from Europe (nine), the Americas (two) and Asia (one). They joined the 20 graduates already on the Essentra two-year Graduate Programme having joined in 2018 (eight male/12 female). In 2019 16 graduates completed the programme (eight male/eight female).

How we do business continued



Driving our Diversity and Inclusion agenda

Next in the employee lifecycle is supporting our people in work and life, by providing flexibility where possible so they can achieve their goals. In 2019 we continued our focus on diversity and inclusion, launching a global Diversity and Inclusion Policy and refreshing membership of the global Steering Group to include a greater mix of employees of all levels and background. The Steering Group's purpose is to build an inclusive culture in Essentra where diversity is embraced by everyone, ensuring we get the full business benefit while making Essentra a rewarding and successful place to work for our colleagues. In 2019 we expanded the focus of the work to include explicit work-streams on disability, mental health and LGBTQ+ alongside the previous work-streams looking at gender, age and multiculturalism.

We continued the partnerships begun in 2019 with everywoman and Business in the Community ("BITC"). In 2019 we have continued to roll-out everywoman's e-learning platform delivered online and via an app, giving access to a variety of online self-development resources such as workbooks, online seminars, articles and podcasts. In 2019 we joined BITCs, Cross-Organisational Mentoring Circles for the second year and as part of the scheme ten Essentra UK-based employees will be participating from January 2020. The Circles aim to support the progression

and impact of Black, Asian and Minority Ethnic ("BAME") employees and address their current under-representation at senior levels. We also remain a proud signatory of the Race at Work Charter developed by BITC in partnership with the UK Government in 2018.

In 2019 we extended our partnerships to include #WorkWithMe, a joint initiative from Scope and Virgin Media to establish a growing community of businesses committed to thinking and acting differently about disability. The community is set up to allow members to share information, advice and insights in a safe, open and honest environment. We remain committed to providing all employees with the opportunity to develop and advance, which includes giving full and fair consideration to employment applications from disabled people. In the event of employees becoming disabled, we make every effort to ensure that the training, career development and promotion opportunities available are as far as possible identical to those of non-disabled employees.

In 2019 we continued to take time to celebrate and mark several global events across our sites, including International Women's Day in March and International Men's Day in November. We launched our first Group-wide Inclusion Week in September 2019. The week was an opportunity to celebrate diversity and inclusion within Essentra and also further communicate our Diversity and Inclusion Charter, which underlines Essentra's commitment to building an inclusive culture and the plans we have in place to deliver against this commitment.

"In 2019 we continued to build an inclusive culture where diversity is embraced by everyone, ensuring we get the full business benefit while making Essentra a rewarding and successful place to work for our colleagues"



LEAP – Leadership Essentials in Action Programme

In 2019 we introduced LEAP, our development programme aimed at supervisors. The programme was piloted in Flippin, USA and Kidlington, UK in mid-2019 and will be further rolled out in 2020. The programme has a modular design and is available in multiple languages so it can be tailored to the needs of local sites. The training focuses on people leadership and interpersonal skills, covering issues such as self-awareness, managing performance, communication skills and behaviours to improve your personal effectiveness.





Disability programme in Poland

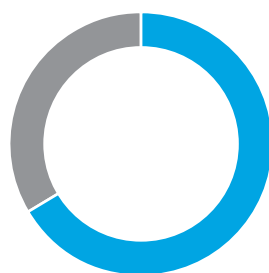
In 2017 our Packaging site in Lublin, Poland began a partnership with a local Foundation called "Heros" which helps members of the community who are excluded or facing discrimination. As part of the relationship, Essentra facilitated eight three-month internships for disabled members of the community in 2017 and 2018.

After three of these internships completed, local management decided to offer the individuals permanent roles; two in the Prepress Department and one supporting administrative processes at the Raw Material Warehouse.

By partnering with Heros, our employees and customers can see Essentra's commitment to diversity and inclusion. These efforts have also been recognised by local media as a great example of inclusive work practices.

FUNDACJA
HEROS

Gender split all employees



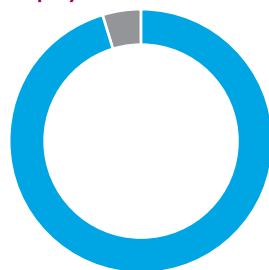
● Male: 66.5% (5024 employees)
● Female: 33.5% (2528 employees)
As at 31 December 2019.

Gender pay gap

In 2019 the focus has been on making Essentra a more inclusive place to work, which has included initiatives to improve the gender balance across the Group.

While we have seen an improvement in our gender balance versus last year, the data shows that a gender pay gap does exist and although it has not improved, it remains broadly in line with the industry average. We accept there is still more work to do and we are working to better understand the underlying issues relating to the pay gap and the actions we need to take to close it.

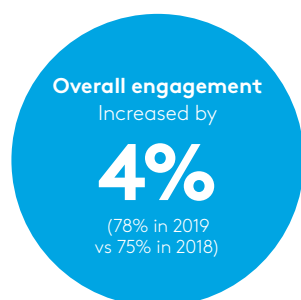
Permanent/contractor split all employees



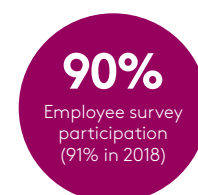
● Permanent: 95.3% (7202 employees)
● Contractors: 4.7% (350 employees)
As at 31 December 2019.

Our guiding principle is to pay colleagues according to their role not their gender, providing everyone with an equal opportunity to develop and progress. For example men and women doing the same jobs at a business unit are paid the same hourly rate. However, we believe our gender pay gap is caused by the fact that we have more men than women across all levels of the organisation, and specifically in our most senior roles. Where we have more men in hourly paid roles versus females, our male colleagues generally hold specialist roles that attract premiums, such as machine setters.

How we do business continued



“Almost eight in ten employees at Essentra are engaged; a strong score which puts us ahead of the global and manufacturing industry averages”



World-class engagement

In November we received the results of our 2019 employee survey. We saw an increase in overall engagement from 75% in 2018 to 78% and an almost ten percentage point increase from 2017 (69%). This means that almost eight in ten employees at Essentra are engaged; a strong score which puts us ahead of the global and manufacturing industry averages.

We have also maintained our market-leading participation rate, at 90% this year, which means we can again be confident that the results reflect the true voice of Essentra. Furthermore at a Group-wide level, we have improved our result against all questions in the survey; no areas have decreased.

Questions relating to respect and diversity saw a huge improvement in our 2019 employee survey which is a reflection of the work undertaken to embed the diversity and inclusion agenda throughout 2019: employees increasingly believe that Essentra actively supports diversity in the workplace, that we have created an environment where different views and perspectives are valued and that their line manager treats them with respect.

All site action plans were agreed by the end of January 2020 and regular meetings are scheduled throughout the year to track progress.

Rewarding and recognising our people

In 2019 we introduced a new approach to have employees contribute to their UK pension, which increases the take-home pay of participating employees and reduces the employer social security that Essentra pays.

Our Group-wide “Make It Work” Awards are now in their second year. The Awards reflect our Six Principles and celebrate the people who have gone above and beyond to deliver what Essentra does best: make it work. 2019 saw over double the number of nominations submitted from all divisions and many functions across the organisation. Our six winners (five individuals and one team) were announced in January 2020 and will accept their awards at a gala dinner held in the Spring.

Being an ethical employer

Essentra has established a clear commitment to ensuring that its business activities are conducted in accordance with all applicable laws and regulations. The Group Compliance Strategy is based on risk-based policy and training protocols supported by appropriate technology platforms and expert guidance and advice. Our Ethics Code is the core foundation of our Group Compliance Strategy and is issued to all employees globally and who must affirm they have received and read the policy and undertake annual training on the Code. In addition we have specific policies relating to Anti-Bribery and Corruption, Anti-Money Laundering and

Third-Party Due Diligence. These policies are made available to all employees and specifically issued for affirmation to senior leaders and others as appropriate. Further details on these policies can be found at essentraplc.com/responsibility

Our Right to Speak Policy and process is in place to enable any employee to report circumstances where they believe that the standards of the Ethics Code, or the Company’s wider policies and guidance notes, are not being upheld. We are committed to ensuring that employees feel able to raise any such concerns in good faith, without fear of victimisation or retaliation and with the support of the Company. Employees can report any concerns on a confidential basis online or by telephone.

Throughout our international operations we support and endorse human rights – as set down by the United Nations Declaration and its applicable International Labour Organisation conventions – through the active demonstration of our employment policies, our supply chain and the responsible provision of our products and services. This commitment includes a mandatory requirement on all our sites to avoid the employment of children, as well as a commitment to the prevention of slavery and human trafficking. Our operations based in India, Indonesia and Thailand are additionally accredited to SA 8000 which details fundamental principles of human rights.



A day in the life of typical Essentra employees

Cutting Operator at a Packaging site

This role is responsible for operating "guillotine" paper cutting equipment on site. This involves measuring, calculating and setting the correct programme for the equipment in order that it produces volume within a scheduled time to meet customer delivery dates.

An operator is responsible for ensuring that all products made have conformed to the following standards: ISO 9001:2008, PS 9000:2011, GMP and ISO 14001.

This role assists the Print Supervisor in ensuring that maximum outputs and efficiencies are achieved during a shift and as such a drive to achieve continuous improvements is vital. This role also needs to ensure the area, equipment and machinery are kept clean and tidy and an exceptional eye for detail is also needed.

Slitting Team Leader at our Tear Tapes site

This role is responsible for ensuring the efficient operation of a number of secondary slitting machines throughout a shift. This involves working with and communicating to members of the slitting machine team to ensure that the correct work flow is in place and that machines are operating to optimum output.

This person also needs to ensure that all health and safety practices are adhered to at all time and that quality checks are carried out in accordance with quality and standard operating procedures.

This person is expected to take an active role in the operation of the whole factory and shift, by assisting in day-to-day planning, promoting further continuous improvement and offering advice as and when required. In this role, a knowledge and understanding of ISO 9001, 14001 BRC, and OHSAS are required together with strong communication skills, self-motivation and initiative.

Maintenance Engineer at a Components site

This role is responsible for the maintenance and repair of manufacturing equipment, associated infrastructure and facilities equipment. This role operates under the direction of a Maintenance Manager, through the Lead Engineer, in order to ensure safe, timely and efficient operation of all plant machinery and equipment.

This role ensures that periodic and preventive maintenance are scheduled and undertaken and that emergency troubleshooting and maintenance support are readily provided as needed.

This role is also responsible for updating records of work activities, tasks carried out, parts used through stores and instruction passed on between shifts.

This role needs to work closely with manufacturers, suppliers and internal departments in finding ways to improve process and increase machine reliability and performance. This person needs to demonstrate problem-solving ability and be a self-starter with initiative.

Based on workforce analysis for the Chief Executive pay ratio, these are typical UK roles we see in the interquartile range (25th to 75th percentile) of remuneration.

How we do business continued

Health and safety

Essentra remains committed to achieving and maintaining the highest standards of occupational health and safety for our employees and everyone visiting our operations. The Board provides direction and leadership on all health and safety matters. The Chief Executive has primary responsibility for safety which is managed every day across the three divisions by our Operations and Health, Safety & Environment Managers and their teams. Their work is guided by the Group Health, Safety & Environment Director who, along with the Group Management Committee, regularly reviews our progress against our safety objectives and monitors performance. All incidents resulting in Lost Time are formally investigated and findings are shared throughout the business.

We continue to support the adoption of accredited Occupational Health and Safety Management Systems including ISO 45001 by our manufacturing sites. For example, in 2019 the Filters division focused on upgrading sites' OHSAS 18001 certificates to ISO 45001 standard and this activity is ongoing in 2020.

Investment in safety

During the year we continued our significant investment in safety across Essentra, both in terms of physical safety features and skills training to protect everyone at work.

In Packaging, we continued with a major machinery guarding project. As part of the project, all our global Packaging sites have completed a review process to identify areas for improvement, conducted consultations with machine operators and are in the process of completing works to improve machine guarding. A key machine at the Bangor site in Northern Ireland has received significant guard upgrades to prevent full and partial body access to the machine whilst running. This upgrade project has been identified by the UK Health and Safety Executive as an industry standard example of a recommended machine guarding upgrade project.

A "hand safe" campaign has supported the machine upgrading project in Packaging and has been well adopted by employees with a system of approved knives and gloves now being used for appropriate tasks. This has led to a significant reduction in the number of cut-related injuries in Packaging Europe and Asia; 16% from 2018 to 2019.

Year	Number of Lost Time Incidents	% change
2017	62	
2018	36	
2019	33	-8.33

NB: numbers restated due to portfolio changes. Data includes sites owned by Essentra for a full calendar year on 31 December 2019 to allow year-on-year comparisons. 2017 and 2018 data restated accordingly. An additional two LTIs occurred in sites acquired part way through the year.

Year	Number of days lost	% change
2017	1,638	
2018	987	
2019	855	-13.37

Severity rate reduced/improved by 13% from 2018 to 2019 (from 16.78 to 14.55)

NB: numbers restated for 2018 due to lost time incidents continuing on into 2019 so number of days lost continued to increase.

Safety engagement and training

In early December, we held our first global Safety Week with a focus on "slips, trips and falls". This was an opportunity to reinforce every employee's role in taking responsibility for driving improvements and embedding a safety culture throughout the business. Over 80 sites took part, with 56 improvement activities shared. This level of engagement supports our aim to drive a positive safety culture throughout the organisation.

The Visible Felt Leadership course develops employees' safety leadership skills which they can use within their everyday roles and when visiting sites across the Group. In 2019 over 150 of our managers and over 50 supervisor-level employees were trained on the course. This training reinforces the principle that safety is a foundation block of Essentra's strategy. It is also crucial in ensuring a good safety management culture throughout the organisation. After attending, managers and supervisors practise and display the safety leadership skills they have learned which creates a visible safety culture on the "shop floor". Visible safety leadership also generates opportunities for engagement between managers, supervisors and operators to hold regular safety conversations.

Our aim is to be in the top quartile of manufacturing companies for Incident Frequency Rates. We are therefore pleased to report that the number of incidents resulting in Lost Time has reduced by 8% from 36 in 2018 to 33 in 2019 and the total number of days lost due to incidents has reduced by 13% over the same period. This includes the sites owned by Essentra for a full calendar year on 31 December 2019.

Make It Work Awards 2019

At Essentra people are at the heart of what we do. Every day, employees go above and beyond to deliver what Essentra does best: make it work.

Our 2019 winner in the Respect and Diversity category was Jesline, based at our Filters division head office in Singapore. Jesline took steps beyond her duties to organise a variety of charitable events, encouraging her colleagues to take part.

Our winner in the Safety category was Andreas, based at our Components site in Nettetal, Germany. Andreas made great strides to improve the H&S environment in Nettetal and increased efficiency with cost- and waste-saving projects at the site.

Our winner in the Openness, Honesty and Integrity category was Juan, based at our Greensboro Packaging site in the USA. Juan has a high level of prepress knowledge which he happily shares across multiple sites. He steps up as a leader and takes time to hear concerns from fellow employees, finding solutions.



Sustainability

Integration of Environmental, Social and Governance (ESG) is crucial to our ability to maintain stability, deliver our strategies and ensure growth. Good management of this topic is critical to meeting the increasing expectations of all stakeholders including customers, investors, employees, as well as prospective employees.

In 2019 we further developed our sustainability strategy around four pillars: Responsible Resource Usage, Energy and Climate Change, People and Communities and Responsible Supply Chain. During the year we communicated this strategy internally under the concept of “small changes – big impact”, underlining and encouraging everyone’s role in contributing to the sustainability agenda.

Essentra’s part in a low-carbon economy

Essentra recognises that it needs to play its part within the low carbon economy. We have a rolling programme of site energy audits, leading to energy efficiency improvements, including roll-out of LED lighting at numerous sites and trials of new technologies, for example, all-electric presses in Components. We are also exploring on-site energy generation – two Filters sites use waste material to generate heat for sites and four Packaging sites are exploring solar photovoltaic projects currently. In addition, we source certified renewable energy, where possible and economic to do so.

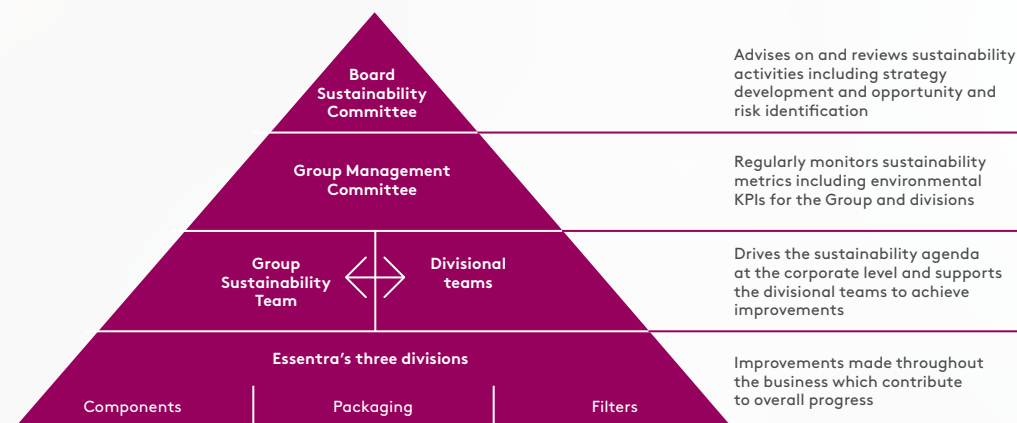
Our sustainability strategy

Responsible Resource Usage	Energy and Climate Change	People and Community	Responsible Supply Chain
Reducing our impact on the environment through waste reduction projects, driving sites to zero waste to landfill, trials of recycled and biodegradable materials and trials of “closed loop” business models in partnership with suppliers and customers	Reducing scope 1 and 2 GHG emissions via energy efficiency (e.g. roll-out of LED projects across multiple sites), on-site energy generation (e.g. biomass for heating in Filters, four sites at pilot stage for solar PV in Packaging) and procurement of certified renewable energy	Ensuring we support the communities we operate in through our community engagement policy – each site chooses and actively supports one or more local initiatives. Continued focus on improving our health and safety performance for employees and visitors	Ensuring our supply chain is robust through ongoing improvements in policies and standards including new KYS processes as part of BPR project, along with roll-out of a risk-based supplier audit programme
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	7 AFFORDABLE AND CLEAN ENERGY 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	3 GOOD HEALTH AND WELL-BEING 5 GENDER EQUALITY	8 DECENT WORK AND ECONOMIC GROWTH 10 REDUCED INEQUALITIES
13 CLIMATE ACTION 17 PARTNERSHIPS FOR THE GOALS	13 CLIMATE ACTION	8 DECENT WORK AND ECONOMIC GROWTH 10 REDUCED INEQUALITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Essentra acknowledges the important role of the Taskforce for Climate Related Financial Disclosures (“TCFD”) to improve transparency and drive improvements across industry. We have disclosed on the four areas of Governance, Strategy, Risk Management and Metrics and will endeavour to increase the level of disclosure year on year.

Sustainability governance

To further underscore the importance the Board places on this topic, the Group Sustainability Committee created in 2018 was elevated to a Board committee in 2019 and is now chaired by Ralf Wunderlich. The Board Sustainability Committee meets at least quarterly in order to input to strategy, risk management and performance.



How we do business continued

Risk management

In 2019 ESG was recognised as a Principal Risk. This encompasses the topics of waste management, Essentra's carbon footprint and corporate social responsibility issues.

Additionally, two Emerging Risks have been identified which are currently managed under the ESG Principal Risk: Single-use Plastics and Climate Change. It is important this topic is managed effectively due to the potential environmental impact, changing regulatory context and increasing public awareness of this issue. Currently, the risk that climate change poses to Essentra's global operations is managed through business continuity planning for vulnerable locations.

Defining our material issues

It is important to identify our material issues in order to focus our efforts on solutions that make the biggest difference to our footprint. We are currently finalising this process using a methodology that identifies key stakeholders including customers, industry bodies and sustainability organisations, and researches the key sustainability issues that matter to them. The key issues identified are weighted on both importance to Essentra and stakeholders and Essentra's level of influence or control over the issue. Finally, the stakeholders review the ranking to finalise the priority areas. The areas with a high business impact and high degree of control are expected to be GHG emissions, materials and waste. The material issues will be re-evaluated annually to ensure they reflect the areas of highest priority to our stakeholders.

Voluntary sustainability disclosures

Essentra is committed to reporting against voluntary external indices to increase transparency, motivate stakeholders and drive change within our business and the value chain. In 2019, Essentra maintained a silver Ecovadis rating with an improved score of 59/100, which is in the 86th percentile of all companies who completed the assessment. We are working hard to improve our CDP Disclosures, improving our score to C in both the Climate Change and Water Categories in 2019. Completing external assessments demonstrates our commitment to continuous improvement and helps us to prioritise focus areas for the next year.



Essentra's approach to Single-use Plastics

Plastics are lightweight, versatile and cost-effective materials, and when used responsibly, have their place in achieving a lower carbon society that benefits people, planet and profit. However, once used, plastic waste must be dealt with effectively, to limit its impact on the environment.

We are proactively working across all divisions to offer our customers products that serve their requirements, whilst minimising the impact on the environment.

For Filters, a key issue is end of life waste management. We are actively trialling new materials from sustainable sources, to be able to provide a biodegradable solution to the industry. Within our Tear Tapes business, we are also exploring several different material pathways, including higher recycled content and biodegradable materials, along with materials from sustainable sources.

In Components we have conducted initial trials of materials with a higher recycled content, that still meet our customers demanding technical requirements. We are also trialling alternative, biodegradable materials, alongside trials of 'closed loop' business models, to be able to recapture and re-use those materials.

Alongside our Scope 1 and 2 GHG emissions, we also consider the greenhouse gas emissions associated with materials supplied to us as well as waste created throughout the product lifecycle. These emissions are often significantly greater than the emissions from our production facilities; it is therefore important that we look for opportunities for improvement in each stage of the product lifecycle.

Environmental reporting – metrics

From 2018 to 2019 our overall, absolute Scope 1 and 2 GHG emissions decreased by 6.1%. This has been achieved through a programme of site efficiency audits and emissions reduction activities to drive improvements, such as the implementation of LED lighting projects at many sites across the Group. We have also developed additional opportunity identification approaches via an energy project run by one of our graduate teams; the roll-out of their project will continue to be implemented across the divisions in 2020 and beyond. Our emissions per £m have decreased by 1.2%.

Waste reporting has improved significantly during 2019, with increased oversight of waste destinations. Recycling, recovery and incineration have increased as we build increased awareness of the waste hierarchy. Waste sent to landfill has decreased by 39.7%. In addition, eight sites across the Group have achieved zero waste to landfill ("ZWTL") status in 2019; these sites have at least 12 months' data to confirm this.

ERM CVS has verified Essentra's environmental data in 2019. The data verified includes our energy usage and associated CO₂ equivalent emissions, waste quantities per destination and number of sites with ZWTL status.



Future Leaders Energy Project

During 2019 a team of graduates undertook a project to create an Energy Savings Playbook for Essentra to implement energy saving activities and projects. The team visited Components sites in Kidlington, UK and Flippin, USA to investigate potential energy saving opportunities in the manufacturing process and site operations.

The team identified areas for improvement that would allow sites to maximise the benefits of energy saving projects; these included

suggestions to educate employees to improve technical knowledge and behaviours around energy management. The team presented their findings to the Group Management Committee in November 2019, highlighting the cost saving and energy saving opportunities of rolling the project out across the Components division. Future plans to introduce energy saving projects across Essentra's three divisions will contribute towards cost savings for the business's and will reduce the business' Scope 1 and 2 GHG emissions.

Tonnes CO ₂ e	2019	2018 (restated*)	2017 (restated*)	% change between 2018 and 2019
Scope 1	10,264	11,245	10,738	-8.7
Scope 2	6,211	65,852	71,495	-5.7
Total	72,375	77,097	82,233	-6.1
Total CO ₂ eq per £m revenue	74.3	75.2	80.0	-1.2

Waste (tonnes) solid hazardous and non-hazardous	2019	2018 (restated*)	2017 (restated*)
Recycling	28,829.8	20,403.9	20,136.7
Recovery including incineration with energy recovery	17,612.9	2,006.6	1,865.4
Incineration without energy recovery	284.2		
Landfill	2,989.2	49,58.3	6,705.1
Percentage of waste diverted from landfill	94.0	81.9	76.6

- 1 Boundary: waste and energy data is collected for all global operations including manufacturing, warehouses, and offices. Sites included in emissions and waste reporting are those that constitute 99% of Essentra's electricity consumption within our operational control. The sites which make up the lowest 1% of electricity consumption are excluded from reporting and verification due to their consumption being immaterial. Sites sold during 2019 are not included in disclosures to allow for comparison between years.
- 2 As classified by the Greenhouse Gas Protocol, Scope 1 includes direct emissions from the combustion of fossil fuels within Essentra's operational control, the scope 1 emissions associated with refrigerant gas used in air conditioning equipment were not captured during 2019, however, the data collection methodology has been amended to capture this data in 2020. Scope 2 includes indirect emissions from purchased electricity and used by the organisation.
- 3 Emission factors: The Electricity Emissions Factors by Country published by the International Energy Agency in 2019 has been used to calculate Scope 2 emissions; and the Greenhouse Gas Protocol 2017 has been used to calculate Scope 1 emissions.
- 4 Emissions data was restated because the methodology to calculate GHG emissions was significantly updated during 2019; previously, only CO₂ was disclosed. Revenue has not been restated. Emissions and waste data have been restated due to Essentra's portfolio simplification, therefore, sites sold 12 months ago or more are excluded from all reporting years.



Financial review

Trading performance

The FY 2019 result for the Group was robust, notwithstanding the uncertainty around the global macroeconomic climate, and significant portfolio rationalisation activities that took place during the year. As disclosed in the HY 2019, in aggregate, £105m of annualised revenue and £15m trading profit were disposed during the year, which had significant impact on the year-on-year comparisons.

FY 2019 revenue decreased 5.0% (-6.5% at constant exchange) to £974.1m owing to disposals during the period: on a LFL basis, revenue decreased 0.7% (+1.5% underlying). The underlying result reflected a resilient performance in Components (given the macroeconomic conditions) and a strong performance in Packaging, offset by a decline in Filters (which was primarily driven by softer performance in China and also in markets supplied by the Middle East).

On an adjusted basis, operating profit was down 3.5% (-5.4% at constant FX) at £87.5m. The 20bps uplift in the margin

(10bps at constant FX) to 9.0% was driven by the volume gearing effect from the revenue growth in Packaging, boosted by the impact of price increases in both Components and Packaging, and further operational efficiency gains in all three divisions.

Including amortisation of acquired intangible assets of £22.9m and an exceptional pre-tax credit of £15.4m – mainly relating to net gains on the divestment of the aforementioned businesses less costs associated – operating profit as reported was £80.0m (2018: £47.2m).

Net financial expense

Net finance expense was above the prior year at £14.5m (FY 2018: £10.9m), mainly due to interest on leases from having adopted IFRS 16 together with a higher average level of sterling-denominated debt during the period (which was done as a Brexit mitigation initiative).

Tax

The effective tax rate on underlying profit before tax (before exceptional and other adjusting items) was 19.9% (2018: 19.5%).

Net income

On an adjusted basis, net income of £58.5m was down 8.9% (10.9% at constant FX) and adjusted basic earnings per share

decreased by 7.8% (-9.7% at constant FX) to 21.3p. On a total reported basis, net income of £41.2m and earnings per share of 14.7p compared to £28.1m and 9.3p respectively in FY 2018.

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 and interest accruals/capital payables”.

The decrease in net working capital, from £121.8m in 2018 to £113.8m, was largely due to business divestments, within Specialist Components, offset by increases in Components and Packaging. The average net working capital/revenue ratio was 14.3% (2018: 13.7%, at constant FX). The increase in the net working capital ratio was driven by the impact of adopting IFRS 16 (which accounted for 20bps of the overall 60bps movement), with the remainder being driven by Brexit related stock building in the Components division and an increase in working capital in the Packaging division being used to fuel business growth. The movement in trade and other payables is driven by the release and utilisation of certain accruals and deferred income.

Lily Liu
Chief Financial Officer



“Our continued focus has led to robust profit delivery, whilst maintaining a solid balance sheet, and has allowed us to both increase investment in the business and maintain the distribution to our shareholders”



Cash flow

Adjusted operating cash flow was £71.8m (2018: £77.2m). This includes an outflow of net working capital for the year of £10.3m (2018: inflow of £5.9m) and gross capital expenditure of £58.9m (2018: £61.2m), with net capital expenditure of £56.6m (2018: £60.2m). Net capital expenditure equated to 155% (2018: 168%) of the depreciation charge (including amortisation of non-acquired intangible assets) for the year of £36.4m (2018: £35.9m). Net interest paid was £13.3m (2018: £9.5m) and tax payments remained flat at £16.5m, after adjusting for exceptional tax payments on disposals. The outflow in respect of pension obligations was £1.3m (2018: outflow of £1.0m).

Adjusted free cash flow of £40.7m compared to £50.2m in FY 2018.

Free cash flow reconciliation	£m
Adjusted operating profit	87.5
Non-cash/other items	51.2
Net working capital	(10.3)
Net capital expenditure	(56.6)
Adjusted operating cash flow	71.8
Tax paid	(16.5)
Net interest paid	(13.3)
Pension obligations	(1.3)
Adjusted free cash flow	40.7

Net debt

Net debt at the end of the period was £284.4m, a £15.1m reduction from 1 January 2019 (after applying IFRS 16), primarily due to proceeds from Specialist Components disposals and free cash flow generation, partially offset by cost of strategic acquisitions, dividend payments and cash exceptional and other adjusting items. The ratio of net debt to EBITDA as at 31 December 2019 was 2.0x (31 December 2018: 2.1x) after applying IFRS 16 (1.9x before applying IFRS 16), and interest cover was 6.6x (31 December 2018: 7.9x) after applying IFRS 16.

Balance sheet

As at the end of 2019, the Company had shareholders' funds attributable to Essentra equity holders of £533.1m (2018: £592.6m). Total capital invested in the business was £919.5m (2018: £927.2m).

This finances non-current assets of £841.8m (2018: £853.3m), of which £276.0m (2018: £282.2m) is tangible fixed assets, the remainder being intangible assets, right-of-use assets, deferred tax assets, retirement benefit assets and long-term receivables.

The Company has net working capital of £113.8m (2018: £121.8m), current provisions of £3.3m (2018: £5.3m) and long-term liabilities other than borrowings of £128.3m (2018: £106.2m).

Pensions

As at 31 December 2019, the Company's IAS 19 net pension liability was £17.4m (2018: £13.9m).

The Company concluded the triennial valuation of the two closed defined benefits sections of the Essentra UK Pension Plan with the Trustees of the Plan, with a settlement of £1m to be paid in three equal payments. The first took place in December 2019, and the remaining two will be paid in June and December 2020.

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.

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 2019, Essentra's US dollar-denominated assets were approximately 46% hedged by its US dollar-denominated borrowings, and its euro-denominated assets were approximately 32% hedged by its euro-denominated borrowings.

The majority of Essentra's transactions are carried out in the functional currencies of its operations, and therefore transaction exposure is limited. However, where such exposure does occur, Essentra uses forward foreign currency contracts to hedge its exposure to movements

in exchange rates on its highly probable forecast foreign currency sales and purchases over a period of up to 18 months.

Aside from foreign exchange risk, the Group is also exposed to other types of risks, including credit risk. Please see note 19 of the Financial Statements for further details.

Refinancing activities

Essentra is primarily funded by a series of United States Private Placement (USPP) loan notes held by various investors, and a Revolving Credit Facility (RCF) provided by a group of well rated banks. An \$80m USPP loan note is due to mature in April 2020 and the remaining \$75m USPP loan notes mature between November 2024 and November 2029. The RCF is made up of two tranches, £285m and €100.8m, which both mature in November 2022. At 31 December 2019 the available bank facilities totalled £370m (2018: £375m). Furthermore, the Group also has the following facilities which become available in 2020:

- a further USPP facility for \$25m, which can be drawn from April 2020, for which the note purchase agreement has been signed in December 2019; and
- a bridging loan facility for £50m which was agreed with banks in February 2020, with an initial term of 12 months, plus a further six months at Essentra's option, and thereafter another six months at the lenders' discretion

Engagement and development of the Finance team

Having been in the role for more than a year, I am pleased to report the progress of our team development. A global Finance Leadership Team with a mix of internal and external promotions was assembled, with a focus on transforming our function to be more business and people focused. These efforts have come to fruition with an eight point increase in the whole Finance team employee engagement in 2019. Our Shared Service Centre team in the UK received a Highly Commended recognition in the British Credit Awards 2020. During the year, we also deployed new Robotic Process Automation technologies in order to improve process efficiency and engagement, whilst contributing to the Group-wide BPR programme.

Lily Liu

Chief Financial Officer
28 February 2020

Alternative Performance Measures

Management uses a number of measures of financial performance, position or cash flows of Essentra which are not defined or specified in accordance with relevant financial reporting. In management's view, these Alternative Performance Measures reflect the underlying performance of the Company and provide a more meaningful comparison of how the business is managed and measured on a periodic basis.

FY 2019 results at a glance

	FY 2019 £m	FY 2018 £m	% change Actual FX	% change Constant FX
Revenue	974	1,026	-5	-6
Adjusted operating profit	88	91	-4	-5
Adjusted pre-tax profit	73	80	-9	-10
Adjusted net income	59	64	-9	-11
Adjusted earnings per share	21.3p	23.1p	-8	-10
Dividend per share	20.7p	20.7p	-	n/a
Reported operating profit	80	47	69	66
Reported pre-tax profit	66	36	80	76
Reported net income – total	41	28	47	46

The financial information in this FY 2019 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 124 to 133.

Basis of preparation

Continuing operations

Unless otherwise stated, the FY 2019 results and narrative contained in this Annual Report reflect the revenue and adjusted operating profit of the Essentra Group on a continuing basis.

Non-GAAP measures

Throughout this FY 2019 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 2019 ("FY 2019"), see the table below. Retranslating at FY 2019 average exchange rates increases the prior year revenue and adjusted operating profit by £15.9m and £1.8m respectively.

Principal exchange rates	US\$:£	€:£
Average		
FY 2019	1.28	1.14
FY 2018	1.33	1.13
Closing		
FY 2019	1.32	1.18
FY 2018	1.28	1.12

Like-for-like basis

The term "like-for-like" describes the performance of the continuing business on a comparable basis, adjusting for the impact of acquisitions, disposals and foreign exchange. The FY 2019 LFL results are adjusted for the acquisition of Nolato Hertila ("Hertila") on 5 July 2018 until 8 February 2019 (further to which it was fully integrated into the existing Components activities in Sweden and no longer separately identifiable), the acquisition of the Innovative Components business on 26 June 2019, the acquisition of Nekicesa Packaging on 6 September 2019, the divestment of the trade and assets of the Swiftbrook paper merchant business on 3 September 2018, the divestment of the Pipe Protection Technologies business on 14 January 2019, the divestment of the Extrusion business on 11 June 2019, the divestment of the Speciality Tapes business on 28 June 2019 and finally the divestment of the Card Solutions business on 23 July 2019.

Underlying basis

The term "underlying" describes performance on a LFL basis, further adjusting for the closure of the Kilmarnock and Largo consumer packaging sites and the cessation of Speciality Tapes in Nottingham at the end of 2018.

Adjusted basis

The term "adjusted" excludes the impact of amortisation of acquired intangible assets and exceptional and other adjusting items, less any associated tax impact. In FY 2019, amortisation of acquired intangible assets was £22.9m (FY 2018: £22.7m), and there was an exceptional pre-tax credit of £15.4m (2018: charge of £20.8m). This exceptional credit mainly relates to net gains on the divestment of the aforementioned businesses less costs associated, together with the release of provisions with regard to certain site closures; along with acquisition integration costs. There was also an exceptional cost incurred in relation to an investigation involving external professional advisers, of certain Group companies' (in the Filters division) export activities within the framework of US laws, as we previously disclosed in our HY 2019 results. Further details on exceptional and other adjusting items are shown in note 2 to the Financial Statements.

Constant exchange, like-for-like and adjusted measures are provided to reflect the underlying performance of Essentra. For further details on the performance metrics used by Essentra, please refer to page 16.

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.

Cash flow

Adjusted operating cash flow is presented to exclude the impact of tax, exceptional items, interest and other items not impacting operating profit. Net capital expenditure is included in this measure as

management regards investment in operational assets as integral to the underlying cash generation capability of the Company.

Summary growth in revenue by division

% growth	Like-for-like	Acquisitions/ disposals	Foreign exchange	Total reported
Components	-1	+1	+1	+1
Packaging	+1	+1	+1	+3
Filters	-1	-	+2	+1
Specialist Components		-68	+1	-67
Total	-1	-6	+2	-5

Net income

£m	FY 2019	FY 2018
Adjusted net income	58.5	64.2
Amortisation of acquired intangible assets	(22.9)	(22.7)
Exceptional and other adjusting items	15.4	(20.8)
Exceptional tax items	-	-
Tax on adjustments	(9.8)	7.4
Profit after tax	41.2	28.1

Cash flow

£m	FY 2019	FY 2018
Operating profit – adjusted	87.5	90.7
Depreciation and amortisation of non-acquired intangible assets	47.7	35.9
Share option expense/other movements	3.5	4.9
Change in working capital	(10.3)	5.9
Net capital expenditure (excluding exceptional plant, property and equipment disposal proceeds)	(56.6)	(60.2)
Operating cash flow – adjusted	71.8	77.2
Tax	(16.5)	(16.5)
Cash outflow in respect of exceptional and other adjusting items	(34.2)	(20.8)
Pension obligations	(1.3)	(1.0)
Add back: net capital expenditure (excluding exceptional plant, property and equipment disposal proceeds)	56.6	60.2
Net cash inflow from operating activities – continuing operations	76.4	99.1
Operating cash flow – adjusted	71.8	77.2
Tax	(16.5)	(16.5)
Net interest paid	(13.3)	(9.5)
Pension obligations	(1.3)	(1.0)
Free cash flow – adjusted – continuing operations	40.7	50.2



Divisional performance

The revenue and adjusted operating profit for each division 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 134 to 136.

Risk management report

Risk management is integral to protecting and creating shareholder value.

Risk management approach

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

We have continued to make good progress in improving our risk management processes in 2019 as we move towards our objective of implementing processes in line with FTSE 250 upper quartile practice. This includes a number of initiatives to drive enhanced risk reporting and further embed risk activities to improve risk culture across the Company.

In 2019, the Board also considered Emerging Risks, with specific attention being given to those Emerging Risks considered to be of ongoing importance to the Company and its stakeholders. Particular focus was placed on assigning responsibility and accountability for Principal and Emerging Risks, particularly those risks that cut across divisions and Enabling Functions. The approach was adopted from ISO 31000 Risk Management guidelines and includes a RACI (responsible, accountable, consult and inform) matrix to drive clear responsibility and accountability.

We are committed to managing risks in a proactive and effective manner to provide assurance to the Board and our stakeholders.

Risk management framework

Our risk management framework continues to evolve in line with best practice to ensure that it supports the Company's ongoing growth and strategic objectives. A robust, but flexible, approach to the management of risk is fundamental to the continued success of the Company.

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

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

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

Roles and responsibilities of the GRC

Identify

- Establish the process for identifying and understanding key business risks
- Identify risks in each of our businesses and Enabling Functions
- Risk reviews with senior leadership
- Review Principal, Key and Emerging Risks

Assess

- Prioritise risks through agreed ranking criteria
- Risk appetite set by the Board for all Principal Risks

Control

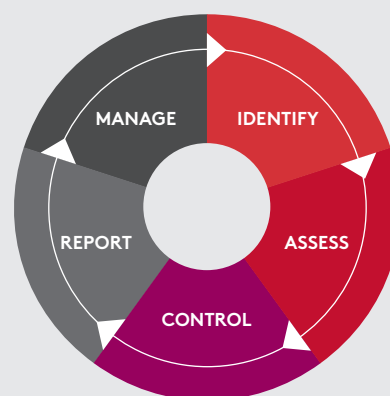
- Ownership defined
- Establish key control processes and practices
- Controls to manage the risk within appetite
- Monitor the operation of the controls

Report

- Agree and implement measurement and reporting standards
- Communicate with all stakeholders

Manage

- Review all aspects of the Company's risk profile
- Review and challenge risk management practices



The process for identifying, assessing and controlling material business risks is designed to manage, rather than eliminate.

In 2019, we updated our risk management framework to include procedures for the identification, assessment and monitoring of Emerging Risks, as required by the 2018 UK Corporate Governance Code.

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

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

Strengthening our framework

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

In 2019, we enhanced our risk reporting and GRC management processes including implementing a standard risk reporting template. An annual calendar of GRC agenda items has also been implemented and each Principal Risk is subject to an annual deep dive during each Board and GRC meeting using a standard reporting template. This has enabled consistency of risk reporting across the Company.

The Group Assurance function has engaged directly with Divisional and Enabling Functions Leadership teams on the development of their risk registers and risk reporting practices. This included conducting risk knowledge workshops, in line with ISO 31000, to drive a consistent understanding and application of risk. Each workshop included a discussion of the Board-approved rating criteria for financial and reputational impact and likelihood, to ensure that a consistent rating based on risk to the Company is applied.

Further improvements in risk management will be continued in 2020.

Risk governance structure and oversight

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

The GRC met seven times in 2019, each meeting with a full attendance. The GRC is chaired by the Chief Executive and its membership comprises the GMC members, Head of Legal, Group Head of Assurance and Head of Communications. Non-member standing attendees are the Group Health, Safety and Environment Director, the Director of Group Assurance and the Group Financial Controller. Other members of senior management are also invited to present reports on risk activities. The Chairman of the Audit and Risk Committee has a standing invite to attend all GRC meetings and receives copies of the minutes of every meeting.

Our risk governance structure

→ Direct and monitor
→ Report

Facilitators
Group Assurance
Divisional Risk Champions
Enabling Function Risk Champions

Board

Overall responsibility for assessing the Company's Principal Risks, setting risk appetite and monitoring risk management.

Group Risk Committee (GRC)

Chaired by the Chief Executive and comprised of the Group Management Committee members and other key function resources, the GRC is responsible for monitoring Principal, Key and Emerging Risks and ensuring the effectiveness of divisional and functional risk management.

Audit and Risk Committee

Responsible for reviewing the effectiveness of the Group's risk management systems and processes.

Divisional Leadership Teams

Each leadership team is responsible for ensuring their divisional risks are captured and are being effectively mitigated within business as usual processes. Risk management is a standing agenda item for leadership team meetings.

Enabling Functions Leadership Teams

Enabling Functions are responsible for identifying and mitigating risks within their own functions – applicable to Finance, Operations, IT, Human Resources and Legal, Risk and Governance.

Group Compliance Committee ("GCC")

The GCC directs and oversees the Group's implementation of compliance programs, policies and procedures required to meet legal, compliance and regulatory requirements.

Business Units

Specific business units or sites within each division are implementing their own risk registers, risk and action owners. Management are responsible for managing local level risk and reporting to the respective leadership teams.

Risk Management Report continued

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

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

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

Risk categories

The Company has considered the risks it is facing under the following four risk category headings and has identified 11 Principal Risks

External

Risks relating to the macroeconomic climate, political events, competitive pressures or regulatory issues

Operational

Risks that could impact day-to-day operations and prevent business as usual activities

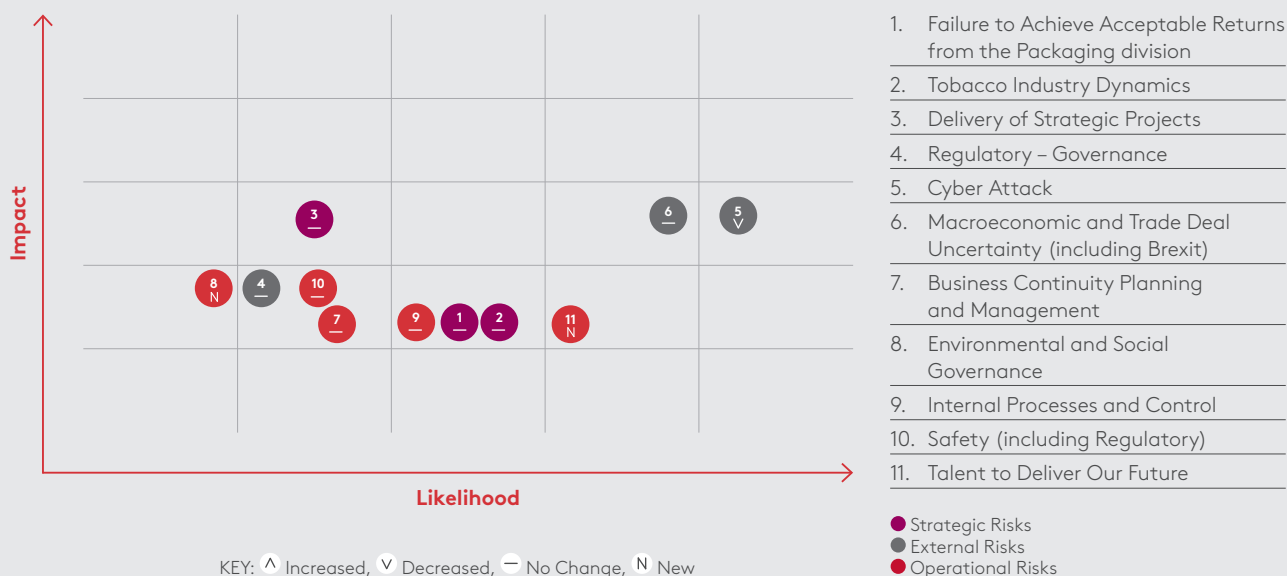
Strategic

Internal risks that may impede achievement of strategic goals

Disruptive

Risks that could impact the business model or viability of the Company. Although key disruptive risks have been identified and mitigated by the Company, none of them are considered to be Principal Risks currently

Principal Risks



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

Principal Risks

The GRC has responsibility for overseeing Essentra's Principal Risks. A top-down and a bottom-up assessment is undertaken to identify our Principal Risks. The assessment is performed against the four risk categories.

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

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

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

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

In addition to the Principal Risks, Key Risks and Emerging Risks have been identified and are being monitored by the Company. Mitigation actions in response to such risks are an important part of the Divisional and Enabling Functions risk reporting to the GRC and Board.

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

Key changes in the year

Following the 2019 review process, our risk profile remains stable, with the following key changes.

Two new Principal Risks have been identified:

- **Talent to Deliver Our Future** captures the risk that Essentra may fail to attract and retain the required management and leadership skills necessary to evolve our business, develop the culture and meet future customer needs. This risk has been introduced given our strategic growth objective
- **Environmental and Social Governance** risk reflects expectations of increasing environmental and social governance obligations, leading to reputational risk for the Group.

This includes risk arising from changing investor attitudes impacting ability to secure funding from investors and social attitudes towards the health and environmental impact of our products

Two 2018 Principal Risks have been downgraded to Key Risks for 2019:

- **Product Liability** – following improvements achieved in performance in quality faults and critical complaints. These metrics are regularly reviewed at Divisional and Group level
- **IT Systems – Stability and Reliability** risk due to a reduction in major incidents following significant investments in our IT infrastructure

To make this evaluation, the estimated financial impact of each Principal Risk crystallising was considered. The Board and GRC assessed the potential impact on the Company's viability, based on selected severe plausible risk scenarios. These were developed in conjunction with senior management. The Principal Risks that were considered to have a potentially significant impact on the Company's viability are included in the Long-Term Viability Statement from page 115 to 116.

Risk Management Report continued

Emerging Risks

We define Emerging Risk as a changing risk or a novel combination of risks for which there is no track record or previous experience by which the impact, likelihood or costs can be understood. Its potential impact is viewed as being two years or more in the future.

We strongly believe that identification and appropriate challenge to the management and mitigation of Emerging Risks is critical to our long-term success.

Emerging Risks have the potential to increase in significance and affect the performance of the Company and as such are continually monitored through our existing risk management

processes described on page 34. Our risk management process ensures Emerging Risks are identified and aids the GRC and the Board's assessment of whether the Company is adequately prepared for the potential opportunities and threats they present. The process enables new and changing risks to be identified at an early stage so we can analyse them thoroughly and assess any potential exposure.

We undertake a top-down and a bottom-up assessment to identify Emerging Risks. Risk management workshops for Divisional and Enabling Functions Leadership teams were facilitated by the Group Assurance function this year, to provide a bottom-up view of Emerging Risks. These workshops include discussion of potential Emerging Risks based on externally sourced Emerging Risk data. The Company's potential

exposure is assessed against the Board's approved risk measurement criteria. The process enables new and changing risks to be identified at an early stage so we can analyse them thoroughly and assess potential exposure.

The preliminary view on Emerging Risks were consolidated and discussed by the GRC to reach a consensus regarding Emerging Risks that can seriously affect the performance, future prospects or reputation of Essentra. The outputs from the GRC assessments were presented to the Board for approval along with the recommendation to develop appropriate response strategies.

We have created a list of Emerging Risks to be reviewed on a regular basis at the GRC and Board level.

Emerging Risks

Emerging Risk	Owner	Risk description
Climate change	Group Operations Director	The risk that Essentra fails to anticipate the impact of climate change including the consequential increase in frequency and severity of natural disasters. This includes consideration to the impact of climate change on global operations through forward-looking consideration of business continuity risks in vulnerable locations. These considerations need to be built into our Mergers and Acquisitions strategy.
Geopolitical change	Group Operations Director	As a global company, Essentra will be exposed to geopolitical changes that impact on patterns of trade and the movement of labour and capital. A trend towards protectionism, regionalism and a rebalancing from West to East creates risks and opportunities that Essentra will need to manage and exploit.
Regulatory change	Company Secretary and General Counsel	Essentra is a global company that must comply with regulatory requirements in many countries. Regulation is increasing worldwide and may potentially impact our products, operations, workforce and relationships with suppliers, customers and stakeholders. The Company continues to be alert to longer-term regulatory developments including those related to single-use plastics and tobacco-related and tobacco-alternative products.
Technology disruptors	Chief Information Officer	The risk that Essentra does not manage its response to evolving technologies effectively. This may include losing competitive advantage as rivals deploy advanced manufacturing technologies, artificial intelligence and robotics to strengthen product development, marketing, production, distribution and support functions.

The GRC and the Board have undertaken a rigorous assessment of Emerging Risks during 2019 and have established procedures to closely monitor Emerging Risks on an ongoing basis including:

- the GRC's terms of reference require it to review the Group's ability to identify Emerging Risks
- Emerging Risks is a standing agenda item at each GRC meeting and each Emerging Risk will be subject to a deep dive
- external specialist input will be sought where required
- identified Emerging Risks have been assigned an owner who is both a GRC and GMC member. The Emerging Risk owner is responsible for providing an update on the development of Emerging Risks at each meeting

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

N New
 — No change
 ▲ Increased
 ▼ Decreased

Strategic Risk

Failure to Achieve Acceptable Returns from the Packaging Division



Change in risk level:
Unchanged

Ownership:
Packaging Division
Managing Director

Relevance
Company specific

Description

The potential for a decline in returns from the Packaging division, and a failure of the division to deliver new business wins and expected cost savings within the timelines of the turnaround plan, have been reported as a Principal Risk since 2017.

It was reported in 2018 that the division's performance had stabilised and the focus for 2019 was on ensuring that actions taken were effective and sustained.

The Packaging division reported revenue growth and margin improvement for 2019 in line with the strategy and plan.

In addition, the acquisition of Nekicesa Packaging, a leading converter of folding cartons that supplies the pharmaceutical end-market in Spain, provides a revenue-enhancing addition to the business. The level of risk to the Company has remained the same.

This risk includes the potential of the Packaging business failing to deliver new business wins, expected cost savings or acceptable returns.

Mitigation

This Principal Risk is addressed annually with the development of the business strategy and plan. Both strategy and plan reflect this risk, and key initiatives are developed to further improve business performance, with a target of achieving industry average margins by 2021.

Key initiatives for 2019 included:

- driving cost savings through operational continuous improvement projects at each manufacturing site, efficiency improvements through investment in new equipment, procurement initiatives and overhead cost savings
- achieving profitable revenue growth with a focus on key and global customer account management
- delivering on key customer performance metrics of quality, On-Time-In-Full, manufacturing lead times, safety and supply chain efficiency

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

Strategic Risk

Tobacco Industry Dynamics



Change in risk level:
Unchanged

Ownership:
Filters Division
Managing Director

Relevance
Company specific

Description

The Filters division supplies filter products and packaging solutions to manufacturers in the tobacco industry. Changes in the traditional tobacco market present both opportunities and risks for the division.

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

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

There is an increasing trend towards more legislation restricting smoking prevalence and also related to more sustainable products and practices (eg EU Single-use Plastics Directive).

The change in global consumption and end markets for our products increasingly requires increased oversight of where our products are used and a robust regulatory framework.

2019 saw significant negative publicity with regard to the use and health effects of e-cigarettes. Growth in this sector slowed and further cost pressures were placed on customers as a result.

Tobacco-related litigation could also affect Essentra, although there is no history of the Company being involved in such a claim.

A number of initiatives are targeted to be completed in 2020 which are anticipated to minimise the risk over time. The level of risk to the Company has remained the same.

Mitigation

Essentra is seeking to mitigate the risk associated with changes in the tobacco market dynamics by focusing on activities with longer-term viability and exploiting potential growth opportunities. This includes progressing on our "game changers" and increasing our innovation capabilities.

Key 2019 mitigating actions include:

- completion of China JV agreement for both a production facility and a development centre
- a significant outsourcing contract has been secured with a multinational company partner
- four product patent applications have been filed for NGP products
- operational KPIs continue to improve to ensure our customers get the best possible service
- implementation of key account management has provided a deeper insight into customer needs
- rationalisation of Filters innovations teams and processes has allowed increased focus on delivery of strategic initiatives
- successful integration of Tear Tapes business allowing tobacco category approach and diversifying revenue stream

Strategic Risk

Delivery of Strategic Projects



Change in risk level:
Unchanged

Ownership:
Strategy and
Commercial Director

Relevance
Company specific

Description

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

Mitigation

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

- day-to-day project management using a standard project management methodology
- ongoing tracking of key projects by a Group Project Management ("PMO") function to monitor and control major strategic programmes, investments and capital expenditure projects
- interventions, as required, by Group PMO, to initiate, course correct and undertake remedial actions on programmes and projects
- review and approval of key, strategic projects by Board and GMC, as appropriate
- robust governance, detailed reporting and regular reviews by GMC and Board of project KPIs and key milestones
- use of external advisers to provide expertise, assistance and rigorous due diligence, as appropriate
- an annual strategic review is in place with the Board and the GMC where we proactively monitor the market, review our strategy and our strategic programmes. This process is led by the Strategy and Commercial Director
- acquisition pipeline management to identify suitable acquisition targets with best value-creation potential
- post-investment/project reviews to identify key learnings to embed into future initiatives
- maintain strong focus on the capability of our employees. This is achieved by mobilising teams which possess the right skills to deliver our strategic programmes

External Risk

Regulatory – Governance



Change in risk level:
Unchanged

Ownership:
Company Secretary
and General Counsel

Relevance
Industry general

Description

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

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

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

Mitigation

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

- a "tone from the top" from the Board and GMC on the importance of ethics and compliance
- strengthening of internal resources and continued investment to drive better governance
- the Company's Legal, Risk and Governance team continuously monitors changes in regulations and emerging good practice. This team is responsible for enacting an appropriate compliance framework with effective policies, processes and reporting. Each division is responsible for embedding regulatory compliance in their particular sector
- through the Company's compliance programme (including employee training), we aim to conform with all applicable laws and regulations, and encourage a culture of transparency, integrity and respect
- a Right to Speak process in which the Chief Executive, Company Secretary and General Counsel, and Group Human Resources Director are key stakeholders
- the establishment of a Group Compliance Committee that will direct and oversee the Group's implementation of compliance programs, policies and procedures required to meet legal, compliance and regulatory requirements

External Risk

Cyber Attack



Change in risk level:
Decreased

Ownership:
Chief Information
Officer

Relevance
Industry general

Description

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

The risk of cyber attack is ever-present due to the external threat landscape. The Company had one significant incident in February 2019 when one of our sites experienced an outbreak of malware. We were able to restore operations over a 72-hour period and avoid any loss of data.

Cyber attacks are treated as normal course of business and the Company continues to invest in cyber security monitoring and protection capabilities.

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

The potential impact of this risk has reduced as a result of investments in our cyber defences.

Mitigation

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

- endpoint protection, encryption of data, identity-based access control, network firewalls, web and email content protection
- cyber security awareness training for all employees
- vulnerability and penetration testing for all external facing Company services and websites
- scanning, monitoring and logging tools to identify intrusions and detect rogue data traffic
- internal cyber security teams, complemented by external cyber security services

In 2019 the Company achieved accreditation with Cyber Essentials Plus and ISO 27001. It also established a Crisis Communication Network which will conduct a cyber attack simulation in 2020.

External Risk

Macroeconomic and Trade Deal Uncertainty (including Brexit)



Change in risk level:
Unchanged

Ownership:
Group Operations
Director

Relevance
Industry general

Description

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

The UK left the European Union ("EU") on 31 January 2020 and entered a transition period until 31 December 2020. During the transition period the UK will continue to be bound by EU laws and regulations. Beyond that date there is no certainty on what the future relationship between the UK and the EU will be.

The ongoing Brexit situation could impact the Company due to raw materials and finished goods flows across the EU-UK border. The key risks here are the imposition of potential duties or customs costs linked to these flows and the associated potential supply chain disruptions. The potential impact of Brexit appears to be reducing, but has been analysed and estimated as part of the Company's viability modelling.

More broadly, as a global business, our international trade flows expose the Group to tariffs, duties or quotas imposed through trade sanctions and also to macroeconomic effects due to regional or global industrial output changes.

The level of risk to the Company has remained the same.

Mitigation

Essentra has an international customer base which dilutes the effect of downturns in specific geographies. The economic environment is constantly monitored as part of our business planning cycle and budgeting, enabling a degree of forward planning in the event of a period of economic instability. This is performed in close co-ordination with each division to pinpoint trends likely to impact our individual business activities.

The annual budgets that result from the planning process are a control, against which monthly results are monitored, surfacing any effects of economic instability and informing commercial decision-making. Movements in currency can have positive and negative impacts on the Company's reported earnings. This is managed through proactive hedging of currency measures.

The Board also considers potential impacts of specific macroeconomic events, including the UK's decision to leave the EU. The breadth of the Company's portfolio and its diversification across markets, geographies and products provides some natural mitigations of potential impacts.

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

Brexit uncertainty

Throughout 2018 and 2019, the Company conducted a thorough review of Brexit risks and implemented a series of changes to minimise raw material and finished product flows across the EU-UK border, and to mitigate the associated risks including supply chain disruption. We continue to monitor the situation post the recent UK election, and are continuing activity in this space, including asset/footprint changes, optimisation of material flows, identification of alternative raw material supply sources and putting Authorised Economic Operator status in place.

Operational Risk

Business Continuity Planning and Management



Change in risk level:
Unchanged

Ownership:
Group Operations
Director

Relevance:
Industry general

Description

The continuity of our supply chain is a critical factor in serving our customers, who expect us to have a resilient supply chain to minimise the impact of any disruption.

Our supply chains can be complex and global in nature. Our global footprint exposes us to a broader set of potential disruption risks including natural catastrophe, than more focused companies. However, this global footprint also provides risk diversification, via alternative manufacturing routes.

The Group experienced limited employee impact and operational disruption through operational-related business continuity issues, during 2019. Should future events occur, this could impact production capability, fixed assets, supply chain management, customer relationships, reputation, revenue and profit. Such events continue to be a risk to the normal operation of the Company. The level of risk remains the same.

Mitigation

The Group continues to review and refresh its business continuity management and planning frameworks and processes, including a current and ongoing deep-dive review.

Other mitigating factors that the Company has in place are:

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

Operational Risk

Talent to Deliver Our Future



Change in risk level:
New

Ownership:
Group Human
Resources Director

Relevance
Industry general

Description

Failure to attract and retain the required management and leadership skills necessary to evolve our business, develop the culture and meet future customer needs. The talent market is changing and is less favourable towards the manufacturing sector. Our ability to attract candidates is becoming more challenging, as is the ability to retain key talent given the wider range of market opportunities available. This is a new Principal Risk for 2020.

Mitigation

A more refined people strategy has been launched and will underpin the approach to enhance the employee experience and drive the changes needed.

A newly appointed Talent Acquisition Director will focus on articulating the employee value proposition and approach to the external market.

Talent mapping and succession planning will be implemented with a full organisational wide half yearly review.

Communication with employees, and potential employees, is seen as critical and the communication team will be strengthened to enhance the Company profile and communication channels.

People risk mitigation plans are in place throughout the Group, supported by the GMC.

Operational Risk

Internal Processes and Control



Change in risk level:
Unchanged

Ownership:
Chief Financial
Officer

Relevance
Company specific

Description

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

During 2019, we continued the initiatives to reduce this risk with further work planned in 2020.

Mitigation

During 2019, Minimum Control Standards ("MCS") continued to be rolled out across various sites in the Company, establishing a consistent minimum standard of financial controls across the Group. A total of 50 sites now have had the MCS roll-out, which account for approximately 80% of Group revenue.

MCS implementation action plans were continually assessed and tracked through the course of the year. The primary responsibility for site roll-outs and embedding of MCS moved from Group Assurance to divisional management, and the central co-ordination role is now held by Group Finance.

Furthermore, Group Assurance audit procedures were carried out to assess performance of internal controls and the effectiveness of the MCS roll-out. Group Finance performed a separate layer of independent testing to further evaluate the effectiveness of implementation thus far.

While the Group recognises that further work is needed in order to fully embed standard controls and processes across all sites, benefits of MCS can already be seen taking effect within the Group. The project has been conducted in close collaboration with other wider business initiatives, such as Business Process Redesign.

Plans for 2020 focus on concluding MCS roll-out workshops across all remaining sites, as well as the implementation of self-assessment testing and certification, which establishes and enforces accountability for effectiveness of the controls at the relevant management level (site and divisional). The Group will continue to focus on embedment of the MCS framework to maintain a robust internal control framework.

Operational Risk

Safety (including Regulatory)



Change in risk level:
Unchanged

Ownership:
Group Operations
Director

Relevance
Industry general

Description

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

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

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

Mitigation

Throughout 2019, the "tone from the top" on safety has continued to reinforce across all of the businesses. Management teams have been instructed to give a high priority to establishing appropriate Safety Management Systems and reinforcing the desired behaviours by all who are employed by the Company.

Some of the key mitigations which are in place include:

- regular reporting to the GMC, GRC and the Board on Health, Safety and Environment ("HSE") related matters
- a Group HSE policy is in place detailing required standards, governance, roles and responsibilities at all sites
- performance monitoring and Health and Safety Audits, incorporating reporting and escalation arrangements to ensure all actions are closed
- root cause analysis is conducted for any issues identified through investigation of serious incidents, including Near Misses and "Stop, Think, Examine, Proceed" ("STEP") programme

- our Global STEP programme, which is a hazard identification and process improvement initiative. This empowers the entire workforce to recognise and address opportunities with corrective actions assigned clear owners for completion within 48 hours
- focused HSE events throughout the year to highlight particular risks and help keep safety at the forefront of our minds. In 2020, we will continue with the above work, supplemented by Group-wide campaigns on high-priority safety areas (eg Slips, Trips & Falls, Lock Out Tag Out)

Operational Risk

Environmental, Social and Governance



Change in risk level:
New

Ownership:
Group Operations
Director

Relevance
Industry general

Description

Environmental, Social and Governance ("ESG") issues are becoming increasingly important for all companies, including the Group.

Failure to meet stakeholder expectations on increasing environmental and/or social governance obligations could lead to reputational risk for the Group. This includes risks arising from changing investor attitudes, impacting our ability to secure funding from investors, and also social attitudes towards the health and environmental impact of our products which may impact on our ability to market them.

ESG is a new Principal Risk for 2020, having been monitored throughout 2019.

Mitigation

ESG issues are becoming increasingly relevant for the Group, including exposure to tobacco-related products, potential changes in regulation related to single-use plastics, climate change and other issues.

Recognising this, the Group has recently instigated a Board Sustainability Committee, chaired by a Non-Executive Director, and including membership from Board, GMC and across the Company. The role of this Committee is to:

- review and assess the Group's exposure to ESG-related issues
- assess the Group's responses to these issues
- understand whether these responses are consistent with the risk appetite of the Group
- identify potential gaps in approach and high-level approaches to closing those gaps

The Board Sustainability Committee's recommendations will link into and inform the work of GMC, the divisions and the Enabling Functions, to reduce risk exposure, appropriately.





Operational review

Components	50
Packaging	54
Filters	58



Similar

"Essentra Components' flexibility and capability to deliver the same day means we are able to support the ongoing demands from our customers, hassle-free."

Mathijs Kox
Director Bax Metaal

Quick thinking for customers

Based in the Netherlands, Bax Metaal is at the forefront in technologies that enable it to produce custom solutions in composite sheet metal and tubular constructions.

Tasked with creating frames for a new box spring bed, it needed to efficiently procure levelling feet with a plastic insert and bumper for an all-round cost-effective solution.

Bax Metaal turned to Essentra Components for support and expertise, and after extensive discussions with the technical sales experts, we provided free samples to support the assembly of the prototypes.

With Bax Metaal's tight deadline in mind, Essentra Components identified standard solutions from the product range: a threaded insert, an adjustable foot and a bumper with required hardness and specific dimensions. This solution provided Bax Metaal with the perfect solution within its time frame, without additional expense.

Components: Delivering hassle-free service

Revenue

£283.3m

(2018: £279.8m)

Adjusted operating profit¹

£60.3m

(2018: £61.0m)

Adjusted operating margin¹

21.3%

(2018: 21.8%)

¹ Excluding amortisation of acquired intangible assets and exceptional and other adjusting items.



Scott Fawcett
Managing Director
Components

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

Who we are and what we do

We make and distribute small industrial components from plastic and metal that are used in industrial and consumer equipment.

Our components serve a very broad and fragmented industrial manufacturing market. Typically B2B manufacturers, our core markets range from data cabinet manufacturers and telecoms base station producers to automotive tier suppliers and domestic appliance manufacturers.

Uniquely we combine the range and service of a distributor with the expertise and flexibility of a manufacturer. This brings the customer a hassle-free experience when buying components that are relatively low in cost but have a high propensity to cause disruption if there is a problem with either delivery or quality.

Operational review: Components continued

2019 reflections

In 2019 we made significant steps towards delivering our strategy. During the year we launched our new web platform in ten countries and will continue the roll-out through 2020. This new platform is built on the latest flexible technology that enables us to sustainably compete in an ever-more demanding and rapidly changing digital market. This platform has given us the stage on which to promote our expanding range of products that have both been organically introduced and added from the acquisition of Innovative Components.

Further improving service levels through our supply chain, we have opened a new distribution hub in Houston, Texas which enables us to reach more South/Southwestern states in our target delivery time. We have launched two new training centres in China and the USA to ensure that our teams build on their expertise in our full product portfolio.

Financial performance

Revenue increased 1.3% (0.7% at constant exchange) to £283.3m. Adjusting for the acquisition of Innovative Components on 26 June 2019 like-for-like revenue declined 0.6%.

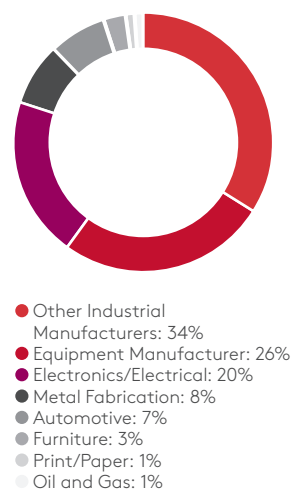
The challenging macro environment saw weakening markets throughout the year, with Global PMI under 50 for six months, especially affecting Europe.

Access Hardware continues to grow with all regions seeing double-digit growth. The emergence of new technologies such as charging stations and 5G infrastructure continue to provide good opportunity for further growth in the market. We are leveraging our customer base across other product lines to gain market share by cross-selling this range.

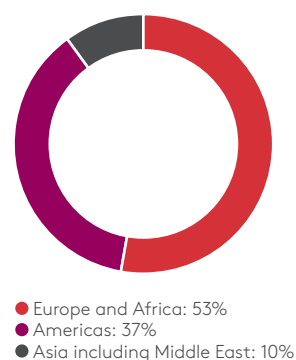
PCB Hardware sales were down in the period, linked to the electronics market declines. Cable management products which serve a broader range of industries performed better. Caps and plugs (general protection) suffered a decline, being driven by exposure to automotive markets in particular. Fastener sales were better than prior year, bolstered by good performance from the Micro Plastics acquisition.

Adjusted operating profit decreased 1.1% to £60.3m (at constant FX), equating to a margin of 21.3%. This 40bps dilution reflected the aforementioned volume impact of a softer macro environment along with the dilutive impact of acquired and reintegrated businesses, partially being offset by successful pricing management. On a like-for-like basis, excluding the Reid Supply business transfer, OP margin is broadly flat with prior year.

Revenue by segment



Revenue by destination



Our markets



Automotive



Equipment Manufacturing



Fabrication



Electronics



Construction



Oil and Gas

Retail POP/
Paper and Board

Market trends and dynamics

Trends in the automotive market and electronics markets have had an adverse impact on our business during 2019. Global manufacturing PMI ended 2019 at 50.1 versus 51.5 at the end of 2018, with major drops in the Eurozone and UK.

We expect that the automotive market is likely to remain depressed in 2020 and although there are some signs of optimism within the electronics sector, we remain cautious.

Our business strategy is focused on driving sales on a broad base of mid-sized manufacturers and this has the benefit of developing a resilient customer base but also provides us

good exposure to some of the faster growing emerging industries such as electric vehicle charging stations, power storage, LED lighting and 5G infrastructure projects.

We continue to focus our commercial efforts in these faster growing segments across all geographies.

Acquisition of Innovative Components

Headquartered in Chicago, USA, Innovative Components is a leading manufacturer and distributor of knobs, pins and handles in North America for a broad range of end-markets. With production capability in Chicago and Costa Rica, the company blends cost-effective production with the flexibility to produce rapidly in the USA.

The acquisition in June 2019 has built on Essentra Components' product offering in the USA, providing range opportunities in Europe and Asia and adding manufacturing capability in Costa Rica. Their product range combined with our customer base provides an opportunity for growth through cross-selling, a key part of our strategy and fundamental to us achieving market share gain.

Following on from the acquisition of Micro Plastics and Hertila, this transaction is another great example of our Components strategy in action, and what it means to have a focus on distinct product categories in an industry that is very fragmented.

2020 priorities

- Continue to deploy our new web platform across all our global businesses to enhance lead and customer acquisition
- Complete the development and commence roll-out of the new Business Process Redesign (ERP & CRM) platform
- Enable the commercial teams to cross-sell through sales effectiveness and product application expertise programmes
- Further improve service levels with the launch of new warehouse in Germany
- Develop the acquisition pipeline further with a view to addressing product and market adjacencies as potential areas for future expansion
- Continue to invest in our talent through both recruitment and development programmes to support the delivery of our strategy



What we measure

81K

(2018: 85K)

Active customers

Why we measure it

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

How we have done

Reduction from 85K to 81K, as we continue to focus on mid-sized customers

41

(2018: 30)

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

Launched a new website in ten countries and introduced a number of hassle-free projects aiming to improve the customer experience

94.3

(2018: 92.4%)

On Time and In Full

Why we measure it

Demonstrates the ability to meet delivery demand

How we have done

Continued the roll-out of our Demand Planning software platform in Asia and Americas, improvements in warehouse processes. New Hub warehouse launched in Houston

13

(2018: 4)

Lost Time Incidents

Why we measure it

Indicates our overriding commitment to health, safety and welfare in the workplace

How we have done

Unfortunately we had an increase in LTIs driven by newly acquired businesses. We've now increased our focus on health and safety culture improvements as part of our post merger integration plans

* Figures above exclude Reid

Whenever a pharma company gets official FDA approval on a new drug, speed of getting that product to market is critical, not least for the patients desperately waiting for these new drugs to help their conditions.

Critical help to patients faster

Not that many years ago, the typical time from FDA approval to getting a drug into a patient's hands took up to eight weeks. Essentra has developed a reputation at being the best in class in supporting drug launches and through collaborative efforts customers are now able to get a product into the market in under 72 hours.

In 2019 a major global pharmaceutical customer was launching a revolutionary drug therapy that can be truly life-saving to its patients around the world. To support the launch, after close planning and coordination with Essentra prior to FDA approval, our customer's supply chain team stayed at our site in Puerto Rico so that they could immediately approve first production following FDA approval. That approval came at 2 AM on a Tuesday morning and less than seven hours later, we were shipping first production to our customer, allowing them to hit the market in record time and most importantly, providing a new life-saving therapy option to patients in need.

In 2019 we supported more than 500 pharmaceutical launches globally.