

Essentra Components Limited

Strategic report, Directors' report and financial statements

Registered number 547495

31 December 2019



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Strategic report

Principal activities and business review

The Company is a wholly owned subsidiary of Essentra plc and its principal activity during the year was the supply of plastic technology products to domestic and international markets.

During the current financial year, revenue fell by 6% mainly caused by the sale of Essentra Security ("Security") business to Barcodes Inc on 23 July 2019. Excluding the Security business the Company saw revenue fall modestly by 1.8%.

The Company's net asset position has decreased during the year to £65,436,000 (2018: £102,739,000) primarily driven by the dividend paid during the year offset by the profit generated by the business.

The activities of the Company are in line with the operational strategy of Essentra plc, of which Essentra Components Limited is a subsidiary in the Components Division. Further details of Essentra plc's Group and Component Solutions Division strategy can be found in the Group Business Review and Components Division Business Review on pages 51 to 53 and 2 to 19 of the Strategic Report of the Essentra plc Annual Report 2019. The Essentra plc Annual Report 2019 does not form part of this report, but is referred to where relevant for the purposes of this report.

Principal business risks and uncertainties

The principal business risks and uncertainties of the Company are integrated with the principal business risks of the Essentra Group and are not managed separately. The principal business risks and uncertainties of the Essentra Group, which include those of the Company, are discussed on pages 34 to 48 of the Essentra plc Annual Report 2019.

The principal risks faced by the Company are of a Financial nature due to its principal activities. The Company is exposed to interest rate risk, price risk and liquidity risks.

Financial risk management

The Company's ultimate parent during the year, Essentra plc, managed the interest rate, price and liquidity risks associated with the whole group, details of which can be found in the financial risk management disclosure note on pages 158 to 163 of the Essentra plc Annual Report 2019.

Brexit uncertainty

Throughout 2018 and 2019, the Company conducted a thorough review of Brexit risks and implemented a series of changes to minimise the raw material and finished product flows across the EU-UK border, and to mitigate the associated risks including supply chain disruption. The company continues to monitor the situation post the UK election in December 2019, 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.

Key performance indicators

During the year, the Directors of Essentra plc managed the Group's operations on a Group, and Divisional basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company.

Environment

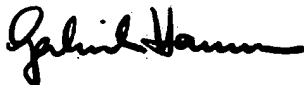
The Company is committed to continuous improvement in its environmental performance and applies a structured approach to monitoring its environmental impact through a number of different processes, details of which can be found in the Corporate Responsibility Report of the Essentra plc Annual Report 2019 on pages 27 to 29.

Strategic report (continued)

Health and safety

The Company's overriding commitment in the workplace is to the health and safety of its employees and all those who visit the Company's operations. On page 26 of the Essentra plc Annual Report 2019 are further details of the health and safety policies in place across the Group and in the Company.

On behalf of the board



G Hannen
Director

13.10.2020

Registered Office:
Avebury House
201-249 Avebury Boulevard
Milton Keynes
MK9 1AU

Directors' report

for the year ended 31 December 2019

The Directors present their Directors' report and the audited financial statements for the year ended 31 December 2019. The Company has chosen, in accordance with section 414 C (11) of the Companies Act 2006, to include such matters of strategic importance to the Company in the Strategic Report which would otherwise be required to be disclosed in the Directors' Report.

Results and dividends

The profit for the financial year was £23,802,000 (2018: £26,171,000).

A dividend of £60,000,000 was paid during the current year (2018: £nil). No further dividends are currently being proposed.

Stakeholder engagement

Section 172 of the Companies Act requires the directors to have regard (amongst other matters) to:

- The likely consequences of any decision in the long term;
- The interests of the Company's employees;
- The need to foster the Company's business relationships with suppliers, customers and others;
- The impact of the Company's operations on the community and environment;
- The desirability of the Company maintaining a reputation for high standards of business conduct; and
- The need to act fairly between members of the Company.

The long-term success of the company is predicated on the daily commitment of our workforce to the purpose and values of the company (Six Principles). These six principles being; (1) A winning, engaged team, (2) Freedom to operate, (3) Delivery, (4) Openness, honesty and integrity, (5) Safety, respect and diversity, and (6) Energy for change. The company engages with its employees regularly and has developed a people strategy which seeks to create an environment in which employees are happy at work and that best supports their well-being. Further details of workforce engagement activities can be found in the Board engagement with employees section of the Corporate Governance Report of the Essentra plc Annual Report 2019 on pages 76 and 77.

Local suppliers are engaged through working group initiatives that are run by regional management. The Companies code of conduct and Modern Slavery Statement is shared with all key and new suppliers. Procurement runs a supplier development program with all key suppliers.

The company has invested in key account management structures across the business to manage relationships with customers. This ensures that the most appropriate services are provided for individual accounts.

Throughout the operations of the business, the company supports and endorses human rights through the active demonstration of employment policies, supply chain and the responsible provision of products and services. This commitment includes a mandatory requirement that all sites avoid the employment of children, as well as a commitment to the prevention of slavery and human trafficking.

Policy and practice on payment of creditors

The Company is responsible for agreeing the terms and conditions under which business transactions with its suppliers are conducted. It is the Company's policy that payments to suppliers are made in accordance with those terms, providing that suppliers also comply with all relevant terms and conditions.

Directors

The Directors who held office during the year and up to the date of this report were as follows:

S Fawcett	
G Hannen	(appointed 16 August 2019)
A Mohiuddin	(resigned 16 August 2019)
D Goode	(resigned 1 January 2019)

Directors' report

for the year ended 31 December 2019 (continued)

Employees

Essentra employees are a vital resource in the pursuit of operational excellence and the provision of quality products and service to its customers. Employees are encouraged to get involved with the Company's performance through employee share schemes and other means. The Company uses various communication channels to bring the financial and economic factors effecting performance to the attention of its employees. Further details of employee programmes and policies, including gender diversity, and share schemes can be found in the Strategic Report of the Essentra plc Annual Report 2019 on pages 20 to 25.

The Company is fully aware of and takes seriously its responsibilities to keep all employees informed of all matters of concern to them and to consult them so that their views can be considered when making decisions likely to affect their interests. To this end the Company has procedural arrangements with recognised trade unions for the regular consultation and negotiation of matters concerning their members' interests. Regular meetings are also held with employees, at which Company performance and other matters related to its activities are discussed. Each employee is also issued with a handbook which details the Company's personnel and employment policies.

Throughout its activities the Company supports human rights as set down by the United Nations Declaration and its International Labour Organisation conventions.

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and appropriate training arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of a person who is fortunate enough not to suffer from a disability.

COVID-19

Since the outbreak of the Covid-19 pandemic, regular reviews have been held by the Board and executive management of Essentra plc to closely monitor and manage the Group's business and liquidity position. The experience since the outbreak to date provides a good basis for the Board to consider and assess the impact of Covid-19, including demonstration of the Group's capability to respond in a positive manner in managing the key priorities identified for this uncertain time – safeguarding employees, supporting customers and managing cash flows. The Board is comfortable with the robustness and appropriateness of business response and the Group's ability to maintain a strong level of liquidity since the outbreak.

The Group continues to proactively work on protecting its trading and cash flow position by assessing a number of mitigation levers within its control, such as discretionary spend and capex. This decisive cost action combined with the Group's strong liquidity position, provides a robust basis for the Group to weather these unprecedented trading conditions. The Group has a strong balance sheet with a liquidity position and capital structure that is well placed to absorb an extended period of uncertainty.

Since the balance sheet date, Covid-19 has impacted sales revenues and operating profit which have significantly reduced when compared with the performance presented in these financial statements. Despite this lost revenue and contribution, financial projections show that the company will still achieve a profitable result for the financial year ending 31st December 2020. Driven by savings in labour and marketing costs, and the recovery to orders as customers recommence production.

Directors' report

for the year ended 31 December 2019 (continued)

Going concern

The Company participates in the Essentra Group centralised treasury arrangements and therefore shares banking arrangements with its parent and fellow UK subsidiaries. The Directors have no reason to believe that a material uncertainty exists that casts significant doubt about the ability of the Group to continue as a going concern or its ability to continue with the current banking arrangements. On the basis that Essentra plc has agreed in writing to provide financial and administrative support to the Company for the twelve months from the date of approval of these financial statements, the Company's Directors have reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future and have therefore adopted the going concern basis of accounting in preparing the financial statements.

Since the balance sheet date, the Essentra group has been actively monitoring its trading and cash flow positions to steer the business through the challenging macro economic conditions created by the Covid-19 pandemic. The group uses scenario planning to assess its ability to continue to operate as a going concern for the immediate and long term based on a variety of possible future events. Based on the forecasts prepared by management supported by the scenario planning exercise outlined above, the directors have concluded that the group will remain a going concern even in the event of potential severe downside scenarios materialising.

Management accounts for the period from the balance sheet date to the signing of these financial statements, show that the company has been impacted by reductions to sales revenues and operating profit. Despite this lost revenue and contribution, the company has continued to generate profits during these challenging economic times. It is the view of management that the company will continue to generate profits in the short and medium term supported by its robust balance sheet and competitive market positioning.

Future outlook

The Company will continue to expand into emerging segments and markets and develop its product base. For further details please refer to the Group Business Review and Components Division Business Review sections of the Essentra plc Annual Report 2019 on pages 2 to 19 and 51 to 53.

Since the balance sheet date, the Essentra group identified four priorities to manage its response to the pandemic, to safeguard its people, support its customers, managing cash flow and to build for the future. The financial performance of the Essentra group during this period has been reasonably strong given the tough economic circumstances and illustrates prioritising these areas has protected the group's future outlook.

Directors' indemnities

During the financial year and at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors and the Company Secretary to the extent permitted by law and the Company's Articles of Association, in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities as a Director or officer of the Company.

Directors' statement as to disclosure of information to the auditors

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an annual general meeting.

Directors' report

for the year ended 31 December 2019 (continued)

Statement of Directors' responsibilities

The directors are responsible for preparing the Strategic report, Directors' report and financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

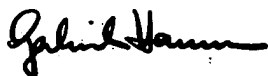
In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

On behalf of the Board



G Hännen
Director

13.10.2020

Registered Office:
Avebury House
201-249 Avebury Boulevard
Milton Keynes
MK9 1AU

Independent auditors' report to the members of Essentra Components Limited

Report on the audit of the financial statements

Opinion

In our opinion, Essentra Components Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Strategic Report, Directors' Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the income statement, the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Independent auditors' report to the members of Essentra Components Limited (continued)

Reporting on other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of Essentra Components Limited (continued)

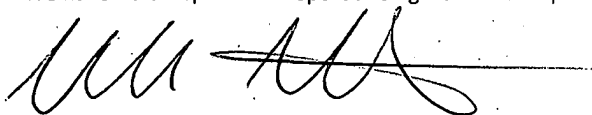
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Mark Foster (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes

13 October 2020

Income statement

for the year ended 31 December 2019

	Note	2019 £000	2018 £000
Turnover	3	88,211	93,845
Cost of sales		(42,079)	(46,335)
Gross profit		46,132	47,510
Selling and distribution expenses		(5,302)	(6,033)
Administrative expenses		(10,627)	(10,576)
Operating profit before exceptional items		30,203	30,901
Exceptional items	6	(637)	(722)
Operating profit	7	29,566	30,179
Income from shares in group undertakings			1,282
Interest receivable and other similar income	8	565	236
Interest payable and other similar expenses	9	(11)	
Other finance income - pensions	15	144	121
Profit before taxation		30,264	31,818
Tax on profit	10	(6,462)	(5,647)
Profit for the financial year		23,802	26,171

Statement of comprehensive income

for the year ended 31 December 2019

	Note	2019 £000	2018 £000
Profit for the financial year		23,802	26,171
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	15	(1,594)	1,722
Deferred tax charge on remeasurement of defined benefit pension schemes		303	(293)
Other comprehensive income for the year		(1,291)	1,429
Total comprehensive income		22,511	27,600

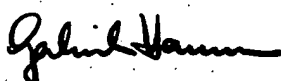
Balance sheet

at 31 December 2019

	Note	2019 £000	2018 £000
Fixed Assets			
Intangible assets	11	10,491	6,457
Tangible assets	12	18,939	17,238
Right-of-use assets	13	357	-
Investments	14	8,151	1,175
Retirement benefit assets	15	4,519	6,040
Deferred tax assets	18	1,689	-
Total fixed assets		44,146	30,910
Current assets			
Inventories	16	10,184	11,378
Debtors	17	29,862	78,424
Cash at bank and in hand		482	346
		40,528	90,148
Creditors: amounts falling due within one year	19	(18,593)	(18,319)
Net current assets		21,935	71,829
Total assets less current liabilities		66,081	102,739
Creditors: amounts falling due after one year	20	(645)	
Net assets		65,436	102,739
Capital and reserves			
Called up share capital	21	16,959	16,959
Share premium account		3,359	3,359
Revaluation reserve		657	657
Capital reserve		1,065	1,065
Other reserve		3,458	3,458
Retained earnings		39,938	77,241
Total shareholders' equity		65,436	102,739

The financial statements on pages 10 to 34 were approved by the board of Directors on
and were signed on its behalf by:

13.10. 2020



G Hannen
Director

Statement of changes in equity
for the year ended 31 December 2019

	Called up share capital £000	Share premium £000	Revaluation reserve £000	Capital reserve £000	Other reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2018	16,959	3,359	657	1,065	3,458	49,501	74,999
Adoption of IFRS 9 *	-	-	-	-	-	(52)	(52)
Balance at 1 January 2018 (restated)	16,959	3,359	657	1,065	3,458	49,449	74,947
Profit for the financial year	-	-	-	-	-	26,171	26,171
Other comprehensive income for the year	-	-	-	-	-	1,429	1,429
Total comprehensive income for the year	-	-	-	-	-	27,600	27,600
Credit in relation to share- based incentives	-	-	-	-	-	192	192
Balance at 31 December 2018	16,959	3,359	657	1,065	3,458	77,241	102,739
Adoption of IFRS 16 **	-	-	-	-	-	5	5
Balance at 1 January 2019 (restated)	16,959	3,359	657	1,065	3,458	77,246	102,744
Profit for the financial year	-	-	-	-	-	23,802	23,802
Other comprehensive income for the year	-	-	-	-	-	(1,291)	(1,291)
Total comprehensive income for the year	-	-	-	-	-	22,511	22,511
Credit in relation to share- based incentives	-	-	-	-	-	181	181
Dividend paid to Parent	-	-	-	-	-	(60,000)	(60,000)
Balance at 31 December 2019	16,959	3,359	657	1,065	3,458	39,938	65,436

* During the prior year, the Company adopted IFRS 9: Financial Instruments. The adoption of IFRS 9, gave rise to the restatement as at 1 January 2018, as impairments to financial assets were assessed according to an expected credit loss model, replacing the IAS 39 incurred loss model.

** During the current year, the Company adopted IFRS 16: Leases. The adoption of the standard gave rise to the restatement as at 1 January 2019.

Notes to the financial statements

for the year ended 31 December 2019

1 Accounting policies

The Company is incorporated and domiciled in England, United Kingdom under the Companies Act. The address of the registered office is Avebury House, 201-249 Avebury Boulevard, Milton Keynes, MK9 1AU, England. The Company is a private Company limited by shares.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

The Company's ultimate parent undertaking, Essentra plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Essentra plc are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and IFRSs issued by IASB are available to the public and may be obtained from the registered office of Essentra plc at Avebury House, 201-249 Avebury Boulevard, Milton Keynes, MK9 1AU.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The financial statements have been prepared under the historic cost convention, as modified by the revaluation of land and buildings and derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- the requirements of paragraph 45(b) and 46-52 of IFRS 2 *Share-Based Payment*;
- the requirements of paragraphs 62, B64(b), B64(e), B64(g), B64(h), B64(j) to B64(m), b64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 *Business Combinations*;
- the requirement of IFRS 7 *Financial Instruments: Disclosures*;
- the requirement of paragraphs 91-99 of IFRS 13 *Fair Value Measurement*;
- the requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of paragraph 79(a)(iv) of IAS 1, paragraph 73(e) of IAS 16 *Property, Plant and Equipment* and paragraph 118(e) of IAS 38 *Intangible Assets*;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 *Presentation of Financial Statements*;
- the requirements of IAS 7 *Statement of Cash Flows*;
- the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*;
- the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets*; and

Notes to the financial statements

for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

Basis of preparation (continued)

- the requirements of paragraphs 10(f) of IAS 1 Presentation of financial statements.

Where required, equivalent disclosures are given in the consolidated financial statements of Essentra plc.

Going concern

The Company participates in the Essentra Group centralised treasury arrangements and therefore shares banking arrangements with its parent and fellow UK subsidiaries. The Directors have no reason to believe that a material uncertainty exists that casts significant doubt about the ability of the Group to continue as a going concern or its ability to continue with the current banking arrangements. On the basis that Essentra plc has agreed in writing to provide financial and other support to the Company for the twelve months from the date of approval of these financial statements, the Company's Directors have reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future and have therefore adopted the going concern basis of accounting in preparing the financial statements.

Since the balance sheet date, the Essentra group has been actively monitoring its trading and cash flow positions to steer the business through the challenging macro economic conditions created by the Covid-19 pandemic. The group uses scenario planning to assess its ability to continue to operate as a going concern for the immediate and long term based on a variety of possible future events. Based on the forecasts prepared by management supported by the scenario planning exercise outlined above, the directors have concluded that the group will remain a going concern even in the event of potential severe downside scenarios materialising.

Management accounts for the period from the balance sheet date to the signing of these financial statements, show that the company has been impacted by reductions to sales revenues and operating profit. Despite this lost revenue and contribution, the company has continued to generate profits during these challenging economic times. It is the view of management that the company will continue to generate profits in the short and medium term supported by its robust balance sheet and competitive market positioning.

New standards, amendments and IFRIC interpretations

During the year the Company adopted IFRS 16: Leases. The quantitative impact of IFRS 16 on the Company's retained earnings at 1 January 2019 was an increase of £5,000.

No other new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2019 have had a material impact on the Company.

IFRS 16 Leases

IFRS 16 Leases which is effective from 1 January 2019, eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. In this model a lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and present depreciation of lease right-of-use assets separately from interest as a result of unwinding of discount on lease liabilities in the income statement.

The company performed an impact assessment of adopting this accounting standard, which involved collating information on lease obligations and contractual arrangements across the company. This data was then used to compare the impact of the new standard under different transitional options.

The company decided to select the modified retrospective approach on transition primarily on grounds of practicality. Under this approach, comparative information is not restated and the impact of adopting IFRS 16 is presented as an opening retained earnings adjustment as at 1 January 2019.

Under this transition option a methodology for determining the incremental borrowing rate has been developed to calculate the initial lease liability for each lease. This methodology incorporates three key elements; risk-free rate (reflecting specific country and currency), credit spread (reflecting the specific risk for the company) and an asset class adjustment (reflecting the variation in risk between asset categories).

Notes to the financial statements

for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

IFRS 16 Leases (continued)

Transition to IFRS 16

The impact on the balance sheet (increase/(decrease)) as at 1 January 2019 is as follows:

	£000
Assets	
Right-of-use assets	490
Prepayments and deferred income	(2)
Liabilities	
Lease liabilities	(485)
Accruals and deferred income	2
Net impact on equity	5

Turnover

Turnover is recognised from the sale of goods when the significant risks and rewards of ownership have been transferred to the customer. It represents the amounts (excluding value added tax) derived from the supply of plastic technology products to domestic and international markets during the year.

Exceptional items

Restructuring costs and other one-off items are separated from other items by virtue of their size and incidence. They are shown as a separate line item within operating profit on the face of the profit and loss account in order for the reader to obtain a proper understanding of the financial information and performance.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the income statement. Exchange differences arising from movements in spot rates are included in the income statement as exchange gains or losses. These exchange gains or losses can be seen within Administration expenses on the face of the income statement.

Exchange gains or losses arising from the interest differential elements of forward currency contracts are included in external interest income or expense.

Taxation

Income tax in the income statement comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the balance sheet liability method, on temporary differences arising between the tax bases and the carrying amounts of assets and liabilities in the financial statements. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future. Deferred tax is determined using tax rates that are expected to apply when the related deferred tax asset or liability is settled, using the applicable tax rates enacted or substantively enacted at the balance sheet dates.

Notes to the financial statements

for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

Taxation (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against liabilities and when they relate to income taxes levied by the same tax authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Intangible assets and amortisation

i) Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions is capitalised. Under IFRS 3 *Business Combinations* goodwill is not amortised but is tested for impairment at each balance sheet date.

ii) eCommerce development costs

Amortisation is provided to write off the cost of eCommerce development costs on a straight-line basis over their estimated useful lives at an annual rate of 20%.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and impairment losses. Previously revalued properties were treated as being held at deemed cost upon transition to FRS 101.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items. The carrying values of tangible fixed assets are periodically reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Tangible fixed assets are depreciated over their estimated remaining useful lives on a straight-line basis at the following annual rates:

Freehold land and Buildings	Land not depreciated, Buildings 2-10%
Plant, machinery and motor vehicles	7-20%
Fixtures, fittings and equipment	10-33%

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, at each balance sheet date.

Lease liabilities and lease right-of-use assets

Rentals associated with leases that are of low-value or less than 12 months in length are expensed to the income statement on a straight line basis. The associated lease incentives are amortised in the income statement over the life of the lease.

Leases greater than 12 months in length, and those not of low value, are recognised as a lease right-of-use asset with the associated future lease payment terms recognised as a lease liability. The right-of-use assets and the associated lease liabilities are recognised by unwinding the future lease payments at the rate implicit to the lease or, if the rate implicit to the lease cannot be readily determined, at the relevant incremental borrowing rate.

The lease right-of-use assets are amortised over their useful lives or the lease term, whichever is shorter. The lease liabilities are derecognised by applying the future lease payments.

Notes to the financial statements

for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

Investment in subsidiary undertakings

Investment in subsidiary undertakings is held at cost less any provision for impairment. The Company assesses at each balance sheet date whether the investment in its subsidiaries has been impaired.

Impairment

The carrying amounts of the entity's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Pensions

(i) Defined contribution schemes

Obligations for contributions to defined contribution pension schemes are expensed to the income statement as incurred.

(ii) Defined benefit schemes

The Company participates in a group wide pension scheme providing benefits based on final pensionable pay.

The net obligations in respect of defined benefit pension schemes are calculated separately for the scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date on AA credit-rated bonds that have maturity dates approximating to the terms of Essentra's obligations. The calculation is performed by a qualified independent actuary using the projected unit credit method. Net interest on defined benefit assets is presented within finance income, and net interest on defined benefit liabilities is presented within finance expense.

Actuarial gains and losses that have arisen are recognised in full in the statement of comprehensive income.

The amounts charged to operating profit are the current service cost, past service cost (including curtailments) and gains and losses on settlement.

The value of a net pension asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Company's financial assets at amortised costs comprise receivables in the balance sheet.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. Interest income is recognised accordingly using the effective interest method.

Notes to the financial statements

for the year ended 31 December 2019 (continued)

1 Accounting policies (continued)

Inventories

Inventories are valued at the lower of cost (on a first in, first out basis) and net realisable value. For work-in-progress and finished goods, cost includes an appropriate proportion of labour cost and overheads.

Financial liabilities

Interest bearing loans and borrowings and other financial liabilities (excluding derivatives) are initially recognised at fair value net of transaction costs incurred. They are subsequently held at amortised cost using the effective interest method. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of borrowings is recognised in profit or loss over the term of the borrowings.

Derivative financial instruments

Derivative financial instruments are measured initially at its fair value as an asset or liability in the balance sheet. Subsequent changes in the fair value of the derivative instrument are measured at year end, with any gain or loss recognised in the income statement.

Provisions

A provision is recognised when there is a probable legal or constructive obligation as a result of a past event and a reliable estimate can be made of the outflow of resources that will be required to settle the obligation. The outflow is the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date.

Share-based payments

The share option programme allows employees to acquire shares of the ultimate parent Company.

A charge is made in the income statement based on the fair value of option awards using the Monte Carlo or binomial valuation models and relevant quoted share price information with a corresponding increase in equity. The fair value is measured at grant date and spread over the period between grant and vesting date of the options. The amount recognised as an expense will be adjusted to reflect the actual number of share options that vest with the exception of options that fail to vest because market conditions are not met.

Dividends

Dividends are recognised as a liability in the period in which they are approved by the shareholders of the Company (final dividend) or paid (interim dividend).

Dividends from subsidiary undertakings and associated undertakings are accounted for in the period in which the shareholders' right to receive payment has been established and when, in the Directors' opinion, sufficient funds are available for payment. Dividends receivable are shown net of any underlying overseas taxation.

Notes to the financial statements

for the year ended 31 December 2019 (continued)

2 Critical accounting judgements and estimates

The following provides information on those policies that management considers critical because of the level of judgement and estimation required which often involves assumptions regarding future events which can vary from what is anticipated. The Directors believe that the financial statements reflect appropriate judgements and estimates and provide a true and fair view of the Company's performance and financial position.

a) Pensions

Defined benefit pension schemes are accounted for in accordance with IAS 19. The application of IAS 19 requires the exercise of judgement in relation to the assumptions used and for each assumption there is a range of possible outcomes (see note 15). In consultation with the Company's actuaries, management decides the point within those ranges that most appropriately reflects the Company's circumstances. Small changes to these assumptions can have a significant impact on valuations. The Company performs a sensitivity analysis for the significant assumptions used in determining post-retirement costs and liabilities, as detailed in note 15.

b) Depreciation

Property, plant and equipment represent a significant proportion of the asset base of the Company. Therefore, the estimates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance. The charge in respect of depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. Decreasing an asset's expected life or its residual value would result in a higher depreciation charge in the income statement. The useful lives of the Company's assets are determined by management at the time the asset is acquired and reviewed at least annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology. Historically changes in useful lives and residual values have not resulted in material changes to the Company's depreciation charge (see note 12).

3 Turnover

	2019	2018
	£000	£000
<i>By geographical market</i>		
United Kingdom	27,040	31,254
Europe	58,342	59,453
Rest of the world	2,829	3,138
	<hr/>	<hr/>
	88,211	93,845
	<hr/>	<hr/>

Notes to the financial statements

for the year ended 31 December 2019 (continued)

4 Staff numbers and costs

The average monthly number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

The aggregate payroll costs of these persons were as follows:

	2019 £000	2018 £000
Wages and salaries	13,295	14,163
Social security costs	1,402	1,549
Other pension costs (note 15)	627	1,121
Share-based payments	181	192
	<u>15,505</u>	<u>17,025</u>
	Number of employees 2019	2018
Manufacturing	123	118
Marketing	98	106
Administration	143	146
	<u>364</u>	<u>370</u>

5 Remuneration of Directors

	2019 £000	2018 £000
Directors' emoluments	717	926
Pension costs	67	71
	<u>784</u>	<u>997</u>

Remuneration in respect of the highest paid Director was £501,000 (2018: £543,000). The highest paid Director exercised options and received shares under long-term incentive schemes in Essentra plc, the Company's immediate and ultimate parent Company. The remuneration of the highest paid Director in the current and prior year did not include any contributions made in respect of money purchase schemes or a defined benefit pension scheme.

	Number of Directors 2019	2018
The number of Directors in respect of whose services shares were received or receivable under long-term incentive schemes	<u>3</u>	<u>3</u>

The remaining Directors did not receive any fees or emoluments from the Company during the year (2018: £nil) directly attributable to their position within the Company. All other fees or emoluments were paid by other group companies and the amount attributable to the qualifying services provided by them to the Company cannot be reliably estimated.

Notes to the financial statements

for the year ended 31 December 2019 (continued)

6 Exceptional items

	2019 £000	2018 £000
Pension past service costs	-	595
Cost incurred in acquiring a business	112	-
Loss on disposal of business	525	80
Impairment of investment	-	47
	<u>637</u>	<u>722</u>

Costs incurred in acquiring a business relates to Essentra Components Limited's share of professional fees incurred in acquiring Componentes Innovadores Limitada. These costs were borne by another Group Company and have been recharged to Essentra Components Limited.

Loss on disposal of business relates to the disposal of the Essentra Components Limited's Security business. The business was disposed of on 23 July 2019 to Barcodes, Inc. Contained within the loss on disposal are £155k of transaction costs incurred in disposing of the business.

7 Operating profit

	2019 £000	2018 £000
Operating profit is stated after charging/(crediting):		
Inventory recognised as an expense	32,286	37,126
Personnel expense (see note 4)	15,505	17,025
Amortisation of intangible fixed assets (see note 11)	263	-
Loss on disposal of tangible fixed assets	26	-
Depreciation of tangible fixed assets (see note 12)	1,800	2,438
Depreciation of right-of-use assets (see note 13)	137	-
Impairment of investments (see note 14)	-	47
Writing back Impairment of trade debtors	(7)	(67)
Foreign exchange gains	(216)	(243)
Operating lease expense:		
Plant & machinery	-	145
Motor vehicles	-	63
Property	-	98
	<u>55</u>	<u>47</u>
Auditors' remuneration:		
Fees payable to Company's auditors for the audit of statutory financial statements	55	47

8 Interest receivable and other similar income

	2019 £000	2018 £000
Receivable from group undertakings	565	236

Notes to the financial statements

for the year ended 31 December 2019 (continued)

9 Interest payable and other similar expenses

	2019 £000	2018 £000
IFRS 16 lease interest	11	

10 Tax on profit

a) Amounts charged in the income statement

	2019 £000	2018 £000
Current tax	6,303	6,384
Adjustments in respect of prior periods	609	(969)
Deferred tax (note 18)	(450)	232
Tax charge on profit	6,462	5,647

b) Tax relating to items credited to the other comprehensive income

	2019 £000	2018 £000
Deferred tax (credit) / charge on remeasurement of defined benefit pension scheme	(303)	293
Tax charge in the statement of other comprehensive income	(303)	293

c) Factors affecting the tax charge for the year

The total tax charge on profit before taxation differs to the theoretical amount that would arise using the standard rate of corporation tax in the UK of 19% (2018: 19%). The tax charge is higher than (2018: lower than) the standard rate and the differences are explained below:

	2019 £000	2018 £000
Profit before taxation	30,264	31,818
Tax charge at 19% (2018: 19%)	5,750	6,045
Effects of:		
Expenses not deductible for tax purposes	202	45
Adjustments in respect of prior periods	619	(255)
Change in tax rates	(109)	56
Non-taxable income	-	(244)
Total tax charge reported in the income statement (see above)	6,462	5,647

Notes to the financial statements

for the year ended 31 December 2019 (continued)

10 Tax on profit (continued)

d) Change in corporation tax rate

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2017 (on 6 September 2017). These include reductions to the main rate, to reduce the rate to 17% from 1 April 2020. Subsequent to this finance bill, at budget 2020, the UK government announced that the corporation tax rate for the years starting 1 April 2020 and 2021 would remain at 19%. This tax rate has not been enacted and as a consequence the tax rate of 17% has been used for the purposes of deferred tax calculations. The difference between tax rates enacted at year end of 17% and the rates expected to be enacted as part of Finance Bill 2020 is not deemed to be material to the company.

11 Intangible assets

	Goodwill £000	eCommerce development costs £000	Total £000
Cost			
At beginning and end of year	7,182	4,508	11,690
Additions	-	4,717	4,717
Disposals	(420)	(4,508)	(4,928)
At end of year	6,762	4,717	11,479
Accumulated amortisation			
At beginning and end of year	725	4,508	5,233
Charge for the year	-	263	263
Disposals	-	(4,508)	(4,508)
At end of year	725	263	988
Net book value			
At 31 December 2019	6,037	4,454	10,491
At 31 December 2018	6,457	-	6,457

Disposals relate to the past e-commerce site and trade and assets of the Security business.

The Company tests intangible assets annually for impairment, or more frequently if there are indications of impairment. A discounted cash flow analysis is computed to compare the discounted estimated future operating cash flows (on a value in use basis) to the net carrying value of the goodwill.

When intangible assets are amortised, this is charged to administration expenses through the income statement.

Notes to the financial statements

for the year ended 31 December 2019 (continued)

12 Tangible assets

	Freehold land and buildings £000	Plant, machinery and motor vehicles £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At beginning of year	12,656	26,735	15,181	54,572
Additions	89	742	2,775	3,606
Disposals	(87)	(1,315)	(2,841)	(4,243)
At end of year	12,658	26,162	15,115	53,935
Accumulated depreciation				
At beginning of year	2,606	22,471	12,257	37,334
Charge for the year	152	966	682	1,800
Disposals	(87)	(1,298)	(2,753)	(4,138)
At end of year	2,671	22,139	10,186	34,996
Net book value				
At 31 December 2019	9,987	4,023	4,929	18,939
At 31 December 2018	10,050	4,264	2,924	17,238

Disposals primarily relate to the trade and assets of the Security business.

Notes to the financial statements

for the year ended 31 December 2019 (continued)

13 Right-of-use assets

	Plant, machinery and motor vehicles £000	Total £000
Cost		
At beginning of year	686	686
Additions	22	22
Disposals	(111)	(111)
	<hr/>	<hr/>
At end of year	597	597
	<hr/>	<hr/>
Accumulated depreciation		
At beginning of year	195	195
Charge for the year	137	137
Disposals	(92)	(92)
	<hr/>	<hr/>
At end of year	240	240
	<hr/>	<hr/>
Net book value		
At 31 December 2019	357	357
	<hr/>	<hr/>

Operating lease (IAS 17) commitments and opening lease liabilities reconciliation:

	£000
IAS 17 future operating lease commitments based on gross cash flows as at 31 December 2018	472
Add: adjustments due to different treatment of extension and termination options	41
	<hr/>
	513
Discounted using the company's incremental borrowing rate (2.78%)	(28)
	<hr/>
Lease liability recognised as at 1 January 2019	485
	<hr/>
Of which are:	
IFRS 16 lease liability due within one year	130
IFRS 16 lease liability due after one year	355
	<hr/>

Notes to the financial statements

for the year ended 31 December 2019 (continued)

14 Investments

	Investments in subsidiary undertakings £000
Cost	
At beginning of year	1,266
Acquisitions	6,976
At end of year	8,242
Provision for impairment	
At beginning of year	91
At end of year	91
Net book value	
At 31 December 2019	8,151
At 31 December 2018	1,175

On 26 June 2019, Essentra Components Limited acquired 100% of the share capital of Componentes Innovadores Limitada. The company is incorporated in Costa Rica. The transaction was settled for cash consideration of £6,182,000 and deferred consideration of £794,000. Deferred consideration is payable to the vendor in two instalments of £397,000 due in August 2020 and August 2021.

All entities listed below are wholly-owned subsidiaries. The investments relate to ordinary shares. The principal country in which each Company operates is the country of incorporation.

The subsidiary companies of the Company's investments at the balance sheet date are as follows:

Subsidiary undertakings	Country of incorporation	Principal activity	Registered office
Essentra Sp.z o.o.	Poland	Distribution	11 Lokowa Street, 90-562, Lodz, Poland
Essentra Components sro	Slovakia	Distribution	Gogol'ova 18, 852 02 Bratislava, Slovakia
Essentra Components GmbH	Austria	Distribution	Schubertring 6, 1010 Wien, Austria
Essentra Components Sarl	Switzerland	Distribution	Rue du Grand-Chene 2, c/o Pierre-Alain Killais, Lexartis Avocats, 1003 Lausanne, Switzerland
Componentes Innovadores Limitada	Costa Rica	Manufacturing	Cartago-Cartago Parque Industrial Y Zona Franca Zeta, Cartago, Edificios, 48C3 48C4, Costa Rica
Skiffy Limited	England & Wales	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Stera Tape Limited	England & Wales	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Alliance Plastics Limited	England & Wales	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
North West Plastics Limited	England & Wales	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Filtrona Custom Moulding Limited	England & Wales	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU

Notes to the financial statements

for the year ended 31 December 2019 (continued)

15 Retirement benefit assets

The Essentra Pension Plan ('the Group scheme') is both a defined benefit scheme, providing benefits based on final pensionable pay, and a defined contribution scheme, providing benefits based on monthly contributions. The assets of the Group scheme are held separately from those of Essentra plc and its subsidiaries and contributions are determined by a qualified independent actuary, every three years using the projected unit method. Pension costs of the defined benefit scheme are assessed in accordance with the advice of independent professionally qualified actuaries. The most recent valuation of the scheme was as at 5 April 2018. The results of this valuation have been updated to 31 December 2019 by a qualified independent actuary, taking account of the investment returns achieved by the schemes and the level of contributions.

The defined benefit scheme is administered by a board of trustees and the assets are held independently from Essentra. The board of trustees comprises member nominated trustees, employer nominated trustees and independent advisory trustees. The scheme trust deeds prohibit a majority on the board to be established by either the member or employer nominated trustees.

The defined benefit scheme entitles remaining members to a pension calculated on 1.25% or 2% of their capped final pensionable pay multiplied by the number of pensionable years of service. Some members have historical entitlements to accrual rates of 1.67%-1.9% and 3% for certain tranches of their service.

The scheme was closed for future accrual from 1 April 2016, and curtailment gains were recognised in profit or loss accordingly in 2016. Following the closure of the Group's principal defined benefit pension scheme to future accruals, the scheme is funded by the Group's subsidiaries and employees are not required to make any further contribution. The funding of this scheme is based on separate actuarial valuations for funding purposes for which the assumptions may differ from those used in the valuation for IAS 19 purposes.

The net retirement benefit asset presented in these financial statements relates to the members of the Group scheme who are employed by the Company (Essentra Components Limited) and not all Essentra employees.

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

The amounts recognised in the income statement and in the statement of comprehensive income for the year are as follows:

	2019 £000	2018 £000
Amounts expensed against operating profit		
Defined contribution scheme	461	419
Defined benefit scheme – service cost and administrative expense	166	702
Total operating expense	627	1,121
Amounts included as other finance income		
Net interest on defined benefit scheme assets	(1,614)	(1,451)
Net interest on defined benefit scheme liabilities	1,470	1,330
Net interest income	(144)	(121)
Amounts recognised in the statement of comprehensive income		
Returns on defined benefit scheme assets excluding net interest income	4,812	111
Impact of changes in assumptions and experience to the present value of defined benefit	(6,406)	1,611
Remeasurement of defined benefit scheme	(1,594)	1,722

Notes to the financial statements

for the year ended 31 December 2019 (continued)

15 Retirement benefit assets (continued)

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

	2019 %	2018 %
Increase in salaries	n/a	n/a
Increase in pensions:		
at RPI capped at 5%	2.9	3.1
at CPI capped at 5%	2.1	2.2
at CPI minimum 3%, capped at 5%	3.1	3.1
at CPI capped at 2.5%	1.9	1.9
Discount rate	2.1	2.9
Inflation rate	3.0	3.2
Post-retirement mortality (in years):		
Males retiring today at age 65	22.3	22.4
Females retiring today at age 65	24.2	24.2
Males retiring in 20 years at age 65	23.7	23.8
Females retiring in 20 years at age 65	25.6	25.8

The allocation of assets between different classes of investment is reviewed regularly and is a key factor in the trustees' investment policies. The allocation of assets is arrived at taking into consideration current market conditions and trends, the size of potential returns relative to investment risk and the extent to which asset realisation needs to match liability maturity. There are risks underlying these considerations. If asset returns fall below the returns required for scheme assets to match the present value of scheme liabilities, a scheme deficit results. Persistent deficits represent an obligation the Company must settle through increased cash contributions. If asset maturities are not properly matched with liability maturities, there is also the risk that the Company could be required to make unplanned short-term cash contributions to resolve resulting liquidity issues. Scheme assets are invested by the trustees in asset classes and markets that are considered to be reasonably liquid, so this matching and liquidity risk is considered to be sufficiently mitigated.

The equity, corporate bond and government bond assets are either direct investments or investments made via a managed fund for those asset classes. All of these assets have a quoted market price in an active market. The other asset class relates primarily to property and hedge funds, which are valued at their cumulative unit offer price. No direct investment in property is held. No plan assets are invested directly in the shares of Essentra plc. The pension scheme has not invested in any of the Company's own financial instruments nor in properties or other assets used by the Company.

The Company's contributions to its defined benefit pension scheme are determined in consultation with trustees, taking into consideration actuarial advice, investment conditions and other local conditions and practices. Employer contributions of £95,000 (2018: £nil) were paid during the year ended 31 December 2019.

Notes to the financial statements

for the year ended 31 December 2019 (continued)

15 Retirement benefit assets (continued)

The fair value of scheme assets, which are not intended to be realised in the short-term and may be subject to significant change before they are realised, and the present value of the pension scheme liabilities, which are derived from cash flow projections over long periods and are therefore inherently uncertain, are as follows:

	2019 £000	2018 £000
Equities	16,499	15,023
Bonds / Liability driven investment ("LDI")	45,309	42,346
Other	331	308
Fair value of scheme assets	62,139	57,677
Present value of scheme liabilities	(57,620)	(51,637)
Net retirement benefit assets	4,519	6,040

Changes in the fair value of the defined benefit pension obligations during the year:

	Defined benefit pension scheme assets £000	Defined benefit pension scheme liabilities £000	2019 Total £000	Defined benefit pension scheme assets £000	Defined benefit pension scheme liabilities £000	2018 Total £000
Beginning of year	57,677	(51,637)	6,040	59,955	(55,056)	4,899
Service cost and administrative expense	(166)	-	(166)	(107)	-	(107)
Return on plan assets excluding amounts in net interest income	4,812	-	4,812	111	-	111
Actuarial gains/(losses) arising from change in financial assumptions	-	(7,499)	(7,499)	-	3,869	3,869
Actuarial gains arising from demographic assumptions	-	648	648	-	145	145
Actuarial gains / (losses) arising from experience	-	445	445	-	(2,403)	(2,403)
Finance income/(expense)	1,614	(1,470)	144	1,451	(1,330)	121
Benefits paid	(1,893)	1,893	-	(3,733)	3,733	-
Contributions by employer	95	-	95	-	-	-
Past service cost	-	-	-	-	(595)	(595)
End of year	62,139	(57,620)	4,519	57,677	(51,637)	6,040

Sensitivity

For the significant assumptions used in determining defined benefit costs and liabilities, the following sensitivity analysis gives the estimate of the impact on the measurement of the scheme liabilities as at 31 December 2019.

	(Increase)/decrease in scheme liabilities £000
0.5% decrease in the discount rate	(5,780)
0.5% increase in the discount rate	4,920
1.0% decrease in the rate of inflation	4,220
1.0% increase in the rate of inflation	(5,180)
1 year increase in life expectancy	2,320

Notes to the financial statements

for the year ended 31 December 2019 (continued)

16 Inventories

	2019 £000	2018 £000
Raw materials and consumables	726	655
Finished goods and goods held for resale	9,458	10,723
	<u>10,184</u>	<u>11,378</u>

The Directors do not consider that the replacement cost of inventories on a current cost basis is materially different from the figures stated above. Included in the value of inventories is a provision of £2,481,000 (2018: £2,462,000).

17 Debtors

	2019 £000	2018 £000
Trade debtors	3,479	4,630
Other debtors	313	46
Amounts owed by group undertakings	24,812	71,831
Other taxes	517	199
Prepayments and accrued income	436	782
Deferred tax asset (see note 18)	-	936
Derivative financial assets	305	-
	<u>29,862</u>	<u>78,424</u>

Included in amounts owed by group undertakings is an amount of £17,049,000 (2018: £61,310,000) owed by Essentra Finance Limited, which carries on the business of group financing for Essentra plc, the Company's ultimate parent Company. The balance is repayable on demand, unsecured and interest is charged at a rate set with reference to the London Inter-bank Offered Rate ("LIBOR"). Other amounts owed by group undertakings are trading balances under normal commercial terms and interest is not charged.

18 Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	Assets £000	Liabilities £000	2019 Net £000	Assets £000	Liabilities £000	2018 Net £000
Tangible fixed assets ¹	2,499	-	2,499	1,898	-	1,898
Employee benefits ²	-	(859)	(859)	-	(1,027)	(1,027)
Other temporary differences ³	49	-	49	65	-	65
	<u>2,548</u>	<u>(859)</u>	<u>1,689</u>	<u>1,963</u>	<u>(1,027)</u>	<u>936</u>

¹ A deferred tax asset arises on tangible fixed assets as the tax value of assets is higher than the corresponding accounting value. This arises as tax deductions are determined by the applicable tax laws whereas accounting depreciation is calculated in line with the Company's accounting policy

² This represents deferred tax on the Company's defined benefit pension schemes and share-based incentives

³ This includes expenditure that will be deductible in future periods for tax purposes when the amounts are settled in cash

Notes to the financial statements

for the year ended 31 December 2019 (continued)

18 Deferred taxation (continued)

	2019 £000	2018 £000
Deferred tax movements in the year:		
At beginning of year	936	1,461
Credit to the income statement in respect of the current year	351	538
Adjustments in respect of prior periods	(10)	(714)
Charge to other comprehensive income	303	(293)
Change in tax rates	109	(56)
	<hr/>	<hr/>
At end of year	1,689	936
	<hr/>	<hr/>

During the current year deferred tax assets of £1,689,000 have been presented as fixed assets on the face of the balance sheet. In the prior year deferred tax assets of £936,000 were presented as current assets within Debtors (see note 17).

19 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	4,957	6,141
Amounts owed to group undertakings	4,105	2,455
Corporation tax	6,303	6,384
Other creditors including taxation and social security	613	426
Accruals and deferred income	2,042	2,897
Derivative financial instruments	70	16
Deferred consideration	397	-
IFRS 16 lease liability	106	-
	<hr/>	<hr/>
	18,593	18,319
	<hr/>	<hr/>

Amounts owed to group undertakings are repayable on demand, unsecured and interest is charged at a rate set with reference to the London Inter-bank Offered Rate ("LIBOR").

20 Creditors: amounts falling after one year

	2019 £000	2018 £000
Deferred consideration	397	-
IFRS 16 lease liability	248	-
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	645	-
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Notes to the financial statements

for the year ended 31 December 2019 (continued)

21 Called up share capital

	2019 £000	2018 £000
Issued and fully paid ordinary shares of 10p (2018: 10p) each	16,959	16,959
Number of ordinary shares in issue At beginning and end of year	169,587,979	169,587,979

22 Dividends paid

	2019 £000	2018 £000
Declared and paid during the year		
Equity dividends on ordinary shares paid to parent undertaking	60,000	-

The directors do not propose a final dividend in respect of the financial year ended 31 December 2019 (2018: £nil).

23 Commitments

Operating leases

At 31 December, the Company had the following future minimum lease payments under non-cancellable operating leases:

	2019 £000	2018 £000
Payable within one year	-	154
Payable between one and five years	-	318
Payable after five years	-	-
		472

24 Ultimate parent Company and parent undertaking of larger group of which the Company is a member

The Company's immediate parent undertaking is Essentra International Limited, a Company incorporated in England and Wales.

The ultimate parent Company is Essentra plc, a Company incorporated in England and Wales. This is the only group in which the results of the Company are consolidated.

The consolidated financial statements of Essentra plc are available to the public and may be obtained from the registered office of Essentra plc at Avebury House, 201-249 Avebury Boulevard, Milton Keynes, MK9 1AU.

Notes to the financial statements

for the year ended 31 December 2019 (continued)

25 Post balance sheet events

The following provides information on the material events that have occurred between the date of these financial statements and the date of their approval by management.

COVID-19

On the 11 March 2020 a global pandemic was announced by the World Health Organisation ("WHO") with respect to the COVID-19 Virus. To ensure the protection of the population, the UK government and governments around the world were forced to take unprecedented action to close many non-essential businesses and issue "stay at home" instructions to its people. It is widely expected that these actions to protect the health of the world's population, will result in a significant impact on the global economy and manufacturing output.

The directors of the company concluded that from the company's prospective, this global pandemic is a non adjusting post balance sheet event. An assessment of the impact of the COVID-19 Virus on the company's balance sheet, determined that some receivable balances from group undertakings may be impaired in a future period. Any impairment of receivable balances identified as at risk is not deemed to be material.

Management accounts for the period from the balance sheet date to the signing of these financial statements, show that the company has been impacted by reductions to sales revenues and operating profit. Despite this lost revenue and contribution, the company has continued to generate profits during these challenging economic times. It is the view of management that the company will continue to generate profits in the short and medium term supported by its robust balance sheet and competitive market positioning.