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Essentra Components Limited

Strategic report, Directors' report and financial statements

Registered number 547495

31 December 2022



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Strategic report

for the year ended 31 December 2022

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 increased by 6.1% as the worldwide manufacturing output continued to recover from the global Covid-19 pandemic albeit at a slower pace.

The Company's net asset position has increased during the year to £181,712,000 (2021: £113,098,000) primarily driven by a capital injection of £54,343,000.

The activities of the Company are in line with the operational strategy of Essentra plc (the Ultimate parent company), of which Essentra Components Limited is a subsidiary. Further details of Essentra plc's Group and Component Solutions Division strategies can be found in the Group Business Review and Components Division Business Review on pages 4 to 21 and 16 to 19 of the Essentra plc Annual Report 2022. The Essentra plc Annual Report 2022 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 52 to 65 of the Essentra plc Annual Report 2022.

The principal risks faced by the Company of financial nature are 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 173 to 177 of the Essentra plc Annual Report 2022.

Operational and Supply Chain Disruption risk

The Company operate a diverse, global operational footprint and supply chain. Ensuring these operations and supply chains are resilient is a fundamental part of maintaining the customer service levels by giving options and alternatives, to minimise the impact of disruption.

Disruptive events could be focused on particular locations, driven by single points of failure in our operations or supply chain, be localised natural events or result from political conflict. Here, our global footprint provides risk diversification, through alternative manufacturing options elsewhere in the Group. Equally, disruptive events might be broader in nature and impact a number of sites simultaneously, for example via a global pandemic, or climate change related issues in the longer term. In this situation, our global footprint may expose us to a broader set of potential disruption risks than more focused businesses.

Robust business continuity planning and management practices are required to minimise the impact on production capability, supply chain management, customer relationships, reputation, revenue and profit. Mitigation actions are in place to address the risks. Further details of which can be found in the Risk Management Report of the Essentra plc Annual Report 2022 on pages 61.

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.

Strategic report

for the year ended 31 December 2022 (continued)

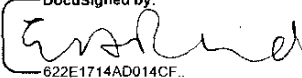
Environment

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. The company recognises its impact on the environment needs to be quantified into standardised measures and is committed to effectively managing data collection especially with the introduction of Streamlined Energy and Carbon Reporting (SECR). Further details of which can be found in the Corporate Responsibility Report of the Essentra plc Annual Report 2022 on pages 22 to 26.

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 32 of the Essentra plc Annual Report 2022 are further details of the health and safety policies in place across the Group and in the Company.

On behalf of the board

DocuSigned by:

622E1714AD014CF..
Emma Reid
Director

Registered Office:
Langford Locks
Kidlington
Oxford
OX5 1HX
England

27 September 2023

Directors' report

for the year ended 31 December 2022

The Directors present their Directors' report and the financial statements for the year ended 31 December 2022.

Results and dividends

The profit for the financial year was £28,081,000 (2021: £21,170,000).

No dividends were paid during the current year (2021: 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 supplies, 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 2022 on pages 38 to 39.

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' report

for the year ended 31 December 2022 (continued)

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

S Fawcett (resigned 31 March 2023)
G Hannen (resigned 31 March 2023)
H Delcourt (appointed 31 March 2023)
O Dogan (appointed 31 March 2023)
E Reid (appointed 31 March 2023)

Employees

Employees of Essentra Components Limited 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 2022 on pages 38 to 39.

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.

Going concern

The Company participates in the 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 the Group 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.

Directors' report

for the year ended 31 December 2022 (continued)

Going concern (continued)

Since the balance sheet date, and as part of the going concern assessment, the Board has also considered a downside scenario that reflects the current uncertainty in the global economy and which management consider to be severe but plausible. The results of this scenario show that there is sufficient liquidity in the Group for a period of at least 12 months from the date of approval of these financial statements, and do not indicate any covenant breach during the test period. The scenario includes assumption for similar extent of disruptions as seen in 2021.

The severe but plausible scenario does not indicate a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. Significant level of headroom remains in place with regard to liquidity and compliance with financial covenants. Therefore, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

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 2022 on pages 4 to 21 and 16 to 19.

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' report

for the year ended 31 December 2022 (continued)

Statement of Directors' responsibilities in respect of the financial statements

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

The members have not required the Company to obtain an audit of its financial statements for the year ended 31 December 2022 in accordance with Section 476 of the Companies Act 2006, audit exemption for a subsidiary company.

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).

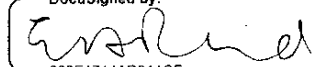
Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- 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 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 also 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

DocuSigned by:

622E1714AD014CF...
Emma Reid
Director

27 September 2023

Registered Office:
Langford Locks
Kidlington
Oxford
OX5 1HX
England

Income statement

for the year ended 31 December 2022

	<i>Note</i>	2022 £000	2021 £000
Turnover	3	91,590	86,286
Cost of sales		(51,602)	(50,231)
Gross profit		39,988	36,055
Selling and distribution expenses		(4,063)	(4,302)
Administrative expense		(19,193)	(12,331)
Operating profit	7	16,732	19,422
Income from shares in group undertakings		334	998
Other interest receivable and similar income	8	1,175	58
Interest payable and similar expenses	9	(115)	(150)
Other income - pensions	15	12,980	58
Profit before taxation		31,106	20,386
Tax on profit	10	(3,025)	784
Profit for the financial year		28,081	21,170
Adjusted profit measure:			
Operating profit		16,732	19,422
Adjusting items	6	10,451	4,927
Adjusted operating profit		27,183	24,349

Statement of comprehensive income

for the year ended 31 December 2022

	Note	2022 £000	2021 £000
Profit for the financial year		28,081	21,170
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	15	(17,774)	7,910
Deferred tax credit / (charge) on remeasurement of defined benefit pension schemes	10,18	4,444	(2,248)
		<hr/>	<hr/>
		(13,330)	5,662
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange translation of foreign operations		(719)	169
		<hr/>	<hr/>
		(719)	169
Other comprehensive income/(expense) for the year		<hr/>	<hr/>
		(14,049)	5,831
Total comprehensive income		<hr/>	<hr/>
		14,032	27,001

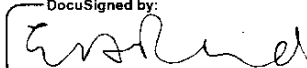
Balance sheet
at 31 December 2022

		31 December 2022 £000	31 December 2021 £000
	<i>Note</i>		
Fixed Assets			
Intangible assets	11	11,509	11,981
Investment property	12	7,000	-
Property, plant and equipment	12	18,683	18,794
Right-of-use assets	13	4,295	5,040
Investment in subsidiary undertakings	14	49,113	7,736
Retirement benefit assets	15	7,657	12,418
Deferred tax assets	18	2,077	643
Total fixed assets		100,334	56,612
Current assets			
Inventories	16	15,526	16,086
Debtors	17	115,185	82,199
Cash at bank and in hand		1,852	2,322
		132,563	100,607
Creditors: amounts falling due within one year	19	(44,610)	(39,543)
Net current assets		87,953	61,064
Total assets less current liabilities		188,287	117,676
Creditors: amounts falling due after one year	20	(6,575)	(4,578)
Net assets		181,712	113,098
Capital and reserves			
Called up share capital	21	71,302	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
Translation reserve		(574)	145
Retained earnings		102,445	87,455
Total shareholders' funds		181,712	113,098

The financial statements on pages 7 to 31 are an integral part of these financial statements. For the year ended 31 December 2022 the company was entitled to exemption from audit under Section 479A of the Companies Act 2006 relating to subsidiary companies.

Directors responsibilities:

- The members have not required the Company to obtain an audit of its financial statements for the period in question in accordance with Section 476;
- The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of financial statements.

DocuSigned by:

 Emma Reid
 Director

Statement of changes in equity

for the year ended 31 December 2022

	Note	Called up share capital £000	Share premium £000	Revaluation reserve £000	Capital reserve £000	Other reserve £000	Translation reserve £000	Retained earnings £000	Total shareholders' funds £000
Balance at 1 January 2021		16,959	3,359	657	1,065	3,458	(24)	60,532	86,006
Profit for the financial year		-	-	-	-	-	-	21,170	21,170
Other comprehensive income for the year		-	-	-	-	-	169	5,662	5,831
Total comprehensive income for the year		-	-	-	-	-	169	26,832	27,001
Credit in relation to share- based incentives	4	-	-	-	-	-	-	43	43
Credit in relation to tax on share-based incentives		-	-	-	-	-	-	48	48
Balance at 31 December 2021		16,959	3,359	657	1,065	3,458	145	87,455	113,098
Profit for the financial year		-	-	-	-	-	-	28,081	28,081
Other comprehensive income for the year		-	-	-	-	-	(719)	(13,330)	(14,049)
Total comprehensive income for the year		-	-	-	-	-	(719)	14,751	14,032
Credit in relation to share- based incentives	4	-	-	-	-	-	-	239	239
Credit in relation to tax on share-based incentives		-	-	-	-	-	-	-	-
Issue of new shares		54,343	-	-	-	-	-	-	54,343
Balance at 31 December 2022		71,302	3,359	657	1,065	3,458	(574)	102,445	181,712

Notes to the financial statements

for the year ended 31 December 2022

1 Accounting policies

The Company is incorporated and domiciled in England, United Kingdom under the Companies Act. The address of the registered office is Langford Locks, Kidlington, Oxford, OX5 1HX, 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 accounting standards in conformity with the requirements of the Companies Act 2006 and UK-adopted International Accounting Standards and are available to the public and may be obtained from the registered office of Essentra plc at Langford Locks, Kidlington, Oxford, OX5 1HX, England.

These financial statements have been prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The financial statements have been prepared on a historical cost basis as modified by derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- the requirements of paragraph 45(b) and 46-52 of IFRS 2 *Share-Based Payment*
- the requirements of paragraphs 62, B64(b), B64€, 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 and
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets*.

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

Notes to the financial statements

for the year ended 31 December 2022 (continued)

1 Accounting policies (continued)

Going concern

The Company participates in the 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 the Group has agreed 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, and as part of the going concern assessment, the Board has also considered a downside scenario that reflects the current uncertainty in the global economy and which management consider to be severe but plausible. The results of this scenario show that there is sufficient liquidity in the Group for a period of at least 12 months from the date of approval of these financial statements, and do not indicate any covenant breach during the test period. The scenario includes assumption for similar extent of disruptions as seen in 2021.

The severe but plausible scenario does not indicate a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. Significant level of headroom remains in place with regard to liquidity and compliance with financial covenants. Therefore, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

New standards, amendments and IFRS IC interpretations

During the year, except for the changes in accounting policies disclosed above, there have been no new accounting standards, or amendments to accounting standards, or IFRS IC interpretations that are effective for the year ended 31 December 2022, that have had a material impact on these financial statements.

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.

Adjusting items

Adjusting items are separately presented from other items by virtue of their nature, size and/or incidence. They are shown as a separate line item within operating profit on the face of the income statement in order for the reader to obtain a clearer understanding of the results from ongoing operations. By excluding the impact of items which, in management's view, do not form part of the company's operating results, such as significant restructuring and closure costs and other items which are non-recurring or one-off in nature.

(i) Acquisition integration and restructuring costs

Costs relating to the integration of acquired businesses and restructuring associated with acquisitions and reorganisation of the company's organisational structure. These include costs in relation to senior management restructuring and for external consultancy and project costs.

(ii) Other adjusting items

Income relating to the revaluation gains on acquisition of investments and costs relating to the disposal of investments and impairment of investments. Impairments of investment are to the extent that the carrying amount of the investment is reflective of the underlying value of its subsidiaries.

Notes to the financial statements

for the year ended 31 December 2022 (continued)

1 Accounting policies (continued)

Foreign currencies

i) Foreign currency transactions

Transactions in foreign currencies are recorded using the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at the balance sheet date and 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.

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

ii) Financial statements of foreign operations

The assets and liabilities of foreign operations are translated into sterling at the exchange rate at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at average exchange rates.

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.

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.

Investment properties

Properties that are either owned or leased by the Company that are held to earn rental income or for capital appreciation, or both, are accounted for as investment properties. Investment properties are measured initially at cost including directly related transaction costs, and subsequently, applying the cost model.

Under the cost model, the carrying value of investment properties where the Group owns the freehold to the properties, is stated at cost less accumulated depreciation (on a straight-line basis) and impairment losses. The useful lives of investment properties where the Group owns the freehold are adjusted, as appropriate, at each balance sheet date.

The Company transfers a property to or from its classification of investment properties only when there is a change in use. For example, when it is the Group's intention to end or commence owner-occupation is the point at which the property respectively meets or ceases to meet the definition of an investment property, the determination of which, may require the application of management judgement. The carrying value of investment properties is periodically reviewed for impairment when events and circumstances indicate that the carrying amount may not be recoverable.

Notes to the financial statements*for the year ended 31 December 2022* (continued)**1 Accounting policies (continued)*****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 and software 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 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.

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.

Notes to the financial statements

for the year ended 31 December 2022 (continued)

1 Accounting policies (continued)

Impairment (continued)

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.

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.

Notes to the financial statements

for the year ended 31 December 2022 (continued)

1 Accounting policies (continued)

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.

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).

Notes to the financial statements*for the year ended 31 December 2022* (continued)**3 Turnover**

	2022	2021
	£000	£000
By geographical market		
United Kingdom	20,258	20,690
Europe, Middle East, Africa	68,459	62,561
Rest of the world	2,873	3,035
	<hr/>	<hr/>
	91,590	86,286
	<hr/>	<hr/>

4 Staff numbers and cost

	2022	2021
	£000	£000
Wages and salaries	14,484	14,058
Social security costs	1,447	1,347
Other pension costs (note 15)	498	611
Share-based payments	239	42
	<hr/>	<hr/>
	16,668	16,058
Staff costs recharged from a group company*	3,604	3,830
	<hr/>	<hr/>
	20,272	19,888
	<hr/>	<hr/>

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

	Number of employees	
	2022	2021
Manufacturing	271	173
Marketing	72	68
Administration	102	80
	<hr/>	<hr/>
	445*	321*
	<hr/>	<hr/>

*Other than the number of employees disclosed above, average monthly number of 58 employees (2021: 99) were employed by Essentra Components GmbH and performed services to the Company. During the year Essentra Components GmbH recharged staff costs of £3,604,000 (2021: £3,830,000) to the Company regarding these employees.

Notes to the financial statements*for the year ended 31 December 2022* (continued)**5 Remuneration of Directors**

	2022	2021
	£000	£000
Directors' emoluments	818	842
Pension costs	72	70
	890	912

Remuneration in respect of the highest paid Director was £542,000 (2021: £547,000). The highest paid Director exercised options and received shares under long-term incentive schemes in Essentra plc, the Company's 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	
	2022	2021
The number of Directors in respect of whose services shares were received or receivable under long-term incentive schemes	2	2

With the exception of the directors' emoluments above, that were paid by Essentra International Limited, the Directors did not receive any fees or emoluments from the Company during the year (2021: £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.

6 Adjusting items

	2022	2021
	£000	£000
Customisation and configuration costs of significant software as a service ("SaaS") arrangements	10,261	4,369
Impairment of investment (Note 14)	-	415
Others	190	143
	10,451	4,927

The adjusting items are separately presented from other items by virtue of their nature, size and/or incidence. They are identified separately in order for the reader to obtain a clearer understanding of the results from ongoing operations. By excluding the impact of items which, in management's view, do not form part of the Company's operating results, such as significant restructuring and closure costs and other items which are non-recurring or one-off in nature.

In accordance with the revised accounting policy in relation to the customisation and configuration costs of software as a service ("SaaS") arrangements (see the note on accounting policies), costs of significant SaaS arrangements which, in the view of management, represents investment in upgrading the Group's technological capability, were expensed as adjusting items. In the current year, costs of £10,261,000 (2021: £4,369,000) were attributable to major SaaS projects and related primarily to the costs of implementing a new cloud-based enterprise resource planning ("ERP") system within the Group.

See note 14 for details of the prior year impairment of investment.

Notes to the financial statements

for the year ended 31 December 2022 (continued)

7 Operating profit

	2022	2021
	£000	£000
Operating profit is stated after charging/(crediting):		
Inventory recognised as an expense	43,879	32,634
Personnel expense (see note 4)	20,272	19,888
Amortisation of intangible fixed assets (see note 11)	1,257	1,039
Loss on disposal of tangible fixed assets	7	9
Depreciation of tangible fixed assets (see note 12)	1,953	2,113
Depreciation of right-of-use assets (see note 13)	937	692
Writing back impairment of trade debtors	(52)	(10)
Foreign exchange losses/ (gains)	115	(816)
 Auditors' remuneration:		
Fees payable to Company's auditors for the audit of statutory financial statements	-	117

For the year ended 31 December 2022 the company was entitled to exemption from audit under Section 479A of the Companies Act 2006 relating to subsidiary companies.

8 Interest receivable and similar income

	2022	2021
	£000	£000
Receivable from group undertakings	1,058	58
Net foreign exchange gains on cash and borrowings	117	-
	<u>1,175</u>	<u>58</u>

9 Interest payable and similar expenses

	2022	2021
	£000	£000
IFRS 16 lease interest	115	135
Net foreign exchange losses on cash and borrowings	-	15
	<u>115</u>	<u>150</u>

10 Tax on profit

a) Amounts (credited) / charged in the income statement

	2022	2021
	£000	£000
UK corporation tax		
Adjustments in respect of prior periods	-	-
Withholding tax suffered	15	71
	<u>15</u>	<u>71</u>
Total current tax charge	<u>15</u>	<u>71</u>

Notes to the financial statements*for the year ended 31 December 2022* (continued)**10 Tax on profit** (continued)**a) Amounts charged/ (credited) in the income statement** (continued)

	2022	2021
	£000	£000
Deferred tax (note 18)		
Origination and reversal of timing differences	2,559	507
Adjustments in respect of prior periods	(261)	(494)
Change in tax rate	712	(868)
	<hr/>	<hr/>
Total deferred tax charge / (credit) on profit	3,010	(855)
	<hr/>	<hr/>
Tax charge / (credit)	3,025	(784)
	<hr/>	<hr/>

b) Tax relating to items charge/ (credited) to the other comprehensive income

	2022	2021
	£000	£000
Deferred tax (credit)/ charge on remeasurement of defined benefit pension scheme	(4,444)	2,248
Tax (credit)/ charge in the statement of other comprehensive income	(4,444)	2,248
	<hr/>	<hr/>

c) Factors affecting the tax (credit) / charge for the year

The total tax credit on profit before taxation differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK of 19% (2021: 19%). The tax credit is higher than (2021: credit higher than) the standard rate and the differences are explained below:

	2022	2021
	£000	£000
Profit before taxation	31,106	20,386
Tax charge at 19% (2021: 19%)	5,910	3,873
Effects of:		
Expenses not deductible and income not taxable	511	58
Non-taxable dividend income	(63)	(190)
Adjustments in respect of prior periods	(261)	(494)
Withholding taxes suffered	15	71
Reclassification of deferred tax assets on share based payments to / (from) other comprehensive income	-	2
Change in tax rates	712	(868)
Group relief claimed for nil payment	(3,799)	(3,236)
	<hr/>	<hr/>
Total tax credit reported in the income statement (see above)	3,025	(784)
	<hr/>	<hr/>

d) Change in corporation tax rate

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2021 (on 24 May 2021). These include an increase of the main rate of corporation tax to 25% from 1 April 2023.

In September 2022, the Government announced that from 1 April 2023 the corporation tax rate will not be increasing to 25%. At the balance sheet date, the proposal to cancel the previously enacted tax rise had not been substantively enacted, therefore, its effects are not included in these financial statements. Due to the timing of this announcement its impact has not been quantified.

Notes to the financial statements

for the year ended 31 December 2022 (continued)

11 Intangible assets

	Goodwill	eCommerce & software development costs	Total
	£000	£000	£000
Cost			
At beginning of year	6,762	8,077	14,839
Additions	-	785	785
Transfers	-	-	-
	<hr/>	<hr/>	<hr/>
At end of year	6,762	8,862	15,624
	<hr/>	<hr/>	<hr/>
Accumulated amortisation			
At beginning of year	725	2,133	2,858
Charge for the year	-	1,257	1,257
	<hr/>	<hr/>	<hr/>
At end of year	725	3,390	4,115
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 2022	6,037	5,472	11,509
	<hr/>	<hr/>	<hr/>
At 31 December 2021	6,037	5,944	11,981
	<hr/>	<hr/>	<hr/>

The Company tests goodwill annually for impairment, other assets are assessed for indicators of impairment annually and tested for impairment if indicators exist. 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 2022 (continued)

12 Investment Properties, Property, plant and equipment

	Total Investment properties ¹	Freehold land and buildings	Plant, machinery and motor vehicles	Fixtures, fittings and equipment	Total Property plant and equipment
	£000	£000	£000	£000	£000
Cost					
At beginning of year	-	13,057	21,159	16,321	50,537
Additions	7,000	67	914	679	1,660
Disposals	-	-	(223)	-	(223)
Currency translation	-	20	3	228	251
At end of year	7,000	13,144	21,853	17,228	52,225
Accumulated depreciation					
At beginning of year	-	2,923	17,306	11,514	31,743
Charge for the year	-	228	706	1,019	1,953
Disposals	-	-	(214)	-	(214)
Currency translation	-	4	-	56	60
At end of year	-	3,155	17,798	12,589	33,542
Net book value					
At 31 December 2022	7,000	9,989	4,055	4,639	18,683
At 31 December 2021	-	10,134	3,853	4,807	18,794

1. On 4 June 2022, land and buildings with a net book value of £7.0m were acquired from Essentra Packaging & Security Limited and has been classified as investment properties. The classification follows the disposal of the Filters and Packaging businesses where a pre-existing long term property lease was transferred to Essentra Components Limited. No amounts were received in respect of rental income during the year.

Notes to the financial statements

for the year ended 31 December 2022 (continued)

13 Right-of-use assets

	Land and Buildings	Plant, machinery and motor vehicles	Total
	£000	£000	£000
Cost			
At beginning of year	5,467	500	5,967
Disposals	-	(39)	(39)
Currency translation	251	-	251
	<hr/>	<hr/>	<hr/>
At end of year	5,718	461	6,179
	<hr/>	<hr/>	<hr/>
Accumulated depreciation			
At beginning of year	592	335	927
Charge for the year	843	94	937
Disposals	-	(39)	(39)
Currency translation	59	-	59
	<hr/>	<hr/>	<hr/>
At end of year	1,494	390	1,884
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 2022	4,224	71	4,295
	<hr/>	<hr/>	<hr/>
At 31 December 2021	4,875	165	5,040
	<hr/>	<hr/>	<hr/>

Notes to the financial statements

for the year ended 31 December 2022 (continued)

14 Investments in subsidiary undertakings

	2022 £000	2021 £000
Cost		
At beginning of year	8,242	8,242
Additions	41,377	-
At end of year	49,619	8,242
Provision for impairment		
At beginning	506	91
Impairment charge (Note 6)	-	415
At end of year	506	506
Net book value		
At end of year	49,113	7,736

On 1 December 2022, Essentra Components Limited acquired 100% of the share capital of Wixroyd Holdings Limited, a leading UK supplier of industrial parts for the engineering sector. The consideration payable for the Wixroyd Group comprises an initial cash consideration of £31,400,000 and up to £7,000,000 deferred earn-out consideration. The deferred earn-out consideration is conditional on achieving certain performance criteria for the 12-month period commencing 1 January 2023. The remaining additions to investments relates to capital injections into subsidiary companies already owned. In the prior year, the Company impaired its investment in Skiffy Limited and North West Plastics Limited by £415,000, as the net assets of the investments were reduced by declaring dividends. Both companies dissolved on 31 May 2022.

All entities listed below are wholly-owned subsidiaries of the Company unless otherwise stated. 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	104a, Maratońska, Łódź, 04-007, Poland
Essentra Components sro	Slovakia	Distribution	Gogol'ova 18, 852 02 Bratislava, Slovakia
Essentra Components GmbH	Austria	Distribution	22, 5, Augasse, Neunkirchen, 2620, Austria
Essentra Components Sarl	Switzerland	Distribution	MCE Avocats, rue du Grand-Chêne 1-3, 1003 Lausanne, , Switzerland
Stera Tape Limited	England & Wales	Dormant	Langford Locks, Kidlington, Oxford, OX5 1HX, United Kingdom
Alliance Plastics Limited	England & Wales	Dormant	Langford Locks, Kidlington, Oxford, OX5 1HX, United Kingdom
Filtrona Custom Moulding Limited	England & Wales	Dormant	Langford Locks, Kidlington, Oxford, OX5 1HX, United Kingdom
Wixroyd Holdings Limited	England & Wales	Holding Company	Langford Locks, Kidlington, Oxford, OX5 1HX, United Kingdom
*Wixroyd Group Limited	England & Wales	Distribution	Langford Locks, Kidlington, Oxford, OX5 1HX, United Kingdom
*Coburg Components Ltd	England & Wales	Holding Company	Langford Locks, Kidlington, Oxford, OX5 1HX, United Kingdom
*Automotion Components Limited	England & Wales	Distribution	Langford Locks, Kidlington, Oxford, OX5 1HX, United Kingdom
*Teknipart Limited	England & Wales	Distribution	Langford Locks, Kidlington, Oxford, OX5 1HX, United Kingdom

Notes to the financial statements*for the year ended 31 December 2022* (continued)**14 Investments in subsidiary undertakings** (continued)

Subsidiary undertakings	Country of incorporation	Principal activity	Registered office
Essentra Components (India) Private Ltd India (90% owned)	India	Trading	Brigade Rubix, No. 20, Unit 302, HMT Main Road, Phase-1, Jalahalli, Bengaluru, 560022, India
Essentra Components srl	Italy	Trading	Padulle di Sala Bolognese, Via dei Pioppi 2, Bologna, 40010, Italy
Componentes Innovadores Limitada	Costa Rica	Manufacturing	Cartago-Cartago Parque Industrial Y Zona Franca Zeta, Cartago, Edificios, 48C3 48C4, Costa Rica

* indicates shares held indirectly

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 2021. The results of this valuation have been updated to 31 December 2022 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 2015, and curtailment gains were recognised in profit or loss accordingly in 2015. Following the closure of the Group's principal defined benefit pension scheme to future accruals, the scheme is funded by the Essentra plc Group 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.

In April 2022, the Essentra plc, Essentra Components Limited and Essentra Pension Trustees Limited (the trustee of the UK Essentra Pension Plan) entered into a flexible apportionment agreement ("FAA") subject to UK legislation such that Essentra Packaging and Security Limited (a former participating employer and Essentra plc Group subsidiary now disposed), and Essentra Filter Products Limited and Essentra Pte Limited (both former participating employers and Essentra plc Group subsidiaries both disposed) transferred all defined benefit pension liabilities to Essentra Components Limited, a continuing participating employer of the UK Essentra Pension Plan.

In consideration for the trustee entering into the FAA, it was agreed that Essentra Components Limited pay the following amounts into the Essentra section of the UK Essentra Pension Plan: i) £0.7m (this was paid during the year); and ii) £1.3m payable upon completion of the divestiture of the Packaging business in the year of disposal which will be paid in 2023, and make further cash payments of £0.6m in each of the six years after the year of divestiture; and iii) £1.3m payable upon completion of the divestiture of the Filters business in the year of disposal which will be paid in 2023, and make further payments of £0.6m in each of the six years after the year of divestiture.

Notes to the financial statements

for the year ended 31 December 2022 (continued)

15 Retirement benefit assets (continued)

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

	2022 £000	2021 £000
Amounts expensed against operating profit		
Defined contribution scheme	498	424
Defined benefit scheme – service cost and administrative expense	239	187
Total operating expense	737	611
Amounts included as other income		
Net interest on defined benefit scheme assets	(3,155)	(1,186)
Net interest on defined benefit scheme liabilities	2,739	1,128
Gain on settlement	(12,564)	-
Net interest income (including gain on settlement)	(12,980)	(58)
Amounts recognised in the statement of comprehensive income		
Returns on defined benefit scheme assets excluding net interest income	(52,105)	(1,636)
Impact of changes in assumptions and experience to the present value of defined benefit	34,331	9,546
(losses)/gains on remeasurement of defined benefit scheme	(17,774)	7,910

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

	2022 %	2021 %
Increase in salaries	n/a	n/a
Increase in pensions:		
at RPI capped at 5%	3.0	3.1
at CPI capped at 5%	2.7	2.7
at CPI minimum 3%, capped at 5%	3.3	3.3
at CPI capped at 2.5%	2.2	2.2
Discount rate	4.8	1.9
Inflation rate	3.1	3.0
Post-retirement mortality (in years):		
Males retiring today at age 65	22.0	22.0
Females retiring today at age 65	24.4	24.4
Males retiring in 20 years at age 65	23.3	23.2
Females retiring in 20 years at age 65	25.9	25.8

Notes to the financial statements

for the year ended 31 December 2022 (continued)

15 Retirement benefit assets (continued)

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 £272,000 (2021: £162,000) were paid during the year ended 31 December 2022.

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:

	2022 £000	2021 £000
Equities	61,819	24,966
Bonds / Liability driven investment ("LDI")	56,696	63,587
Annuity policies	7,067	-
Cash held and other	433	1,044
Fair value of scheme assets	126,015	89,597
Present value of scheme liabilities	(118,358)	(77,179)
Net retirement benefit assets	7,657	12,418

Notes to the financial statements

for the year ended 31 December 2022 (continued)

15 Retirement benefit assets (continued)

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	2022 Total £000	Defined benefit pension scheme assets £000	Defined benefit pension scheme liabilities £000	2021 Total £000
Beginning of year	89,597	(77,179)	12,418	92,356	(87,845)	4,511
Settlements*	87,090	(74,552)	12,538	-	-	-
Business combinations	2,996	(2,970)	26	-	-	-
Service cost and administrative expense	(239)	-	(239)	(187)	-	(187)
Return on plan assets excluding amounts in net interest income	(52,105)	-	(52,105)	(1,636)	-	(1,636)
Actuarial gains arising from change in financial assumptions	-	40,647	40,647	-	5,489	5,489
Actuarial (losses) / gains arising from demographic assumptions	-	(1,694)	(1,694)	-	1,717	1,717
Actuarial gains arising from experience	-	(4,622)	(4,622)	-	2,340	2,340
Finance income/(expense)	3,155	(2,739)	416	1,186	(1,128)	58
Benefits paid	(4,751)	4,751	-	(2,248)	2,248	-
Contributions by employer	272	-	272	126	-	126
End of year	126,015	(118,358)	7,657	89,597	(77,179)	12,418

* The net settlement of £12,538,000 above relates to the transferred defined benefit pension liabilities to Essentra Components Limited from former participating employers and former subsidiaries of Essentra plc, being Essentra Packaging and Security Limited, Essentra Filter Products Limited and Essentra Pte Limited. As a consequence a gain on settlement of £12,564,000 has been recognised within the profit and loss.

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 2022.

	(Increase)/decrease in scheme liabilities £000
0.5% decrease in the discount rate	(8,283)
0.5% increase in the discount rate	6,832
1.0% decrease in the rate of inflation	5,636
1.0% increase in the rate of inflation	(7,002)
1 year increase in life expectancy	(4,099)

Notes to the financial statements

for the year ended 31 December 2022 (continued)

16 Inventories

	2022	2021
	£000	£000
Raw materials and consumables	911	1,103
Finished goods and goods held for resale	14,615	14,983
	<u>15,526</u>	<u>16,086</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 £3,184,000 (2021: £4,301,000).

17 Debtors

	2022	2021
	£000	£000
Trade debtors	2,799	2,969
Other debtors	69	13
Amounts owed by group undertakings	111,172	77,794
Other taxes	300	827
Prepayments	845	407
Derivative financial assets	-	189
	<u>115,185</u>	<u>82,199</u>

Included in amounts owed by group undertakings is an amount of £106,312,000 (2021: £67,767,000) 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 interest rate benchmark, Sterling Overnight Index Average ("SONIA"). The Company adopted SONIA from 1 January 2021 following the adoption of the Interest Rate Benchmark Reform. Other amounts owed by group undertakings are trading balances under normal commercial terms and interest is not charged.

18 Deferred tax assets / (liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets	Liabilities	2022 Net	Assets	Liabilities	2021 Net
	£000	£000	£000	£000	£000	£000
Tangible fixed assets ¹	3,907	-	3,907	3,621	-	3,621
Employee benefits ²	-	(1,844)	(1,844)	-	(3,034)	(3,034)
Other temporary differences ³	14	-	14	56	-	56
Deferred tax asset/(liability)	<u>3,921</u>	<u>(1,844)</u>	<u>2,077</u>	<u>3,677</u>	<u>(3,034)</u>	<u>643</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 2022* (continued)**18 Deferred tax assets / (liabilities) (continued)**

	2022	2021
	£000	£000
Deferred tax assets/(liabilities) movements in the year:		
At beginning of year	643	1,936
(Charge) / credit to the income statement in respect of the current year	(2,559)	(507)
Adjustments in respect of prior periods	261	494
Credit/ (charge) to other comprehensive income	4,444	(2,248)
Credit to reserves	-	100
Change in tax rates	(712)	868
	<hr/>	<hr/>
At end of year	2,077	643
	<hr/>	<hr/>

19 Creditors: amounts falling due within one year

	2022	2021
	£000	£000
Trade creditors	4,443	5,053
Amounts owed to group undertakings	34,737	30,120
Corporation tax	-	6
Other creditors including taxation and social security	757	493
Accruals and deferred income	3,490	3,357
Derivative financial instruments	473	3
Deferred consideration	180	-
IFRS 16 lease liability	530	511
	<hr/>	<hr/>
	44,610	39,543
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Amounts owed to group undertakings are repayable on demand, unsecured and interest is charged at a rate set with reference to the interest rate benchmark, SONIA.

20 Creditors: amounts falling due after one year

	2022	2021
	£000	£000
IFRS 16 lease liability	4,158	4,578
Deferred consideration	2,418	-
	<hr/>	<hr/>
	6,575	4,578
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Notes to the financial statements

for the year ended 31 December 2022 (continued)

21 Called up share capital

	2022	2021
	£000	£000
Issued and fully paid ordinary shares of 10p (2021: 10p) each	71,302	16,959
Number of ordinary shares in issue	Number	Number
At beginning and end of year	169,587,979	169,587,979
Issue of new shares	543,430,000	-
At end of year	713,017,979	169,587,979

22 Dividends paid

The directors do not propose a final dividend in respect of the financial year ended 31 December 2022 (2021: £nil).

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

As at 31 December 2022, the Company's immediate parent undertaking is Essentra International Limited, a company incorporated in England and Wales. The Company's immediate parent changed to ESNT International Limited in June 2022.

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 Langford Locks, Kidlington, Oxford, OX5 1HX, England.