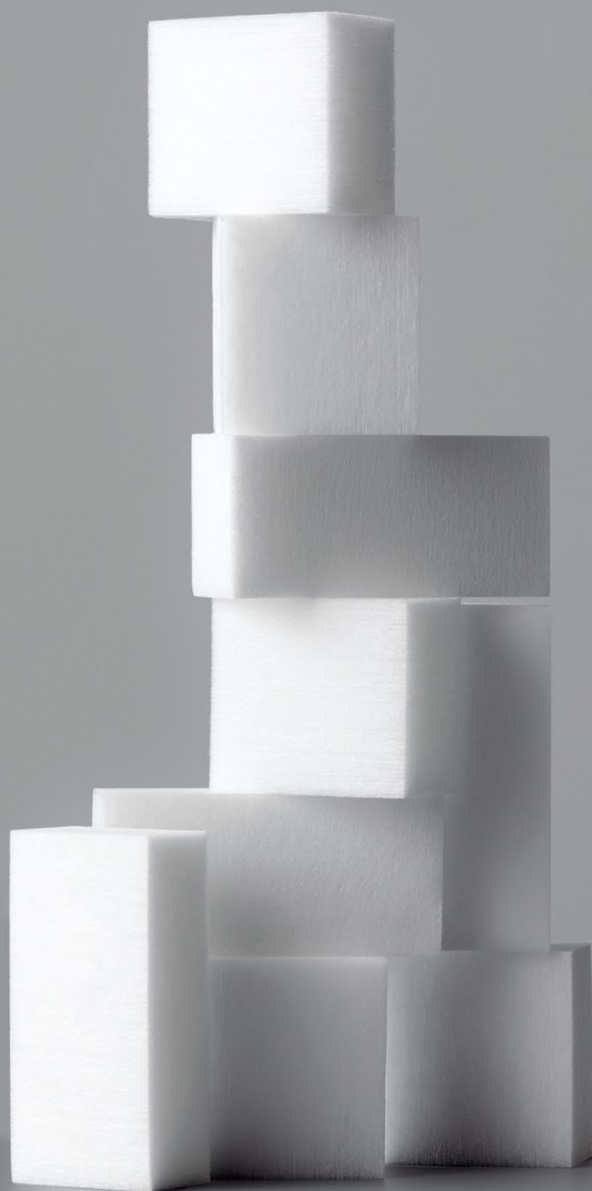




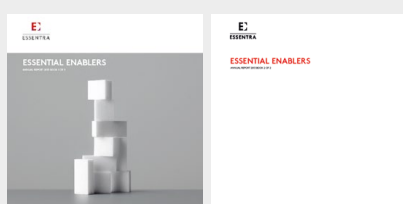
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ESSENTRA



ESSENTRA BELIEVES THAT LITTLE THINGS MAKE THE WORLD GO ROUND. WE ARE PROUD OF WHAT WE DO AND WANT TO SHOW THAT EVEN OUR SMALLEST COMPONENTS PLAY A BIG PART.

## ESSENTRA: THE ESSENTIAL ENABLERS



### ESSENTRA ANNUAL REPORT 2013

This year's report is divided into two books. Book 1 contains the Strategic Report and the Directors' Report, including the Chief Executive's Review, the Financial Review, the Chairman of the Board's Letter and the Remuneration Committee's Report. Book 2 contains the FY 2013 financial statements, including details of the Company's accounting policies and the independent external auditor's report to the members of Essentra plc.

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### OUR OPERATING DIVISIONS

PAGE 24

#### COMPONENT & PROTECTION SOLUTIONS

Providing essential products for a range of end-markets, including the oil and gas, industrial and electrical sectors.

PAGE 28

#### POROUS TECHNOLOGIES

Developing innovative solutions for essential everyday items, ranging from healthcare products to office and school consumables.

PAGE 32

#### PACKAGING & SECURING SOLUTIONS

Providing essential and innovative solutions for thousands of supermarket and pharmacy items, as well as to the point of purchase and paper and board industries.

PAGE 36

#### FILTER PRODUCTS

Providing key components, packaging solutions and analytical laboratory services to the tobacco industry, a global market with growth in Asia and emerging countries.

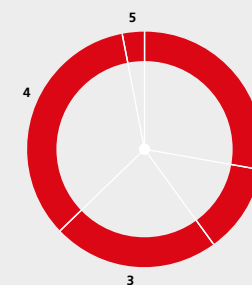
#### OTHER

Supplying technical and innovative plastic extrusions to the industrial, construction, point of purchase and furniture sectors.

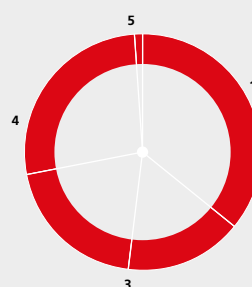
### CONTRIBUTION TO GROUP

Operating divisions	2013	2013
	Revenue	Operating profit
	(%) <sup>2</sup>	(%) <sup>1,2</sup>
1. Component & Protection Solutions	28	36
2. Porous Technologies	12	16
3. Packaging & Securing Solutions	23	20
4. Filter Products	34	27
5. Other	3	1

#### REVENUE

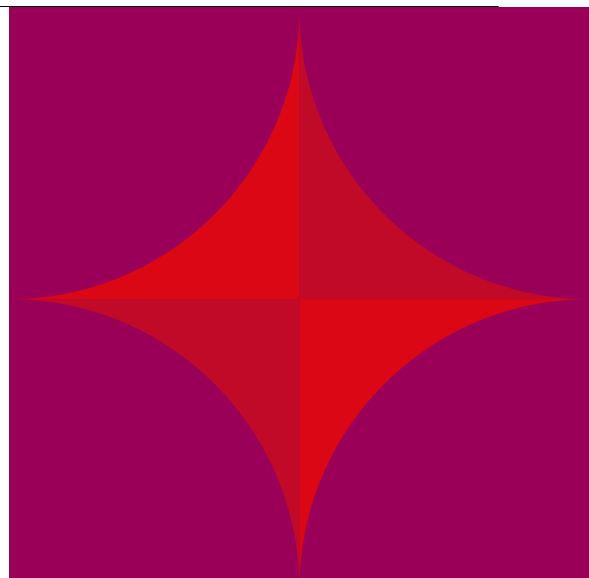


#### OPERATING PROFIT



<sup>1</sup> Before intangible amortisation and exceptional operating items

<sup>2</sup> Adjusted to reflect the impact of eliminations and excluding central costs



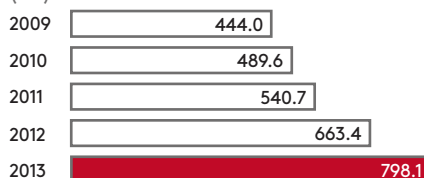
## KEY HIGHLIGHTS OF 2013\*:

- REVENUE GROWTH OF 20% (+9% LIKE-FOR-LIKE<sup>1</sup>), WITH AN INCREASE IN ALL DIVISIONS
- ADJUSTED<sup>2</sup> OPERATING PROFIT UP 23%, WITH MARGIN EXPANSION OF 40BPS TO 16.3%
- ADJUSTED<sup>2</sup> EPS AHEAD 20% TO 38.0P
- NET WORKING CAPITAL IMPROVEMENT TO 10.7% OF REVENUE, DOWN 40BPS
- NET DEBT OF £217M, WITH STRONG CASH FLOW GENERATION BEING OFFSET BY ACQUISITION SPEND AND HIGHER DIVIDEND PAYMENTS
- FULL YEAR DIVIDEND +23% TO 15.4P PER SHARE
- ORGANISATIONAL CHANGE AND CONTINUED INVESTMENT TO UNDERPIN FUTURE GROWTH OPPORTUNITIES

## FINANCIAL HIGHLIGHTS:

## REVENUE

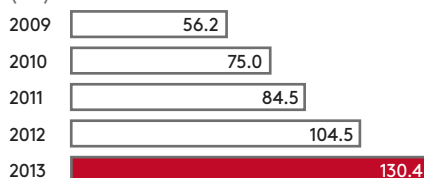
(£m)



+20%

OPERATING PROFIT<sup>†,\*\*</sup>

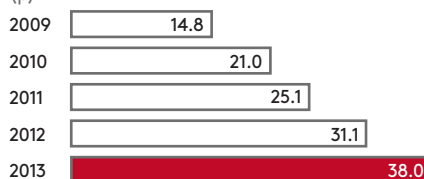
(£m)



+25%

ADJUSTED EARNINGS PER SHARE<sup>†,\*\*</sup>

(p)



+22%

## Cautionary forward-looking statement

This Annual Report contains forward-looking statements based on current expectations and assumptions. Various known and unknown risks, uncertainties and other factors may cause actual results to differ from any future results or developments expressed or implied by the forward-looking statement. Each forward-looking statement speaks only as of the date of this Report. The Company accepts no obligations to revise or update publicly these forward-looking statements or adjust them to future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required.

\* Figures presented in the Key Highlights are shown at constant exchange rates

<sup>1</sup> Excluding the impact of acquisitions and disposals

<sup>2</sup> Excluding intangible amortisation and exceptional items, less tax relief thereon

<sup>†</sup> On a continuing operations basis, excluding the impact of intangible amortisation and exceptional items, less tax relief thereon

<sup>\*\*</sup> 2012 restated to reflect the adoption of IAS 19 (Revised 2011)

## ESSENTRA AT A GLANCE



EVERY DAY WE PRODUCE AND DISTRIBUTE MILLIONS OF SMALL BUT ESSENTIAL PLASTIC, FIBRE, FOAM AND PACKAGING COMPONENTS. OUR INTERNATIONAL NETWORK EXTENDS TO 32 COUNTRIES.

## OUR FOUR PRINCIPAL OPERATING DIVISIONS:

## COMPONENT & PROTECTION SOLUTIONS

The Components business is a global, market-leading supplier of protection and finishing products, manufacturing and distributing plastic injection moulded, vinyl dip moulded and metal items. Operating units in 25 countries serve a very broad industrial base of customers with a rapid supply of essential components for a variety of applications in industries such as equipment manufacturing, automotive, fabrication, electronics and construction.

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

## 2013 HIGHLIGHTS

- > Balanced growth in Components and Pipe Protection Technologies
- > Publication of integrated regional Components catalogues
- > Launch of new supply chain hub in Europe
- > Completion of global integration of Richco, Inc. into Essentra Components
- > Acquisition of Mesan Kilit A.S. in Turkey and Ulinco Components AB in Sweden
- > Successful roll-out of a new and complementary product to the MaxX API compliant thread protector
- > Significant business wins in Pipe Protection Technologies

**£223.7m** +7.3%  
Revenue  
(2012: £208.4m)

**£52.6m** +14.6%  
Operating profit<sup>1</sup>  
(2012: £45.9m)

## POROUS TECHNOLOGIES

A global, market-leading developer and manufacturer of custom fluid handling components, engineered from a portfolio of technologies including bonded and non-woven fibre, polyurethane foam and porous plastic. Representing leading innovations used in healthcare, consumer and industrial applications, its enabling components are found in a wide range of products from medical diagnostics tests to advanced wound care pads, inkjet printer cartridges, writing instruments, clean room wipes and air fresheners. Customers in over 56 countries are served from six manufacturing facilities, with research and development centres supporting the division globally.

## 2013 HIGHLIGHTS

- > Strong growth in writing instruments and printer systems
- > Successful commercial developments with global customers and market entry into China in wound care
- > Expansion in writing instruments, with strong progress in nibs and global roll-out of mid-tier reservoirs
- > Significant growth in products using porous plastics, boosted by further IP development
- > Investment in new sterile alcohol bottling production capability for clean room wipes
- > Establishment of filtration technology for the transportation and industrial end-markets in the US and Europe
- > Launch of commercial presence in India

**£100.0m** +16.6%  
Revenue  
(2012: £85.8m)

**£23.5m** +14.1%  
Operating profit<sup>1</sup>  
(2012: £20.6m)



FURTHER DETAILS ON PAGE 24



FURTHER DETAILS ON PAGE 28



## PACKAGING & SECURING SOLUTIONS

A leading global provider of packaging and securing solutions to a diversified blue-chip customer base. The division focuses on delivering value-adding innovation, quality and service through the provision of a wide range of cartons, tapes, leaflets, foils, labels and brand protection security solutions, and primarily serves the consumer, healthcare and specialist packaging, point of purchase and paper and board industries. It is also Europe's leading provider of identity card printers, systems and accessories to direct and trade customers. Customers in over 100 countries are served from facilities in ten countries, with development and design centres supporting the division worldwide.

### 2013 HIGHLIGHTS

- > Growth led by Speciality Tapes, supported by Packaging
- > Significant expansion of healthcare packaging offering, through the acquisition of Contego Healthcare Limited and Dakota Packaging Limited
- > Launch of "Packaging Resolved" positioning, aimed at better identifying and meeting consumer needs
- > Further geographic and range extension in Speciality Tapes
- > Successful development of innovative new products
- > Integration and consolidation of facilities, to drive further opportunities and efficiencies
- > Winner of prestigious packaging awards in the UK, China and Asia

**£181.8m** +58.2%  
Revenue  
(2012: £114.9m)

**£30.2m** +38.5%  
Operating profit<sup>1</sup>  
(2012: £21.8m)



FURTHER DETAILS ON PAGE 32

## FILTER PRODUCTS

The only global independent cigarette filter supplier. The nine worldwide locations, including a UK-based research facility and three regional development centres, provide a flexible infrastructure strategically positioned to serve the tobacco industry. The division supplies a wide range of value-adding high quality innovative filters, packaging solutions to the roll your own sector and analytical laboratory services for ingredient measurement to the industry.

### 2013 HIGHLIGHTS

- > Further excellent growth, supported by successful new products and additional services
- > Significant increase in revenue from innovative new special filters, and further IP development
- > Award of the largest individual contract in Essentra's history from a major multinational customer
- > Award of UK government contract for smoke testing in Scientific Services
- > Improved capacity and capability from continued investment in high speed, flexible machines
- > Successful establishment of a joint venture in Dubai

**£269.9m** +15.5%  
Revenue  
(2012: £233.6m)

**£40.1m** +40.2%  
Operating profit<sup>1</sup>  
(2012: £28.6m)



FURTHER DETAILS ON PAGE 36

<sup>1</sup> Excluding intangible amortisation and exceptional items, less tax relief thereon





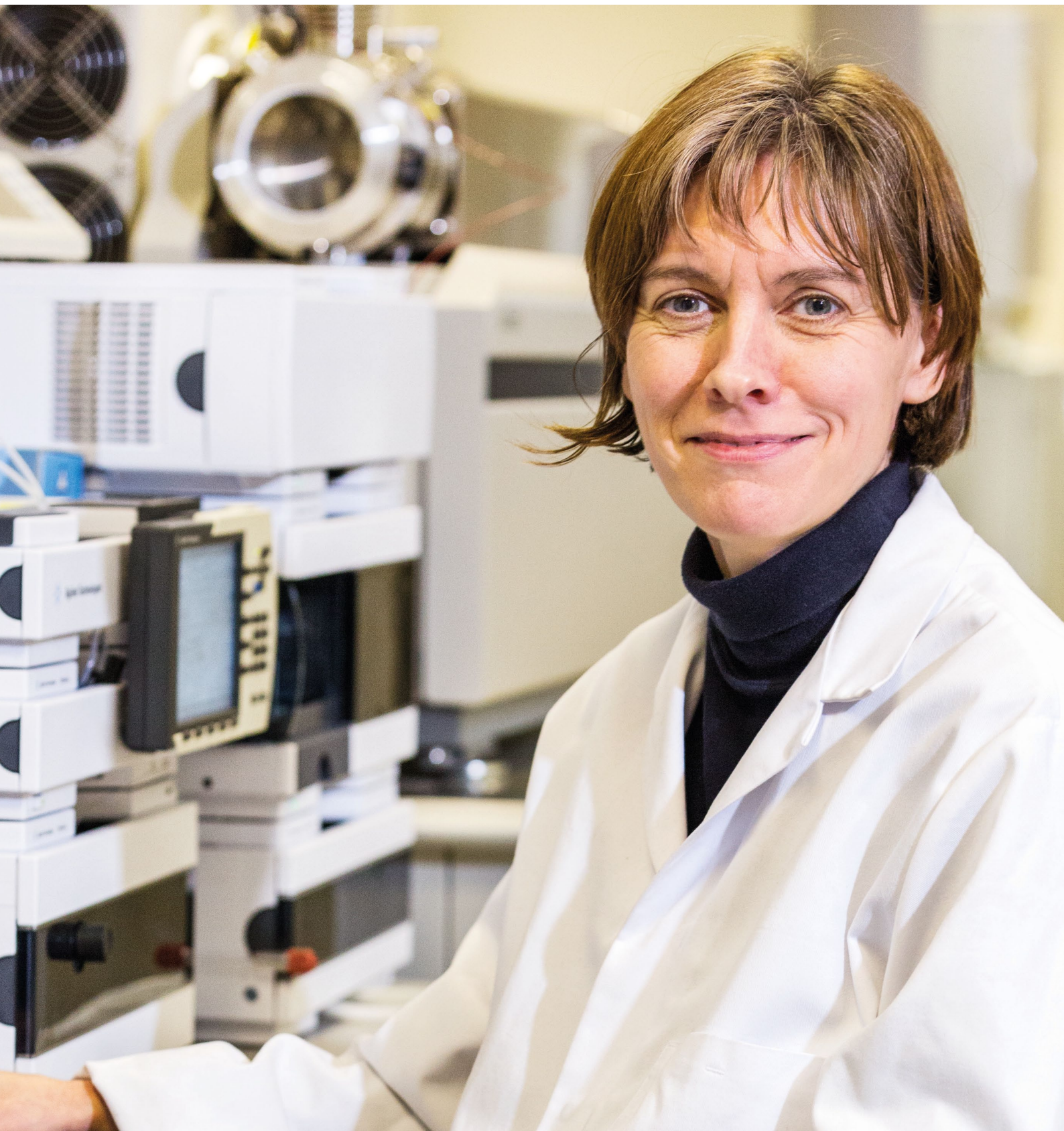




## ESSENTIAL ENABLERS

Our production capability delivers enough tear tape to go around the world more than 700 times, providing easy opening, branding communication and security to packaging









## ESSENTIAL ENABLERS

With over 20 years' experience, our world-leading, internationally-accredited Scientific Services laboratory offers extensive commercial testing and product solutions to the tobacco industry









## ESSENTIAL ENABLERS

With over one billion items in stock, our Components' inventory and logistics infrastructure are unique assets









## ESSENTIAL ENABLERS

With multi-million pound print facilities, we are well-positioned to deliver the very best in quality, service and reliability to our customers and consumers

## WHAT WE DO

# WHAT WE DO

ESSENTRA OPERATES AT A COMPANY AND A DIVISIONAL LEVEL. THE COMPANY IS RESPONSIBLE FOR MANAGING THE OVERALL PORTFOLIO OF BUSINESS ACTIVITIES, TO CREATE SUSTAINABLE LONG-TERM VALUE FOR SHAREHOLDERS.

## CLEAR PORTFOLIO MANAGEMENT

### WE HAVE A CLEAR MODEL FOR MANAGING OUR PORTFOLIO OF BUSINESS ACTIVITIES

#### Strategic framework

Essentra's business and financial objectives are clearly defined in its Vision 2015 strategy, which calls for balanced, profitable organic growth complemented by value-creating acquisitions. Each of the businesses is responsible for contributing to Essentra's overall strategic priorities, to ensure the Company's ongoing success and, hence, the creation of sustainable long-term shareholder value.

#### Risk management and governance

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

#### Talent management

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

#### Legal requirements and compliance

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

## SHARED DIVISIONAL PRIORITIES

### LEVERAGE OUR SCALE

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

# 42

Principal manufacturing facilities

### OPERATE EFFICIENTLY

We have a comprehensive international production and distribution footprint, which can be flexed to respond to customers' needs, whether they be product, service, cost or supply chain driven. Supported by sophisticated IT systems, we are focused on being a low cost producer, to secure revenue growth at attractive margins. Continuous improvement programmes, with tight cost control and productivity gains, serve to reduce conversion costs.

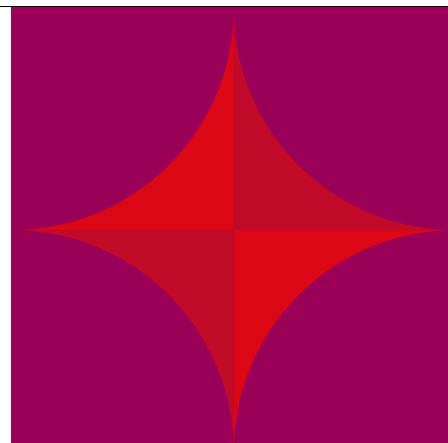
# 34.9%

Gross margin (at constant exchange)



## OUR BUSINESS MODEL

The Company is responsible for managing the overall portfolio of business activities, to create sustainable long-term value for shareholders. Essentra has clear processes and procedures in place to ensure effective and efficient management across all of our segments.



### INVEST IN NEW PRODUCT INNOVATION

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

**5**

Research and development facilities

### DEVELOP LONG-TERM CUSTOMER RELATIONSHIPS

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

**64**

Sales and distribution operations to serve our international customer base

### BENEFIT FROM OUR EXPERIENCED MANAGEMENT TEAM AND TALENT BASE

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

**9YRS**

Average service of senior management



## DELIVERING VALUE

### BUILD ON OUR LEADING INTERNATIONAL MARKET POSITIONS

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

**59%**

Total shareholder return

## CHIEF EXECUTIVE'S REVIEW

# DELIVERING BALANCED, PROFITABLE GROWTH

OUR VISION 2015 STRATEGY CONTINUES TO GAIN MOMENTUM AND TO DRIVE VALUE FOR OUR SHAREHOLDERS.

## WELCOME TO ESSENTRA!

I am pleased to present this inaugural Annual Report for Essentra plc, and to report that in 2013 we continued to make excellent progress towards our Vision 2015 strategic objectives.

### Delivering balanced, profitable growth

In FY13, revenue increased 9% on a like-for-like basis, again well in excess of our Vision 2015 objective of at least mid single-digit growth, and in an economic environment which was not without challenge.

Our strong performance was supported by continued product innovation, range expansion and investment in both existing and new geographies. Following an excellent performance in 2012, Filter Products delivered another noteworthy result, with like-for-like revenue growth of 17%. The division also successfully won significant new business for its innovative products, including a long-term agreement with a major multinational customer which is the largest individual contract in the Company's history: this incremental revenue did not have a material impact on the FY13 results, as initial shipments only commenced at the very end of Q3. And, following a period of challenging end-markets, the backdrop for our Extrusion business started to improve in the second half of the year, with a strong uptick in orders in Q4. Indeed, as a leading international supplier, with strong R&D and engineering capabilities and a breadth of technical expertise, this more encouraging market outlook should position us well for further business wins through value-added innovation to customers.

With continued rigorous control of our cost base and the delivery of acquisition integration synergies and other savings initiatives, FY13

adjusted operating profit was 23% ahead (at constant exchange), equating to a 40bps uplift in the margin to 16.3%. With a strong focus on our financing costs and a further 200bps improvement in our tax rate, adjusted earnings per share (at constant exchange) rose 20% – again, well above our Vision 2015 objective of at least double-digit growth.

During the year we continued to invest in future revenue growth opportunities, with FY13 net capital expenditure of £44m: notwithstanding this spend, and benefiting from a further 40bps improvement in net working capital / revenue, we generated strong operating cash flow with a conversion ratio of 82%. And we reconfirmed our commitment to paying a progressive dividend, with a recommended 23% increase in the FY13 payout to 15.4p per share.

Consistent with our strategy, we successfully completed a number of value-adding transactions which complemented the organic performance of the Company during the year. In February, we reported the formation of a joint venture ("JV") for our Filter Products division in the United Arab Emirates with BBM Bommidala Group, as well as the purchase of Ulinco Components AB ("Ulinco Components") in Sweden in Component & Protection Solutions.

Then, in March, we announced the acquisition of Contego Healthcare Limited ("Contego"), a leading pan-European specialist business providing a range of innovative print, packaging and support services business to the pharmaceutical and healthcare sectors. With a complementary offering to the existing capabilities of our Packaging & Securing Solutions division, fully accredited manufacturing facilities and a strong market

position and experienced management team, the acquisition of Contego step changes the Company's position in these attractive growth end-markets. At £156m, Contego was by far our largest transaction to date, and the Board was very pleased by the endorsement of the deal shown by the Company's major shareholders through their strong support for the 9.99% placing of ordinary shares which partially funded the consideration: the placing raised £142.7m in gross proceeds and the price of 675p per placing share represented a c. 2% premium to the previous day's close.

In November, we complemented the acquisition of Contego and consolidated our position in the sizeable pharmaceutical and healthcare packaging markets in Ireland by purchasing Dakota Packaging Limited ("Dakota"). Finally, shortly before year end we completed the acquisition of Mesan Kilit A.S. ("Mesan"), the leading Turkish manufacturer and distributor of a range of locks, hinges, latches and hardware accessories for use in a wide variety of attractive growth industries. With leading market positions and a proven track record of strong profitable growth, Mesan not only significantly enhances the offering in the growing hardware segment for our Components business, it also acts as a platform for the geographic expansion of our other activities in the region.

### 2013: a year of "horizontalty"

Creating a more unified culture is a key objective of our Vision 2015 strategy, and we are pleased to report that we made significant progress towards that goal in 2013.



### VISION 2015

**"THE CONTINUED IMPLEMENTATION OF OUR VISION 2015 STRATEGY WILL ENABLE US TO DELIVER OUR GOAL OF BALANCED, PROFITABLE GROWTH." FOR MORE INFORMATION SEE PAGES 18-21.**

COLIN DAY

CHIEF EXECUTIVE



### Rebranding to Essentra: the Essential Enablers

While we have progressively been working together in a more co-ordinated way over the last couple of years, nonetheless we were still not all using the same Company name and logo, and had thus never shared a common identity. Indeed, by the time we announced our intention to rebrand on 6 June – some eight years after coming into existence as an independent plc – we had become a collection of 14 trading brands. So, while we had started to operate more collaboratively, there was still some way to go in terms of creating a coherent Company-wide go-to-market offering and platform for customer communication. Moreover, there was very little physical linkage between the operating brands, with each business having its own signage, workwear and e-mail address. Such a disparate approach was acting as a brake on our goal of creating a more cohesive and engaging culture for our people, as well as being inefficient from both a cost and a time perspective.

In summary, we strongly believed that maintaining the status quo was likely, at some point, to constrain the delivery of our objectives for Vision 2015 and beyond, and that, accordingly, rebranding was an important and logical milestone in the Company's evolution.

Although each of our businesses manufactures and distributes a diverse and ostensibly unconnected range of products, what unites us as an organisation is that we are a leading supplier of essential components to our customers. As such, Essentra – an abstract name – was specifically chosen to capture what each of our businesses manufactures and supplies; namely millions of small but

essential components which often play a critical enabling role in the products of the Company's customers, everywhere and every day. The selection of a new brand took over a year of planning, extensive research and testing, and we believe that the new identity of Essentra best represents and clearly encapsulates what the Company does, is and aspires to be.

Having formally rebranded the parent company to Essentra on 26 June, the individual businesses migrated in the second half of the year, with the majority of our sites being renamed on 14 October and the remainder by year-end – as scheduled.

The Board and the Group Management Committee ("GMC") are very pleased with the feedback which we have received to date on our rebranding. In terms of our customers, they are already gaining a greater awareness of the Company's entire product and service offering, with more co-ordinated communication behind a single visual identity; while our investors recognise our new common platform behind which the entire organisation can mobilise, so as to continue to deliver sustained balanced profitable growth.

However, it is from the perspective of our people – who have previously only been only loosely affiliated with "the Company" – that we are particularly encouraged, in terms of the way in which the Essentra brand has been embraced. It has also provided a catalyst for co-ordinating, updating and rethinking the way in which we communicate – both externally and internally, and from digital to printed formats – and, with the parent company having provided the rebranding guidelines and framework, we have been impressed by the way in which these have

been interpreted and executed by our various businesses, all under the Essentra umbrella. Indeed, one of the areas which we have reinvigorated is our Corporate Values (see page 53): while the sentiment has not changed, we have taken the opportunity of using the prominent "E" of the Essentra logo to present our core beliefs in a more succinct and engaging way which is in keeping with our new communication style.

Clearly it is still relatively early days to judge the success of the rebranding and the return on the £2.4m exceptional cost incurred in the process. However, we are convinced that, through working in a more co-ordinated way and leveraging our collective skills and capabilities under a single brand, we can benefit all our stakeholders. As such, the rebranding not only helps to underpin the delivery of our Vision 2015 strategic objectives in its final year, but also appropriately reflects our future ambitions.

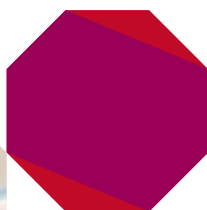
### Moving towards a matrix organisational structure

It is imperative that we continue to evolve as Essentra becomes larger, to ensure that we maximise the opportunities available to the Company and, thus, the value we deliver to our shareholders.

During the year, we introduced a new organisational structure for our faster-growing opportunity markets, which has resulted in the appointment of dedicated General Managers in India, China and Latin America. Together with our Group Commercial Director, and with appropriate input from business-level management, these General Managers are responsible for maximising Essentra's presence in their respective territory. As a result, we are now going to market in a more



## CHIEF EXECUTIVE'S REVIEW CONTINUED



**Left:**  
Design is a vital part of the packaging process, and our expertise in this area allows us to add value to our customers' packs and help deliver a crucial competitive advantage

category-focused way, benefiting from the skills we have across our divisions to serve key customers better and to become a more relevant and important partner to them.

Then, towards the end of 2013 and as a logical next step to our more horizontal approach to faster-growing markets, we announced our intention to introduce a new regional organisational structure. This will supplement our divisional structure, and is designed as a growth enabler – to ensure that we operate in a more cohesive and co-ordinated way, so as to optimise and unify our investments, processes, resources and go-to-market efforts around the world.

As a result, we will adopt more of a matrix organisational structure that will deliver greater in-market accountability and responsibility, and will better allow us to benefit from our collective capabilities and operate in a more efficient way.

The new structure groups our operations into three geographic regions – Europe, Americas and Asia – ultimately each with a small dedicated management team comprised of key business functions, including Finance, Commercial, Operations, Legal & Compliance and Human Resources. The role of these teams will be to drive “today’s business” in terms of in-market execution (ie, commercial, production and back office support), with the divisions taking responsibility for those activities of a longer-term, more strategic nature which will underpin “tomorrow’s business” (including planning, M&A, product innovation and range development).

To facilitate greater co-ordination between our businesses, so as to maximise the opportunities in each respective region, we have also decided to organise our divisional activities into two

Strategic Business Units (“SBU’s”): Distribution, which will encompass the Components business, and Specialist Technologies, which will include all our other activities.

A regional organisational structure has already been implemented by our Components business as well as in Health & Safety, with Human Resources and IT also managed along regional lines with effect from 1 January 2014, so we have already made some progress towards this end. However, it is neither possible nor desirable to achieve these changes – which we expect to be cost-neutral – in one step, and therefore we will be phasing the integration process over the course of 2014. As 2014 will, thus, be a year of transition, we will retain our current divisional segment analysis for the purpose of internal and external financial reporting.

#### Working together more collaboratively

In 2012, we established a number of principal product categories – from “industrial” to “point of purchase” – from which to deliver the next stage of our revenue expansion, and we made further progress in terms of exploiting existing – and importantly, new and innovative – product and cross-selling opportunities in 2013. One such example was the launch of AquaSense™, a label concept developed and jointly patented by our Packaging and Porous Technologies businesses, and designed to help maintain and control freshness by storing and releasing water through its unique structure and material technology. An additional and more wide-ranging example of collaboration has been a Company-wide project assessing our collective capabilities to serve the rapidly growing e-cigarette market. Following 12 months of intensive inter-divisional research into the industry itself and the substantial range of products available, we believe that as a Company we are well-positioned to act as a

key supplier of high quality components – not merely of filters, but also of liquid / vapour handling solutions, extruded plastic, components and packaging – and will be seeking to commercialise our offering in 2014.

We are also increasingly either leveraging our site footprint in a more optimal way or, where we are investing in new facilities, ensuring that these provide opportunities to consolidate our respective businesses under one roof. In Germany, where our Components business required additional warehousing, we have successfully freed up space at Reinbek through transferring a portion of Filters activity to Hungary: this reconfiguration saved us €6m of capital expenditure that would have been incurred in building a new site. In India, our new 70,000 sq. ft. bespoke facility, which became operational in November as scheduled, has the capacity to accommodate manufacturing, warehousing and the appropriate infrastructure for all Essentra’s business activities. And our £7m newly-constructed Components distribution centre at Kidlington, UK, not only allows us to deliver a wider choice of standard products next day, but will also act as a hub for servicing our UK and European network.

Our Group Operations Director and his team are continuing to review our footprint, to identify further opportunities for rationalisation and efficiency savings through adopting a more Company-wide approach to our manufacturing and distribution capabilities.

#### Further strengthening the talent base

At all levels, our employees are a vital resource and we made a number of key appointments across the Company in 2013.

On the GMC, we welcomed Stefan Schellinger to Essentra as Corporate Development Director. Stefan brings significant mergers and acquisitions experience, and will be responsible for the development of Essentra’s overall strategy as well as the pipeline of potential transactions.

As leaders of our matrix organisational structure, we announced the appointment of Hugh Ross, Brett York, Scott Fawcett and Martin Dallas to the newly-created GMC positions of Managing Director – Europe, President – Americas, Managing Director – Distribution and Managing Director – Specialist Technologies respectively. We also filled the General Manager roles in China, India and Latin America to drive the development of our



**Above:**  
Our friendly and knowledgeable call centre operatives make it easy for our Components' customers to do business with us

overall business activities in their respective markets, as well as created the position of Group Procurement Manager with responsibility for establishing sourcing and procurement strategies for Essentra and ensuring best cost and supply for all businesses and categories of spend.

During the year there were certain departures from the GMC, in addition to which Alan Tidy advised us of his wish to retire from his position as Group Human Resources Director, although he will continue to serve as Chairman of the Essentra Pension Plan Trustee Board and to undertake additional consultancy work for the Company as required following his retirement. Alan will be succeeded by Gavin Leatham in March 2014. On behalf of the Board, I would like to thank those fellow GMC colleagues leaving Essentra for their dedication and commitment to the successful delivery of our Vision 2015 strategy to date.

Both the Essentra Management Development and the Graduate Development Programmes enjoyed further success in 2013. The two-year graduate programme has provided a talent pipeline for a number of years and, in December, 15 people joined the scheme which continues to expand its international reach, with graduates from Hungary, India and Thailand among those recruited. The 2013 intake will join the 21 graduates recruited in 2012, and will have the opportunity to develop

their management skills through bespoke training which takes place around Essentra's sites, giving graduates exposure to the business while carrying out an operational role from day one. In summary, the Board and the GMC have no doubt that through rolling out our new organisational structure, we will be able to provide a more diverse range of career development opportunities across functions, markets and regions, which will help us to better attract and retain talent in the Company.

### **Reinforcing our track record in health and safety**

Essentra's overriding concern in the workplace continues to be the health, safety and welfare of all its employees and those who visit the Company's locations, as well as those who carry out work on our behalf. And during the year, we established a regional leadership team to help drive further improvements in the standards which the Company has already achieved. Indeed, the appointment of Regional HSE Managers in Europe, Americas and Asia, together with a dedicated Systems Manager responsible for the collection, analysis and reporting of critical information, will not only provide a source of geographical expertise, but will also facilitate the rapid implementation of standards and the sharing of best practice across Essentra.

As the global legislative backdrop for HSE continues to change apace, we believe that the adoption of this regional structure will further enhance both the quality and timeliness of our internal data capture and review systems, and thus is a critical element of our compliance strategy in these areas.

### **Our responsibilities**

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

All our principal manufacturing facilities hold the ISO 14001 environmental accreditation and, with the exception of recently-acquired sites (which, as per Essentra policy have a period of 24 months to reach the required standard) they have also achieved the Occupational Health & Safety Management Systems OHSAS 18001; in respect of the latter, the Speciality Tapes site in Bridlington, UK

attained the standard in 2013 as anticipated. Attaining the ISO 50001 energy management standard at all our manufacturing facilities by the end of 2014 is a Company-wide objective, and we made further progress towards that goal during the year.

Essentra is committed to energy efficiency within our organisation and we have continued to improve our performance on this front: at the same time, we have also further reduced the environmental impact of our business in other aspects, with our War on Waste initiative delivering better utilisation – and reuse – of raw materials across the Company.

### **In summary**

In the second full year of Essentra's Vision 2015 strategy, we made further strong progress towards our objectives during 2013 – particularly in terms of implementing initiatives aimed at greater co-ordination and at leveraging more effectively our collective skills. In delivering these results, I would like to acknowledge the efforts of all our employees, and to thank them for their continued dedication and commitment.

And as we enter the final 12 months of Vision 2015, we remain committed to continuing to evolve the business to maximise the potential opportunities available to the Company, not only to underpin the successful delivery of our objectives in 2014 but also our ability to generate long-term value for our stakeholders. The Board and the GMC are collectively engaged in formulating the strategy that will take Essentra beyond 2015, and we look forward to sharing it towards the end of 2014.

### **Outlook**

The diversity of our products and end-markets, together with our international footprint, provides Essentra with a degree of defensiveness in an environment where economic recovery is still at a very early stage. As a result, we are well-positioned to deliver further balanced, profitable growth in 2014, and are aiming to continue to make progress towards our Vision 2015 objectives of at least mid single-digit like-for-like revenue growth and double-digit adjusted earnings per share growth, at constant exchange.

**COLIN DAY**  
**Chief Executive**  
20 February 2014

## STRATEGY AND PROGRESS

## VISION 2015

OUR VISION IS TO BE A LEADING GLOBAL SUPPLIER OF SPECIALITY PLASTIC, FIBRE, FOAM AND PACKAGING COMPONENTS.

### HOW WE WILL ACHIEVE IT

Vision 2015 is an ambitious three-year strategy which was introduced in August 2011, with a view to building upon the positive features and values of the Company while rekindling an appetite for growth behind key business objectives and targets. From a financial perspective, Vision 2015 calls for balanced profitable organic growth: a top-down model with an emphasis on strong performance across the board, rather than placing undue reliance on one particular metric to drive Essentra's results. The Company seeks to complement this balanced, profitable organic growth with value-adding acquisitions across its divisions.

The delivery of Essentra's strategic priorities is underpinned by focusing on key performance indicators which measure the Company's progress in the delivery of shareholder value.

A number of these indicators are also used as principal elements in assessing the short-term and long-term performance of the operating businesses. Executive remuneration is linked to the priorities of Vision 2015.

#### OUR OBJECTIVE

Create sustainable long-term value for our shareholders

#### OUR STRATEGY AND OPERATIONAL PRIORITIES

Focus on strong translation of profit into cash

Deliver balanced, profitable growth in both our existing and future opportunity markets and technologies

Prioritise volume growth to drive higher revenue and gross margin expansion

Re-invest in the business for future growth

PROGRESSIVE  
DIVIDEND

≥ 100% OPERATING PROFIT  
CONVERSION TO CASH

VOLUME LEVERAGE TO DRIVE  
GROSS MARGIN EXPANSION  
50% CONVERSION TO  
OPERATING MARGIN

LIKE-FOR-LIKE REVENUE  
GROWTH ≥ MID  
SINGLE-DIGIT CAGR

#### OUR RESPONSIBILITIES

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



## WHAT WE MEASURE

## WHY WE MEASURE IT

## HOW DID WE DO?

**Total shareholder return** ●

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

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

## TOTAL SHAREHOLDER RETURN (%)

**Dividend per share**

% change in dividend per share

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

## DIVIDEND PER SHARE (p)

**Cash conversion**<sup>1</sup>

Operating cash flow as a % of operating profit

- > Measures how the Company converts its profit into cash

## CASH CONVERSION (%)

**Net working capital ratio**<sup>2</sup> ◇

Defined as inventories plus trade & other receivables less trade & other payables, adjusted to exclude deferred consideration receivable / payable, interest accruals / capital payables and other normalising items, as a % of revenue

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

## NET WORKING CAPITAL RATIO (%)

**Revenue growth**<sup>3</sup> ◇

% growth in like-for-like revenue

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

## REVENUE GROWTH (%)

**Gross margin**<sup>2</sup> ◇

Gross profit as a % of revenue

- > Measures the resources available for re-investment or profit growth

## GROSS MARGIN(%)

**Operating margin**<sup>1,4</sup> ◇

Operating profit<sup>4</sup> as a % of revenue

- > Measures the profitability of the Company

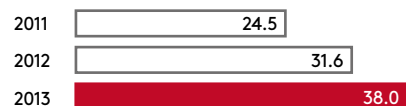
## OPERATING MARGIN (%)

**Earnings per share**<sup>1,4</sup> ●

% change in earnings per share<sup>4</sup>

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

## ADJUSTED EARNINGS PER SHARE (p)



## KEY



Performance measures for the executive Long-Term Incentive Plan



Performance measures for the executive annual bonus plan

<sup>1</sup> 2012 restated to reflect the adoption of IAS 19 (Revised 2011)

<sup>2</sup> At constant exchange rates

<sup>3</sup> At constant exchange rates, excluding acquisitions and disposals

<sup>4</sup> At constant exchange rates, excluding the impact of intangible amortisation and exceptional operating items

## STRATEGY AND PROGRESS CONTINUED

## STRATEGIC OBJECTIVES

ESSENTRA'S KEY STRATEGIC OBJECTIVES CAN BE SUMMARISED AS THE "3Ps": PLACE, PRODUCTS & MARKETS AND PEOPLE. THESE APPLY EQUALLY TO HOW WE SEEK TO DELIVER BALANCED, PROFITABLE ORGANIC GROWTH AND THE WAY IN WHICH WE IDENTIFY VALUE-ADDING, COMPLEMENTARY ACQUISITION OPPORTUNITIES.

### PLACE

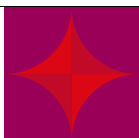
In order to take advantage of new revenue growth opportunities, we look to expand our geographic footprint through reinforcing and strengthening our penetration in existing markets, and our presence in new or faster-growing economies.

### PRODUCTS & MARKETS

We continually seek to develop new product initiatives which will help to drive future revenue growth. In order to continue to add value for our customers, we aim to leverage the collective capabilities of the Company in terms of our intellectual property and business know-how, and successfully commercialise innovative new products in our targeted end-markets. Range expansion and moving into adjacent technologies also provide us with growth opportunities.

### PEOPLE

Essentra's Vision 2015 strategy is not just about financial performance – it is also about people. Indeed at all levels, our employees are a vital resource in the Company's pursuit of operational excellence and the provision of quality products and service to our customers. As an international organisation, it is important that we attract an appropriate level of local talent and enhance mobility through increasing cross-divisional moves.



## STRATEGIC OBJECTIVES

## PROGRESS IN 2013

## PRIORITIES IN 2014

**PLACE** **PRODUCTS & MARKETS**  
**FOCUS ON FASTER-GROWING  
 MARKETS / ECONOMIES**

- > Strategic expansion in India, with the opening of a new purpose-built facility
- > Greater co-ordination in China and Latin America
- > Further site roll-outs in both existing and new markets, to extend reach and improve penetration in Components and Speciality Tapes
- > Entry into opportunity markets via corporate activity (eg, Turkey, UAE)

- > Better leverage opportunities in faster-growing opportunity markets following adoption of a more co-ordinated commercial effort and greater in-market accountability
- > Further expansion of international distribution, sales and marketing expertise, to exploit growth opportunities

**PRODUCTS & MARKETS**  
**IDENTIFY KEY NEW  
 PRODUCT OPPORTUNITIES**

- > Continued range expansion and improved marketing effectiveness
- > Conversion of manufacturing know-how and intellectual property into commercial success across divisions

- > Further successful exploitation of innovative and manufacturing capabilities in new technologies, products and services across the Company

**PLACE** **PRODUCTS & MARKETS** **PEOPLE**  
**IDENTIFY VALUE-CREATING,  
 COMPLEMENTARY M&A OPPORTUNITIES**

- > Acquisitions of Contego and Dakota in Packaging & Securing Solutions
- > Acquisitions of Ulinco Components and Mesan in Component & Protection Solutions
- > Established UAE joint venture in Filter Products

- > Successful integration of 2013 acquisitions
- > Identify further opportunities across our divisions

**PRODUCTS & MARKETS** **PEOPLE**  
**INVESTMENT IN IMPROVING OPERATIONAL  
 EXCELLENCE AND EXECUTION**

- > Continued investment in upgrading / adding machinery and equipment, and capacity expansion
- > Leveraged site footprint more optimally
- > Greater consolidation of business activities at individual sites

- > Continued investment to support revenue growth opportunities
- > Drive revenue growth from a more focused go-to-market effort by end-market
- > Progressive roll-out of regional organisational structure, to leverage collective capabilities better

**PEOPLE**  
**STRENGTHEN ORGANISATIONAL  
 STRUCTURE AND TALENT BASE**

- > Appointed Corporate Development Director, as well as regional and SBU Managing Directors to support the evolving matrix organisational structure
- > Successfully filled positions of General Manager in China, India and Latin America, and a number of other key roles to support Vision 2015 strategy
- > Extended geographical reach of the Management and Graduate Development Programmes

- > Continue to grow and develop talent across Essentra
- > Increase intra-Company moves to enhance mobility
- > Attract appropriate level of talent for a global business
- > Continue to widen the geographic reach of the Management and Graduate Development Programmes



## FINANCIAL REVIEW

# ANOTHER STRONG YEAR FOR ESSENTRA

## FREE CASH FLOW RECONCILIATION

(£m)

Adjusted operating profit	130.4
Non-cash items	25.8
Net working capital	(5.3)
Net capital expenditure	(43.7)
Adjusted operating cash flow	107.2
Tax paid	(17.5)
Net interest paid	(9.4)
Pension contributions	(6.1)
Free cash flow	74.2

## PRINCIPAL EXCHANGE RATES

	Average		Closing	
	FY 2013	FY 2012	FY 2013	FY 2012
US\$:£	1.57	1.59	1.66	1.63
€:£	1.18	1.23	1.20	1.23

### BASIS OF PREPARATION

The financial information is prepared in accordance with IFRSs as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board, and with the accounting policies set out on page 95.

### Foreign exchange rates

Movements in exchange rates relative to sterling affect actual results as reported. The constant exchange rate basis adjusts the comparative to exclude such movements, to show the underlying performance of the Company. For the principal exchange rates for Essentra for the year ended 31 December 2013 ("FY 2013"), see the table above. Re-translating at FY 2013 average exchange rates increases the prior year revenue and adjusted operating profit by £3.6m and £1.3m respectively.

### Like-for-like basis

The term "like-for-like" describes the performance of the business on a comparable basis, excluding the impact of acquisitions, disposals and foreign exchange. The FY 2013 results and the FY 2012 comparatives reflect the results of John R. Lyman Company and Big Blue Properties LLC (together "Lymtech Scientific", acquired on 13 June 2012), Ulinco Components AB ("Ulinco Components", acquired on 20 February 2013), Contego Healthcare Limited ("Contego", acquired on 30 April 2013), Dakota Packaging Limited ("Dakota", acquired on 7 November 2013) and Mesan Kilit A.S. ("Mesan", acquired on 30 December 2013). The impact of Securit World Limited ("Securit", acquired on 17 February 2012) and Joe Yong Co. Ltd ("Joe Yong", acquired on 23 April 2012) are not excluded from the like-for-like results as they are no longer separately identifiable.

### Adjusted basis

The term "adjusted" excludes the impact of intangible amortisation and exceptional operating items, less any associated tax relief. In FY 2013, intangible amortisation was £14.2m (2012: £8.3m), and there was an exceptional pre-tax charge of £19.2m (2012: £10.6m) mainly relating to integration costs and fees arising from the aforementioned acquisitions, and the rebranding of the Company to Essentra plc.

### Trading performance

Full year revenue was 20.3% ahead of the prior year (+19.7% at constant exchange) at £798.1m, with like-for-like growth of 8.7%. Ongoing operational initiatives, volume leverage and successful pricing programmes to mitigate input cost increases were partially offset by the mix effect of the very strong revenue growth in the lower margin Filter Products division. Current year acquisitions had a further dilutive impact such that, in total, the gross margin declined 100bps (120bps at constant exchange), to 34.9%.

On an adjusted basis, operating profit was ahead 24.8% (+23.2% at constant exchange) at £130.4m, equating to a 50bps uplift in the margin to 16.3% (+40bps at constant exchange). Operating profit as reported was £97.0m, 13.3% higher than last year (+11.8% at constant exchange).

### Net finance expense

Net finance expense was broadly unchanged at £10.6m (2012: £10.7m). The net interest charge on net debt rose to £9.5m (2012: £8.5m), primarily as a result of additional debt taken on to finance acquisitions. The amortisation of bank facility fees decreased to £1.0m (2012: £1.3m) and the IAS 19 pension finance charge of £0.1m was lower than the prior year (2012: £0.9m).

### Tax

The effective tax rate on profit before exceptional items and tax was 27.4% (2012: 29.4%).

### Net income

Adjusted net income was up 31.3% (+29.0% at constant exchange) to £86.9m. On a reported basis, net income of £60.3m increased 15.7% (+13.4% at constant exchange). Fully diluted adjusted earnings per share of 37.0p was up 23.3% (21.7% ahead at constant exchange).

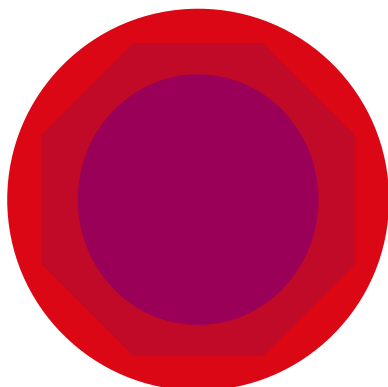
### Dividends

The Board of Directors recommends a final dividend of 10.6p per share (2012: 8.6p), an increase of 23.3%. This takes the FY 2013 dividend to 15.4p per share (23.2% versus FY 2012).

### Net working capital

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

Net working capital of £85.7m was £7.7m higher than the 31 December 2012 level of £78.0m as a result of acquisitions and growth. The net working capital / revenue ratio reduced to 10.7% (2012: 11.1% at constant exchange) due to continued efforts to utilise the Company's working capital more efficiently.



**“WITH LIKE-FOR-LIKE REVENUE GROWTH OF 8.7%, AND ADJUSTED EPS AHEAD 20.2% AT CONSTANT EXCHANGE, IN 2013 WE COMFORTABLY EXCEEDED OUR VISION 2015 TARGETS.”**

#### Cash flow

Operating cash flow increased by 36.6% to £107.2m (2012: £79.3m). This included an outflow of net working capital for the year of £5.3m (2012: £7.8m) and gross capital expenditure of £44.1m (2012: £43.8m), with net capital expenditure at £43.7m (2012: £43.2m). Net capital expenditure equated to 164% (2012: 191%) of the depreciation charge for the year of £26.7m (2012: £22.6m).

Net interest paid was £9.4m (2012: £8.9m) and tax payments decreased by £0.1m to £17.5m (2012: £17.6m). The outflow in respect of pension obligations was lower at £6.1m (2012: £7.6m). Free cash flow of £74.2m (2012: £44.4m) increased by 67.1%.

#### Net debt

Net debt at the end of the period was £217.1m, an increase of £53.6m from 1 January 2013. This reflected free cash flow of £74.2m, offset by dividends totalling £31.2m, net acquisitions of £66.0m (net of share placing) and foreign exchange and other items.

The Company's financial ratios remain strong. The ratio of net debt to EBITDA as at 31 December 2013 was 1.3x (31 December 2012: 1.3x) and interest cover was 13.0x (31 December 2012: 11.1x).

**MATTHEW GREGORY**  
GROUP FINANCE DIRECTOR



#### Balance sheet

At the end of 2013, the Company had shareholders' funds of £398.8m (2012: £238.4m), an increase of 67.3%. Net debt was £217.1m (2012: £163.5m) and total capital employed in the business was £620.1m (2012: £407.2m).

This finances non-current assets of £638.7m (2012: £412.2m), of which £213.7m (2012: £180.3m) is tangible fixed assets, the remainder being intangible assets, deferred tax assets and retirement benefit assets. The Company has net working capital of £85.7m (2012: £78.0m), current provisions of £12.3m (2012: £17.5m) and long-term liabilities other than borrowings of £66.9m (2012: £47.5m). The return on average invested capital (including intangibles) was 18.4% (2012: 21.1%), owing to acquisitions during the year.

#### Pensions

As at 31 December 2013, the Company's IAS 19 pension asset was £10.6m (2012: liability of £3.9m) and the associated deferred tax liability was £1.6m (2012: deferred tax asset of £2.8m). The pension asset has been calculated after updating asset values and certain assumptions as at 31 December 2013.

#### Treasury policy and controls

Essentra has a centralised treasury function to control external borrowing and manage exchange risk. Treasury policies are approved by the Board and cover the nature of the exposure to be hedged, the types of financial investments that may be employed and the criteria for investing and borrowing cash. The Company uses derivatives only to manage foreign currency and interest rate risk arising from underlying business activities. No transactions of a speculative nature are undertaken.

Treasury activities are subject to independent reviews by the Group Assurance department. Underlying policy assumptions and activities are reviewed by the Treasury Committee.

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

#### Foreign exchange risk

The majority of Essentra's net assets are in currencies other than sterling. The Company's normal policy is to limit the translation exposure and the resulting impact on shareholders' funds by borrowing in those currencies in which the Company has significant net assets. As at 31 December 2013, Essentra's US dollar-denominated assets were approximately 45% hedged by its US dollar-denominated borrowings, while its euro-denominated assets were approximately 82% hedged by its euro-denominated borrowings.

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

**MATTHEW GREGORY**  
Group Finance Director  
20 February 2014

## OPERATIONAL REVIEW

# COMPONENT & PROTECTION SOLUTIONS

THE DIVISION IS A GLOBAL, MARKET-LEADING PROVIDER OF A RAPID SUPPLY OF PLASTIC AND METAL PRODUCTS FOR PROTECTION AND FINISHING APPLICATIONS.

## WHO WE ARE AND WHAT WE DO

The Components business is a global, market-leading manufacturer and distributor of an extensive range of plastic injection moulded, vinyl dip moulded and metal items. Operating units in 25 countries serve over 150,000 customers with a rapid supply of essential components for a variety of applications in a very broad range of industries, such as equipment manufacturing, automotive, fabrication, electronics and construction.

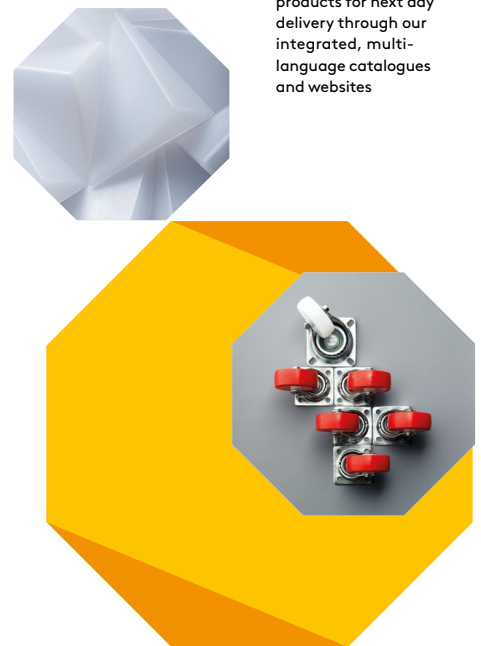
The Pipe Protection Technologies business specialises in the manufacture of high performance innovative products from commodity resins to engineering-grade thermoplastics and polymer alloys for use in a range of end-markets. Locations in four countries, combined with a wide distributor network, serve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

## HOW WE DO IT

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

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

**Below and left:**  
From feet, castors and glides to transit protection, we can offer customers over 60,000 products for next day delivery through our integrated, multi-language catalogues and websites





**£223.7m** +7.3%

Revenue  
(2012: £208.4m)

**£52.6m** +14.6%

Operating profit<sup>1,2</sup>  
(2012: £45.9m)

**23.5%** +150bps

Operating margin<sup>1</sup>  
(2012: 22.0%)

**Right:**

Our comprehensive sample offering allows customers to ensure our components meet their exact requirements



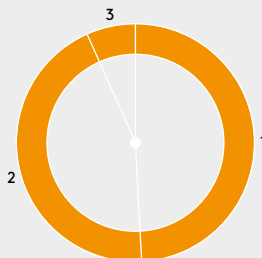
## HOW WE PERFORMED IN 2013

### Delivering balanced, profitable growth

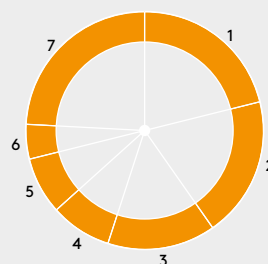
Revenue increased 7.3% (5.7% at constant exchange) to £223.7m. Excluding the acquisition of Ulinco Components in February 2013, like-for-like growth was 4.6% and was driven by improved marketing effectiveness, the roll-out of new distribution sites and continued range development.

Underlying growth in the Components business was broad-based across key end-market sectors and geographies. The product range was expanded, with the addition of a further 5,000 products in both existing segments (including hardware, fasteners and cable management) as well as new areas such as motion control and vibration mounts. In addition, consolidated catalogues featuring our combined trading brand ranges were launched for the first time in Europe, Asia and North America; in the case of the latter region, this means that we now offer our customers over 60,000 products for next day delivery. Our successful roll-out programme continued, with the opening of new sites in Memphis and Greensboro, US as well as market entry in Mexico; the recently-established operations in Slovakia and Austria also performed well.

REVENUE BY DESTINATION	(%)
1. Americas	49.2
2. Europe	44.3
3. Asia including Middle East	6.5



REVENUE BY END-MARKET	(%)
1. Oil and gas	21.3
2. Fabrication machinery	19.1
3. Distributors	14.6
4. Automotive	8.5
5. Electrical / Electronics	7.7
6. Hydraulics / Pneumatics	4.7
7. Other	24.1



Notwithstanding a very strong prior year result, Pipe Protection Technologies delivered further growth in 2013. As anticipated, the comparative performance improved in the second half of the year, boosted by a better market backdrop, encouraging business wins with major customers and new product development. The innovative and industry-compliant MaxX range was further expanded, with the design and launch of a complementary product line to service drilling wellsite applications that require protectors which allow pipes to be lifted individually onto the drilling floor.

Our continued focus on efficient marketing investment and activity, particularly the increasing use of electronic marketing media, delivered strong lead indicators versus the prior year: marketing responses rose 8%, and the number of live accounts at the end of December increased to over 158,000 (+13%).

<sup>1</sup> Before intangible amortisation and exceptional operating items

<sup>2</sup> 2012 restated to reflect the adoption of IAS 19 (Revised 2011)

## OPERATIONAL REVIEW CONTINUED

## REVENUE

(£m)

2009	79.0
2010	108.5
2011	135.9
2012	208.4
2013	223.7

**+7.3%**OPERATING PROFIT<sup>1,\*\*</sup>

(£m)

2009	11.8
2010	23.4
2011	31.1
2012	45.9
2013	52.6

**+14.6%**

## REVENUE PER EMPLOYEE

(£k)

2009	124.2
2010	156.1
2011	157.6
2012	146.0
2013	158.3

**+8.5%**OPERATING MARGIN<sup>1,\*\*</sup>

(%)

2009	14.9
2010	21.6
2011	22.9
2012	22.0
2013	23.5

**+150bps**

Adjusted operating profit grew 14.6% (11.8% at constant exchange) to £52.6m, equating to a 150bps improvement in the margin. This uplift was driven by the continued successful integration and delivery of synergy savings from the acquisitions of Richco, Inc. and Ulinco Components, combined with ongoing operating and process efficiencies.

**Complemented by value-creating M&A**

In February, we expanded our product range and geographic footprint with the acquisition of Ulinco Components. Based in Sweden, Ulinco Components is a leading distributor of plastic protection and finishing products, hardware and specialist masking solutions in the Nordic region.

On 30 December 2013, we announced the acquisition of 100% of the share capital of Mesan. Mesan is the leading Turkish manufacturer and distributor of a range of locks, hinges, latches and hardware accessories for use in a wide variety of end-markets, and significantly enhances our Components offering in this attractive segment. Additionally, with exports into more than 75 countries, including the Middle East & Africa and Asia, Mesan not only provides us with entry into Turkey but also into a number of other fast-growing markets.

**Improving operational excellence and execution**

Towards the end of the year, we expanded our principal European Components facility at Kidlington, UK, with the opening of a new purpose-built distribution centre. Entailing a total investment of over £7m, the 3,500m<sup>2</sup> site will not only provide the necessary space to continue the rapid expansion of our product range, but will also allow us to make even greater improvements to our next day delivery offering through our global supply chain network. As such, it underscores our commitment to delivering a market-leading product range and service level to our customers, with the Kidlington facility not only serving the domestic UK market but also acting as a hub for our entire European distribution network, and allowing the rationalisation of smaller sites.

**2014 KEY INITIATIVES**

- > Exploitation of new eCommerce platform
- > Further geographical expansion of Components and Pipe Protection Technologies businesses
- > Integration of recently-acquired Mesan business
- > Launch of new Components supply chain hubs in Singapore and Louisville, US
- > Successful delivery of new contract wins for Pipe Protection Technologies
- > Implementation of new CRM platform, to drive sales and marketing effectiveness

**Further information on**

[www.essentracomponents.com](http://www.essentracomponents.com)  
[www.essentrapipeprotection.com](http://www.essentrapipeprotection.com)

<sup>1</sup> Before intangible amortisation and exceptional operating items

<sup>\*\*</sup> 2012 restated to reflect the adoption of IAS 19 (Revised 2011)





**Above:**  
Use of the latest technology allows us to pick orders efficiently for rapid shipment to over 150,000 customers

## WHAT WE MEASURE

### Number of active customers

#### Why we measure it

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

#### How we have done

13.5% increase in customers purchasing in the prior 12 months from 2012

### New customer acquisition

#### Why we measure it

Reflects the success of targeting organic growth opportunities

#### How we have done

24.0% increase in live new customers compared to 2012

### Marketing responses

#### Why we measure it

Indicates the potential revenue generating impact of marketing investment

#### How we have done

8.3% increase in marketing responses versus 2012

### On time in full

#### Why we measure it

Demonstrates the ability to meet delivery demands

#### How we have done

90.4% compares to 92.5% in 2012

## MARKET TRENDS

**"WE ARE A LONG WAY FROM SATURATION IN ANY OF OUR MARKETS, EVEN THOSE WE HAVE BEEN IN FOR MANY YEARS."**

Given their very wide application, the global market for protection and finishing products is large, fragmented and ill-defined for both suppliers and customers; however, management estimates the value at in excess of £2bn pa.

### Manufacturing GDP growth rate

With protection and finishing products being used in a very broad spectrum of industrial end-markets, those countries with a higher manufacturing GDP growth rate are particularly attractive.

### Increased use of standard components

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

### Just-in-time delivery

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

### Increasing labour costs

Standardised manufacturing processes and components typically require less labour,

thereby helping customers reduce their cost base.

There is also a trend among larger customers to design in "higher technology" markets such as the US, UK, Germany, Japan and Singapore, and then to manufacture in lower labour cost regions (eg, eastern Europe, China and India), which benefits component suppliers with global reach.

### Industry specification

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

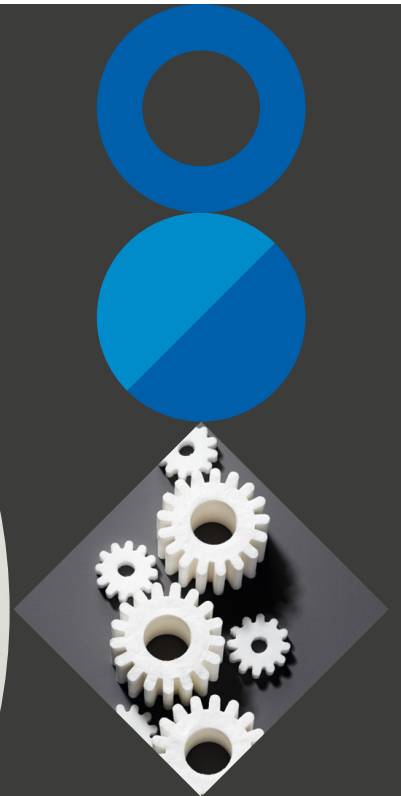
### Key new product opportunities

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

## OPERATIONAL REVIEW

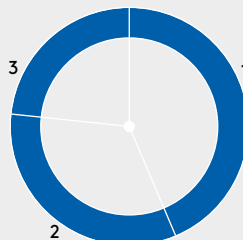
# POROUS TECHNOLOGIES

THE DIVISION IS A WORLD LEADER IN THE DEVELOPMENT AND MANUFACTURE OF CUSTOMISED LIQUID AND VAPOUR HANDLING PRODUCTS ENGINEERED FROM THREE MATERIAL TECHNOLOGIES: BONDED AND NON-WOVEN FIBRE, POLYURETHANE FOAM AND POROUS PLASTIC.



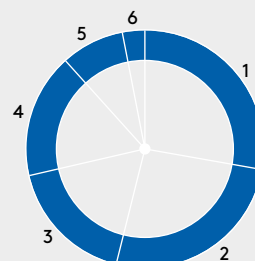
## REVENUE BY DESTINATION (%)

1. Americas	43.8
2. Asia including Middle East	33.1
3. Europe	23.1



## REVENUE BY END-MARKET (%)

1. Writing instruments	28.0
2. Printer systems	26.0
3. Clean room	17.5
4. Health care	16.9
5. Household products	8.8
6. Other	2.8



## Left:

No matter what the fluid handling challenge, our global team works around the clock to support our customers' needs and deliver a solution that performs perfectly

**£100.0m** +16.6%

Revenue

(2012: £85.8m)

**£23.5m** +14.1%

Operating profit<sup>1\*\*</sup>

(2012: £20.6m)

**23.5%** (50)bps

Operating margin<sup>1</sup>

(2012: 24.0%)

## WHO WE ARE AND WHAT WE DO

Our range consists of components which serve as a critical part of a variety of end-products, including medical diagnostic devices, wound care products, writing instruments, printer cartridges, air fresheners, cosmetic applicators and speciality wiping products used for critical environments such as clean rooms and laboratories.

## HOW WE DO IT

Our objective is to leverage our technical expertise in collaboration with our customers, to provide them with innovative, high quality, reliable, quick-to-market solutions to their respective fluid and vapour handling challenges.

The division's R&D teams focus on each of our three material technologies and constantly develop new intellectual property regarding materials, processes and applications, with a view to providing new and existing customers with unique solutions. Our orientation towards R&D further enables us to offer prototypes and modifications, to ensure components fit perfectly to our customers' applications.

We seek to use our global footprint to provide our customers with shorter lead times and supply security. As our multiple locations utilise many identical proprietary processes and independent supply chains, we are able to provide a reliable source of back-up supply capability around the world. In addition, our global outlook allows us to respond to the

various needs of our customers in differing geographies and cultures.

Quality is at the forefront of the division's efforts, given the critical role many of our components play in our customers' end-products. Our production sites are ISO 9001:2008 compliant, and our facility in St. Charles, US is also ISO 13485:2003 certified. Quality laboratories at each of our facilities provide consistency checks throughout the production process, to assure reliability and satisfaction to our customers.

## HOW WE PERFORMED IN 2013

## Delivering balanced, profitable growth

Revenue increased 16.6% (14.0% at constant exchange) to £100.0m. Excluding the acquisition of Lymtech Scientific in June 2012, as well as the transfer of a portion of intercompany revenue to the Filter Products division, like-for-like growth was 5.6%.

In writing instruments (c. 28% divisional revenue), an increase of 10% was driven by a strong result in both nibs and ink reservoirs. Printer systems (c. 26% divisional revenue) rose 9%, led by continued growth with a large global OEM.

Successful new product development in porous plastics, bonded fibre and foam in healthcare (c. 20% divisional revenue) was more than offset by the impact of a significant customer insourcing their wound care production, resulting in a decline of 3%.

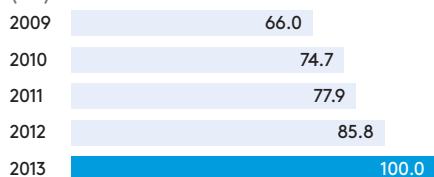
<sup>1</sup> Before intangible amortisation and exceptional operating items

<sup>\*\*</sup> 2012 restated to reflect the adoption of IAS 19 (Revised 2011)

## OPERATIONAL REVIEW CONTINUED

## REVENUE

(£m)

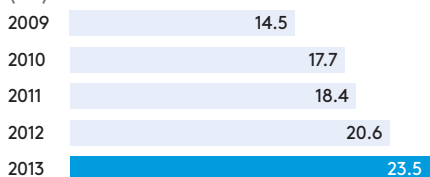
**+16.6%**

## REVENUE PER EMPLOYEE

(£k)

**+5.2%**OPERATING PROFIT<sup>1,\*\*</sup>

(£m)

**+14.1%**OPERATING MARGIN<sup>1,\*\*</sup>

(%)

**(50bps)**

Growth of 2% in household products & personal care (collectively c. 9% divisional revenue) was supported by new business wins with multinational customers in air care.

Investment in resources in Europe and Asia for the clean room wipes business started to deliver progress towards the division's objective of globalising this product line, with encouraging new sales growth in both geographic regions.

In 2013, we continued our successful track record of converting our intellectual property and manufacturing know-how into commercial success. Similar in nature to our other technologies, porous plastic components are engineered from a variety of raw materials, each with differing properties (such as pore size, density, chemical resistance, rigidity and hydrophobicity). This technology allows us to increase our reach in the fluid-handling space and to expand further in existing markets. Indeed, during the year, we patented a porous plastic filter valve, a dual technology application also incorporating fibre, for use in suction canisters which delivers an essential enhancement to the operating room waste removal systems which medical professionals depend upon.

Building on our experience in producing superior medical grade foam for wound care applications, the team at our St. Charles facility successfully incorporated several customer ingredients to open up new markets as well as to provide additional functionality, such as assisting skin and exposed tissue to heal under optimal conditions. We also developed unique oil coalescing filters manufactured from bonded fibre for a range of industrial and transportation purposes, which provide customers with greater efficiency and a longer life span than traditional filtration media.

Adjusted operating profit rose 14.1% (12.1% at constant exchange) to £23.5m, equating to a 50bps decline in the margin. Successful productivity improvements and cost reduction initiatives were more than offset by the short-term dilutive impact of infrastructure investment at Lymtech Scientific to generate future revenue growth opportunities.

**Above:**

Our world class R&D laboratory capabilities allow us to push our technology into new areas, and to develop testing methodologies which specifically support the evaluation of our materials in our customers' applications, giving them even greater confidence in our solutions

<sup>1</sup> Before intangible amortisation and exceptional operating items

<sup>\*\*</sup> 2012 restated to reflect the adoption of IAS 19 (Revised 2011)

## MARKET TRENDS

**"CUSTOMERS RELY ON US TO CONTINUE TO DEVELOP NOVEL, NEXT GENERATION PRODUCTS THAT WILL DRIVE THEIR NEXT GENERATION PRODUCTS."**

Management estimates the global addressable market for our porous technologies products at around £1.2bn. The underlying growth rates and key trends facing the division vary depending on the end-market served and the respective fluid or vapour handling challenge being addressed.

**Printing systems: performance improvements**

Estimated market growth of 3% pa. While the market shows a degree of uncertainty given trading difficulties reported by certain OEMs, customers continue to look to enhance the performance of their products, such as through the use of increasingly complex inks.

**Healthcare: enhanced fluid handling capabilities**

Estimated market growth of 8-10% pa, driven by the migration from slower and more expensive laboratory-based testing to results being provided at the point of care.

**Advanced wound care: changing customer / patient needs**

Estimated market growth of 6% pa. A globally ageing population is resulting in a change in the incidence of medical conditions requiring advanced wound care products, such as diabetes.

**Household & personal care: emerging market growth**

Estimated market growth of 3-4% pa, with consumers increasingly transitioning to more sophisticated household and personal care products.

**Non-woven products: growing requirement for sensitive environments**

Estimated market growth of 6-7% pa. Industries such as electronics increasingly operate in controlled environments, while others (eg, hospitals) have a requirement for clean room conditions to combat infection and / or contamination risk.

**Writing instruments: range expansion**

Estimated market growth of 2% pa, with customers increasingly looking for a total solutions provider – from ink reservoirs to nibs.

**Key new product opportunities**

- > Improved technologies to further enhance fluid and vapour handling capability
- > Additional technology platforms, to take advantage of new end-market opportunities
- > Further range expansion
- > Investment in faster-growing product end-markets, such as medical
- > Continued focus on customer partnerships

## WHAT WE MEASURE

**Innovation – percentage of sales derived from new products**

**Why we measure it**

Demonstrates the success of new products and technology

**How we have done**

7.8% of revenue generated from products launched in the last three years

**Sustained IP development**

**Why we measure it**

Continued development of intellectual property to support future growth and strong development project pipeline

**How we have done**

Currently 28 (2012: 27) patents in force in the US, with 18 (2012: 19) applications pending

**Customer complaints**

**Why we measure it**

Drives performance of quality systems and service delivery

**How we have done**

85 complaints, being a 46.6% increase versus 2012 and reflecting a full year impact of the acquisitions of Lymtech Scientific and Jae Yong

**Man hours per machine hour**

**Why we measure it**

Indicative of shop floor productivity

**How we have done**

1.77 (2012: 2.28) man hours per machine hour, and reflecting a full year of the acquisitions of Lymtech Scientific and Jae Yong

**Improving operational excellence and execution**

Further to our acquisition of Jae Yong in 2012, we upgraded the writing instrument reservoir lines in Korea to higher speed equipment which will allow more efficient production. We also extended our sterile alcohol bottling production capability at our Richmond, US site: as contamination control is critical in medical device, biotechnology and pharmaceutical manufacturing areas to validate them as sterile, this expansion will help underpin future revenue growth opportunities for our wipes business.

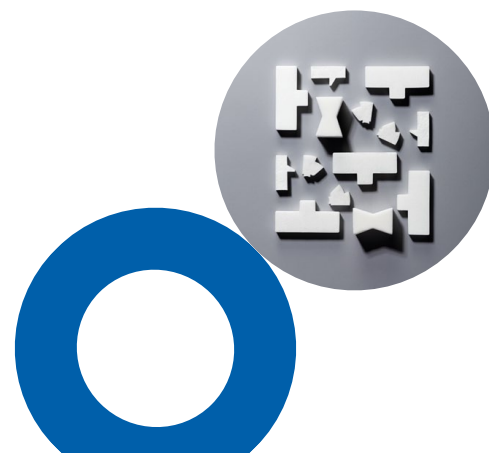
With the opening of the new purpose-built facility in Bangalore, India in 2013, the division also established local manufacturing capability for the first time in this strategically important, faster-growing opportunity market, where we will be seeking to build on our established writing instruments business to exploit growth opportunities in healthcare, nibs, consumer care and speciality filtration.

## 2014 KEY INITIATIVES

- > Increase pace of customised solutions for global OEMs in wound care
- > Additional expansion of capabilities in writing instruments
- > Further commercialisation of filtration capabilities across multiple technologies
- > Continue to build global distribution network and expand product portfolio in wipes
- > Geographical expansion into Latin America

**Further information on**

[www.essentraporous technologies.com](http://www.essentraporous technologies.com)





## OPERATIONAL REVIEW

# PACKAGING & SECURING SOLUTIONS

THE DIVISION IS A LEADING GLOBAL SUPPLIER TO THE CONSUMER AND HEALTHCARE PACKAGING MARKETS, AND TO THE POINT OF PURCHASE AND PAPER & BOARD INDUSTRIES. IT IS ALSO A LEADING PROVIDER OF BRAND PROTECTION AND IDENTITY SOLUTIONS.

## WHO WE ARE AND WHAT WE DO

The Packaging & Securing Solutions division comprises the following activities:

Essentra Packaging is a global provider of healthcare and consumer packaging products. Our "Packaging Resolved" positioning emphasises the four core themes of Open, Close, Inform and Protect, where our cartons, tapes, leaflets, foils, labels and brand protection security solutions can combine to provide all or merely one of these benefits. From helping to ensure that consumers do not get frustrated in opening packs to providing the reassurance that goods are fresh and have not been tampered with, our packaging components can be an integral part of the product and brand pack experience.

Essentra Security is Europe's leading provider of ID card printers, systems and accessories to direct and trade customers, providing the broadest product offering and most competitive value.

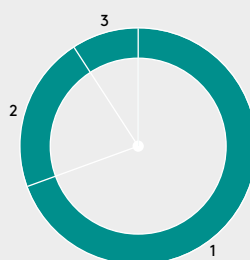
Essentra Speciality Tapes is a leading manufacturer and distributor of adhesive coated products for a wide range of industries and applications, in particular the point of purchase sector.

**Right:**  
From authenticating branded goods to ensuring secure access, our extensive range of packaging and security technologies and accessories help our customers to beat the counterfeiters or prove personal ID



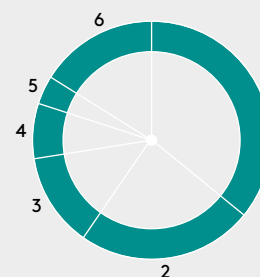
### REVENUE BY DESTINATION

	(%)
1. Europe	69.6
2. Americas	21.5
3. Asia including Middle East	8.9



### REVENUE BY END-MARKET

	(%)
1. Healthcare	35.9
2. Tobacco	23.9
3. Document & identity solutions	12.9
4. Consumer goods	7.5
5. Transit packaging	3.9
6. Other	15.9



**£181.8m** +58.2%

Revenue

(2012: £114.9m)

**£30.2m** +38.5%

Operating profit<sup>1, \*\*</sup>

(2012: £21.8m)

**16.6%** (240)bps

Operating margin<sup>1</sup>

(2012: 19.0%)

**Right:**

With over 65 years of experience, our Speciality Tapes team strives to set the quality standard in the industry, in both the production and distribution of our products



Collectively, the division serves customers in over 100 countries from facilities operating in ten countries. They are supported by an in-house design studio, R&D and multi-million pound print facilities, to deliver the very best in quality, service and reliability.

#### HOW WE DO IT

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

The Packaging business manufactures a range of cartons, tapes, leaflets, foils, labels, closures and seals which offer functional benefits to packaged goods through providing easy opening and resealability. Our products are also the ideal medium to carry sophisticated branding and communication messages, in the form of printed images, text or data.

Additionally, we look to add value to our customers' packaging through providing brand protection solutions, such as tamper evidence or authentication technologies, to enable them to identify and secure products in the fight against counterfeiting. Our offering comprises overt, covert and forensic technologies.

The Security business has been at the forefront of ID technology for over 30 years, and has access to the widest portfolio of products and services, including printers, software and consumables from leading manufacturers. Our systems produce durable, high quality, credit card-style photo ID cards which are compatible with the majority of security systems, and which can be specified to incorporate magstripes, barcodes, contactless chips or smart cards. To complement our ID card systems, the Security business also offers a range of manual and electronic visitor management systems, as well as an extensive range of ID accessories such as badge holders, clips and lanyards.

The Speciality Tapes business has expertise in coating multiple adhesive systems in numerous technologies. With close to 3,000 adhesive products available for same-day shipping, our products can meet all high performance needs, from foam, magnetic, finger lift and acrylic high bond tapes to hook and loop and non-skid foam.

#### HOW WE PERFORMED IN 2013

##### Delivering balanced, profitable growth

Revenue increased 58.2% (58.7% at constant exchange) to £181.8m. Excluding the acquisition of Contego in April and Dakota in November, like-for-like growth was 4.1%.

Underlying revenue in Packaging (ie, excluding Contego and Dakota) increased 2%, led by promotional solutions in the wrapped food category and growth in the tobacco sector, particularly in Asia. During the year, we launched a number of new products, including the Prism high impact holographic tape range

and the innovative AquaSense™ label, a joint development project with the Porous Technologies division, which helps to control humidity within a pack or tin. We also launched a new commercial positioning for the business of "Packaging Resolved" around the four key aspects of effective packaging: Open, Close, Inform and Protect. This focus is aimed at better understanding consumer attitudes and priorities in terms of packaging functionality, to allow us to work more effectively with brand owners in the development of value-adding solutions.

Security declined 2%, with continued sales from the Blue Badge contract in the UK and the distribution of personal ID products being offset by weaker performance in certain non-core film and card activities.

The Speciality Tapes business delivered a strong result (+12%), driven by the point of purchase, industrial and food end-markets. The performance was supported by the continued development of finger lift tapes combined with successful new product launches, such as Duraco Red the clarity of which keeps graphics sharp and legible and which has proved particularly popular with point of purchase customers. All global locations performed well, with a strong contribution from the developing Express site format in North America and an encouraging start for our new site openings in Greensboro and Jacksonville, US and in Poland.

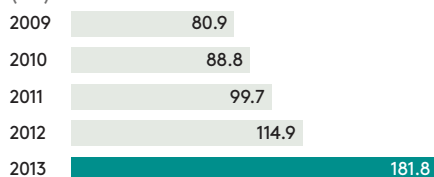
<sup>1</sup> Before intangible amortisation and exceptional operating items

<sup>\*\*</sup> 2012 restated to reflect the adoption of IAS 19 (Revised 2011)

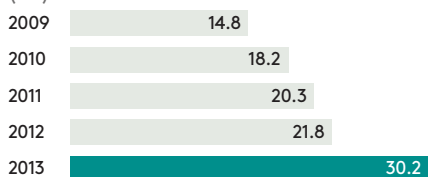
## OPERATIONAL REVIEW CONTINUED

## REVENUE

(£m)

**+58.2%**OPERATING PROFIT<sup>1,\*\*</sup>

(£m)

**+38.5%**

## REVENUE PER EMPLOYEE

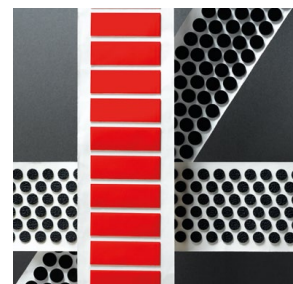
(£k)

**-25.6%**OPERATING MARGIN<sup>1,\*\*</sup>

(%)

**(240bps)****Right:**

Our speciality tapes work hard behind the scenes to hold things together, in point of purchase displays that educate and inspire trial of new products, in appliances making them water-tight and quiet, and securely packaging contents as they travel around the globe – and so much more besides



Following on from the Asian Manufacturing Award which we received in 2012, we were honoured with further recognition in 2013 in the Innovative Food / Beverage Packaging Design category for our wide-width message tape. As well as boosting on-shelf presence thanks to the colourful design possibilities, the message tape avoids brand owners having to redesign their entire pack each time a new promotion is run, reducing waste and saving origination fees.

We also received a Sustainable Package Technical Award from the 4th China Package Technology Innovation and Sustainable Development Forum for our Rippatape™ product which, while designed primarily for easy opening, also increases the compression strength of secondary packaging: this can potentially allow producers to use thinner board, delivering both cost and environmental benefits in terms of reduced material consumption and lighter weight.

Finally, we were proud to end the year with the prestigious award of Design Team of the Year at the UK Packaging Awards for our in-house department. As well as creating promotional and brand image designs for customers around the world, the team is also expert in high level security print design techniques which are integrated into packaging to support brand protection and anti-counterfeit activity, allowing us to add further value to our customers' packaging.

Adjusted operating profit increased 38.5% (38.6% at constant exchange) to £30.2m, equating to a 240bps decline in the margin: on a like-for-like basis the margin was 50bps ahead. Our continued focus on cost reduction initiatives and efficiency improvements was more than offset by the initial dilutive impact from acquisitions and additional infrastructure investment.

**Complemented by value-creating M&A**

During the year, we significantly extended our packaging solutions capabilities in the pharmaceutical and healthcare markets with the acquisitions of Contego and Dakota. Established in 1991, Contego is a leading pan-European specialist business, providing a range of innovative print, packaging and support services from operational sites across Europe. With products including folding

cartons, leaflets, self-adhesive labels and printed foils used in blister packs, the acquisition of Contego not only enhances the range and innovation opportunities offered to both of our existing customer bases but also provides access to potential new customers through leveraging our combined skills.

We subsequently complemented the acquisition of Contego with that of Dakota. Dakota is a Dublin-based supplier of printed, folding and litho-laminate cartons to the pharmaceutical and healthcare sectors, which not only reinforces our product range and customer base in these attractive growth industries but also provides significant additional scale in the sizeable Irish market.

The integration of both acquisitions to date is in line with expectations, and the consolidation of our site footprint will help drive further opportunities and efficiencies.

<sup>1</sup> Before intangible amortisation and exceptional operating items

<sup>\*\*</sup> 2012 restated to reflect the adoption of IAS 19 (Revised 2011)



## WHAT WE MEASURE

**Innovation – percentage of sales derived from recently developed products****Why we measure it**

Demonstrates the success of new products and technologies

**How we have done**

21.1% of revenue generated from products launched in the last three years (excluding acquisitions)

**On time in full****Why we measure it**

Drives performance of quality systems and service delivery

**How we have done**

95.8% compares to 97.1% in 2012 (excluding acquisitions)

**Customer satisfaction – customer complaints****Why we measure it**

Drives performance of quality systems and delivery

**How we have done**

6.9% decrease in complaints from 2012 (excluding acquisitions)

**Improving operational excellence and execution**

In 2013, we successfully completed a number of operational initiatives to help support future revenue growth opportunities and to generate further efficiency savings. At our Speciality Tapes facility in Chicago, US, we significantly expanded our hot melt capability through investment in coating and related converting equipment, which will provide us with greater manufacturing flexibility and enhanced growth potential for finger lift tape. We also added new die stations at our Cardiff, UK packaging site, which allow for higher speed production of complex labels. As anticipated, the Speciality Tapes facility at Bridlington, UK secured OHSAS 18001 accreditation, during the year.

Following the acquisition of Contego, we undertook a strategic review of our packaging and securing operations, further to which we took the decision to withdraw from the manufacture and production of certain lower growth / margin, non-core security products (including security and protection films and ID cards) at our Banbury, UK site. As a result, the division will continue to provide customers with the widest range of ID card printers, systems and accessories, but we will solely align our authentication technologies

capabilities in brand protection and security with our core packaging offering. Excluding these exited activities, our Security business posted growth of 4% in 2013.

**2014 KEY INITIATIVES**

- > Continue development of functional and creative packaging solutions
- > Continue integration of Contego and Dakota acquisitions
- > Extend geographical reach in healthcare packaging
- > Grow security sales across the packaging product offering
- > Further extend die-cut machinery base in Speciality Tapes, to capture global industrial growth opportunities

**Further information on:**

[www.essentrapackaging.com](http://www.essentrapackaging.com)

[www.essentralsecurity.com](http://www.essentralsecurity.com)

[www.essentraspecialitytapes.com](http://www.essentraspecialitytapes.com)

## MARKET TRENDS

**"PACKAGING IS THE NUMBER ONE MEDIUM TO COMMUNICATE THE BRAND."**

Management estimates the value of the global market for pressure sensitive tear tapes, labels and security technologies at c. £3bn, with growth ranging from 0-9% depending on the end-markets served.

**Increasing consumer communication**

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

**Functionality and convenience of packaging**

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

**Brand and identity protection and verification**

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

**Legislation**

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

**Sustainability and waste reduction**

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

**Provision of total solutions**

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

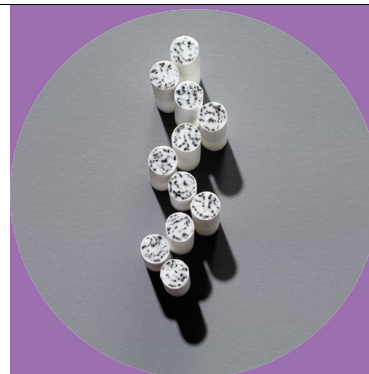
**Key new product opportunities**

- > Investment in technology, to develop novel, value-added packaging and brand protection solutions
- > Functional packaging benefits, such as opening, closing and tamper evidence
- > Eco-friendly packaging solutions, such as closing and resealing
- > Creative and secure design solutions to provide enhanced communication and authentication opportunities

## OPERATIONAL REVIEW

# FILTER PRODUCTS

THE DIVISION IS THE ONLY GLOBAL INDEPENDENT PROVIDER OF FILTERS AND RELATED SOLUTIONS TO THE TOBACCO INDUSTRY.



**£269.9m** +15.5%

Revenue  
(2012: £233.6m)

**£40.1m** +40.2%

Operating profit<sup>1\*\*</sup>  
(2012: £28.6m)

**14.9%** +270bps

Operating margin<sup>1</sup>  
(2012: 12.2%)

## WHO WE ARE AND WHAT WE DO

The Filter Products division is the only global independent supplier of filters. Not only do we offer standard filters, but as the leading supplier of special filters we offer innovative solutions that meet the consumer-driven demands of the tobacco industry against a backdrop of ongoing legislative changes.

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

The Filter Products division supplies over 700 product specifications to more than 320 customers, including all the multinational tobacco companies. We have nine manufacturing facilities in nine countries, supported by a UK-based research facility and three regional development centres.

## HOW WE DO IT

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

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

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

## HOW WE PERFORMED IN 2013

### Delivering balanced, profitable growth

Revenue increased 15.5% (16.5% at constant exchange) to £269.9m. Underlying volumes were ahead of the prior year, with particularly strong growth in Asia, and in both special and flavoured filters. In FY 2013, Asia accounted for 61% of volumes (2012: 56%).

Building on our track record of successful innovation, a number of new products and development initiatives were launched during the year. These included Groove Core – the latest addition to our Performance range – which combines the performance benefits of activated carbon with high impact brand differentiation, as well as the BiTech™ filter whose unique construction enables manufacturers to combine the high filtration efficiency and cost effectiveness of paper with the familiar taste of cellulose acetate. We also continued to work closely with our customers to develop bespoke solutions to their specific needs, with such joint activity up 11% during the year. Ongoing intellectual property development supports our future innovation capabilities, and a further 21 patent and trademark applications were filed in 2013.

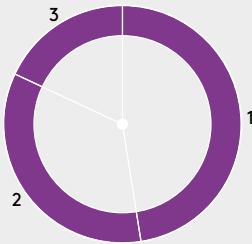
<sup>1</sup> Before intangible amortisation and exceptional operating items

<sup>\*\*</sup> 2012 restated to reflect the adoption of IAS 19 (Revised 2011)

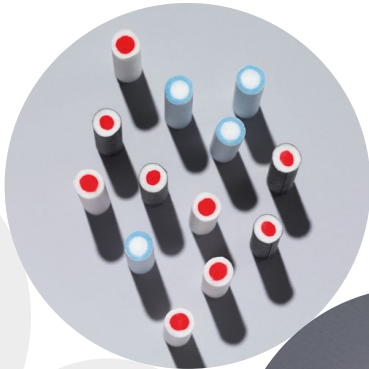
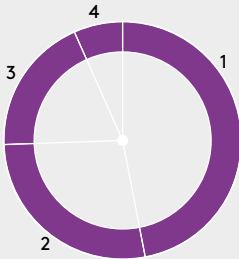
**Below:**  
Our commitment  
to product excellence,  
combined with our  
superior filter knowledge,  
help to ensure we meet  
– if not beat – the  
commercial imperatives  
of our customers



REVENUE BY DESTINATION	(%)
1. Asia including Middle East	47.6
2. Europe	34.6
3. Americas	17.8



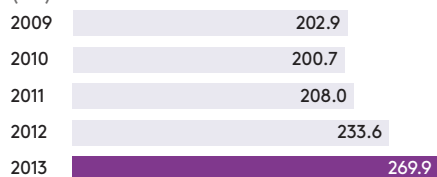
SALES VOLUME BY TYPE	(%)
1. Monoacetate	45.8
2. Other special	29.6
3. Carbon	18.3
4. Flavour	6.3



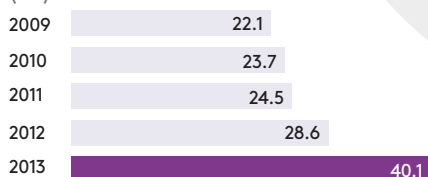
## OPERATIONAL REVIEW CONTINUED

## REVENUE

(£m)

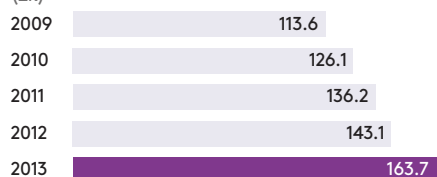
**+15.5%**OPERATING PROFIT<sup>1,\*\*</sup>

(£m)

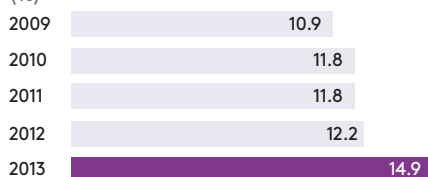
**+40.2%**

## REVENUE PER EMPLOYEE

(£k)

**+14.4%**OPERATING MARGIN<sup>1,\*\*</sup>

(%)

**270bps**

## Below:

With over 700 specifications, our product ranges reflect the consumer trends in the tobacco industry and provide our customers with numerous options to meet their respective brand objectives



Given our objective of continuing to strengthen our customer relationships through supporting their innovation and improving their speed to market, we were particularly proud to be awarded a long-term contract with a major multinational customer. This new business win – being the largest individual contract in the Company's history – is for an innovative combined filter in European markets: the incremental impact on our FY 2013 results was not material, as initial shipments only commenced at the end of Q3.

Adjusted operating profit rose 40.2% (41.1% at constant exchange) to £40.1m, equating to a 270bps improvement in the margin. Higher raw material and other input costs were successfully offset by further productivity improvements, quality enhancement initiatives and continued cost control.

**Undertaking value-creating M&A**

In February 2013, we announced the formation of a joint venture with BBM Bommidala Group ("BBM") in the UAE to manufacture filter products. BBM is one of India's leading producers of tobacco products and by-products – as well as a leading cigarette

exporter from India – and this agreement strengthens our presence in the growing Middle Eastern market, where the more specialised Super Slim, charcoal and flavoured filters are showing a positive growth trend. A new 29,000 sq. ft. facility was constructed and was operational in Q3 as anticipated.

**Improving operational excellence and execution**

Consistent with our objective of maintaining a flexible and competitive geographic footprint to ensure we continue to deliver value to our customers, during the year we took the decision to close our facility in Jordan.

Further to the investment in expanding our Scientific Services laboratory in Jarrow, UK in 2012, additional services were introduced during the year with the site now fully accredited to provide the testing methods for all 93 compounds proposed by the US Food and Drug Administration, as well as cigarette ignition propensity. There was a significant increase in the level of e-cigarette testing undertaken, and the laboratory was also awarded a three-year government contract for testing all brands in the UK.



<sup>1</sup> Before intangible amortisation and exceptional operating items

<sup>\*\*</sup> 2012 restated to reflect the adoption of IAS 19 (Revised 2011)

## MARKET TRENDS

**"THERE IS AN INCREASING ROLE FOR FILTER INNOVATION IN ADDRESSING WIDER TRENDS IN THE TOBACCO INDUSTRY."**

The global tobacco market is valued at c. US\$756bn, with broadly flat cigarette retail volume growth.

#### Regulation

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

#### Illicit trade

Counterfeiting of tobacco products is a significant and increasing challenge for the industry, undermining brand value, presenting a risk to consumers from low quality goods and reducing tax

revenues. The illicit trade accounts for approximately 10% of duty-paid cigarette volumes and is estimated to be growing at c. 4% pa – well ahead of the overall industry.

#### "Beyond tobacco" products

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

#### East versus West

Accounting for over 60% of total world cigarette volume, the growth markets of Asia dominate the global tobacco industry and are forecast to continue to increase.

#### Consumer engagement

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

#### Consumer need

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

#### Cost and price

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

#### Key new product opportunities

- > Lifestyle solutions (eg, Slims / Super Slims, low / ultra low tar, "eco" ranges)
- > Brand-specific requirements, such as recessed filters
- > Enhanced user experience, such as capsules, flavoured thread and activated carbon
- > Full bespoke service for roll your own brands
- > Provision of scientific services

In addition, we continued to improve our capability and capacity with a further investment in 21 new machines, including high-speed, flexible triple filter combiners. Some 80% of our products are now manufactured using recently-installed equipment, which has contributed to significant improvements in our productivity while simultaneously reducing conversion costs. Indeed, this investment allows us to meet not only our customers' current needs in terms of quality and functional tolerances, but also their future requirements as the global tobacco industry continues to evolve.

Employee development is a key commitment of the division. Over and above our well established Management Development and Graduate Development Programmes, the framework is aimed at enhancing training, driving career progression and ensuring robust succession planning. Our Filters Learning Centre is accredited to International Association of Continuing Education and Training standards, and we recruited an additional three dedicated associates in Asia during the year to reinforce our training efforts in the region even further.

#### 2014 KEY INITIATIVES

- > Continue to increase innovation in special filters to capture growing demand, particularly in China
- > Open additional facility in India, building on long-term successful joint venture with ITC
- > Successfully commercialise new Smokeless Nicotine Delivery products
- > Maintain focus on delivering further quality and productivity improvements
- > Extend geographic reach in the Middle East / North Africa via Dubai joint venture
- > Position other filter raw materials as a credible alternative to acetate tow

Further information on [www.essentrafilters.com](http://www.essentrafilters.com)

#### WHAT WE MEASURE

##### Conversion costs as percentage of revenue

###### Why we measure it

Continued focus delivers financial performance

###### How we have done

25.8%, a 110bps improvement from 26.9% in 2012

##### On time in full

###### Why we measure it

Demonstrates the ability to meet delivery demands

###### How we have done

96.9% compares to 97.4% in 2012

##### Quality complaints per billion rods

###### Why we measure it

Drives productivity and the efficient use of material

###### How we have done

2.7 complaints per billion rods, a decrease from 3.0 in 2012

##### Waste

###### Why we measure it

Drives productivity and the efficient use of material

###### How we have done

2.8%, a reduction from 3.2% in 2012



MANAGEMENT OF PRINCIPAL RISKS

EFFECTIVE MANAGEMENT OF RISK AND OPPORTUNITY IS ESSENTIAL TO THE PROTECTION OF ESSENTRA’S REPUTATION AND THE ACHIEVEMENT OF SUSTAINABLE SHAREHOLDER VALUE.

VISION 2015

The management of risk underpins the Company’s Vision 2015 strategy, focusing on the challenges which arise in the international environment in which Essentra conducts business and reflecting the Company’s appetite for risk in the delivery of its business objectives. As such, risks are continuously monitored, associated action plans are reviewed, appropriate contingencies are provisioned and information is reported through established management control procedures.

The Company seeks continuously to improve its risk management processes and continues to develop new systems which serve to enhance the Company’s response to the risks inherent in its international business activities.

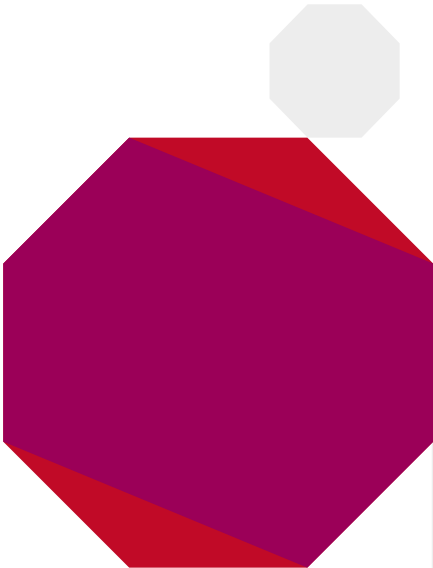
Essentra recognises that the ability to monitor, assess and respond to business risks may provide a competitive advantage. Reporting within the Group is structured so that key issues are escalated through the management team and ultimately to the Board if appropriate. Each area of the business is required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

Essentra’s short- and long-term performance can be impacted by many risks and uncertainties, not all of which are within the Company’s control.

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

Detailed on the next page are the principal risks and uncertainties which the Board believes are specific to Essentra, having regard to its strategic objectives, together with the Company risk management response thereto. The details provided are not exhaustive and do not purport to be a complete explanation of all potentially relevant issues. There may be other risks and uncertainties which are unknown to the Board or which may not be deemed by the Board to be material at present but which could prove to be material in the future.

RISK INDICATORS			
NO CHANGE IN 2013	↑	↓	→
REDUCED RISK IN 2013	↑	↓	→
INCREASED RISK IN 2013	↑	↓	→





RISK INDICATOR

**DISRUPTION TO INFRASTRUCTURE****Risk**

A catastrophic loss of the use of all or a portion of any of Essentra's manufacturing or distribution facilities due to accident, labour issues, fire, terrorist attack, natural disaster, information technology failure, cyber security attack or otherwise which whether short- or long-term could adversely affect the Company's ability to meet the demands of its customers. Some of the assets maintained by the Company, such as tooling and IT systems, are critical to the manufacture and delivery of particular products.

**Impact**

A material disruption to operational facilities or the loss of critical assets may negatively affect the Company's:

- > Production capability and asset base
- > Supply chain management
- > Customer relationships
- > Reputation
- > Revenue
- > Profit
- > Financial condition

**Mitigation**

Essentra seeks to manage the risk of potential disruption of the supply of its customers by:

- > Operating within a flexible global infrastructure
- > Installing fire and other risk prevention systems
- > Implementing disaster recovery and business continuity plans
- > Assessing operational risks
- > Maintaining a comprehensive insurance programme
- > Alignment of Group information technology resources

**EMERGING TECHNOLOGY AND COMPETITION PRESSURES****Risk**

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

**Impact**

Demand for competitors' products and the development of competing technologies may result in:

- > Loss of market positions
- > Erosion of margins
- > Intellectual property challenges
- > Decline in revenue
- > Decline in profitability
- > Deterioration in financial condition

**Mitigation**

Essentra seeks to mitigate the risk of competitive pressure by:

- > Sustained investment in research and development to develop the quality and breadth of its product and service offering
- > Exploiting innovation and manufacturing capabilities in new technologies, products and services
- > Developing long-term relationships with customers at a senior level
- > Protecting its intellectual property rights
- > Expanding its international distribution, sales and marketing expertise
- > Investing in both organic and acquisition growth opportunities

**FAILURE TO DRIVE BUSINESS DEVELOPMENT****Risk**

Essentra's development and growth has benefited from the success of start-up operations and the continued growth of already established businesses. The rate of success of any development may in part be dependent on the Group's innovative pipeline; employees who have the ability to successfully extend the product range, or identify and develop products. Additionally, continued development will be dependent on the successful implementation of the new organisation structure. There can be no assurance that the Company will develop, complete and integrate current and new suitable products and expand further through start-up operations.

**Impact**

If Essentra fails to meet the challenges of business development, the Company may experience:

- > Lower growth rates
- > Delay in the achievement of strategic objectives
- > Reduced profitability

**Mitigation**

Essentra addresses the challenges of international business development with:

- > Experienced and skilled management
- > Detailed due diligence and planning
- > Project risk reviews
- > External expert advice
- > Regional structure development

## MANAGEMENT OF PRINCIPAL RISKS CONTINUED

RISK INDICATOR

## MERGERS AND ACQUISITIONS



<b>Risk</b> Essentra's development and growth has benefited from value-adding acquisitions. The rate of any future acquisition integration may in part be dependent on the success of identifying the correct acquisitions and having sufficient resources available for integration. There can be no assurance that the Company will be successful in completing and integrating suitable acquisitions.	<b>Impact</b> If Essentra fails to meet the challenges of business development arising from acquisitions the Company may experience: <ul style="list-style-type: none"> <li>&gt; Lower growth rates</li> <li>&gt; Delay in the achievement of strategic objectives</li> <li>&gt; Increased costs</li> <li>&gt; Reduced profitability</li> </ul>	<b>Mitigation</b> Essentra addresses the challenges of mergers and acquisitions with: <ul style="list-style-type: none"> <li>&gt; Experienced and skilled management</li> <li>&gt; Detailed due diligence and planning</li> <li>&gt; Project risk reviews</li> <li>&gt; External expert advice</li> </ul>
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## CUSTOMER CONCENTRATION



<b>Risk</b> In some of Essentra's businesses the customer base is relatively concentrated. In addition, trends in certain markets, particularly in the oil and gas industry, may reduce the demands for the Company's products. Should Essentra's customers decide to satisfy their requirements internally or from other suppliers and if Essentra were unable to secure new business this could result in a significant loss of business.	<b>Impact</b> The loss of certain of Essentra's key customers may expose the Company to: <ul style="list-style-type: none"> <li>&gt; Reduced revenue</li> <li>&gt; Restructuring costs</li> <li>&gt; Profit decline</li> <li>&gt; Deterioration in financial condition</li> <li>&gt; Reputational damage</li> </ul>	<b>Mitigation</b> To counteract the Company's exposure to a concentration of key customers, Essentra: <ul style="list-style-type: none"> <li>&gt; Invests in innovative, high quality, value-added products and services</li> <li>&gt; Develops long-term relationships and loyalty with customers at all levels through key account management techniques</li> <li>&gt; Seeks new markets and growth opportunities to expand the customer base</li> </ul>
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## KEY RAW MATERIAL SUPPLY



<b>Risk</b> Some of Essentra's businesses are dependent on the availability of specialist raw materials or components which are incorporated into the Company's products. Key raw materials may be subject to price fluctuations from supply shortages. If rapid increases occur in the price of such raw materials prices, including energy costs, the Company's revenue and profitability may be materially and adversely affected.	<b>Impact</b> If Essentra is exposed to raw material price increases or supply shortages, the Company may suffer: <ul style="list-style-type: none"> <li>&gt; Disruption to supply</li> <li>&gt; Increased costs</li> <li>&gt; Profit decline</li> <li>&gt; Reduced revenue</li> </ul>	<b>Mitigation</b> To counteract the Company's exposure to increases in raw material costs or supply shortages, Essentra seeks to: <ul style="list-style-type: none"> <li>&gt; Adopt appropriate procurement practices</li> <li>&gt; Secure longer-term supply agreements</li> <li>&gt; Implement cost recovery programmes</li> <li>&gt; Investigate the availability of alternative supply options</li> <li>&gt; Use consignment stock</li> </ul>
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## INTELLECTUAL PROPERTY DEVELOPMENT AND PROTECTION



<b>Risk</b> A key component to Essentra's future success is the ability to develop new and innovative products and services. In addition to seeking internationally applied patent and trademark rights, the Company relies on unpatented proprietary know-how and trade secrets. In the event that Essentra is unable to respond to competitive technological advances or to protect its intellectual property portfolio, the future performance of the Company may be adversely affected.	<b>Impact</b> Failure to develop and protect intellectual property rights may expose the Company to: <ul style="list-style-type: none"> <li>&gt; Reduced revenue</li> <li>&gt; Profit decline</li> <li>&gt; Litigation</li> <li>&gt; Reputational damage</li> </ul>	<b>Mitigation</b> To counteract the Company's exposure to the erosion of its intellectual property portfolio, Essentra: <ul style="list-style-type: none"> <li>&gt; Invests in research and development</li> <li>&gt; Secures formal registrations of patent and trademark rights</li> <li>&gt; Adopts appropriate confidentiality and licensing practices</li> <li>&gt; Monitors potential infringements and takes appropriate enforcement actions</li> </ul>
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RISK INDICATOR

## RELATIONSHIP WITH THE TOBACCO INDUSTRY

**Risk**

A substantial part of Essentra's business relates to the supply of filter products and packaging solutions to manufacturers in the tobacco industry. Future performance may be affected by trends in the tobacco industry, such as changes in the consumption of filter products, self-manufacture and increasingly restrictive regulations. Tobacco-related litigation could also adversely affect Essentra, although there is no history of the Company being involved in such claims.

**Impact**

Essentra's relationship with the tobacco industry may lead to:

- > Reduced revenue
- > Restructuring costs
- > Profit decline
- > Reputational damage
- > Deterioration in financial condition

**Mitigation**

In seeking to minimise the potential impact of the exposure to the tobacco industry, Essentra:

- > Invests in the research and development of innovative and new value-added products and services
- > Targets growth opportunities outside the manufacture of filter products
- > Focuses on low cost filter production
- > Takes internal and external legal advice to manage litigation risk
- > Seeks to add value with a range of low cost and innovative packaging solutions

## TALENT MANAGEMENT

**Risk**

Essentra's international operations are dependent on existing key executives and certain other employees in order to sustain, develop and grow its businesses and there can be no assurances that these employees will remain with the Company. The success of the Company will reflect its ability to retain, attract and motivate highly qualified executives and other personnel equipped to deliver on Essentra's strategic objectives.

**Impact**

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

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

**Mitigation**

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

- > Regularly reviews personal development and succession planning
- > Sets appropriate key performance indicators
- > Implements management development schemes and other training programmes
- > Sets effective remuneration programmes
- > Provides long-term share-based incentive plans
- > Uses a talent management system
- > Continues to recruit graduates on its development programme

## COMPLIANCE RISK – LAWS AND REGULATIONS

**Risk**

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

**Impact**

Failure by the Company or its employees or others acting on its behalf to abide by the laws and regulations could result in:

- > Administrative, civil or criminal liability
- > Significant fines and penalties
- > Suspension or debarment of the Company from trading
- > Reputational damage
- > Loss of commercial relationships

**Mitigation**

In order to manage compliance risk Essentra:

- > Establishes a clear compliance culture from the top down
- > Conducts risk assessments and ongoing compliance reviews
- > Implement relevant policies and procedures
- > Provides behavioural guidance and training to all employees
- > Monitors compliance through verification procedures
- > Engages local advisers as appropriate

## CORPORATE RESPONSIBILITY

# CORPORATE RESPONSIBILITY

CORPORATE RESPONSIBILITY ENCOMPASSES A BROAD RANGE OF PHILOSOPHIES, ACTIVITIES AND STANDARDS. ESSENTRA CONSIDERS THE ISSUES THAT ARE MATERIAL TO ITS BUSINESS AND SEEKS TO RESPOND TO THEM IN A MANNER APPROPRIATE TO THE INTERESTS OF ALL ITS STAKEHOLDERS.

PRIORITIES / GOALS	HOW DO WE MANAGE IT?	HOW DID WE DO?	HOW WILL WE DO IT?
Reduce the impact of carbon emissions and secure continuous improvement in environmental performance	<ul style="list-style-type: none"> <li>&gt; Set carbon emission targets at each operational location</li> <li>&gt; Reduce carbon emissions, prevent pollution and improve manufacturing efficiency</li> <li>&gt; Implement initiatives to reduce waste and increase recycling</li> <li>&gt; Explore the use of energy-saving technology in manufacturing</li> <li>&gt; Extend the span and quality of data collection</li> <li>&gt; Develop new techniques with suppliers and customers for environmentally friendly products</li> <li>&gt; Gaining ISO14001 accreditation</li> <li>&gt; Gaining ISO 50001 accreditation</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Established year-on-year environmental improvement objectives</li> <li>&gt; Improved utilisation of raw materials and energy at principal operating locations (excluding acquired sites)</li> <li>&gt; Invested in high-speed combining machines at the Jarrow, UK facility, to improve energy and production efficiency</li> <li>&gt; Reduced environmental impact through site consolidation</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Continue with global carbon reduction initiatives</li> <li>&gt; Offset emissions when possible</li> <li>&gt; Continue environmental improvement to ensure retention of accreditations</li> <li>&gt; Secure accreditation for newly acquired sites within two year period</li> <li>&gt; Pursue accreditation to ISO 50001 for all manufacturing facilities by 2015</li> <li>&gt; Continue to prioritise "War on Waste" initiative</li> </ul>
Secure continuous improvement in health and safety	<ul style="list-style-type: none"> <li>&gt; Secure OHSAS 18001 accreditation at principal manufacturing sites</li> <li>&gt; Establish Group standards for improvements and results</li> <li>&gt; Encourage employee initiatives to reinforce Company training</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Achieved OHSAS 18001 at Speciality Tapes, Bridlington</li> <li>&gt; Established the Essentra 8 Safety Expectations, to help reinforce personal responsibilities with regard to safe behaviours in the workplace</li> <li>&gt; Improved the reporting of hazards and near miss incidents</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Identify other training needs</li> <li>&gt; Demonstrate year-on-year improvement in the lost work day rate</li> <li>&gt; Regionalise the HSE function</li> <li>&gt; Implement three-year HSE improvement plan</li> </ul>
Ensure the highest standards of business integrity and conduct	<ul style="list-style-type: none"> <li>&gt; Promote Essentra Values</li> <li>&gt; Establish clear policies and guidance</li> <li>&gt; Secure employee awareness and engagement</li> <li>&gt; Continue to promote Right to Speak policy</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Refreshed Values as part of the rebranding to Essentra</li> <li>&gt; Continued communication of core policies through e-Learning and reviews in Essentra Group System</li> <li>&gt; Implemented new compliance systems</li> <li>&gt; Trained employees in Code of Business Ethics</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Respond to new risks and requirements</li> <li>&gt; Provide further training</li> <li>&gt; Drive employee responsibility</li> <li>&gt; Seek increased assurance</li> <li>&gt; Investigate complaints</li> </ul>

## CORPORATE RESPONSIBILITY

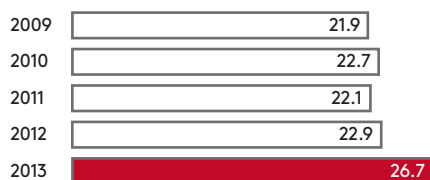
Essentra recognises the significance and importance of being a responsible corporate citizen in the workplace, marketplace, environment and community. The Company's international operations fulfil their responsibility to record, monitor and make publicly available the potential impact of its activities.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

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

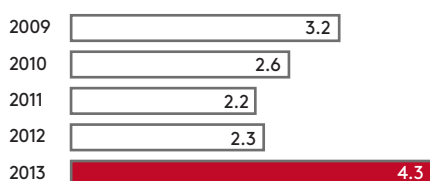
The Essentra Values are fundamental to the Company's adoption of the highest standards of business ethics and integrity that underpin its relationships with both internal and external stakeholders. Essentra's culture is one of openness, integrity and accountability. Employees are encouraged to act fairly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

The Essentra Values can be found on the Company's website [www.essentra.com](http://www.essentra.com) and on page 53.

## ACCIDENT TREND AVERAGE (INCIDENTS)



## LOST TIME ACCIDENT TREND (INCIDENTS)



## WORKPLACE

## Health and safety

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

The Group-wide intranet-based management reporting system facilitates an extensive live programme of active monitoring, that measures in detail how successful the Company is in managing the safety of its workplaces at individual site level.

The Company manages occupational health by identifying key risk activities, undertaking health assessments and, where appropriate, implementing health surveillance programmes. The Company has achieved the Occupational Health & Safety Management Systems OHSAS 18001 standard for all its principal manufacturing facilities, with the Speciality Tapes site at Bridlington, UK achieving the standard during the year as anticipated. Recently acquired sites are given a period of two years to reach the required standard, in accordance with Essentra policy. Acquisitions and growth contributed to an increase in the accident trend during the year.

The Company has designed procedures and developed a culture which aims for continuous improvement, with the sharing of best practice in all areas of health and safety. In 2013, the Company reorganised its Health, Safety & Environment ("HSE") function along regional lines from its previous divisional bias.

The adoption of a structure with a more geographical focus is expected to deliver further improvement in the Company's health and safety performance, and will support and streamline Essentra's ongoing HSE compliance and governance strategies. In particular, it will facilitate the development of greater regional regulatory expertise, the rapid implementation of standards and a higher degree of data standardisation across the Group. Dedicated Regional HSE Managers for each of Europe, the Americas and Asia have been appointed, as well as an HSE Systems Manager responsible for data collection, analysis and reporting: these positions all report to the Group HSE

Manager, who in turn reports to the Group Operations Director.

To support Essentra's objective of continuous improvement, a three-year HSE operational improvement plan was implemented during 2013. The Company has identified non-standard work as a risk factor that may result in injury or near miss incidents, and the improvement plan seeks to further enhance the way in which health and safety change is identified, reported and communicated. This is expected to improve the Company's ability to learn from potentially hazardous conditions and prevent their reoccurrence or escalation into more serious incidents. Specifically, eight formal Group-wide expectations have been adopted, to reinforce personal responsibilities with regard to safe behaviours in the workplace and to support the successful delivery of the improvement plan.

Essentra's businesses undertake extensive training programmes which are particularly focused on the key, or most frequent, risks in their operations. Training in risk assessment and root-cause analysis are key features in the Company's health and safety management.

Details of Essentra's health and safety performance for 2013 and subsequent progress throughout 2014 can be viewed on the Company's website [www.essentra.com](http://www.essentra.com).

## Employees

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

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

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

## CORPORATE RESPONSIBILITY CONTINUED

which, historically, recruited from Europe and North America, but which continues to expand its international reach, with graduates from Hungary, India and Thailand being among those recruited in 2013.

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

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

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

Essentra is committed to improving employee engagement and learning more about the needs of its workforce. In addition to the impact of the training and development programmes, employee engagement is enhanced by the communication practices which have been adopted across the businesses.

Essentra values highly the commitment of its employees and recognises the importance of communication to good working relationships and practices. The Company seeks to ensure that employees are informed on matters relating to their employment and on financial and economic factors affecting the businesses. The Company actively seeks feedback and ideas from employees to improve its operations, and forums appropriate to Essentra's local businesses have been established to allow employees to voice their views as to how the Company should fulfil the demands of all its local and international stakeholders. The Company's European Information and Consultation Forum facilitates the discussion of issues across all of its operations in the European Union.

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

The gender of Essentra's employees as at 31 December 2013 was:

	Male	Female
Non-Executive Directors	4	1
Executive Directors	2	0
Senior Managers	33	4
All employees	4,026	1,706

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

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

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

## MARKETPLACE

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

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

honest and fair dealings with suppliers, customers and local and national authorities.

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

## ENVIRONMENT

Essentra applies a structured approach to maintaining its environmental impact by:

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

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

In the UK, Essentra's sites comply with the Carbon Reduction Commitment ("CRC") legislation. The Company has recently registered for Phase II and has complied with all relevant data submissions. Essentra continues to apply the principles of the CRC to its global operations and is well placed to manage further legislative changes in its operating regions.

Given the diversity of Essentra's international operations, local management drives environmental performance in accordance with Group policy, copies of which can be found on the Company's website [www.essentra.com](http://www.essentra.com). Specific site-level objectives are established to ensure compliance with local legislative and external management systems (ISO 14001).



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

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

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

The following assumptions, methodology, definitions and data validation processes have been used to report the Group's key environmental performance indicators in 2013. The reported data complies with the Companies Act, for the Mandatory Reporting of Greenhouse Gases.

- > Boundary scope: Data from all locations over which the Company has operational control is collected and measured
- > Primary data sources: These include billing, invoices and other systems provided by the supplier of the energy to communicate energy consumption
- > Secondary data sources: These include the Company's internal systems used to record and report the above consumption data
- > Internal data validation: The process used to review and compare primary data with secondary data. All invoices and data loggers for locations consuming more than 1 million Kwh per year are cross-checked with the data held within the Company's own internal data capture systems
- > Conversion factors: The 2013 Government GHG Conversion Factors for Company Reporting, published by the UK Department for Environment Food & Rural Affairs ("DEFRA"), are used when converting gross emissions. The applicable country conversion factors published in this guidance have been applied to operations outside of the UK

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

	<b>Tonnes of CO<sub>2</sub> e (gross) for the year ended 31 Dec 2013</b>
Scope 1	<b>11,595</b>
Scope 2	<b>63,361</b>
Total gross emissions	<b>74,956</b>
Total carbon emissions per £m revenue	<b>93.92</b>

Acquisitions and growth have contributed to Essentra's increased use of energy. The application of energy improvement initiatives is expected to continue to improve the Company's overall utilisation of energy and raw materials.

	<b>Core impacts for the year ended 31 Dec 2013</b>
General waste <sup>1</sup>	<b>2,183</b>
Recycled factory waste & cardboard <sup>2</sup>	<b>1,503</b>
Water <sup>3</sup>	<b>217m<sup>3</sup></b>

<sup>1</sup> Tonnes of waste to landfill

<sup>2</sup> Tonnes of production waste

<sup>3</sup> Per £million of Company revenue

Essentra is committed to ensuring good environmental practices at all its locations, in its operational processes and investment decisions. Essentra's principal manufacturing locations are ISO 14001 accredited, and all the Company's European businesses comply with EU and domestic regulations.

Due to the scale of Essentra's international operations, the use of energy and raw materials has both environmental and commercial importance. Where possible, and financially viable, raw materials and energy from renewable resources are utilised to limit environmental impact, commercial risk and costs.

Essentra actively engages with its employees, customers, and suppliers to exploit opportunities offered by new technologies, improved process operations and novel materials, to reduce its environmental impact and improve profitability further.

Supplier standards are subject to review by the Company's employees who audit their environmental credentials.

## COMMUNITY

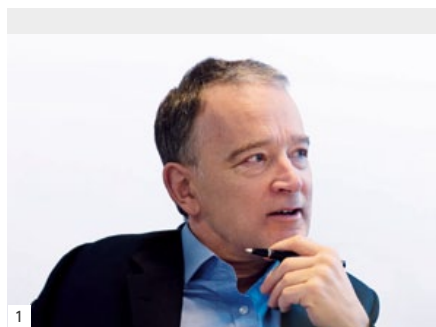
Essentra's commitment to being a responsible corporate citizen extends to support for appropriate non-political and non-sectarian projects across a range of organisations and charities. Regardless of regional or national boundaries, the Company aims to support the creation of prosperous, educated, sustainable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

## ETHICS

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

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

GROUP MANAGEMENT COMMITTEE



**1. COLIN DAY****Chief Executive**

Colin's biographical details can be found on page 51.

**2. MATTHEW GREGORY****Group Finance Director**

Matthew's biographical details can be found on page 51.

**3. HUGH ROSS****Managing Director, Europe**

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

**4. MALCOLM WAUGH****Group Commercial Director**

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

**5. BRETT YORK****President, Americas**

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

**6. JOANNA SPEED****Corporate Affairs Director**

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

**7. SCOTT FAWCETT****Managing Director, Distribution**

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

**8. MARTIN DALLAS****Managing Director, Specialist Technologies**

Martin Dallas joined Essentra in 2012 as Managing Director of Consumer Packaging, and was appointed to his current role in February 2014. Prior to joining Essentra, Martin was Sales & Marketing Director for Europe and the Americas at Amcor Flexible Packaging before which he was Commercial Development Director – Europe, Middle East & Africa at Cadbury plc, having held a variety of increasingly senior commercial positions during his 26-year career there.

**9. PT SREEKUMAR****Managing Director, Filter Products**

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

**10. JON GREEN****Company Secretary & General Counsel**

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

**11. ALAN RICHARDS****Group Operations Director**

Alan Richards joined Essentra as Group Operations Director in 2012. Prior to joining Essentra, Alan was Senior Director – Manufacturing Excellence at the Mars Group, and has held a number of increasingly senior operational roles in the pharmaceutical, cosmetic and mining industries. Since 1 January 2013 Alan has been responsible for the Group's Health, Safety & Environment practices.

**12. STEFAN SCHELLINGER****Corporate Development Director**

Stefan Schellinger joined Essentra as Corporate Development Director in 2013, before which he was Finance Director – Emerging Markets at Gilbarco Veeder Root from 2011, having initially joined the Danaher Corporation as Director, Corporate Development – Europe in 2005. Prior to this, Stefan worked in investment banking at JP Morgan and is a Chartered Accountant, having qualified with Arthur Andersen.

**13. ALAN TIDY****Group Human Resources Director**

Alan Tidy joined Essentra in 2005 as Group Human Resources Director. Alan was previously HR Director at Wagon plc, prior to which he held divisional HR roles at Caradon plc and Rio Tinto plc. Alan is Chairman of the Essentra UK Pension Trustee Board and a Chartered Member of the Institute of Personnel and Development.

Alan is retiring from Essentra and will be succeeded by Gavin Leatham in March 2014.

BOARD OF DIRECTORS



**1. JEFF HARRIS**

Non-Executive Chairman

Appointed to the Board: May 2005

**Skills and experience**

Chairman of Essentra since its formation in 2005, Jeff has played a key role in ensuring continuity upon demerger and in the subsequent development of the Company. Jeff is a Chartered Accountant, having spent over 25 years working in public companies, and brings a wealth of experience to Essentra.

**Other appointments**

Non-Executive Director and Senior Independent Director of Synergy Health plc.

**Past appointments**

Chief Executive and Chairman of Alliance UniChem plc, Non-Executive Chairman of Bunzl plc, Non-Executive Director of Associated British Foods plc, Non-Executive Chairman of Cookson Group plc and Non-Executive Director of WH Smith PLC.

**Committee membership**

Chairman of the Nomination Committee.

**2. PAUL DRECHSLER**

Senior Independent Non-Executive Director

Appointed to the Board: May 2005

**Skills and experience**

Paul is currently the Chairman of the Teach First charitable organisation. Having served on the Board of Essentra since its formation in 2005, Paul has played a key role in the development of the Company, particularly regarding its remuneration policy. Paul brings extensive business experience to his role, having spent 24 years at ICI plc in a variety of senior positions and at Wates Group Limited as Chairman and Chief Executive.

**Other appointments**

Chairman of Teach First, member of the Trinity College Dublin Business School Advisory Board, Board member of CBI, member of the Board of Business in the Community and Chairman of the Education Leadership Team.

**Past appointments**

Chairman and Chief Executive of Wates Group Limited, Executive Director of ICI plc, Chairman of the ICI Group pension fund.

**Committee membership**

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

**3. COLIN DAY**

Chief Executive

Appointed to the Board: April 2011

**Skills and experience**

Prior to joining Essentra, Colin was Chief Financial Officer at Reckitt Benckiser Group plc for over ten years. In addition to leading the finance function there, Colin was instrumental in both mergers and acquisitions activity and the development of group strategy. Before joining Reckitt Benckiser, Colin held a range of senior finance and operational positions at a variety of companies.

**Other appointments**

Non-Executive Director of WPP Group plc and AMEC plc.

**Past appointments**

Chief Financial Officer of Aegis Group plc, Non-Executive Director of EasyJet plc, Imperial Tobacco Group plc and Cadbury plc.

**4. MATTHEW GREGORY**

Group Finance Director

Appointed to the Board: September 2012

**Skills and experience**

Matthew joined Essentra in 2003 as Finance Director of the Moss Plastic Parts business and became Finance Director of the Protection & Finishing Products division in 2006. Before being appointed to his current role in 2012, Matthew was Corporate Development Director where he played a key role in the development of the Company's strategy and in building its mergers and acquisitions capability. Prior to joining Essentra, Matthew worked for the Rank Group plc in a number of senior finance positions. Matthew is a Chartered Accountant, having qualified with Ernst & Young.

**5. TERRY TWIGGER**

Non-Executive Director

Appointed to the Board: June 2009

**Skills and experience**

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

**Past appointments**

Chief Executive of Meggitt PLC, Director of Lucas plc.

**Committee membership**

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

**6. LORRAINE TRAINER**

Non-Executive Director

Appointed to the Board: July 2013

**Skills and experience**

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

**Other appointments**

Non-Executive Director of Colt Group S.A. and Jupiter Fund Management plc.

**Past appointments**

Non-Executive Director of Aegis Group plc.

**Committee membership**

Member of the Audit, Remuneration and Nomination Committees.

**7. PETER HILL, CBE**

Non-Executive Director

Appointed to the Board: July 2013

**Skills and experience**

Peter is currently Chairman of the speciality chemicals business Alent plc, where he also chairs the Nominations Committee. Peter brings a wealth of experience to Essentra, gained in particular in increasingly senior operational and strategic executive roles, and has also served on a number of Boards in a Non-Executive capacity for over 20 years.

**Other appointments**

Chairman of Alent plc, Non-Executive Director of the Royal Air Force.

**Past appointments**

Chief Executive of Laird PLC, Executive Director of Constain Group PLC, Non-Executive Director of Cookson Group plc, Meggitt PLC and Oxford Instruments plc, Non-Executive Board member of UK Trade and Investment.

**Committee membership**

Member of the Audit, Remuneration and Nomination Committees.



## CHAIRMAN OF THE BOARD'S LETTER

# FURTHER PROGRESS IN DELIVERY OF VISION 2015

AS ESSENTRA HAS CONTINUED ITS STRONG GROWTH, THE BOARD HAS MADE FURTHER PROGRESS IN RESPONSE TO THE INCREASING DEMANDS OF THE GOVERNANCE AGENDA.

## DEAR SHAREHOLDER

In 2013 Essentra continued to deliver its Vision 2015 strategic objectives, with impressive organic growth supported by value-adding transactions. Indeed, both recent acquisitions and an increasingly co-ordinated and horizontal management approach have established a strong foundation for further development of the Group's operations in both existing and new markets and geographies.

### Risk appetite

The Board continues to focus on strategy and sets the performance targets for the Group. The executive management team is empowered to deliver those targets, through appropriate levels of delegated authority and support. During the year the Board reviewed the risk appetite for the Group and maintained its focus on ensuring the appropriate balancing of risk and reward in the Company's pursuit of its strategic objectives, overseeing the delivery of continued strong growth, within the parameters of the Board's established appetite for risk.

### Board responsibilities

The rigorous monitoring of financial and operational performance has remained fundamental to the fulfilment of the Board's responsibilities during the year. The pace of development within the Group remains founded on strong governance, based on transparency and integrity driven by an effective Board, with appropriate internal controls and a comprehensive understanding of risk.

### Code compliance

I am pleased to confirm that the Group complied throughout the year with the UK Corporate Governance Code 2012, except for the period between February 2013 and the

beginning of July 2013 when the Committees operated with only two independent directors. This was rectified in July 2013 with the appointment of new Non-Executive Directors.

The required regulatory and governance assurances are provided throughout this report. The Board has received regular updates on the various legislative and governance-related developments which occurred during the year, and I am committed to ensuring that the highest standards of governance and compliance are maintained across the Group.

### Audit Committee

The work of the Audit Committee has continued to focus on the integrity of financial reporting and the oversight of the risk management process and internal controls across the Group. The latest governance requirements provide for the Committee to give a more detailed assessment of the key matters under consideration and the potential impact on the financial statements for the year.

During the year the Group Assurance function developed and implemented a new risk framework which has been developed using real time on-line reporting. This will continue to ensure the Company's expansion does not prejudice the strength of its controls and processes.

### Remuneration Committee

The role of the Remuneration Committee continued to be challenging during 2013, seeking to reward executives fairly for some very strong results and setting remuneration at levels which will attract new key executives to the Group, while being sensitive to the restraint expected in the current economic environment. The importance of the drive to attract, retain and motivate the team required to deliver the objectives of Vision 2015 and

beyond necessitates the Remuneration Committee to ensure that the Company's practices and incentives are appropriate, while maintaining a clear alignment with the interests of shareholders. Indeed, the high levels of share ownership required of the Group Leadership Team, illustrate the commitment to ensuring that alignment.

### Core values and behaviours

I strongly believe that good governance is founded on the core values and behaviours established by the Board and communicated throughout the Group. The Company has a strong culture of high standards of business ethics based on clear principles. The Board's participation in the Company's compliance training programmes, and its commitment to the development of new policies and practices in response to the increasing level of regulation impacting its global operations, serves to ensure that the "tone from the top" is clearly understood and reinforced.

As the Group continues to grow in size and complexity, one of the greatest challenges facing the Board is to ensure that we have in place the right people, culture and processes to exploit fully the opportunities for further balanced growth, and to manage effectively the risks to which the business is exposed.

### Board evaluation

It is essential that the Company has a fully engaged and committed Board with an appropriate mix of skills, experience and knowledge, which is capable of engaging in positive and constructive debate to meet such challenges. The Board re-engaged Lintstock to undertake the annual review of the Board and its Committees and the individual directors, including myself.

Following a full evaluation last year, the process this year consisted of a questionnaire tailored



**"I AND THE BOARD CONTINUE TO SEEK WAYS IN WHICH WE CAN ENSURE THAT ESSENTRA'S GOVERNANCE DELIVERS ADDITIONAL VALUE FOR THE BENEFIT OF OUR SHAREHOLDERS"**

to the specific circumstances of Essentra, that reiterated the importance of ongoing training for Directors in seeking to ensure clear understanding of material developments and issues potentially impacting the Company. Ensuring best practice risk management is a key priority of the Board and it is intended to undertake an externally facilitated review to drive further improvements in the Board's performance in the oversight and management of risk, within clearly delivered parameters which are established and understood across the Group.

The Lintstock report concluded that the Board continues to fulfil its responsibilities effectively, and that its performance has continued to improve. In response to the issues identified in last year's review, the Board and the Executives worked hard to ensure the Board was focused on the key strategic issues facing the Company and that meetings and agendas reflected the appropriate balance. A focused strategy day outside of the usual Board business provided a great opportunity to discuss the future development of the Company afresh. Changes to the composition of the Board have also contributed to developing the interaction between Directors and the management teams. It is planned that external Board monitoring will be undertaken in the future.

There is no related party connection with Lintstock, other than the work carried out on an arm's length basis.

**Employee engagement**

I visited a number of Essentra facilities during the year and plan to tour a number of other sites during 2014. I am always greatly impressed by the commitment and enthusiasm of my colleagues wherever I travel in the world. In particular, a visit to three of our sites in the US reminded me of the diversity of the operations within the Group. The Board visited the Company's facilities at Jarrow and Portsmouth, UK in September and also at Houston, US in October. It is anticipated that Board meetings will continue to be held at at least two operational sites during 2014, to ensure the Board remains in touch with local managements and teams.

As you will have seen, the Group successfully rebranded to Essentra plc during 2013. The Board and I are particularly pleased with how this change has been embraced so enthusiastically by my colleagues around the world, which has helped to increase the cohesion of the Group amongst Essentra employees worldwide.

**Board changes**

We significantly strengthened the Board during the year with the appointment of two independent Non-Executive Directors,

**JEFF HARRIS**

CHAIRMAN

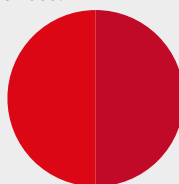


## ESSENTRA VALUES

ENTHUSIASM

**ENTHUSIASM**

We are passionate about what we do, celebrating our successes and learning from our experiences.



ENTERPRISE

**ENTERPRISE**

We aspire to think differently and to challenge the status quo.



EXCELLENCE

**EXCELLENCE**

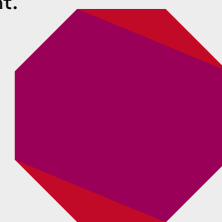
We strive to exceed expectations, every day and in everything that we do.



ETHICAL

**ETHICAL**

We are open and honest, acting with integrity in our dealings with stakeholders and with respect for the environment.



ENERGY

**ENERGY**

We are unstinting in our drive for continuous improvement and in our commitment to maximise value for our shareholders.



ESTEEM

**ESTEEM**

We treat others as we would wish to be treated ourselves – with dignity, respect and fairness.



## CHAIRMAN'S LETTER CONTINUED

2013 OBJECTIVES	PROGRESS	2014 PRIORITIES
<b>Strategy</b> – Deliver further progress towards strategic objectives of Vision 2015 and beyond	<ul style="list-style-type: none"> <li>&gt; Review of performance and benchmarking against Vision 2015 objectives</li> <li>&gt; Delivery of four acquisitions and one JV</li> <li>&gt; Approval of investment opportunities to drive future growth</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Developing strategic objectives beyond 2015</li> <li>&gt; Continue developing the organisation structure to drive future growth</li> </ul>
<b>Financial performance</b> – Continued delivery of balanced profitable growth – Improve year on year dividend	<ul style="list-style-type: none"> <li>&gt; Continued improvement in revenue</li> <li>&gt; Margin improvement</li> <li>&gt; Increased dividend</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Continued improvement in revenue</li> <li>&gt; Increased profitability</li> <li>&gt; Dividend progression</li> <li>&gt; Drive ROCE</li> </ul>
<b>Succession planning</b> – Maintain focus on international talent management	<ul style="list-style-type: none"> <li>&gt; Appointment of two Non-Executive Directors</li> <li>&gt; Review of talent base in conjunction with move to a new matrix structure</li> <li>&gt; Development of talent programmes</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Ensure succession planning within new organisation structure</li> <li>&gt; Oversee talent management programmes for key personnel</li> </ul>
<b>Risk</b> – Secure value from improved management of risk	<ul style="list-style-type: none"> <li>&gt; Further review of risk management practices</li> <li>&gt; Assessment of cyber security risk</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Ensure alignment of risk appetite with strategic objectives</li> <li>&gt; Drive continuous improvement in risk management practices</li> <li>&gt; Further develop understanding of the management of IT system risk</li> </ul>
<b>Compliance</b> – Ensure tone from the top drives highest standards of behaviours	<ul style="list-style-type: none"> <li>&gt; Review of developments in the governance and compliance landscape</li> <li>&gt; Further focus on compliance activities</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Reinforce and closely monitor leaderships commitment to the tone</li> <li>&gt; Ensure compliance programmes respond to new vulnerabilities or concerns</li> </ul>

Peter Hill and Lorraine Trainer. Both have enjoyed highly successful executive careers, and bring to the Company a wealth of Board experience and insight, gained in a variety of industries and over a number of years.

Paul Drechsler will be stepping down as the Senior Independent Non-Executive Director, as Chairman of the Remuneration Committee and also as a member of the various Board Committees following the 2014 AGM. Paul has been a Non-Executive Director since the formation of the Company in 2005, and as such will, in accordance with the Corporate Governance Code, no longer be considered as independent after May 2014. We are pleased that Paul will continue as a Non-Executive Director such that the Board and the Committees continue to receive the benefits of his experience and knowledge of Essentra.

Following the 2014 AGM, it is intended that Lorraine Trainer will be appointed as the Chairman of the Remuneration Committee, subject to her election as a Non-Executive Director. Lorraine has some 20 years' experience in the Human Resources field, and I am sure she will lead the Committee through the continuously changing and challenging environment in which it operates.

Terry Twigger, who has been a member of the Board and Chairman of the Audit Committee since June 2009, will be appointed as the Senior Independent Non-Executive Director, subject to his election as a Non-Executive Director.

During 2014 I anticipate that the Board will move forward with plans to add a new Non-Executive Director as we conclude the refreshment of the Board, to secure the skills necessary to drive the next stages of the Company's growth beyond Vision 2015 and provide appropriate ongoing succession planning.

I joined the Board at the same time as Paul, and I have committed to continue in my role as Chairman to ensure continuity, particularly in light of changes to the composition of the Board.

The Board noted with regret the passing of Lars Emilson in June 2013. Lars resigned as a Non-Executive Director in February 2013 on health grounds, having served on the Board since 2007. He was a valued colleague who made a significant contribution to the development and success of the Company, and will be sadly missed by all who worked with him.

#### Succession diversity

The Nomination Committee will continue its work, having proper regard to the benefits of diversity, to ensure that the composition of the Board continues to be appropriate for the Company as it makes further progress towards its strategic objectives. The Board's commitment remains to ensuring that it employs the best people to do the best job for the benefit of the Group and its shareholders, in line with its diversity policy. And during the year there have been a number of senior management changes as the Group seeks to secure a talent base capable of delivering its strategic objectives.

While the Nomination Committee primarily devotes its attention to Board succession, the Board has increased its focus on reviewing the quality of executive management and the processes for finding and developing a diverse, mobile and international talent base. Additional resources have been made available to pursue this objective, with the implementation of an improved global talent management system to identify and manage the Company's pipeline.

The Graduate Development Programme continues to recruit from different universities in several countries, and the success of this development programme can readily be seen in the high number of graduates now working internationally in a number of key management roles across the Group.

#### Governance agenda

In summary, as the Company continues its strong growth, we have made excellent progress in response to the increasing demands of the governance agenda, both internally and externally. However, just as the Company continually looks for new ways to improve its financial and operational performance, I and the rest of the Board remain receptive to ways in which we can develop our practices, to ensure that the Company's governance delivers additional value for the benefit of shareholders.

#### JEFF HARRIS

##### Chairman

20 February 2014

## CORPORATE GOVERNANCE FRAMEWORK

## THE BOARD

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

In fulfilling its role, the Board:

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



## THE GROUP MANAGEMENT COMMITTEE

The GMC provides general executive management of the Company within agreed delegated authority limits determined by the Board.

In fulfilling its role, the GMC:

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



## THE GROUP LEADERSHIP TEAM

The GLT comprises the most senior managers from across the Group who are collectively charged with driving the achievement of Essentra's Vision 2015 strategy. It has a key role in reinforcing the behaviours that contribute to a robust governance culture across the Group

## THE AUDIT COMMITTEE



Supports the Board in establishing formal and transparent arrangements for considering how it should apply the required financial reporting, internal control principles and risk management processes, and the audit of the financial statements of the Company

## THE NOMINATION COMMITTEE



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

## THE REMUNERATION COMMITTEE



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

## CORPORATE GOVERNANCE REPORT

**Board of Directors' meeting attendance**

Board Chairman: Jeff Harris

**Membership and attendance**

Jeff Harris	6 (6)
Colin Day	6 (6)
Matthew Gregory	6 (6)
Paul Drechsler	6 (6)
Peter Hill	4 (4)
Terry Twigger	6 (6)
Lorraine Trainer	3 (4)

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

Lorraine Trainer was unable to attend a Board meeting due to an engagement arranged prior to her appointment as a Director.

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

During the year, Essentra was and continues to be subject to the UK Corporate Governance Code (the "Code") published by the Financial Reporting Council, a copy of which can be found on their website [www.frc.org.uk](http://www.frc.org.uk). The edition of the Code published in September 2012 applied throughout the year ended 31 December 2013. The Financial Conduct Authority has yet to change the Listing Rules, and therefore requires that certain compliance statements are made in relation to the edition of the Code issued in June 2010. This report addresses the requirements of both editions of the Code.

Essentra confirms that the Company has complied with the Code except for the period between 5 February 2013 and 30 June 2013. During this period the Audit Committee and Remuneration Committee operated with only two independent Non-Executive Directors. This was unavoidable due to the unexpected resignation of Lars Emilson. The Company immediately took steps to recruit a successor but due to its rigorous recruitment procedures was unable to fulfil the position until later in the year. During this intervening period the Committees continued to hold meetings and to act in accordance with their terms of reference. These meetings were attended by the Chairman of the Board and

suitable independent advice was taken when appropriate. The Board was satisfied that the meetings were conducted in accordance with the spirit of the Code.

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

The Company's governance structure, based on the leadership principles of the Code, were reviewed during the year, and in seeking to continuously improve its structure introduced a Treasury Committee. From 1 January 2014, an Operational Risk Management Committee and an Executive Risk Committee were also introduced.

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

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

In fulfilling its role, the Board:

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

**Board composition and independence**

As at the date of this report the Board has seven members comprising a Non-Executive Chairman, two Executive Directors and four Non-Executive Directors. The names of the Directors serving at the end of 2013 and their biographical details are set out on page 51. All Directors served throughout the year, save as noted below.

**Peter Hill** – appointed as a Non-Executive Director on 1 July 2013

**Lorraine Trainer** – appointed as a Non-Executive Director on 1 July 2013

**Lars Emilson** – resigned as a Non-Executive Director with effect from 5 February 2013

The Board believes that it and its Committees have an appropriate composition to discharge their duties effectively and that the members of the Board in conjunction with the senior executive teams are well equipped to drive, and are capable of delivering, the Company's Vision 2015 strategy and longer-term objectives. The Board is of the view that it has a highly competent Chairman who, together with each of the other Non-Executive Directors, has considerable international experience at a senior level in the management of activities broadly similar to those carried out by Essentra and the material issues likely to arise for the Group.

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

**Roles**

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

**CHAIRMAN**

- > Leads the Board
- > Ensures effective communication with shareholders
- > Ensures effective communication flows between Directors
- > Facilitates the effective communication of all Directors

**CHIEF EXECUTIVE**

- > Implements strategy
- > Develops manageable goals and priorities
- > Leads and motivates the management teams
- > Develops proposals to present to the Board on all areas reserved for its judgement

For the year ended 31 December 2013 it was the opinion of the Board that the Non-Executive Directors were each considered to be independent of management. In assessing independence, the Board considers that the Chairman and Non-Executive Directors are independent of management and free from business and other relationships which could interfere with the exercise of independent judgement now and in the future. The Board believes that any shareholdings of the Chairman and Non-Executive Directors serve to align their interests with those of the shareholders.

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

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

Jeff Harris was appointed to the board of Synergy Health plc as a Non-Executive Director and as the Senior Independent Director from

1 September 2013. The Board considers that despite this appointment, the Chairman of the Board continues to be able to allocate sufficient time to the Company and to discharge his responsibilities effectively.

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

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

**The conduct of Board matters**

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

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

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

During 2013, the Board was closely engaged in the detailed monitoring of performance and the actions necessary to maintain the balanced, profitable growth of the Company in accordance with its Vision 2015 objectives.

It also remained focused on the longer-term strategic objectives which it has defined and the appropriate management of particular risks impacting the Group within the risk appetite parameters which were defined by the Board during the year.

**Boards and Committees**

During the year there were six scheduled Board meetings, one of which was held at the Filter Products Jarrow, UK, facility, and one of which was held at the Pipe Protection Technology Houston, US site. In addition to the scheduled formal meetings, the Board met on a number of other occasions as required and, in particular, reviewed in detail, the further development and delivery of the Group strategy. The Chairman and Chief Executive maintain regular contact with the Directors, and the Chairman also holds as appropriate, from time to time, informal discussions with Non-Executive Directors individually or collectively without any of the Executive Directors being present, to review performance, discuss succession issues, to monitor corporate control mechanisms and to discuss any other material matters relevant to the Board. Two opportunities to facilitate such discussions between the Non-Executive Directors were arranged during the year.

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

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

Other specific responsibilities are delegated to the Nomination and Remuneration Committees. These Committees report as appropriate to the Board.

## CORPORATE GOVERNANCE REPORT CONTINUED

Each of the Committees has terms of reference approved by the Board, copies of which are available on the Company's website or on request from the Company Secretary & General Counsel.

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

During 2014 Essentra will transition to a more matrix organisational structure, with the establishment of three geographical regions to supplement the existing divisional structure. The role of the regions will be to drive in-market execution, with the divisions and the newly-created strategic business units (SBUs) taking responsibility for those activities of a longer-term more strategic nature.

The Chief Executive will continue to be supported by the GMC which will consist of senior executive management, regional and SBU heads. The GMC will continue to have delegated authority limits in accordance with clearly defined internal controls established by the Board.

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

The GMC provides general executive management of the Company within agreed delegated authority limits determined by the Board:

- > Developing and implementing strategy, financial and operational plans and targets and allocates resources
- > Monitoring and delivering financial and operating performance
- > Maintaining an effective internal control framework and taking responsibility for compliance
- > Implementing an effective management structure and develop effective succession plans

### Engagement with management

The Board receives detailed reports at each scheduled Board meeting on the operational and financial performance of the businesses from the Chief Executive and the Group Finance Director, together with regular updates on any material issues which may impact the Group.

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

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

### Applying Essentra's Corporate Responsibility principles

The Chief Executive is the Director with primary responsibility for the implementation and integration of Essentra's Corporate Responsibility principles across the Company. During 2013 the Group Operations Director, supported by the Company Secretary & General Counsel, was responsible for co-ordinating the operation of detailed policies on health and safety, ethics and the environment which support Essentra's commitment to its Corporate Responsibility principles. Further details of these policies can be viewed via the Corporate Responsibility page on the Company's website at [www.essentra.com](http://www.essentra.com).

### Conflict of interests

Directors have a statutory duty to avoid actual or potential conflicts of interest. The Company's Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company. In addition, the Company has a conflict of interests policy governing the responsibilities of Directors in such situations. The decision to authorise a conflict of interest can only be made by non-conflicted Directors (those who have

no interest in the matter being considered) and in making such a decision the Directors must act honestly and in good faith when giving authorisation where they think this is appropriate, and will be most likely to promote the Company's success. The Company Secretary & General Counsel maintains a register of Directors' interests so that any potential concerns are addressed before any material concerns may arise. During the course of the year, there were no material conflicts of interest impacting on the conduct of the Board's activities.

### Information and professional development

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

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

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

### Performance evaluation

The Board engaged Lintstock Ltd to undertake an evaluation of the performance of the Board in 2013, following up on the review process conducted in 2012.



The first stage of the review involved Lintstock engaging with the Chairman and the Company Secretary & General Counsel to set the context for the evaluation and to tailor the questionnaires to the specific circumstances of Essentra. All respondents were then requested to complete an online questionnaire addressing the performance of the Board, the Committees and the Chairman.

Lintstock subsequently produced a report which addressed the following areas:

- > The current size and composition of the Board were reviewed, and the Board's understanding of the opportunities, risks and challenges associated with the Company's strategic objectives, and of the views of major investors and stakeholders, were considered
- > The dynamics between the Board members and between the Board and senior management were evaluated
- > The management of time at the Board and the Board's annual cycle of work were considered, and the support afforded to the Board was assessed
- > The Board's oversight of the Group's strategy for Vision 2015 and beyond was reviewed, and the Board members' views as to the top strategic issues facing the Company were identified
- > The risk appetite of the Board was evaluated, as were the Board's management and oversight of risk
- > The succession plans for Executive Directors and for key management positions beneath the Board were assessed, and the Board members' views as to the top priorities for the incoming Human Resources Director were identified
- > The composition and performance of the Committees of the Board were considered, as was the performance of the Chairman and individual Directors

It is envisaged that Lintstock will conduct an appraisal in 2014 to follow up on the issues raised in this year's process. The review content for each subsequent evaluation is designed to build upon learning gained in the previous year, to ensure that the recommendations agreed in the review are implemented and that year-on-year progress is measured.

### Shareholder communications

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

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

All shareholders have the opportunity to meet any of the Directors of the Company should they so wish. Feedback from meetings with shareholders is provided to the Board so they are aware of any issues or concerns. Additionally, the Board uses the AGM as an occasion to communicate with all shareholders, including private investors, who are provided with the opportunity to question the Directors.

At the AGM the level of proxy votes lodged on each resolution will be made available, both at the meeting and subsequently on the Company's website. Each substantially separate issue is presented as a separate resolution and the Chairmen of the Audit, Nomination and Remuneration Committees are available to answer questions from shareholders.

The Notice of the AGM and related papers will be posted to shareholders more than 20 working days before the AGM.

### Financial reporting

The Directors have acknowledged, in the Statement of Directors' Responsibilities set out on page 88, their responsibility for preparing the financial statements of the Company and the Group. The Directors are responsible for preparing the Annual Report and Accounts and they consider that the Annual Report and Accounts taken as a whole are fair, balanced and understandable. The external auditor has included, in the Independent Auditor's Report set out on pages 136 to 138 of the 2013 Annual Report Book 2, a statement about their reporting responsibilities.

The Directors are also responsible for the publication of unaudited quarterly Interim Management Statements and Half Year Results as required by the Disclosure and Transparency Rules of the Financial Services Authority. These provide an explanation of material events and transactions that have taken place during the relevant period and their impact on the financial position of the Company and the Group, and a general description of the financial position and performance of the Company and the Group during the relevant period.

### Directors' and Officers' insurance

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

### Internal controls

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

Monitoring the effectiveness of the system has been delegated to the Audit Committee which assesses the quality of the control environment when monitoring and reviewing the integrity of the Group's financial statements and any significant judgements that were made in their preparation.

## CORPORATE GOVERNANCE REPORT CONTINUED

Essentra's internal controls are designed to safeguard the Company's assets and to ensure the integrity and reliability of information used both within the businesses and for public announcements. The Board has overall responsibility for the Company's system of internal control and risk management and for reviewing the effectiveness of this system. Such a system can only be designed to mitigate, rather than eliminate, the risk of failure to achieve business objectives and can therefore only provide reasonable, and not absolute, assurance against material misstatement or loss.

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

- > The Audit Committee meets regularly and reviews the effectiveness of the internal control environment of the Group
- > The Audit Committee is supported by the Group Assurance function which undertakes extensive internal audit responsibilities across the Group
- > Risk management reports are presented which detail an analysis of the key risks at a Group level, summarise developments potentially impacting the Group from a risk, governance or compliance perspective and propose actions for the Company in response to such developments
- > The Board has the opportunity to review the internal control environment at local sites when Board meetings are held away from the Company's head office
- > Every month each division submits detailed operating and financial reports covering all aspects of performance. These are reviewed within the Group's central finance function and summary reports are communicated to the GMC and the Board
- > Certificates are required from the businesses to confirm compliance with the Group's policies and procedures
- > Self-certification is required from all businesses and divisions at both the half year and year end to confirm compliance with Group financial policies and procedures

Policies and procedures, which are subject to ongoing review and updated as required in response to strategic, operational, business, legal or regulatory developments, with the approval of the Board or its respective Committees as appropriate, are communicated across the Group. Essentra's internal controls

are designed to ensure significant risks, investment decisions and management issues are identified, considered and escalated as necessary at the earliest opportunity. Divisional Managing Directors and Presidents are responsible for ensuring the communication of and compliance with Essentra's internal controls across their respective divisions.

#### Control of significant risks

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

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

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

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

In continuing to enhance and improve the risk management activities within the Company, from January 2014 the Board endorsed the formation of a new Operational Risk Management Committee which will report to the Audit Committee through the Group Head of Assurance, and an Executive Risk Committee which will report to the Board through the Chief Executive.

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

The Board is of the view that a rigorous ongoing process for identifying, evaluating and managing significant risks faced by the Company was in place throughout 2013 and up to the date of approval of the 2013 Annual Report. This process has been reviewed by the Audit Committee and will be reviewed routinely to ensure that the system of internal control and risk management remains fit for purpose.

The risk appetite established by the Board provides clarity on those areas where the Board wishes to take little or no risk and those where the Board would be comfortable adopting a greater level of risk taking. It is intended that this assessment will be used to support the Board's ongoing decision making and underpin the risk management processes across the Company.

Risk appetite will change over time to reflect changes in the economic environment, strategy and performance of the Company and it is the intention of the Board to review this at least on an annual basis in conjunction with its strategic and financial planning processes.

The Company has an established process for the development of risk practices. Further to the setting of the risk appetite by the Board there is a more formal method of defining acceptable levels of risk within the organisation. The risk process has evolved and is validated through the preparation of risk registers which are used to assess risk tolerances and the registers are reviewed and discussed by senior management prior to being put forward to the Audit Committee or Board.

With the continued development of the Group Assurance function further controls have been introduced to improve effectiveness, reduce costs and support business performance.

During 2013 a risk management technology platform was introduced which will enhance the reporting tools currently being used and will enable the Company to improve risk management, develop risk strategies into risk mitigation, and eliminate any lack of coverage. The platform allows real time reporting of risks from the operational businesses to the executive management.

## Nomination Committee

Committee Chairman: Jeff Harris

### Membership and attendance

Jeff Harris	Non-Executive Chairman	4 (4)
Paul Drechsler	SI Non-Executive Director	4 (4)
Peter Hill	Non-Executive Director	1 (1)
Terry Twigger	Non-Executive Director	4 (4)
Lorraine Trainer	Non-Executive Director	1 (1)

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

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

At the end of the year the Nomination Committee comprised Jeff Harris, who chairs the Committee, Paul Drechsler, Peter Hill, Lorraine Trainer and Terry Twigger, the skills and experience of whom can be found on page 51. The Chief Executive and Group Human Resources Director attended by invitation as appropriate.

Lorraine Trainer and Peter Hill joined the Nomination Committee on 1 July 2013. Lars Emilson resigned from the Nomination Committee in February 2013.

The Nomination Committee meets as required and during 2013 it met four times.

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

## Nomination Committee 2013 key activities

- > Reviewed the succession planning for the Board and senior executives and in doing so considered diversity, experience, knowledge and skills. Reviewed the composition and structure of the Company's Board and the Committees. Reviewed the Group Conflict of Interests policy and register and was satisfied that there were no material issues of conflict
- > Reviewed and made recommendations to the Board in respect of the two Non-Executive Directors, Peter Hill and Lorraine Trainer

Considerations included the Board needing to comprise of the right blend of individuals whose skills and experience were gained in a diverse range of backgrounds. Above all the successful applicants needed to exhibit independence of mind, integrity and courage to challenge constructively when appropriate. An external resource, the Zygos Partnership, assessed the applicants and proposals to the Nomination Committee which were subsequently recommended to the Board.

There is no related party connection with the Zygos Partnership other than the work carried out on an arms length basis.

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

## REPORT OF THE AUDIT COMMITTEE

## TERRY TWIGGER

## AUDIT COMMITTEE CHAIRMAN

**Audit Committee**

Committee Chairman: Terry Twigger

**Membership and attendance**

Terry Twigger	Non-Executive Director	4 (4)
Paul Drechsler	SI Non-Executive Director	4 (4)
Peter Hill	Non-Executive Director	3 (3)
Lorraine Trainer	Non-Executive Director	3 (3)

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

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

**Other attendees**

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

Lorraine Trainer and Peter Hill joined the Audit Committee on 1 July 2013. Lars Emilson resigned from the Audit Committee in February 2013.

**Governance**

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

Terry Twigger has been the Chairman of the Audit Committee since 2009, and the Board is satisfied that Terry has recent and relevant

financial experience, further details of which can be found on page 51.

The Audit Committee supports the Board and confirmed that the external auditor's independence was safeguarded, establishing formal and transparent arrangements for considering how it should apply the required financial reporting, internal control principles and risk management processes to the audit of the financial statements of the Company.

The Audit Committee reports to the full Board on a regular basis, but no less frequently than at every Board meeting following a Committee meeting. There is an annual cycle of items that are to be considered by the Audit Committee. The timetable of these items is scheduled in accordance with the requirements of the annual audit cycle. The responsibilities of the Audit Committee are defined in its terms of reference, which are reviewed annually, copies of which are available at [www.essentra.com](http://www.essentra.com).

**Audit Committee 2013 key activities****Financial statements and reports**

- > Examined the 31 December 2012 Annual Report and Accounts and the 30 June 2013 Half Year Report. This involved reviewing, challenging and approving the going concern basis of preparation, the accounting policies and disclosures, the financial reporting issues and the assumptions and judgements made
- > Reviewed in detail the key judgement of the Financial Statements and the levels of disclosure, and the following main issues were considered:

**Valuation of accounts receivable**

The Audit Committee reviewed the management accounts of the business in which working capital management is a key metric and which show the receivable balance of each business. Any significant movement was challenged and considered, and confirmation sought that any older balances were properly provided against according to group policy. In addition the Audit Committee reviewed the twice yearly report of the external auditor, which had been previously discussed with the Group Finance Director, that sets out the gross balances of the businesses, together with any related provision against the carrying value. The Audit Committee reviewed the report of work to be done by the external auditor on trade receivables to confirm both existence and recoverability; it also considered the appropriateness of provisions held against the carrying value of accounts receivables having regards to the age of creditworthiness of the customer. In addition, the Audit Committee ensured that adherence to the group accounting manual with respect to aged receivables was included in the scope of the Assurance function and reviewed the key issues from all internal reports during the year to assess conformity. These matters were also discussed with the Group Finance Director and the external auditor.

As a result of the processes and reporting in place the Audit Committee is satisfied that management is giving its full attention to any outstanding issues.

A summary progress report is presented at each Audit Committee and a semi-annual risk report is submitted, to correspond with the reporting of full and half year results.



### Tax contingencies

The Audit Committee reviewed the central tax provisions created during the year and the effective tax rate, together with their corresponding assumptions. During the year the Group Finance Director presented to the Audit Committee details of the Group's long-term tax strategy. The Audit Committee questioned and challenged the Group Finance Director as to the Company's appetite for risk in this area. Having considered the explanations and rationale provided by the Company, and taking this into consideration along with the conclusion of the external auditor, the Audit Committee concluded that, the contingencies were appropriate given the nature of the activity undertaken by the Group.

### Valuation of warranties and restructuring provisions

The Audit Committee reviewed and received reports from the external auditor outlining the assumptions made for the recording of provisions at the year end, specifically in relation to warranties and restructuring provisions. The Audit Committee reviewed the management accounts, the bases of calculation and also the information and explanations provided by the Group Finance Director to value these provisions, and evaluated the report and concluded that they were satisfied with the assumptions made and the judgements applied. This area is a prime source of audit focus, and accordingly the external auditor provided detailed reporting to the Audit Committee and addressed the issue at the planning stage of the external audit plan.

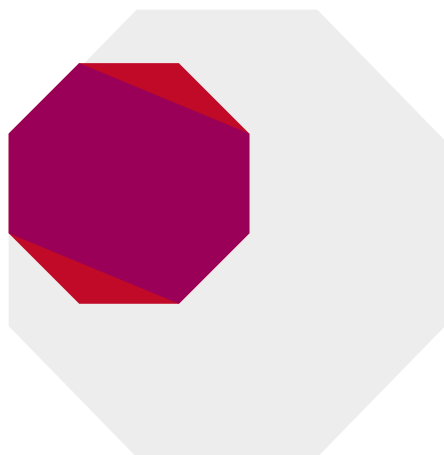
### Exceptional items

The Audit Committee considered the value and treatment of the exceptional items, and the assumptions underlying this value. The Company provided detailed analysis as to the reasons why these costs should be classified as exceptional and that they related to acquisitions, integrations and non-deductible restructuring costs and also rebranding costs, further details of which can be found in note 3 on page 110 of the Annual Report Book 2 of the financial statements. The Audit Committee challenged the appropriateness of this classification to ensure the costs were truly exceptional and could not be considered to be recurring. The Audit Committee also challenged the Group Finance Director as to whether the amounts involved were sufficiently material to be considered exceptional. Taking into consideration the accounting policy of the Company, the explanations given by the Group Finance Director and the views and conclusion of the external auditor, the Audit Committee remains comfortable with classification of these exceptional costs.

- > Reviewed the effectiveness of the Group's internal controls and disclosures made in the Annual Report and financial statements
- > Considered the Financial Reporting Council ("FRC") letter, that was received during 2013 as part of the FRC's cyclical reviews of FTSE 350 companies. During this process the Audit Committee discussed the key areas raised by the FRC in their letter. The Audit Committee reviewed management's response to those areas and determined that the suggested agreement to enhance certain minor disclosures was appropriate in the current year financial statements. The review has subsequently been closed by the FRC

### Risk management and internal audit

- > Reviewed and considered reports from the Group Head of Assurance including any issues relating to internal controls and the status of actions taken in response to any identified concerns
- > Oversaw the development of risk management practices through the internal Assurance function
- > Assessed the areas of focus for internal audit and the adequacy of coverage, having regard to the potential risks impacting the Group
- > Reviewed the output from the Group processes used to identify, evaluate and mitigate risk, and considered the key risks arising from the Company's activities and the response of senior management to those challenges
- > Assessed the Company's response to cyber security and information technology risks
- > Oversaw compliance activities and monitored the impact of the business and regulatory environment
- > Reviewed the adequacy of the Company's resources in relation to financial reporting, tax and treasury management requirements
- > Reported on any Right to Speak activities



## REPORT OF THE AUDIT COMMITTEE CONTINUED

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

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

During the year the Audit Committee has overseen a comprehensive external review of the integrity of the Company's information technology systems, having regard to identified cyber security risks and the importance of the protection of the proprietary information of the Company and its customers. As a result of that review, and under the supervision of the Audit Committee, the Company is centralising the management of its information technology systems under new resource and adopting a variety of policy and process improvements to preserve the integrity of those business critical systems.

**External auditor and non-audit work**

- > Reviewed and agreed the scope of the audit work to be undertaken by the external auditor
- > Agreed the terms of engagement and fees to be paid to the external auditor for their audit of the 31 December 2013 financial statements
- > Received a report from the external auditor on its independence and objectivity including quality control procedures
- > Reviewed the qualifications, expertise, resources and independence of the external auditor and assessed their performance
- > Reviewed proposals for the engagement of the external auditor for non-audit services and confirmed that their independence was safeguarded

The internal procedures implemented by the Company to ensure the Board maintains overall control for all material strategic, financial, operational and compliance matters affecting the Company are included within the internal control section of this Report. The Board establishes the standards and values that govern the Group and agrees the structure of the Group's internal controls.

**Engagement of the external auditor**

Although the external auditor has been in place since the Company's public listing in 2005, the external auditor periodically changes the audit partners at a Group, divisional and country level in accordance with professional and regulatory standards in order to protect independence and objectivity and provide fresh challenge to the business. Such changes are carefully planned to ensure that the Group benefits from staff continuity without incurring undue risk of inefficiency.

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

As such, the Audit Committee has not considered it necessary this year to conduct a tender process for the appointment of its external auditor. Having carried out the review described above and having satisfied itself that the external auditor remains independent and effective, the Audit Committee has recommended to the external Board that the external auditor be reappointed at the 2014 AGM.

The Audit Committee is mindful of ongoing debate about the operation of the audit market, audit tenure and the longevity of the audit firm relationships with the companies they audit. KPMG Audit Plc has been in place as the Company's external auditor since inception of the business in 2005, and it is the current intention to implement the transitional arrangements proposed by the UK Competition Commission and initiate an audit re-tender no later than 2017. The Audit Committee will keep this re-tendering time frame under review and will use its regular reviews of external auditor effectiveness to assess whether an earlier date for a re-tender would be appropriate.

There are no contractual obligations restricting the Audit Committee's choice of external auditor.

In addition to the annual review of the service provided by the external auditor, the Audit Committee gives consideration from time to time to whether the audit might be provided more efficiently or effectively by an alternative audit firm, and the Company may put the audit out to tender at any time if the Audit Committee deems it appropriate.

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

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

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

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

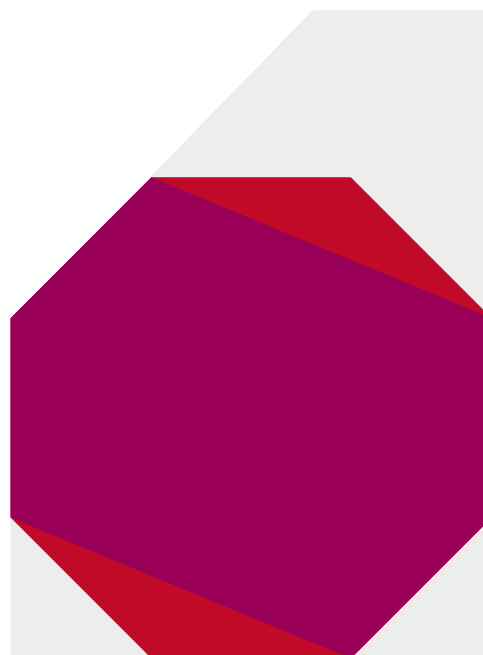
The external auditor is engaged to express an opinion on the financial statements. The audit includes the review and test of the system of internal financial control and the data contained in the financial statements to the extent necessary for expressing an audit opinion on the truth and fairness of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

#### **Non-audit services policy**

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

The majority of the non-audit work carried out by the external auditor during the year relates to tax compliance services and acquisition-related activity in overseas jurisdictions, and the Audit Committee believes that given their experience the external auditor was the most appropriate suppliers of this work.

Details of the fees paid to KPMG during the year can be found in note 3 to the financial statements on page 110 of the 2013 Annual Report Book 2.



## REMUNERATION COMMITTEE CHAIRMAN'S LETTER

PAUL DRECHSLER

REMUNERATION COMMITTEE CHAIRMAN



## DEAR SHAREHOLDER,

As Chairman of the Essentra Remuneration Committee I am pleased to present the 2013 Remuneration Report to shareholders.

As required by law, at the 2014 AGM shareholders are being asked to vote separately on our Directors' Remuneration Policy and our Annual Report on Remuneration, set out in the next two sections of this report. We have invited comments on a draft of the policy statement from our shareholders in advance and made changes as appropriate. There have been no material changes to the policy as presented last year.

If the Policy Report is approved at the 2014 AGM it will take effect from that date.

The remuneration policy continues to be focused on aligning the interests of executives with those of our shareholders, and is structured to enable the Group to attract, motivate and retain the talent required to deliver its Vision 2015 strategy. When considering the senior executive remuneration structure, the Committee also takes into account the pay and conditions of all UK employees or of such other jurisdiction within which the Executive Directors operate or reside.

The year to 31 December 2013 saw continued strong growth in financial and operational performance, as outlined in the Strategic Report. As a result of this strong performance in relation to balanced growth, working capital and personal objectives, the Committee determined that the annual bonus would be 100% of the maximum for both the Chief Executive and Group Finance Director. In addition, the long-term incentive award

granted in April 2011 to Colin Day was subject to a performance period which ended on 31 December 2013. As a result of Earnings Per Share growth of 44% and Total Shareholder Return performance which ranked above the upper quartile compared to the comparator group, the award will vest in full in April 2014. More details are provided on page 79. The Committee is comfortable that the level of reward adequately reflects the corporate and personal performance over the period.

Given the large number of employees who are currently based in the US, a need for a similar Sharesave scheme as is already available in the UK has been highlighted, and it is hoped that introducing such a scheme will encourage even further employee share ownership. Following a review with our advisers, the Company proposes that such a US Sharesave Scheme is introduced in 2014. This scheme requires shareholder approval, which will be sought at the 2014 AGM.

The existing UK Sharesave Scheme is nine years old and will need to be renewed by shareholders during 2015. Consequently it is proposed that the UK Sharesave is submitted for renewed approval at the 2014 AGM. The UK Sharesave Scheme rules remain the same except they have been updated to reflect changes in legislation including the increase in monthly savings to £500.

I hope that you will find this report of the Committee's work comprehensive and understandable, and that you will join me in supporting the two resolutions in respect of this year's Report of the Remuneration Committee at the Company's AGM in 2014.

With a nine-year tenure as Chairman of the Remuneration Committee, by May 2014

I will no longer be viewed as independent in accordance with the UK Corporate Governance Code guidelines, and thereafter I will stand down after the AGM. Lorraine Trainer will be my successor as Chairman of the Committee. Lorraine has extensive experience of remuneration matters both at an operational level and as a previous Chairman of the Remuneration Committee elsewhere. I will be continuing as a Non-Executive Director of the Board and will be available if requested to assist the Committee in the performance of its future responsibilities.

I would like to take this opportunity to thank Alan Tidy, the Group Human Resources Director, who will retire in April of this year for all of his help and support in advising me and the Committee since its formation in 2005.

As a Committee, we wish to maintain an ongoing constructive dialogue with investors and relevant representative bodies. This means we will consult with our major shareholders on any material changes to the remuneration policy, and in the meantime welcome any feedback you may have.

**PAUL DRECHSLER**  
Remuneration Committee Chairman  
20 February 2014

This Report to shareholders for the year ended 31 December 2013 sets out the policies under which the Executive and Non-Executive Directors are remunerated and incorporates tables of information showing details of the remuneration and share interests of the Directors.

The Remuneration Committee's Report, including the Policy Report and the Annual Report on Remuneration, is intended to be in full compliance with the requirements of the Large and Medium-sized Companies and Groups Regulations 2013, the UK Corporate Governance Code 2012 issued by the Financial Reporting Council and the Listing Rules.



## REMUNERATION POLICY REPORT

### Remuneration Committee

Committee Chairman: Paul Drechsler

#### Membership and attendance

Paul Drechsler	3 (3)
Peter Hill	2 (2)
Terry Twigger	3 (3)
Lorraine Trainer	2 (2)

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

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

The Remuneration Committee determines and recommends to the Board the framework for the remuneration of the Executive Directors and the Chairman of the Board. The Chief Executive's remuneration proposals for the members of the Group Management Committee are reviewed by the Remuneration Committee, and recommendations as regards those proposals are made to the Board.

The Remuneration Committee also takes note of the remuneration policy as detailed by the Chief Executive in respect of other levels of management in the Company, and makes such recommendations to the Chief Executive as the Remuneration Committee deems appropriate. The Remuneration Committee has regard to the proposed remuneration policy for other management and employees across the Group, when determining recommendations on remuneration for the Executive Directors and other senior executives.

The Remuneration Committee reviews the risks surrounding the Company's existing remuneration policies on an annual basis and has determined that there are no significant concerns with the structure or operation of the remuneration policy.

The remuneration of the Executive Directors and the Chairman of the Board is the responsibility of the Remuneration Committee, and the remuneration of the Non-Executive Directors is the responsibility of the Board as a whole. No Director is involved in determining or voting on their own remuneration.

In determining the policy for the Executive Directors, the Remuneration Committee's objective is to ensure that those individuals are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner having regard to the long-term performance of the Company, rewarded for their individual contributions to the success of the Company.

The Remuneration Committee's main responsibilities are to:

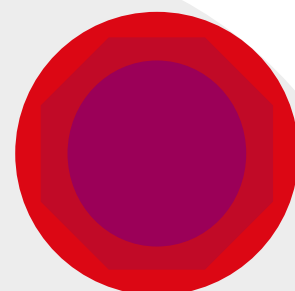
- > Develop the Group's remuneration policy for the Executive Directors and other senior executives, covering basic salary, bonus, long-term incentives, retirement provisions and other benefits
- > Strike an appropriate balance between (i) the fixed and variable; and (ii) the cash and equity-related components of total remuneration packages
- > Review and determine the terms of employment and remuneration of the individual Executive Directors, including any specific retirement or severance terms
- > Determine the remuneration of the Chairman of the Board
- > Establish and review the operation of any employee share plans, including the granting of awards, the setting and testing of performance conditions and exercising of any awards under the Long-Term Incentive Plan
- > Select, appoint and determine the terms of reference for independent consultants to advise the Remuneration Committee on remuneration matters

The Remuneration Committee's key objectives are to:

- > Align senior executives' remuneration with the interests of the shareholders and other stakeholders, particularly in the design of the performance-related elements of their remuneration packages
- > Establish a competitive remuneration package attracting, retaining and motivating high quality management
- > Promote the achievement of both the Company's annual and longer-term strategic objectives by providing a remuneration package that contains appropriately motivating targets

#### Alignment with Group strategy

The Board as a whole establishes the remuneration policy and considers the alignment of Group performance and the remuneration of its senior executives, including the Executive Directors, to be of the utmost importance. It believes that senior management should be highly rewarded (on a market-competitive basis) for the delivery of stretching goals but should also receive reduced rewards when the business does not perform to expectations. To achieve this alignment, Essentra's remuneration package is leveraged with a high percentage of pay "at risk" against the achievement of stretching goals. Furthermore, one half of any bonus for Executive Directors is delivered in the form of Essentra shares which will vest after a three year period. These requirements closely tie the long-term value of executive remuneration to the long-term interests of shareholders.



## REMUNERATION POLICY REPORT CONTINUED

As set out on pages 18 to 21 Essentra's Vision 2015 strategy seeks to create sustainable shareholder value through the delivery of balanced, profitable growth in its existing and future opportunity markets and technologies. The strategy also calls for strong conversion of profit into cash. Those priorities are reflected closely in the design of the remuneration packages, which seek to drive their delivery through a combination of financially driven targets, key personal objectives based around operational issues and relative shareholder return.

The Remuneration Committee considers all elements of the remuneration package as a whole. It looks to ensure that an appropriate balance is maintained between them so that the need for both short-term success and long-term sustainable growth is recognised. The Remuneration Committee also ensures that non-financial business measures and individual objectives reflect adequately the Company's environmental, social and governance responsibilities.

The remuneration structure which was implemented during 2012 continues to apply. This structure retains the principles of increased share ownership with more stretching targets linking higher potential incentive reward and Total Shareholder Return ("TSR"), in order to secure alignment with shareholder interests.

The structure:

- > Reflects the Company's Vision 2015 strategic objectives
- > Ensures that incentive plan metrics and targets provide executive reward for delivering the business objectives but do not encourage any unnecessary risk taking
- > Rewards the delivery of performance annually, across a broad foundation of business fundamentals which should lead to growth in Earnings Per Share ("EPS"), a key metric for shareholders
- > Focuses rewards so they are delivered if the Company delivers financial growth in line with stretching targets
- > Creates a more stretching financial target for incentives that reflect a step change in business performance

- > Rewards executives if they deliver outstanding performance which creates significant and sustainable shareholder value
- > Provides no additional reward for the same financial performance
- > Requires Essentra executives to hold significant shareholdings in the Company
- > Rewards executives for organic and acquisition growth, and adjusts targets for mergers and acquisitions
- > Maintains clawback provisions to safeguard shareholders' interests

#### Summary of components of Executive Directors' remuneration

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

Remuneration for Executive Directors is structured so that the variable performance-related pay element forms a significant portion of each package. The majority of total remuneration at the maximum performance level will derive from the Company's long-term incentive arrangements, which are strongly aligned to Essentra's strategic objective to secure long-term shareholder value.

The table opposite should be read in conjunction with the recruitment policy.



Purpose and link to strategy	Operation	Opportunity	Performance measures
<b>Basic salary</b>			
To reflect the particular skills and experience of an individual and to provide a competitive basic salary compared with similar roles in similar companies	<p>Reviewed annually (effective from 1 January). Pay is determined by reference to a rounded assessment which considers:</p> <ul style="list-style-type: none"> <li>&gt; The skills and performance of the individual</li> <li>&gt; Their roles and responsibilities</li> <li>&gt; External market data</li> </ul> <p>The Remuneration Committee also takes into account pay and employment conditions for UK employees of the Company when considering increases to basic salary levels</p>	<p>Current salaries are set out in the Annual Report on Remuneration</p> <p>Salary increase percentages for Executive Directors will not normally exceed those awarded to other employees of the Company within the jurisdiction in which the Director resides and works</p> <p>If there is a significant increase in responsibility, change in scope of a role, or size of the business then basic salary may increase by more than this level. This may be relevant for new appointments, whose basic salary is moved towards the desired market rate as their experience and performance in the role develops</p>	Not applicable
<b>Total annual bonus</b>			
To incentivise the delivery of Group performance-related objectives, and to aid retention and to align Directors' interests with those of the Company's shareholders	<p>One half of the total annual bonus is paid in cash shortly after the annual results announcement</p> <p>The other half is deferred into shares which will normally vest after three years, subject to continued service</p> <p>Performance is assessed against measures and targets which are established on an annual basis by the Remuneration Committee. As performance increases so does the percentage payable up to the maximum</p> <p>The deferred bonus is subject to clawback for reasons of material misstatement or misrepresentation of performance</p>	<p>Chief Executive – 150% of basic salary</p> <p>Group Finance Director – 125% of basic salary</p>	<p>The majority of the bonus opportunity is calculated by reference to a matrix of financial measures which at present include revenue and operating profit growth.</p> <p>A minority of the bonus is currently subject to targets on working capital management and personal objectives</p> <p>The Remuneration Committee will review performance measures, weightings and targets on an annual basis to ensure they are aligned with the business strategy at the time</p> <p>The performance measures and weightings for the 2014 annual bonus are set out in the Annual Report on Remuneration on page 77</p>

## REMUNERATION POLICY REPORT CONTINUED

Purpose and link to strategy	Operation	Opportunity	Performance measures
<b>Long-Term Incentive Plan B ("LTIP B")</b>			
To drive the long-term delivery of the Group's objectives, aid retention and to align Directors' interests with those of the Company's shareholders	<p>An annual award of performance share awards with a three-year performance and vesting period</p> <p>Awards are subject to clawback for reasons of material misstatement, miscalculation or misconduct which results in the participant leaving the Company</p>	<p>Chief Executive – annual award of performance share awards capped at 300% of basic salary</p> <p>Group Finance Director – annual award of performance share awards capped at 200% of basic salary</p>	<p>Vesting will be subject to at least two performance conditions as determined by the Remuneration Committee on an annual basis</p> <p>The performance conditions will at least consist of relative TSR performance and adjusted EPS performance, measured over a three-year period</p> <p>The Remuneration Committee may adjust the weightings of the performance conditions to include a third performance measure which is aligned to the corporate strategy</p> <p>25% of each element vests at threshold performance, rising on a straightline basis for performance up to the maximum level for full payment</p>
<b>All Employee Plans</b>			
To create alignment of employees' interests with those of shareholders and an awareness of the Company's share price performance	<p>Under the UK Sharesave, employees (including Executive Directors) are invited to enter a savings contract of three years or five years, whereby the proceeds can be used towards the exercise of an option granted at the time they participate. The option price can be up to a 20% discount on the date of grant share price</p> <p>An equivalent US Plan is to be set up during 2014 (subject to shareholder approval). It is currently intended that the US Plan will be operated in a similar manner to the UK Sharesave, although with a two-year savings contract and an option price of up to a 15% discount</p>	<p>For the UK plan, shares worth up to the value of the savings a Director agrees to make over the saving period at the previously agreed option price. The savings amount is subject to the HMRC limit, currently £250 per month for UK operations, but rising to £500 for invitations after April 2014</p> <p>The US Plan, if approved, will be limited to the monthly dollar equivalent of the UK Sharesave plan</p>	No performance conditions apply to All Employee Plans
<b>Pension</b>			
To provide cost-effective long-term benefits comparable with similar roles in similar companies	A contribution to a defined contribution plan or paid as a cash supplement	<p>Chief Executive – 25% of basic salary</p> <p>Group Finance Director – 20% of basic salary</p>	Not applicable



Purpose and link to strategy	Operation	Opportunity	Performance measures
<b>Other benefits</b>			
To provide cost-effective benefits comparable with similar roles in similar companies	<p>Other benefits comprise medical expenses, life insurance, and a car and fuel allowance.</p> <p>The Remuneration Committee may vary these benefits from time to time to suit business needs, but they will be provided on broadly similar terms to those offered to other Group employees</p>	<p>Car, fuel and / or car allowance of £1,500 annually</p> <p>Private medical insurance with family level cover</p> <p>Life insurance cover of four times basic salary</p> <p>The value of benefits may vary from time to time depending on service provider costs</p>	Not applicable
<b>Shareholding requirement</b>			
To align the interests of Executive Directors and shareholders, encourage a focus on long-term performance and risk management	<p>These shareholding guidelines are to be built up over five years from date of appointment</p> <p>The Remuneration Committee will review progress towards the guidelines on an annual basis, and has the discretion to adjust the guidelines in what it feels are appropriate circumstances</p> <p>Only shares beneficially owned are taken into account in assessing compliance with these guidelines</p>	<p>The guideline minimum level is 300% of basic salary for the Chief Executive and 200% of basic salary for the Group Finance Director</p> <p>Non-Executive Directors are encouraged to hold a minimum of 7,500 shares</p>	Not applicable
<b>Non-Executive Directors</b>			
To attract high-calibre non-executive directors with the relevant experience and skills	<p>The fee for the Chairman of the Board is determined by the Remuneration Committee, while the fees for Non-Executive Directors are determined by the Board as a whole</p> <p>A basic fee is payable to all Non-Executive Directors with supplementary fees for those with additional responsibilities, such as acting as Senior Independent Director or chairing a Board Committee</p> <p>Fees are reviewed on an annual basis with reference to market levels in companies of a comparable size and complexity, and taking account of the responsibilities and time commitment of each role</p>	<p>Fees for the current year are stated in the Annual Report on Remuneration</p> <p>Fee increases may be greater than those of the wider workforce in any particular year as they reflect changes to responsibilities and time commitments and the periodic nature of any increases</p>	Not applicable

## REMUNERATION POLICY REPORT CONTINUED

**Remuneration Committee discretion when operating the annual bonus and long-term incentives**

The Remuneration Committee will operate the annual bonus plan and long-term incentive plans according to their respective rules and will be consistent with normal market practice, the Listing Rules and HMRC rules where relevant, including flexibility in a number of regards. These include:

- > When to make awards and payments
- > How to determine the size of an award or a payment, or when and how much of an award should vest
- > Who receives an award or payment
- > How to deal with a change of control or restructuring of the Group
- > Whether a participant is a good / bad leaver for incentive plan purposes, and whether and what proportion of awards vest and timing of delivery

- > How and whether an award may be adjusted in certain circumstances (eg rights issues, corporate restructuring, events and special dividends)
- > What the weighting, measures and targets should be for the annual bonus plan and LTIP B from year to year

The Remuneration Committee also retains the ability within the policy to adjust the targets and / or set different measures and alter weightings for the annual bonus plan, and to adjust targets for the LTIP B if events occur which cause it to determine that the conditions are unable to fulfil their original intended purpose.

**Existing awards**

The Remuneration Committee intends to honour any commitments entered into with current or former Directors on their original terms, including outstanding LTIP B and Deferred Annual Share Bonus Plan awards which have been disclosed in previous remuneration reports. Any of these payments

to former Directors will be set out in the Report of the Remuneration Committee as and when they occur.

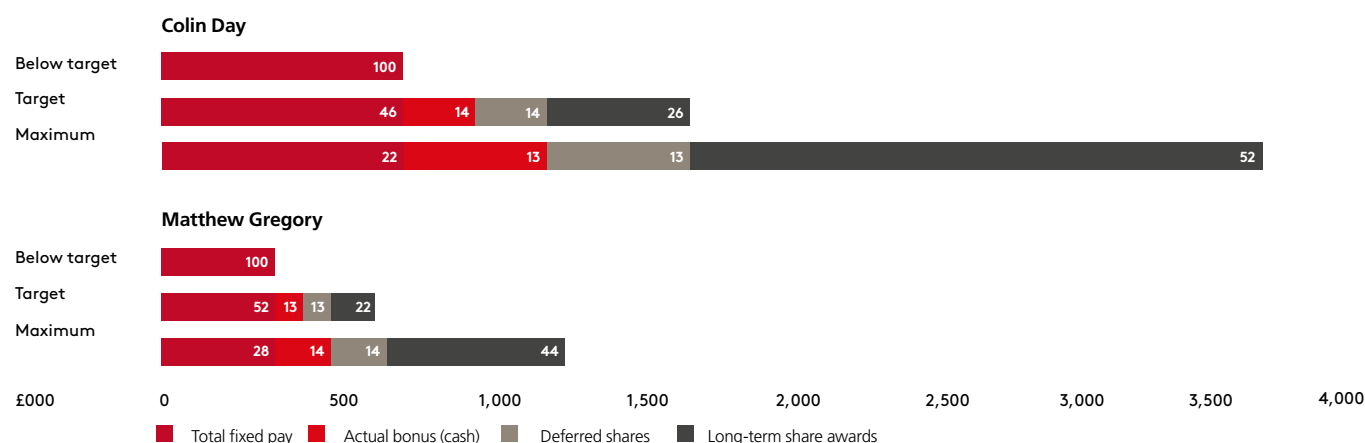
**Choice of performance measures and approach to target setting**

The Remuneration Committee sets performance metrics under both the annual bonus plan and LTIP B which are clearly aligned to the Group's strategy and are part of its key performance indicators.

For the annual bonus plan there is a strong focus on financial metrics which form part of the Company's key performance indicators and are aligned with the Company's objective of achieving growth in revenue and profit while ensuring working capital management remains tightly controlled. Any personal performance measures are directly linked to strategic objectives.

**Remuneration mix**

The graph below demonstrates the potential remuneration mix at below target, target and maximum for each of the Executive Directors.

**Total remuneration (%)****Assumptions:**

- Bonus maximum of 150% of salary for Colin Day and 125% of salary for Matthew Gregory
- Assumes an LTIP B award of 300% of salary for Colin Day and 200% of salary for Matthew Gregory
- Target – 50% of annual bonus maximum paid and 25% of LTIP B award vests
- Maximum – 100% of annual bonus maximum paid and 100% of LTIP B award vests
- No share price growth or dividend accrual considered
- Sharesave awards have been ignored

The precise metrics chosen and weighting ascribed to each measure may vary, as detailed in the policy on pages 69 to 71, in line with the Company's strategy.

For the LTIP B, performance targets are set based on a range of measures which will at least consist of relative TSR, which provides a clear alignment between the interests of shareholders and executives, and also challenging EPS growth targets that support the long-term levels of earnings growth targeted by the Company. The Remuneration Committee may choose to alter the weightings of each measure or introduce further measures which are aligned to long-term strategic objectives at that time.

Targets under both the annual bonus plan and LTIP B are set based on sliding scales, which only provide a modest reward for delivering threshold performance, with maximum payout requiring significant out-performance. Financial targets are set based on a combination of the internal budgeting process and external market forecasts for the Company.

### New appointments

- > Basic salary – will be set based on relevant market data, experience and skills of the individual, internal relativities across the Company and the individual's current basic salary. Where new appointees have initial basic salaries set below market rates, any shortfall will be managed with phased increases (which may be greater than those offered to the wider workforce) over a period of two to three years, subject to their development in the role
- > Pension – a contribution to a defined contribution plan or a cash supplement may be offered with the relevant maximum not exceeding that for the current Chief Executive as a percentage of salary
- > Other benefits – as provided to current Executive Directors. Where necessary the Remuneration Committee may approve the payment of relocation expenses to facilitate recruitment, and flexibility is retained for the Company to pay for legal fees and other costs incurred by the individual in relation to their appointment

- > Bonus – the annual bonus described in the Policy Table on pages 69 to 71 will apply to a new appointee with the relevant maximum not exceeding that for the current Chief Executive; and, in the first year, being pro-rated to reflect the proportion of employment during the year. The Remuneration Committee may set different performance measures and targets to those of the other Executive Directors, depending on the timing and scope of any appointment. In order to facilitate the recruitment the Remuneration Committee may deem it necessary to guarantee a level of bonus, in compensation for any bonus forgone at their current employer. This guarantee will be limited to the bonus in relation to the first year of employment
- > Share incentives – in normal circumstances new appointees will be granted awards under the LTIP B on the same terms as other Executive Directors but not exceeding the limit for the current Chief Executive. An award may be made shortly following a new appointment
- > Buy-out awards – to potentially facilitate the recruitment through the buy-out of existing awards from their current employer, the Remuneration Committee will retain the ability to use incentive arrangements. Such arrangements will not be more favourable to the individual with respect to vesting periods, expected value and whether there are performance metrics as awards being forfeited from their current employer's plans. Buy-out awards will be made using existing incentive arrangements where possible, but it may be necessary to use the exemption under Listing Rule 9.4.2. Shareholders will be informed of any such payments at the time of appointment
- > In the case of internal appointments, any variable pay element awarded in respect of the prior role would normally be allowed to pay out according to its terms, adjusted as relevant, to take into account the appointment
- > For external and new internal appointments, the Remuneration Committee may set lower share ownership guidelines, or permit a longer period for them to be met

### Service contracts and exit payments

Service contracts normally continue until the Director's agreed retirement date or such other date as the parties agree.

- > The policy for executive service contracts is that notice periods will normally not exceed 12 months. Colin Day has a service contract dated 1 April 2011 and Matthew Gregory has a service contract dated 7 September 2012, both with a notice period of 12 months from either party. The service contracts for the Executive Directors are available for inspection by shareholders at each AGM and during normal business hours at the Company's registered office
- > The Remuneration Committee's policy in relation to termination of service contracts is to apply an appropriate level of mitigation, having regard to all of the circumstances of the individual, the termination of employment, and to any legal advice received. The Company has the right to make a payment in lieu of notice (such payment being made based on salary and at the Remuneration Committee's discretion as to the value of benefits), and any such payment may be made in monthly instalments at the Company's discretion, with a requirement for the individual to make reasonable endeavours to find alternative employment and may be reduced to take into account any sums earned during the payment period by way of employment elsewhere
- > There are no enhanced provisions on a change of control
- > In certain circumstances, such as gross misconduct, the Company may terminate employment immediately without notice or payment
- > In addition, any statutory entitlements or payments to settle or compromise claims in connection with a termination would be made as necessary
- > The service contract for any new appointment would be on a similar basis to that described above
- > The payment of any annual bonus will be at the Remuneration Committee's discretion, based on the individual circumstances and would be pro-rated for the period of service and subject to performance achievements

## REMUNERATION POLICY REPORT CONTINUED

- > Under the rules of the LTIP B, outstanding awards may vest if a participant leaves for specified reasons, including injury, disability, ill health, death, retirement with the Company's agreement, redundancy, or the business or company in which the participant is employed ceasing to be part of the Group or on a change of control. In these circumstances a participant's award vests on an appropriate time pro rata basis (unless the Remuneration Committee decides it is inappropriate to do so on a change of control only), subject to the satisfaction of the relevant performance criteria at the normal vesting date with the balance of the award lapsing. The Remuneration Committee has discretion to determine that the performance period should end on the date of cessation of employment if it feels this is appropriate. If, however, the termination of employment is not for one of the specified reasons, and the Remuneration Committee does not exercise its discretion to allow an award to vest a participant's award lapses in full on date of cessation
- > The Deferred Annual Share Bonus awards ("DASB") may vest if a participant leaves for specified reasons including death, the business or company in which the participant is employed ceasing to be part of the Group, retirement with the agreement of the Company or at the discretion of the Board. DASBs will either vest on the normal vesting date or such earlier date as the Board determines

**Non-Executive Directors**

The Non-Executive Directors do not have service contracts and do not participate in any Company pension, share or incentive schemes. In accordance with best practice, letters of appointment have been issued for all Non-Executive Directors for an initial period of three years, but may be terminated by either party with three months' notice. No compensation is payable on termination, except for fees and expenses accrued to date. These letters are available for inspection by shareholders at each AGM and during normal business hours at the Company's registered office.

**Differences in remuneration policy between Executive Directors and other employees**

The Remuneration Committee is kept informed of pay and employment conditions in the wider Group and this is factored into deliberations when setting the remuneration policy for Executive Directors. The Group-wide salary increase budget and the proposed increase for UK based employees, or employees of such other jurisdiction within which the Executive Directors operate or reside, is considered by the Remuneration Committee when determining any basic salary increase for Executive Directors.

As stated previously, the overall remuneration package for Executive Directors is structured so that the variable performance-related pay element forms a more significant portion compared to pay for other employees. This policy is to ensure there is a clear link between the individual and corporate performance achieved, the value this creates for shareholders and the overall reward to Executive Directors. The weighting of variable pay will vary throughout the Group based on the seniority of the individual, the role and specific responsibilities. Whilst tailored annual bonuses are offered to a large number of employees, long-term incentives are targeted at more senior levels of management where they have the most influence on overall value creation.

**How the views of employees are taken into account**

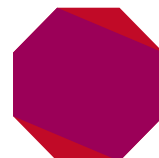
The Company does not actively consult with employees on matters of executive remuneration. Given the diverse geographies and pay cultures in which the Group operates, the Remuneration Committee believes any consultation is unlikely to produce relevant or material feedback.

**How the views of shareholders are taken into account**

The Remuneration Committee has consulted with major shareholders and investor bodies in the past when material changes to the policy have been proposed, and this approach will continue in the future with the overall aim to maintain an open and transparent dialogue.

**External appointments**

Essentra recognises its senior executives can benefit from serving in a personal capacity as non-executive directors of non-Essentra Group companies. It is, at the same time, conscious of the corporate governance recommendations that Executive Directors should take account of the time commitment required by a non-executive position. Executive Directors are permitted to accept non-executive directorships offered by listed companies and other organisations, which provide industry experience or public service. Such outside appointments are subject to prior Board approval, taking into account existing duties potential conflicts of interest and time commitments outside of Essentra's responsibilities. Any fees earned from these roles may be retained by the Executive Director.





## ANNUAL REPORT ON REMUNERATION

**Remuneration Committee processes**

The Remuneration Committee during the year consisted of Paul Drechsler (Committee Chairman), Lars Emilson (resigned on 5 February 2013), Terry Twigger, Peter Hill (appointed on 1 July 2013) and Lorraine Trainer (appointed on 1 July 2013). As reported in the Remuneration Committee Chairman's letter on page 66 it is intended that Lorraine Trainer will be appointed as the Remuneration Committee Chairman after the 2014 AGM, subject to her election, following Paul Drechsler stepping down.

The Remuneration Committee met three times during the year. Details of the attendance are shown in the Remuneration Policy Report on page 67.

**Remuneration Committee 2013 key activities**

- > Approved the Remuneration Report for the Annual Report 2012
- > Reviewed and approved a UK Sharesave invitation for 2013
- > Approved the 2013 cash bonus payments including the achievement of the 2012 personal objectives
- > Approved the bonus rules and targets for 2013 including the personal objectives for the Group Management Committee
- > Approved the LTIP B awards made in April 2013
- > Monitored the Group Leadership Team's shareholding requirements
- > Reviewed Executive Director basic salaries for 2014
- > Considered overall policy in line with new reporting regulations
- > Exercised discretion over good leaver terms for the Company's share incentive plans
- > Reviewed and approved a proposal, to be submitted to shareholders, for the implementation of an All Employee Sharesave plan in the US
- > Reviewed the senior executive remuneration risk policy

**Advice**

During the year, Essentra's Group Human Resources Director was invited by the Remuneration Committee to provide views and advice. In addition, with the approval of the Remuneration Committee, the Company received services and advice from the following independent and expert consultants:

- > New Bridge Street, a part of Aon Hewitt who are a member of the Remuneration Consultants Group and have signed up to its Code of Conduct, provided advice on the Company's long-term share incentive plans and on the remuneration of the Executive Directors and other senior executives within the Company. New Bridge Street provided no other services to the Company. Fees charged for the year under review were £81,500
- > Punter Southall, who provided advice and information on pension matters. Fees charged for the year under review were £117,162
- > Punter Southall, who provided investment consulting services to the Trustees of the Company's UK pension scheme, and Aon Hewitt who provided actuarial advice to the Company for the US pension scheme and are appointed as the Group's insurance broker

The Remuneration Committee continuously monitors the Company's relationship with independent advisers. The Company is comfortable that no conflicts of interest exist.

## ANNUAL REPORT ON REMUNERATION CONTINUED

**Total Single Remuneration Table for 2013 (audited)**

The remuneration received by Executive Directors for the year ended 31 December 2013 (and the 31 December 2012 comparative) was as follows:

	Year	Salary and fees £000	Taxable benefits <sup>1</sup> £000	Cash in lieu of pension <sup>2</sup> £000	Bonus (cash and deferred shared) <sup>3</sup> £000	Long-Term Incentive Plan £000	Remuneration following loss of office £000	Other <sup>4</sup> £000	Total £000
<b>Executive Directors</b>									
Colin Day	2013	600	19	150	900	2,053 <sup>5</sup>	–	–	3,722
	2012	564	19	141	846	–	–	–	1,570
Matthew Gregory <sup>7</sup>	2013	280	13	56	350	327 <sup>6</sup>	–	61	1,087
	2012	80	4	16	100	–	–	–	200
Steve Crummett <sup>8</sup>	2013	–	–	–	–	–	–	–	–
	2012	207	22	41	259	–	501	–	1,030
<b>Non-Executive Directors</b>									
Jeff Harris	2013	178	–	–	–	–	–	–	178
	2012	174	–	–	–	–	–	–	174
Paul Drechsler	2013	61	–	–	–	–	–	–	61
	2012	58	–	–	–	–	–	–	58
Peter Hill	2013	23	–	–	–	–	–	–	23
	2012	–	–	–	–	–	–	–	–
Lorraine Trainer	2013	23	–	–	–	–	–	–	23
	2012	–	–	–	–	–	–	–	–
Terry Twigger	2013	56	–	–	–	–	–	–	56
	2012	53	–	–	–	–	–	–	53
Lars Emilson	2013	8	–	–	–	–	–	–	8
	2012	43	–	–	–	–	–	–	43

<sup>1</sup> Taxable benefits comprises of a fully expensed car or cash allowance plus private medical insurance and life insurance cover

<sup>2</sup> Colin Day receives a pension contribution of 25% of basic salary while Mathew Gregory receives a pension contribution of 15% of basic salary

<sup>3</sup> 50% of the annual bonus is deferred into shares for a period of three years

<sup>4</sup> Exercise of a five-year savings contract in the Company's Sharesave Scheme. The valuation is the difference between the exercise price and the option price on the date which they become exercisable

<sup>5</sup> Long Term Incentive Plan Part B

<sup>6</sup> Long Term Incentive Plan Part A

<sup>7</sup> Appointed 7 September 2012 and therefore his variable pay was pro-rated for time served during the year ended 31 December 2012

<sup>8</sup> Resigned as a Director on 7 September 2012, Steve Crummett remained employed by the Company until 31 December 2012. For the year ended 31 December 2012 Steve received £94,977 in salary, £18,996 in benefits and £118,721 bonus for this period. Steve also received a payment of £268,528 as compensation for loss of office

**Outside appointments (unaudited)**

Colin Day is a non-executive director of AMEC plc and WPP Group plc, and received fees of £195,700 in respect of these directorships for the year ended 31 December 2013.

**Pension schemes (audited)**

Colin Day received a supplementary payment equal to 25% of basic salary to permit him to secure pension benefits, and is separately provided with life assurance cover with a benefit of four times basic salary.

Matthew Gregory received a supplementary payment equal to 20% of his basic salary to permit him to secure pension benefits. Matthew contributes 5% of his basic salary up to the scheme specific cap which the Company matches. The Company match is deducted from his supplementary payment. Matthew is a member of the Essentra Pension Plan – Defined Contribution section (“the DC plan”). The DC plan provides a death in service benefit of four times basic salary.

**Annual bonus (audited)**

For the year ended 31 December 2013, the performance measures and targets for the Executive Directors were based upon a matrix of balanced growth, working capital and personal objectives.

Performance measure	Weighting %	Threshold %	Target range %	Maximum %	Actual %
Balanced growth	80	5	40	80	80
Working capital	10	n/a	10	10	10
Personal objectives	10	n/a	10	10	10

The Executive Directors each have four personal objectives which do not have specific weightings applied to them. The Remuneration Committee has reviewed their performance against these objectives, and a maximum award for this element of the annual bonus has been approved.

Total bonuses awarded in respect of performance for the year ended 31 December 2013 were therefore:

Name of Director	Cash bonus £000	Deferred share bonus award £000	Total bonus £000
Colin Day	450	450	900
Matthew Gregory	175	175	350

The Remuneration Committee is satisfied that the level of bonus payable is reflective of the corporate and individual performance during the year.

## ANNUAL REPORT ON REMUNERATION CONTINUED

**Equity incentives (audited)**

Details of the awards granted and outstanding during the year to the Executive Directors under the LTIP Part B and DASB are as follows:

Scheme	Date of grant	At 1 Jan 2013	Awarded in year	Transferred in year	At 31 Dec 2013	Share price at date of award	Earliest vesting date	Expiry date
<b>Colin Day</b>								
LTIP Part B	20 April 2011	259,842	–	–	259,842	317.50p	20 April 2014	19 April 2017
LTIP Part B	26 August 2011	80,929	–	–	80,929	339.80p	26 February 2015*	25 August 2017
LTIP Part B	27 April 2012	359,840	–	–	359,840	400.70p	27 April 2015	26 April 2018
LTIP Part B	21 March 2013	–	260,115	–	260,115	692.00p	21 March 2016	20 March 2019
DASB	24 February 2012	57,688	–	–	57,688	446.90p	1 March 2015	1 March 2015
DASB	21 March 2013	–	61,100	–	61,100	692.00p	1 March 2016	1 March 2016
<b>Matthew Gregory</b>								
LTIP Part B	26 August 2011	16,553	–	–	16,553	339.80p	26 February 2015*	25 August 2017
LTIP Part B	27 April 2012	67,021	–	–	67,021	400.70p	27 April 2015	26 April 2018
LTIP Part B	21 March 2013	–	80,924	–	80,924	692.00p	21 March 2016	20 March 2019
DASB	28 February 2011	10,143	–	–	10,143	299.10p	1 March 2014	1 March 2014
DASB	24 February 2012	13,425	–	–	13,425	446.90p	1 March 2015	1 March 2015
DASB	21 March 2013	–	13,450	–	13,450	692.00p	1 March 2016	1 March 2016

\* Subject to the announcement of the Company's financial results for the previous year

A total of 1,191,953 (2012: 1,406,221) share incentive awards under the LTIP Part B and the DASB were granted during the year ended 31 December 2013 to Executive Directors and other senior executives, including members of the Group Leadership Team who were not awarded shares under the DASB during 2012.

The middle market price of an ordinary share in the Company on 31 December 2013 was 859p. The middle market price of an ordinary share in the Company during the year ranged from 543p to 859p.

All LTIP B awards are subject half to a relative TSR performance condition and half to an adjusted EPS performance condition.

All relative TSR performance conditions are measured against the FTSE 250 (excluding investment trusts) index at the beginning of the performance period, over a three-year performance period from the date of grant. 12.5% of total awards will vest for a median performance, rising on a straight-line basis to 50% of total awards vesting for upper quartile performance.

For awards granted before 2012, the adjusted EPS performance targets for 12.5% of total awards vesting were RPI +3% pa, rising on a straight-line basis to 50% of total awards vesting for RPI +8% pa. For April 2012 awards, the EPS targets are 13% pa to 20% pa. For March 2013 awards, the targets are 8% pa to 15% pa. The table below sets out the potential vesting for these awards based on Essentra's TSR performance as at 31 December 2013. The actual level of vesting of these awards will depend on the Company's performance as at the end of the relevant performance period for each award and therefore may differ from that set out below.

The table below sets out the potential vesting for these awards based on Essentra's TSR performance as at 31 December 2013. The actual level of vesting of these awards will depend on the Company's performance as at the end of the relevant performance period for each award and therefore may differ from that set out below.

Grant date	Vesting date	TSR performance	Indicative vesting <sup>1</sup>
April 2011	April 2014	Upper quartile	100%
August 2011	February 2015	Upper quartile	100%
April 2012	April 2015	Upper quartile	100%
March 2013	March 2016	n/a	n/a

<sup>1</sup> Based on performance measured up to 31 December 2013



The LTIP A awards granted in August 2010 were subject to an adjusted EPS which ended on 31 December 2013. The performance conditions and actual performance are stated below.

Measure	Condition	Threshold	Maximum	Actual	Vesting
EPS	Annualised adjusted EPS growth measured against RPI over three financial years	RPI + 3% pa	RPI + 3% pa	60.73% in excess of maximum target	100%

The LTIP B awards granted in April 2011 are due to vest in April 2014 and were subject to relative TSR and adjusted EPS growth measures which ended (or were substantially complete) on 31 December 2013. The performance conditions and actual performance are summarised below:

Measure	Condition	Threshold	Maximum	Actual	Vesting
Relative TSR*	TSR measured against the constituents of the FTSE 250 (excluding investment trusts) index over the three years from date of grant	Median rank for 12.5% of award	Upper quartile rank for 50% of award	TSR 183% Rank 10 out of 195 companies	100%
EPS	Annualised adjusted EPS growth measured against RPI over three financial years	RPI + 3% pa for 12.5% of award	RPI + 8% pa for 50% of award	44.03% in excess of maximum target	100%

\* For TSR this is based on estimated performance to 31 December 2013 (final averaging period will be calculated over the three months to April 2014)

The Remuneration Committee is satisfied that the level of vesting is a fair reflection of the performance of the business over the three-year performance period. The awards which will vest to the Executive Directors during the year ended 31 December 2014 are summarised in the table below:

Executive	Number of awards granted	Vesting	Number of shares vesting <sup>1</sup>	Value of awards <sup>2</sup>
Colin Day (LTIP B)	259,842	100%	259,842	£2,052,895
Matthew Gregory (LTIP A)	59,096	100%	59,096	£326,800 <sup>3</sup>

<sup>1</sup> Based on estimated vesting as at 20 February 2014

<sup>2</sup> The indicative value shown has been included in the total single figure for remuneration table based on the three month average share price to 31 December 2013 of 790p

<sup>3</sup> Net of option price of £2.369

#### Long-term incentive awards granted during the year

On 21 March 2013 the following LTIP B awards were made to Executive Directors:

Executive	Type of award	Number of awards granted	Basis of award	Share price on grant*	Face value*	Percentage which vests at threshold
Colin Day	Performance share	260,115	300% of salary	692.00p	£1,800,000	25%
Matthew Gregory	Performance share	80,924	200% of salary	692.00p	£560,000	25%

\* Face value is based on the mid-market closing share price on the day prior to the date of grant

Awards are subject to performance conditions which are 50% dependent on relative TSR performance targets measured against the FTSE 250 (excluding investment trusts) index with a median to upper quartile ranking vesting schedule, and 50% dependent on adjusted EPS growth performance targets of 8% pa to 15% pa. Performance is measured over three years.

## ANNUAL REPORT ON REMUNERATION CONTINUED

**Save As You Earn scheme (audited)**

In addition to the LTIP B, the Company operates a Save As You Earn share option scheme ("SAYE").

Colin Day joined the SAYE in 2012, contributing the statutory maximum monthly amount of £250. Matthew Gregory joined the current SAYE invitation in 2013, contributing the statutory maximum monthly amount of £250.

Details of the awards granted and outstanding under the LTIP Part A and the SAYE are as follows:

Scheme	Date of grant	At 1 Jan 2013	Granted in year	Exercised in year	At 31 Dec 2013	Exercise price	Share price at date of exercise	Earliest vesting date	Expiry date
<b>Colin Day</b>									
SAYE	1 May 2012	2,540	–	–	2,540	354.24p	–	1 May 2015	31 October 2015
<b>Matthew Gregory</b>									
LTIP A	23 June 2005	22,594	–	22,594 <sup>1</sup>	–	239.00p	745.00p	23 June 2008	22 June 2015
	8 September 2006	12,953	–	–	12,953	254.75p	–	8 September 2009	7 September 2016
	31 August 2007	29,288	–	–	29,288	239.00p	–	31 August 2010	30 August 2017
	1 September 2008	49,792	–	–	49,792	180.75p	–	1 September 2011	31 August 2018
	28 September 2009	54,933	–	–	54,933	169.50p	–	21 February 2013 <sup>3</sup>	27 September 2019
	31 August 2010	59,096	–	–	59,096	236.90p	–	28 February 2014 <sup>3</sup>	30 August 2020
SAYE	1 May 2008	11,067	–	11,067 <sup>2</sup>	–	151.80p	706.00p	1 May 2013	31 October 2013
	1 May 2013	–	3,030	–	3,030	495.00p	–	1 May 2018	31 October 2018

<sup>1</sup> After funding the cost of this HMRC approved option, 8,067 shares were retained

<sup>2</sup> After funding the cost of this HMRC approved option all shares were retained

<sup>3</sup> Subject to the announcement of the Company's financial results for the previous year

**Directors' shareholdings (audited)**

The beneficial interests of the current Directors in office at 31 December 2013, and the date of this Report, in the issued ordinary share capital of the Company were as follows:

	Beneficially owned		% of salary held under shareholding guideline	LTIP B awards		LTIP A awards		DASB	SAYE	Total
	31 Dec 2012 <sup>1</sup>	31 Dec 2013		Unvested	Vested	Unvested	Vested	Unvested	Unvested	31 Dec 2013
<b>Executive Directors</b>										
Colin Day	254,543	259,684 <sup>2</sup>	372%	960,726	–	–	–	118,788	2,540	<b>1,341,738</b>
Matthew Gregory	6,032	25,316	78%	164,498	–	59,096	146,966	37,018	3,030	<b>435,924</b>
<b>Non-Executive Directors</b>										
Jeff Harris	51,651	59,651								<b>59,651</b>
Paul Drechsler	18,519	18,519								<b>18,519</b>
Peter Hill	–	10,000								<b>10,000</b>
Lorraine Trainer	–	7,500								<b>7,500</b>
Terry Twigger	7,500	7,500								<b>7,500</b>

<sup>1</sup> Or date of appointment

<sup>2</sup> An additional 52,289 shares are also held by Colin Day's family members

The Executive Directors are regarded as being interested in 2,484,586 (2012: 1,614,685) ordinary shares in Essentra plc currently held by the Essentra Employee Benefit Trust ("EBT") as they are, together with other Essentra employees, potential beneficiaries of the EBT. These shares are held in order to satisfy employee entitlements relating to the Company's share plans.

As at 31 December 2013, potential and actual share issuance through employee related share plans totalled 3.6%, which is well below UK institutional shareholder limits of 10% of the Company's issued share capital.

#### Performance graph (unaudited)

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



Source: Thomson Financial (Datastream)

#### Five-year CEO table (unaudited)

	Mark Harper		Colin Day			
	2009	2010	1 Jan – 14 April 2011	1 April – 31 Dec 2011	2012	2013
Total remuneration (£000)	1,038	2,932	1,715	1,046	1,570	3,722
Annual bonus (%)	20%	100%	100%	100%	100%	100%
LTIP vesting (%)	73%	100%	100%	n/a	n/a	100%

Mark Harper retired on 14 April 2014 and Colin Day was appointed as a Director on 1 April 2014.

The Annual Bonus and LTIP figures show the payout as a percentage of the maximum. Annual Bonuses for 2011 were pro rated for both executives to reflect time served. Mark Harper's LTIP B award vested on the normal date, pro-rated for time and performance.

The value of Sharesave awards has been included in the total remuneration figure on the date they became exercisable.

## ANNUAL REPORT ON REMUNERATION CONTINUED

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

Chief Executive (£000)	2013	2012	% change
– Salary	600	564	6.4%
– Benefits	19	19	–
– Bonus	900	846	6.4%

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

The average salary of an UK employee for 2013 when compared to 2012 increased by 3%. As previously stated in the 2012 Annual Report, Colin Day received an above average increase of 6.2% due to the Company's growth and organisational development since his appointment as Chief Executive. Benefits and bonus increases for 2013 when compared to 2012 are in line with salary changes for both the Chief Executive and the wider UK employee population.

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

## Relative importance of spend on pay (unaudited)

Chief Executive (£m)	2013	2012	% change
Staff costs <sup>1</sup>	179.7	150.2	19.6
Distributions to shareholders	31.2	23.2	34.5
Revenue	798.1	663.4	20.3
Adjusted operating profit	130.4	104.5	24.8

<sup>1</sup> Staff costs are as per note 6 on page 112 of the 2013 Annual Report Book 2

## Implementation of Remuneration Policy for 2014 (unaudited)

## Salary

Basic salary for each Executive Director is determined by the Remuneration Committee taking into account the roles, responsibilities, performance and experience of the individual. Salaries are reviewed annually with any increase being effective from 1 January (unless responsibilities change). Salary levels are determined taking into account market data on salary levels for similar positions at comparable companies. The Company aims to position basic salary around the mid-market level of the relevant comparator companies to remain competitive.

As a result of a review completed in December 2013 the salary for Colin Day was increased by 3%. Matthew Gregory's basic salary was increased by 7%. This reflects the continued strong progression of Matthew in the role of Group Finance Director and, as his development continues, is part of an anticipated series of phased increases to bring his salary to the desired market position.

	Colin Day	Matthew Gregory
Annual salary effective from 1 January 2014	£618,000	£300,000
Annual salary effective from 1 January 2013	£600,000	£280,000

## Benefits

Executive Directors will be provided with the following benefits:

- > Car, fuel and / or car allowance
- > Private medical insurance with family level cover
- > Life insurance cover of four times basic salary

## Pension

Colin Day will receive a supplementary payment equal to 25% of annual salary to permit him to secure pension benefits.

Matthew Gregory will receive a defined contribution and / or supplementary payment of 15% of his basic salary to permit him to secure pension benefits.



### Annual bonuses

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

Under the terms of the annual bonus arrangements for 2014, Colin Day is potentially entitled to a maximum bonus of up to 150% of basic salary. Matthew Gregory is potentially entitled to a maximum bonus of up to 125% of basic salary. Bonus payments are normally made one half in cash and one half in shares in the Company, the entitlement to such shares being deferred for three years, in accordance with the rules of the DASB.

For the year ended 31 December 2014, the performance criteria will be as follows:

Performance criteria	Weighting (%)	On-target	Maximum
Balanced growth	80	40% of bonus	80% of bonus
Working capital	10	10% of bonus	10% of bonus
Personal objectives	10	10% of bonus	10% of bonus

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

In addition to the financial measures, the Remuneration Committee has also set the personal performance measures for Colin Day and Matthew Gregory, which are designed to deliver further progress by the Company towards the strategic objectives associated with its Vision 2015 strategy and beyond, in conjunction with the move to a new organisational structure.

The objectives set do not have a specific weighting applied to them but are considered as a whole by the Remuneration Committee.

Half of the bonus will be paid in shares under DASB. The DASB provides for Executive Directors and other senior executives to receive existing issued ordinary shares in the Company for nil payment. The number of shares subject to an award is determined at the time the award is granted, based upon bonus determined for the preceding year.

Shares awarded under the DASB are held in trust until at least 1 March in the third calendar year after the year in which the award was made. Subject to confirmation from the Company and continued employment within the Group, the shares are transferred to the participant at their request.

For 2010 awards onwards, the Remuneration Committee has retained the discretion to reduce the size of unvested DASB awards if it is found that the performance on which the original award was determined was materially misstated. If an award vests to a greater extent than it should have done due to a material misstatement in the Company's financial statements or due to an error in assessing the applicable performance conditions, then the Remuneration Committee can seek to recover the extra value received as a result of the error. The Remuneration Committee can also seek to recover such amount as it considers appropriate as a result of gross misconduct.

The Remuneration Committee has three years from the date on which the Award becomes exercisable to determine whether or not to apply clawback provisions.

### Long-Term Incentive Plan B – performance shares

A performance share award under LTIP B consists of a conditional right to receive shares in the Company, subject to performance conditions, on the basis described below. Participants make no payment for the grant and exercise of performance share awards. Since 2012 members of the Group Leadership Team are eligible to receive awards under LTIP B. Previously awards were made only to Executive Directors and members of the Group Management Committee.

Participants may receive performance share awards over shares worth up to two times their basic salary (three times for the Chief Executive) in any financial year. A performance share award will not normally be exercisable before the third anniversary of its award and may only be exercised to the extent that the applicable performance conditions have been satisfied. The awards are structured as nil cost options. For employees based outside the US, the options remain capable of being exercised up to the sixth anniversary of grant. For employees based in the US, once the performance conditions have been satisfied the options must be exercised within 30 days of vesting.

One half of the awards are subject to a TSR performance condition and one half of the awards will be subject to an adjusted EPS performance condition. The Remuneration Committee reviews performance measures and targets on an annual basis and believes that both these conditions remain appropriate, offering a balance of internal financial metrics and external shareholder-aligned measures.

## ANNUAL REPORT ON REMUNERATION CONTINUED

The TSR performance condition assesses Essentra's TSR performance relative to the constituents of the FTSE 250 (excluding investment trusts) index. Performance is measured over three years from the time of grant. 12.5% of the total award vests for median performance, increasing on a straight line basis to 50% of the total award vesting for upper quartile performance or above.

The adjusted EPS performance condition for these awards requires the Company's EPS growth (adjusted to exclude items which did not reflect the Company's underlying financial performance and intangible amortisation) over three financial years to be in excess of 8.5% per annum for 12.5% of the total awards to vest. The proportion of the awards vesting will increase on a straight line basis, and for 50% of the total awards to vest the adjusted EPS growth must be in excess of 15.5% per annum. The performance condition will be tested after three financial years and there will be no provision for retesting. To the extent the performance condition has not been met after three financial years, the relevant awards will lapse. Targets will be adjusted to take account of acquisitions or share buy-backs the Company makes.

	Chairman	Non-Executive Director	Supplementary fee	
			Senior Independent Non-Executive Director	Additional fee for chairing a Committee
Annual fee effective from 1 January 2014	£190,000	£50,000	£5,300	£10,560
Annual fee effective from 1 January 2013	£178,000	£45,000	£5,300	£10,560

## Statement of shareholder voting

The results of shareholder voting in relation to the approval of the Directors' Remuneration Report at the 2013 AGM were as follows:

Votes cast in favour	185,529,341	95.57%
Votes cast in against	8,601,501	4.43%
Total votes cast	194,130,842	100%
Abstentions	5,510,664	n/a

During the year ended 31 December 2013, the Committee engaged with major shareholders on the ongoing remuneration policy and its proposed application for 2014. Shareholder sentiment was supportive and as a result no changes to the policy have been proposed.

This Report of the Remuneration Committee, including both the Policy Report and the Annual Report on Remuneration, has been approved by the Board.

By order of the Board

**PAUL DRECHSLER**

**Remuneration Committee Chairman**

20 February 2014

## OTHER STATUTORY INFORMATION

The Directors present their Report prepared in accordance with the Companies Act 2006 which requires the Company to provide a fair review of the business of the Group during the financial year ended 31 December 2013, and audited financial statements of the Company and its subsidiary undertakings for the year ended 31 December 2013.

As at 25 June 2013 the Company changed its name in accordance with its Articles of Association from Filtrona plc to Essentra plc.

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

### Results and dividends

The profit on ordinary activities after taxation of the Group for the year ended 31 December 2013 was £60.3m (2012: £52.1m).

As at 20 February 2014 the Company has paid the following dividend in respect of the year ended 31 December 2013:

	Per share p	Total £m
Interim dividend paid 28 October 2013	4.8	11.2

The Directors recommend that a final dividend of 10.6p (2012: 8.6p) per share be paid, making a total dividend distribution for the year of 15.4p (2012: 12.5p).

The final dividend, subject to shareholder approval at the AGM, will be paid on 2 May 2014 to shareholders on the register at 12 April 2014.

### Directors

During the year ended 31 December 2013, the Board of Directors comprised:

Jeff Harris	Non-Executive Chairman	
Colin Day	Chief Executive	
Matthew Gregory	Group Finance Director	
Paul Drechsler	Senior Independent Non-Executive Director	
Peter Hill	Non-Executive Director	Appointed 1 July 2013
Lorraine Trainer	Non-Executive Director	Appointed 1 July 2013
Terry Twigger	Non-Executive Director	
Lars Emilson	Non-Executive Director	Resigned 5 February 2013

The Company is adopting the requirements of the UK Corporate Governance Code September 2012 in relation to Directors' appointments and in particular the annual re-election of all Directors. Therefore, in accordance with provision B.7.1 of the UK Corporate Governance Code, all the Directors will retire at the AGM and being eligible offer themselves up for re-election.

None of the Non-Executive Directors have service contracts.

In accordance with the Company's Conflict of Interests policy, Directors are required to review their potential conflict of interests at least on an annual basis and to notify any changes to the Company Secretary & General Counsel as soon as possible. The current register was approved by the Board in October 2013 and no material conflicts of interest were identified during the year.

At no time during the year has any Director had any material interest in a contract with the Group, being a contract of significance in relation to the Group's business. A statement of Directors' interests in shares of the Company is on page 80.

### Share capital

The issued share capital of the Company is shown in note 19 to the financial statements.

In March 2013 the Company conducted an equity placing of 21,142,163 new ordinary shares of 25p each at a price of 675p per share, raising gross proceeds of approximately £142.7m which partially funded the acquisition of Contego Healthcare Limited.

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

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

- > That certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and

- > Whereby, pursuant to the Listing Rules of the Financial Conduct Authority, certain employees of the Company require approval of the Company to deal in the Company's ordinary shares

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

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

### Substantial shareholders

At the close of business on 19 February 2014, the Company was advised of the following voting rights attaching to the Company's shares in accordance with the Disclosure and Transparency Rules:

	% of total voting rights
BlackRock Inc	17.02
Capital Trust	7.00
Oppenheimer International Growth Funds	5.53

### Employees

As at 31 December 2013 the Company employed 5,732 people globally and 1,408 people in the UK. Information on the Group's policies on employee recruitment, engagement and the employment of disabled persons can be found in the Corporate Responsibility Statement on pages 45 to 46.

### Political contributions

In line with Group policy the Company made no political contributions (2012: £nil).

### Environmental

The disclosures concerning greenhouse gas emissions required by law are included in the Strategic Report on page 47.

## OTHER STATUTORY INFORMATION CONTINUED

**Directors' indemnities**

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

**Significant agreements**

The Company has committed bank facilities consisting of two five-year multi-currency revolving credit facilities of £165.6m and €187.7m. Under the terms of these facilities, the banks can give notice to Essentra to repay outstanding amounts and cancel the commitments where there is a change of control of the Company.

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

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

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

**Annual General Meeting**

The AGM of the Company will be held at the Holiday Inn Hotel, 500 Saxon Gate West, Milton Keynes, Buckinghamshire, MK9 2HQ on Tuesday 29 April 2014 at 12 noon.

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

**Authority to allot unissued shares**

At the last AGM held in 2013, the Directors were granted authority to allot relevant securities up to a nominal amount of £17,616,915, which expires at the end of the forthcoming AGM.

At this year's AGM, shareholders will be asked to grant the Directors authority to allot shares or grant rights to subscribe for or convert any security into shares: (i) up to an aggregate nominal amount of £19,597,042 representing approximately one-third of the Company's issued share capital, excluding treasury shares, at 19 February 2014 (such an amount to be reduced by the nominal amount allotted or granted under section (ii) below in excess of such sum); and (ii) comprising equity securities up to an aggregate nominal amount of £39,194,085 representing approximately two-thirds of the issued share capital, excluding treasury shares, at 19 February 2014 (such an amount to be reduced by any allotments or grants made under section (i) above) in connection with an offer by way of a rights issue.

The proposal conforms to the guidelines issued by the institutional investment protection bodies to ensure that existing shareholders' interests are safeguarded. The Directors have no present intention of exercising either of these authorities, which will expire at the end of next year's AGM (or, if earlier, the close of business on 28 June 2015) except in relation to share options.

**Allotment of shares for cash**

At the last AGM held in 2013, shareholders approved a special resolution to enable the Directors to allot shares for cash without first offering them to existing shareholders in proportion to their existing shareholdings. That approval expires at the end of the forthcoming AGM and resolution 17 in the Notice of AGM seeks to renew it.

The resolution authorises the Directors to allot or sell shares for cash without first offering them to existing shareholders in proportion to their existing shareholdings up to an aggregate nominal amount of 5% of the issued share capital of the Company, including treasury shares, at 31 December 2013 (equivalent to 12,023,470 ordinary shares).

In respect of this aggregate nominal amount, the Directors confirm their intention to follow the provisions of the Pre-Emption Group's Statement of Principles regarding cumulative usage of authorities within a rolling three-year period where the Principles provide that usage in excess of 7.5% should not take place without prior consultation with shareholders.

This authority will expire at the conclusion of the following AGM or, if earlier, on 28 June 2015. The proposal conforms to the guidelines issued by the institutional investment protection bodies to ensure that existing shareholders' interests are safeguarded.

**Purchase of own shares**

At the last AGM held in 2013, shareholders approved a special resolution to enable the Company to purchase its own shares. That approval expires at the end of the forthcoming AGM.

At this year's AGM, the Directors consider it expedient to seek shareholders' approval to enable the Company to purchase, in the market, up to 10% of its issued share capital (excluding any treasury shares) for cancellation, or to be held in Treasury, such power to apply until the end of next year's AGM (or if earlier, 28 June 2015). In accordance with the requirements of the Listing Rules of the Financial Services Authority, the minimum price (exclusive of expenses) which may be paid for a share is its nominal value and the maximum price (exclusive of expenses) for shares which may be paid is the highest of: (i) an amount equal to 105% of the average market value for a share for the five business days immediately preceding the date of the purchase; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out.

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

During the financial year ending 31 December 2013 2,638,778 ordinary shares were transferred out of Treasury by the Company to satisfy share options under the Company's SAYE / Sharesave and executive share incentive plans.

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



### Renewal of UK Sharesave and adoption of new US plan

The Company currently operates an HMRC tax favoured savings-related share option plan (the "Sharesave") for the benefit of its UK-based employees.

Under the Sharesave, which must be operated on an all-employee basis in the UK, participants may sign up to savings contracts to save up to £500 per month for invitations after April 2014 (previously £250 per month) over a three or five-year savings term. On the maturity of the contracts, participants can elect to use their savings (and any interest) to exercise a linked discounted share option to acquire shares on tax-favoured terms or ask for the return of the savings (and any interest).

Authority to make grants under the Sharesave will expire in 2015. The current intention is to continue to focus the Company's All Employee Share Scheme policy through savings-related share option scheme participation. The Company is therefore seeking authority to revise the rules of the Sharesave to incorporate minor modifications to reflect the current legislation relating to sharesaves and to extend the operation of the Sharesave for another ten years.

Separately, the Company wishes to establish a similar arrangement to the Sharesave for the benefit of its US-based employees in the form of a tax-favoured stock purchase plan (the "US Plan").

The US Plan will allow US employees to acquire shares under discounted share options with savings made over a two-year period. This type of share scheme is commonly operated by US companies and may deliver tax benefits to participants where shares are retained for at least one year following acquisition.

Resolution 14 seeks authority from shareholders to revise the rules of the Sharesave to the proposed updated form.

Resolution 15 seek authority from shareholders to implement the US Plan.

### Auditor

The external auditor KPMG Audit Plc has instigated an orderly wind down of their business. The Board has decided to put KPMG LLP forward to be appointed as the external auditor and a resolution concerning their appointment will be put to the forthcoming AGM of the Company.

### Recommendation

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

### Content included in the Strategic Report

The following content is included in the Strategic Report on pages 2 to 47: an indication of the likely future developments in the business of the Company; an indication of the activities of the Company in the field of research and development; and disclosure on the Company's policy as regards employment of disabled persons and employee involvement.

### Derivatives

Information related to derivatives is included in the Accounting Policies on page 97 in the 2013 Annual Report Book 2, and in note 15.

### Going concern statement

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly have adopted the going concern basis in preparing the consolidated financial statements. Further information regarding the financial position of the Group, its cash flows, liquidity position, and borrowing facilities are described in the Financial Review on pages 22 to 23. In addition, note 1 to the financial statements on pages 102 to 107 of the 2013 Annual Report Book 2 includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and exposures to credit, market and liquidity risk. Cash balances and borrowings are included in note 21 on page 125 of the 2013 Annual Report Book 2. This disclosure has been prepared in accordance with Financial Reporting Council's Going Concern and Liquidity Risk: "Guide for Directors of UK Companies 2009."

### Directors' statement as to disclosure of information to the external auditor

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

- > As far as each Director is aware, there is no relevant audit information of which the Company's external auditor is unaware
- > Each Director has taken all steps that he ought to have taken as a director to ascertain any relevant audit information and to ensure that the Company's external auditor is aware of that information

The Strategic Report and Directors' Report, including the Report of the Remuneration Committee, were approved by the Board on 20 February 2014.

By order of the Board

**JON GREEN**

**Company Secretary & General Counsel**  
20 February 2014

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

**In respect of the Annual Report and the financial statements**

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards.

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 Group and Parent Company, and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- > Select suitable accounting policies and then apply them consistently
- > Make judgements and estimates that are reasonable and prudent
- > For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU
- > For the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements
- > Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company, and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors who were in office at the date of this report, whose names and responsibilities are listed on page 51 confirm that, to the best of their knowledge:

- > The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets and liabilities and financial positions and profit of the Company and its undertakings included in the consolidation taken as a whole;
- > The Strategic Report and the Directors' Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

For and on behalf of the Board

**COLIN DAY**  
Chief Executive

**MATTHEW GREGORY**  
Group Finance Director  
20 February 2014



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