# Building for the future

Annual Report 2020 – Strategic and Directors' Reports

# BUILDING FOR THE FUTURE

## Our purpose is to responsibly provide the products and services our customers need to succeed.

**A new strategic roadmap for 2020 and beyond**

### A winning, engaged and empowered team

Read more on page 31

### Class leading sustainability

Read more on page 36

### Growth through innovation

Read more on page 42

"We have refreshed our purpose, values and goals to better reflect who we want to be and where we are going as an Essentra family."

**Paul Forman**
**Chief Executive**

Read more on page 8

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This is part one of our Annual Report for the year ended 31 December 2020. Part two consists of our Financial Statements and can be found on our corporate website. When reviewing the performance and activities of Essentra plc in 2020, both parts should be read together.

Go to essentraplc.com/investors

# ESSENTRA AT A GLANCE

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


See page 67 for Components overview


See page 71 for Packaging overview


See page 75 for Filters overview

## Our international network


## Financial highlights

| | FY 2020 | FY 2019 | % change Actual FX | % change Constant FX |
|---|---|---|---|---|
| Revenue | £897m | £974m | -8 | -7 |
| Adjusted[1] operating profit | £62m | £88m | -29 | -28 |
| Adjusted[1] pre-tax profit | £46m | £73m | -37 | -35 |
| Adjusted[1] net income[2] | £37m | £59m | -36 | -35 |
| Adjusted[1] basic earnings per share | 13.1p | 21.3p | -38 | -37 |
| Dividend per share | 3.3p | 6.3p | -48 | n/a |
| Net debt | £210m | £284m | -26 | n/a |
| Net debt to EBITDA | 1.8x | 2.0x | n/a | n/a |
| Net debt to EBITDA (pre IFRS16) | 1.5x | 1.9x | n/a | n/a |
| Free cash flow[3] | £56.9m | £40.7m | n/a | n/a |
| Reported operating profit | £22m | £80m | -73 | -72 |
| Reported pre-tax profit | £6m | £66m | -91 | -91 |
| Reported net income[2] | £6m | £41m | -85 | -84 |
| Reported basic earnings per share | 1.7p | 14.7p | -88 | -88 |

1 Before amortisation of acquired intangible assets and adjusting items
2 Net income is defined as profit after tax, before minority interests
3 A reconciliation of free cash flow is set out in the Financial Review on page 46

## Components

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

### 2020 summary

- Continued delivery of "hassle-free" service provision despite challenging environment, with further improvement of NPS by four points
- Completed roll-out of new web platform across Europe and introduction of agile monthly improvement process, with 2021 plans for launch in Asian markets
- Commenced operations at European Automated Warehouse in Germany, providing platform for improved service levels and reduction in cost to serve across mainland Europe
- Actions taken to drive cross selling and enhance market share gains such as enhanced e-Commerce offering and cross selling training
- Further investment in Business Process Redesign (BPR) programme coupled with launch of a new Customer Relationship Management (CRM) platform which will be integrated in 2021
- Comprehensive programme focusing on improving sustainable product offering

Revenue
**£255.0m**
(2019: £283.3m)

Adjusted operating profit[1]
**£45.5m**
(2019: £60.3m)

## Packaging

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

### 2020 summary

- Resilient trading performance against backdrop of fewer prescriptions and elective surgeries, and improving trends as the year progressed
- Support to fight against COVID-19 through supply of products to the pharma industry, including packaging for leading anti-viral drug and two of the leading COVID-19 vaccines
- Continued delivery of new business wins
- Increased customer satisfaction to 81% (2019: 79%) ahead of industry average score of 76%
- Operational KPIs improved, for example improvement in quality by 30% versus 2019
- Acquisition of 3C! Packaging, strengthening position in important pharmaceutical market
- Awarded "Packaging News" 2020 UK Packaging Company of the Year

Revenue
**£363.2m**
(2019: £352.7m)

Adjusted operating profit[1]
**£13.8m**
(2019: £15.1m)

## Filters

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

### 2020 summary

- Resilient performance despite challenging backdrop of volume declines
- Operational KPIs continued to improve with focus on reduction in lead time to further enhance customer service
- Continued focus on key account management delivering deeper understanding of customer needs and a more robust pipeline
- Support to customers to ensure business continuity in their supply chain
- One further outsourcing contract agreed with an independent customer during the year
- Plans on track to establish manufacturing facility for China Joint Venture towards the end of Q2 2021
- Launch of Tobacco Heating Product (THP) Vortex Filter, expanding the division's NGP offering
- Significant focus on the development of sustainable products including launch of proprietary biodegradable filters and SupaStrip™ PCR tape made from 70% recycled content

Revenue
**£278.3m**
(2019: £303.6m)

Adjusted operating profit[1]
**£25.2m**
(2019: £36.2m)

1 Before amortisation of acquired intangible assets and adjusting items
2 Net income is defined as profit after tax, before minority interests
3 A reconciliation of free cash flow is set out in the Financial Review on page 46

# HOW WE PERFORMED THIS YEAR

## Operational highlights

- Uniquely challenging year with the global COVID-19 pandemic inevitably impacting business results
- Strength of three distinct business models demonstrated in resilient performance across the Group
- Improving trends across all markets and all three global divisions well placed to capitalise on growth opportunities
- Consistent focus throughout the year on employee wellbeing, customers, cash conservation and building for our future
- High customer satisfaction levels leading to deepened customer franchises
- Value enhancing acquisition of 3C! Packaging completed and integration on plan
- Progress on sustainability, with environmental targets announced
- Efficiencies from strategic initiatives supporting short- and medium-term profit growth
- Review of our global footprint resulting in the announced closure of certain sites in 2021 across the Components and Packaging divisions
- Resilient platform, driving profitable and cash generative growth

## How we have performed this year

**Revenue**
£896.5m
(2019: £974.1m)

**Adjusted operating profit**
£62m ■
(2019: £87.5m)

**Adjusted operating margin**
6.9% ■
(2019: 9.0%)

**Reported operating profit**
£21.7m
(2019: £80.0m)

**Adjusted earnings per share**
13.1p ■
(2019: 21.3p)

**Reported earnings per share**
1.7p
(2019: 14.7p)

**Dividend per share**
3.3p
(2019: 6.3p)

**Cash conversion**
123% ■
(2019: 82%)

**Net Debt ratio**
1.8x
(2019: 2.0x)

**Liquidity**
£287m
(2019: £260m)

■ **Adjusted measures**
Adjusted results exclude certain items because, if included, these items could distort the understanding of Essentra's performance for the year and the comparability between periods. In management's view, such adjusted performance measures (APMs) reflect the underlying performance of the business and provide a more meaningful comparison of how the business is managed and measured on a periodic basis. Our APMs and KPIs are aligned to our strategy and business segments, and are used to measure the performance of the Company and form the basis of the performance measures for remuneration. See page 27 for KPIs and page 48 for APMs.

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

# RENEWED FOCUS ON OUR PEOPLE AND THE PLANET

**As for all businesses, 2020 has been a challenging year for us at Essentra. No one had expected a global pandemic.**

"Staff have pulled together to support each other and this has in turn supported the stability and sustainability of the business. My personal thanks go to all of the Essentra family."

**Paul Lester, CBE**
**Chairman**

**Awards UK**
Packaging Company of the Year
Best Service Improvement Project 2020
Payroll Software Supplier of the Year

## Our people

Whilst we are thankful that we ended the year in a stable position, it has not been without the sad and regrettable loss of some staff members to COVID-19, and some of their family members too. Our condolences are with those families, some with young children, who we will continue to support over the coming years. For me, this also signifies the truly special nature of Essentra and the family created here. The last year has shown that the Essentra family is very real, and has incredible strength: staff have pulled together to support each other and this has in turn supported the stability and sustainability of the business. My personal thanks go to all of the Essentra family.

As a Board, our priority is the safety of our people. Whilst we took all steps necessary to navigate our way through COVID-19, I am also pleased that 2020 saw continued improvements in our safety performance indicators with improvements in all divisions throughout 2020. Virtual health and safety walks, used for both regular health and safety checks and for COVID-19 safety purposes, have allowed staff to work together across the globe to ensure good safety standards are in place. For all of our divisions, the ongoing improvement towards safety has been an outstanding achievement in a tough year and shows the strength of the leadership teams throughout the organisation and the willingness of staff to do better for themselves and each other.

## Our performance

In 2020, the Group delivered an adjusted operating profit of £62.0m (2019: £87.5m) with a revenue of £896.5m (2019: £974.1m) and adjusted operating cash flow of £76.3m (2019: £71.8m). Given that nine months of the year were spent operating under tight restrictions due to the pandemic, to achieve this is a good result, and shows the resilience of being a global and diversified business.

20

Zero Waste To Landfill sites
(8 sites in 2019)

## Our growth

From a strategic point of view, we achieved two significant milestones this year. We welcomed a new business into Essentra with 3C!, a business based in North Carolina in the US, joining the Packaging division. At the same time, we also decided to raise equity through a £97m (net of costs) placement of new shares. This in part funded the acquisition of 3C! and allowed us to reduce our debt ratio, whilst providing funding for future growth. Fundamentally, the equity placing would not have been possible without the ongoing support from shareholders. Our Components division opened their automated warehouse hub in Germany and completed the roll out of its websites in Europe with further regions due to complete in 2021, both are strategic initiatives that underpin growth. Those businesses acquired during 2019 have continued their integration: Innovative Components in the US and Costa Rica continues to do well, as does Nekicesa in Spain in the Packaging division. As has been reported previously, the Packaging division continues its turnaround journey and embarked on a series of measures in Q4 2020 which represents a further move to refining that business. Essentra Packaging received the much deserved UK Packaging Award in December, which the team are rightly immensely proud of, and this underpins the potential and growing strength of that business. Despite COVID-19 our Filters division continued to make progress with the Chinese Joint Venture which is on track to become operational during 2021.

## Our sustainability

We had embarked on a number of sustainability initiatives during 2019, and with the newly established Sustainability Committee meeting during 2020, we have been able to take this further. During the year we canvassed employees for their priorities. There has been a real sense that to carry on as before just won't do, and that this was the opportunity to change gear and to be better. As a result, the integration and embedding of sustainability into our strategy has shifted up a gear and we have the momentum and support from our people to ensure we will meet our environmental targets.

The Sustainability Committee has been one of our governance success stories for 2020 and I am pleased that its Chairman, Ralf Wunderlich, has grasped the opportunity to champion this as an issue he truly stands behind.

## Our stakeholders

With travel curtailed during the year, it has not been possible for the Board to meet staff. We have instead sought other ways to engage with staff to ensure we hear directly how staff are managing. Our Voice of the Employee programme has continued and has been adapted to a virtual programme. Mary Reilly and Ralf Wunderlich have met with staff remotely, joining either informal team meetings or purpose specific events. We are pleased that the virtual model will be able to continue once travel restrictions ease, allowing Mary and Ralf to reach out and meet a greater

## Board Employee Engagement

Our Board Champions have enjoyed meeting employees to learn about what matters to them the most and report back at every Board meeting.

**See Q&A with Ralf Wunderlich, Board Employee Champion on page 91**

number of employees, whilst keeping travel and the resultant impact on the environment to the essential only.

Our usual annual physical events, such as the Make It Work Awards and Leadership Conference were regrettably unable to go ahead. Instead, the Board met weekly during the first lockdown in the UK, and had the opportunity on those calls to hear from members of the GMC, and from other staff, on how the business was responding. It has not been surprising therefore, that the results of the 2020 Employee Engagement Survey show staff are very engaged with the business, with high levels of engagement maintained at 77% (78% last year). This was despite our decision to de-prioritise the actions arising out of the 2019 survey in favour of putting employee welfare first. This decision paid off, with staff very comforted that management instead chose to focus on actions that would safeguard them. In support of this, the Board, the GMC and next line of senior management took a temporary pay cut which enabled the business to pay for all staff across the Essentra family globally who were furloughed during that period. An initiative to support staff health and wellbeing was launched across the globe so that every member of the Essentra family has somewhere to turn to for help.

Securing a Deferred Prosecution Agreement (DPA) with the DOJ and other settlement arrangements with OFAC, including the payment of certain fines, in relation to past sanctions compliance breaches, was a matter of focus for the Board during the year. The recent conclusion of the US authorities' review provides a cautionary reminder of the importance of a robust compliance programme. With no additional enforcement action confirmed, our compliance transformation programme remains a priority to ensure we continue to operate within the requirements of the DPA.

### Our dividend

The Board is pleased to confirm that it proposes a dividend payment of 3.3p per share (2019: 6.3p). The 2019 final and 2020 interim dividend were cancelled last year as a cautionary measure to preserve cash given the unprecedented uncertainty presented by COVID-19. The Board are pleased to resume dividend payments this year.

### Our Directors

During the year, Lorraine Trainer retired as planned as a Non-Executive Director. Nicki Demby has now taken on the role of Chairman of the Remuneration Committee. My thanks go to Lorraine who was pivotal in ensuring the upward trajectory for employee engagement and provided wise counsel during her seven years as a Board member.

We have also announced that Tommy Breen will retire from the Board and not stand for re-election at the 2021 AGM. Tommy has made a significant contribution to the Company, in particular in his role as Senior Independent Director during a period in which the Company experienced significant change. The Board and I would like to thank Tommy for his considerable and valued contribution during his six-year tenure.

COVID-19 brought a real-time crisis to the Board to manage through. The focus on Directors' Duties and Section 172 of the Companies Act, emphasises the need for that legislation, and throughout our Annual Report you will learn more about practical ways in which the Board took into account the interests of all its stakeholders including employees, the wider community and environment that the business operates in, its suppliers, customers and investors.

We have entered 2021 with many uncertainties, not least the impact of Brexit, for which we had planned well, but with ongoing constraints that continue to challenge the business. Despite these challenges, I am looking forward to seeing the progress made by each of the businesses and am confident that with such a strong leadership team in place, they will continue to develop the business and our people.

**Paul Lester, CBE**
Chairman
5 March 2021

# BUILDING FOR THE FUTURE

**2020 was a uniquely challenging year and I could not be prouder of the way the Essentra global family responded.**

Our people have demonstrated incredible resilience, energy and commitment in the face of great personal and professional pressure. I believe we have ended the year a closer team with the invaluable foundations of deeper customer relationships, stronger financial security and a clearer picture of the future.

Our response to the COVID-19 pandemic section on page 17

2020 Adjusted earnings per share
**13.1p**
(2019: 21.3p)

High employee engagement maintained in 2020
**77%**
(78% in 2019)

A new strategic roadmap for 2020 and beyond

## We have refreshed our purpose, values and goals to better reflect who we want to be and where we are going as an Essentra family.

Paul Forman
Chief Executive

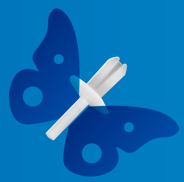

## 2020 priorities

- Safeguarding our people's physical, emotional and physical wellbeing
- Supporting customers demonstrated by the maintenance of all key quality and service metrics
- Enhancing the strength of our balance sheet to provide strategic optionality
- Building for the future with a focus on our refreshed purpose, values and goals
- Further strengthening of a robust compliance framework and culture
- Continued investment in systems, equipment and innovation, including the development of more sustainable products

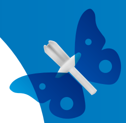
# A winning, engaged and empowered team

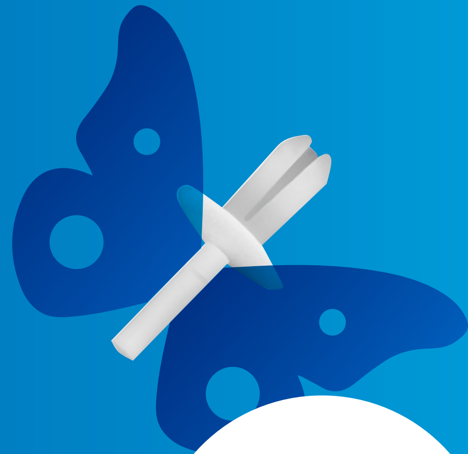
**Our people** remain at the heart of our journey and our continued resilience throughout 2020 would not have been possible without their commitment, passion and energy.

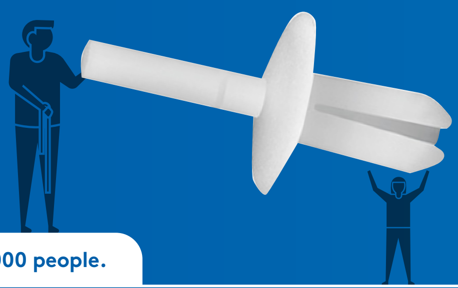
During the year we made progress delivering the employee lifecycle introduced in 2019, as well as safeguarding our people's physical, emotional and financial wellbeing in the wake of the pandemic.



**85%**
of employees believe that Essentra took the appropriate steps to ensure employees remained safe and healthy during the pandemic.







A global Essentra family of over 7,000 people.

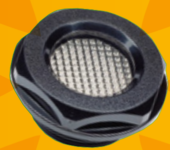
Rapidly introduced strict hygiene and protective safety measures across all of our global sites, in line with and often exceeding local regulations.

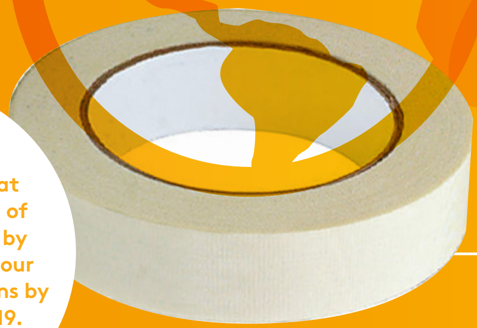
Launch of our health and wellbeing strategy – Essentra Thrives including the extension of Employee Assistance Programmes across all our locations globally.

# Class-leading sustainability

**Environmental, Social and Governance (ESG) issues remain crucial to our ability to effectively build for the future as well as meeting the increasing expectations of all our stakeholders including employees, customers and investors.**

In 2020 we announced new environmental KPIs and targets. These demonstrate a significant step forward in our sustainability agenda and the delivery of our purpose.





20 zero waste to landfill sites, up from 8 in 2019.

We have made a great start to our ambition of being carbon neutral by 2040, having reduced our greenhouse gas emissions by 13% compared to 2019.

We are working across all our divisions to offer our customers products that serve their needs while minimising the impact on the environment.

# Growth through innovation

In order to truly live our purpose to responsibly help our customers succeed, **we need to innovate.** Developments in technology, customer needs and the world around us are continually changing and that pace of change is increasing.

In 2020 we have been building the right foundations to enable our goal of driving growth through innovation.

We are collaborating with our customers and creating more sustainable products to meet the changing needs of customers and broader stakeholders.

**Well positioned to innovate and take advantage of commercial opportunities.**

These foundations include an innovation mindset, core skills and capabilities to drive innovation and a robust decision gate process to manage a healthy pipeline of innovation activities.

At Essentra we are managing our response to the COVID-19 pandemic around four priorities:

**Safeguarding our people**

**Supporting our customers**

**Managing our cash flow**

**Building for the future**

## Responding to the pandemic

The COVID-19 pandemic has caused unprecedented levels of upheaval for individuals, families, governments and companies alike. In our response we have tried to balance short- to medium-term priorities with the long-term view; responding to the immediate needs while planning for both recovery and a future beyond the pandemic.

Early on in the year, we established three clear priorities in managing our response: safeguarding our people, supporting our customers and managing cash flow and added a fourth priority of building for the future quickly thereafter. These four priorities have given all our people clarity and comfort as we have worked through the issues together.

## A refreshed strategic roadmap

Like so many others, the onset of the pandemic forced us to reassess our broader priorities – checking where we were heading and how we were going to get there. In 2017 we established a roadmap with three steps for long-term success: stability, strategy and growth. By the time 2020 began we had entered the final chapter of that journey, with stability and clear strategies restored.

Therefore in mid-2020 we looked again at our purpose; the articulation of why we exist as a company. For Essentra this is about making a powerful difference to our customers, providing the products and services they need to succeed as businesses. During the pandemic we found that far from changing, our purpose took on a new importance and resonance as we maintained our quality and service levels and supported many customers directly involved in the fight against the virus. However, we have added the word "responsibly" because we know that – now more than ever – we have a responsibility to do the right thing for our customers, the environment and the communities in which we operate.

## Group Management Committee

It has been an honour to lead and be a member of this executive team in 2020. They have worked together brilliantly under immense pressure and have kept a positive and future-focused outlook.

See our Group Management Committee on page 79

Next, we reviewed our principles and while these have not changed, we have decided to refer to them as values going forward, because they are the human qualities we show in everything we say and do, guiding our behaviours and framing our decisions. The first – safety, respect and diversity – addressees how we want everyone in the Essentra family to feel no matter who they are. The next – openness, honesty and integrity – is a non-negotiable part of how we do business and the culture we want to build. The third – energy for change – is all about the future we are building together, because we know there is still more to do to re-engineer our systems, realign our processes and redefine our business.

Finally, we added three business goals that set out what is important to us and what we will focus on in order to build for the future: a winning, engaged and empowered team; class-leading sustainability and growth through innovation. These are expanded below and form the structure of this year's Strategic Report. All this is represented quite intentionally in what has become known as the Essentra "House", because every family has a home where we work not only with, but for, each other.

## Building for the Future with confidence and resilience

During the year we have worked collaboratively on some key themes for the future, for example: how we can further embed our purpose, values and goals; what "mega trends" are being created or accelerated by COVID-19; how we work together in the future (both culturally and practically); commercial opportunities; and best practices including M&A and operational opportunities. There is no doubt that our world will be different after COVID-19 and it is important that we are in a position to take advantage of the opportunities ahead of us.

Despite the challenging backdrop of the pandemic, in 2020 we also continued to invest in our business in order to support future growth. As well as significant investment in our people agenda, we also continued with the Business Process Redesign (BPR) programme, launching Microsoft Dynamics 365 into our Group HQ Finance and Procurement teams in 2020 and an imminent launch planned in our Components division in 2021. This programme is an important part of how we build the business we want in the future, because it will liberate our people's full potential by standardising processes and making it easier for everyone to do their job.

During the year we also added to our portfolio with the purchase of 3C! in our Packaging division, building on the successful integration of Nekicesa acquired the previous year. The acquisition adds manufacturing capacity and service capability to our existing Packaging footprint in the Americas as well as access to proprietary serialisation technology. In 2020 we also continued with the establishment of a China Joint Venture in the Filters division and the integration of Innovative Components, both of which are on track. As we look forward to 2021 we continue to ensure we are well placed for inorganic opportunities, where they can move our business into complementary product categories or end-markets, or further our geographic distribution capability.

> "Now more than ever we have a responsibility to do the right thing for our customers, the environment and the communities in which we operate."

**Paul Forman**
**Chief Executive**

See our Operational Review on page 67

**Funds enabled us to strengthen our – already resilient – financial position – further evidence of the proactive actions we took in the face of COVID-19.**

The acquisition of 3C! was enabled by a cash box placing launched in September, where over 38m Essentra shares were offered for sale to institutional investors, senior Directors of Essentra and retail investors. In addition to the acquisition the funds enabled us to strengthen our – already resilient – financial position – further evidence of the proactive actions we took in the face of COVID-19.

While our business results have inevitably been impacted by the pandemic, our performance in 2020 recovered well by Q4, with improving revenue and order trends and all three global divisions well-positioned for growth.

Despite this resilient performance, 2020 was clearly not without its challenges and 2021 is set to hold more. The finalisation of Brexit and an even more uncertain broader macroeconomic environment means we will continue to undertake regular reviews and introduce mitigating actions as necessary.

In 2020 we also launched a detailed review of our global footprint which resulted in the announced closure of certain sites in 2021 across the Components and Packaging divisions. While we deeply regret the impact these proposals will have on some of our colleagues, these actions are both necessary and consistent with our strategy to build for the future. As we manage through these and other challenges in 2021 we will be guided by our purpose and values, acting in a responsible way.

I am incredibly proud of the progress we have made in 2020 despite the very challenging context and believe that we have established strong foundations on which to build in 2021. I am proud to lead this organisation and immensely grateful to all our people for their efforts in a difficult year.

Looking forward, by living our purpose, staying true to our values and delivering our business goals I believe we will build a better, brighter future – as one team and one family.

**Paul Forman**
Chief Executive
5 March 2021

By order of the Board
**Paul Forman**
Chief Executive
5 March 2021

# DELIVERING ON OUR PURPOSE

**Put simply, our purpose "to responsibly provide the products and services our customers need to succeed" is why we exist as a company.**

In 2020 more than ever before, this purpose has guided our decisions, shaped our strategy, inspired our people, and made a powerful difference to our customers.

Despite the sometimes considerable challenges our own people have faced, Essentra teams across the world have been living this purpose every day, ensuring our customers have what they need to deliver during a unique and challenging year.

We are proud to have played a key role in supporting the fight against COVID-19 through the supply of products in the pharma industry and those used in the manufacture of goods within medical devices and PPE categories.

Our purpose continues to be relevant as we build for the future, and we believe that after the pandemic we will be a more resilient organisation with stronger customer relationships.

## Supporting the delivery of ventilators to the NHS

With the onset of COVID-19 in the UK, the government found that established international manufacturers of critical care ventilators were struggling to cope with demand. They reached out to UK manufacturers for help and in response, a consortium of companies from across the aerospace, automotive and medical sectors formed VentilatorChallengeUK. Their mission: produce ventilators for the UK's National Health Service (NHS).

VentilatorChallengeUK set about building thousands of emergency ventilators to the required specifications. One type, the Penlon ESO 2 Emergency Ventilator, saves lives by ventilating the sickest patients until they can transfer to an ICU ventilator. Problems arose, when the consortium's supplier failed to deliver the components that were needed at the last minute due to lack of stock.

To keep production lines running, VentilatorChallengeUK needed stock immediately. They wanted one port of call – a manufacturer, not just a distributor. Within two hours of the call being made, Essentra Components picked the stock needed and hand delivered it to Penlon. Thereafter a wider range of parts were then ordered, meaning that Essentra Components subsequently supplied Penlon with washers, slotted screws, knurled knobs, retaining washers, cable clips and rectangular inserts. Supporting VentilatorChallengeUK, Penlon was able to deliver the first 30 ventilators to the NHS on the timescale already agreed upon with the UK government.

## A key partner for COVID-19 treatments and vaccines

Since the outbreak of the COVID-19 pandemic, the world has been seeking treatments for the symptoms of the virus, as well as vaccines for the long-term fight against the virus.

Early on in 2020, Essentra Packaging began collaborating with the manufacturer of a leading antiviral drug for the treatment of COVID-19.

With demand increasing rapidly, the Essentra team supported the customer and the designated contract manufacturers both in Europe and the US, by investing in additional capacity to deliver on the steep volume ramp up.

By the end of 2020, Essentra had also supplied the first deliveries of bespoke packaging items to two of the leading COVID-19 vaccine manufacturers and demand is expected to increase as manufacturing ramps up in Q1 2021. Essentra is also working on a number of other vaccine projects that are expected to launch in 2021.

## Providing business continuity for a customer impacted by lockdown

One of Essentra's largest multi-national Filters customers was required to activate business continuity plans in response to a government lockdown and switched production overnight to three of their other plants within the region.

Already having an established relationship with Essentra Filters, the customer asked for help to support this transition. Supplying from two manufacturing operations, Essentra were able to support the delivery of a significant volume of products to maintain supply and avoid stock out situations.

The Essentra team has continued to work with the customer throughout the pandemic, in particular by ensuring the customer has been able to maintain their supply chain in the areas of raw material transfers. This has only been possible due to the extremely close collaboration and trust developed over time and demonstrates Essentra's agile manufacturing capability.

# OUR RESPONSE TO THE COVID-19 PANDEMIC

**The COVID-19 pandemic has created unparalleled challenges for the world and shaped 2020 in a way no one could have expected. At Essentra we quickly established a COVID-19 Global Response Team which met daily to discuss controls and measures needed to safeguard our employees, contractors and customers.**

**85%**

**of employees believe that Essentra has taken the appropriate steps to ensure they remained safe and healthy during the pandemic.**

2020 Employee Survey

At Essentra we are managing our response to the COVID-19 pandemic around four priorities:

- **Safeguarding our people**
- **Supporting our customers**
- **Managing our cash flow**
- **Building for the future**

## Safeguarding our people

At Essentra our number one priority has been to safeguard our people, both as the pandemic hit and as we planned for our future in its wake. With our employees' physical wellbeing in mind, early on in the year we restricted business travel, especially for those travelling internationally. We also introduced strict hygiene and protective safety measures across all of our global sites, in line with and often exceeding local regulations. These measures were formalised around the middle of year into a Physical Health Policy which established global standards on social distancing, hygiene, PPE, quarantine periods and return to site. In some of our badly affected areas, we extended the provision of PPE to family members of direct employees, wanting to ensure the wider wellbeing of the communities we work in. We also established measures around site visitors, deliveries and collections.

As well as physical wellbeing, we have recognised that the pandemic has had a significant impact on our employees' emotional well-being. Some of our people who continued to work in a factory setting have faced challenges around maintaining their journeys to and from home during lockdown. Therefore, some critical factory and warehouse employees in high risk countries were provided with alternative temporary housing. Employees who have been forced to work from home instead of in an office setting have faced different challenges – for some isolation, for others the difficulties of balancing work life with children or other dependants at home. In response we set up informal support networks and alternative working arrangements for particular groups of employees, so that they could connect with colleagues in a similar situation.

In October we launched our global health and wellbeing strategy – Essentra Thrives – which included the extension of Employee Assistance Programmes to all our global locations.

We have also provided financial support to employees when they have been unable to work as a consequence of local or national Government restrictions arising from the pandemic and to the families of those employees who have sadly lost their lives. At the peak of the pandemic in 2020 there were around 800 furloughed employees in 12 countries and Company furlough payments were made to employees unable to work in India, South Africa and Paraguay. We did not use UK Government provided furlough support, nor did we borrow debt from the UK Government. Overall we have been able to maintain 80% of earnings across the global workforce throughout the year.

**Read more about our winning, engaged and empowered team from page 31**

## Supporting our customers

Throughout the pandemic our service and quality levels have remained consistent with, or indeed exceeded, pre-pandemic levels. Furthermore, for the vast majority of the pandemic all of our manufacturing and distribution sites have been fully operational. Temporary site closures have only been instigated in the event of specific local government instruction or where we have deemed it necessary to undertake a deep clean in order to protect our employees' wellbeing.

Across all divisions we have strived to support our customers, with numerous examples of Essentra going above and beyond in order to meet or exceed our customers' expectations.

We are proud to have played a key role in supporting the fight against COVID-19 through the supply of products in the pharma industry and those used in the manufacture of goods within medical devices and PPE categories. Indeed, our excellent levels of customer service and support has given rise to commercial opportunities during the pandemic.

Read more about delivering on our purpose on page 15

## Managing our cash flow

We have taken a number of proactive and responsible actions to ensure that our strong liquidity position has been maintained and improved. This has been important in terms of keeping the Company viable and securing our ability to deliver on other commitments.

During the middle of the year we introduced a temporary 20% reduction in fees for Board members, temporary 20% reduction in salary for GMC members, temporary 10% reduction in salary for senior management, cancelled annual merit pay increases and did not issue 2020 LTIP awards. Furthermore, we made a reduction in Capex spend and reinforced tight control over all discretionary costs and strong day to day cash management.

In September we launched a placing, offering over 38m Essentra shares for sale to institutional investors which raised £97m (net of costs). Half of this funded the acquisition of 3C! in the Packaging division and the other half allowed us to further strengthen our, already resilient, financial position.

Read more in our Financial Review on page 45

**We believe that after the pandemic we will be a more resilient organisation with stronger customer relationships.**

## Building for the future

**Throughout the pandemic we have been conscious of the need to not simply fight the current battles, but also plan for recovery and the future beyond COVID-19. When the pandemic is over there will be many opportunities for Essentra and it has been important to plan early so that we are as well positioned as we can be to take advantage of those.**

**We believe that after the pandemic we will be a more resilient organisation with stronger customer relationships, we will have discovered new ways of working that we do not want to reverse and the world around us will likely be more open to certain innovations or in need of new or different products.**

**Throughout the year we have been working with around 120 of our global leaders to explore these issues impacting our future in greater depth. For example, we have explored the "mega trends" that will shape the post COVID-19 world, how flexible working practices, health and wellbeing and leadership competencies will impact the future of work, the need for us to further embed a sustainable business approach as well as exploring commercial and operational opportunities and best practices.**

**Building for the future therefore became the overarching theme of the new strategic approach launched in August and will continue to shape our journey into 2021 and beyond.**

# A RESILIENT PLATFORM, DRIVING PROFITABLE AND CASH GENERATIVE GROWTH

## Our key strengths…

### Balanced business model

**The Essentra Group consists of a portfolio of three focused businesses, serving multiple end-markets with a broad differentiated range of products and services.**

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

Our businesses' dynamic operating models and hassle-free customer proposition enables us to work with and add value to customers of all sizes as a trusted partner.

Our customer-focussed proposition combined with high standards of service and supply demanded by such customers, help to drive continuous improvement across the Company. Our market leading positions help us to develop and maintain a close relationship with a wide portfolio of blue chip customers.

### Organic growth potential in all divisions

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

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

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

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

## Opportunities for margin expansion

**All our business divisions deliver excellent service and quality and enjoy strong customer relations leading to operating leverage potential.**

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

Our extensive international manufacturing and distribution network ensures the delivery of cost-competitive and high-quality products in response to customers' requirements. High levels of service and broad geographic reach are an important competitive differentiator.

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

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

## Financial resilience

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

Following our recent fundraise, we are now back within our targeted gearing range of between 1x to 2x (net debt/EBITDA), providing a platform from which we can explore and drive further strategic opportunities.

We maintain a strong pipeline of strategic M&A opportunities, a close relationship with a wide portfolio of blue-chip customers, who are successful leaders in their respective markets and we also serve a wide range of small and medium sized customers.

## Focus on sustainability

**We have placed a strong emphasis on purpose, values and sustainability, underpinned by governance and reward structures.**

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

We also maintain robust quality systems to internationally accredited standards to assist the fulfilment of customers' demands.

# OUR BUSINESS MODEL

## Our purpose

Our purpose is to responsibly provide the products and services our customers need to succeed.

## What we do

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

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

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

## Our values

- Safety, respect and diversity
- Openness, honesty and integrity
- Energy for change

## Our goals

- A winning, engaged and empowered team
- Class-leading sustainability
- Growth through innovation

## Who we serve

- Automotive
- Construction
- Electronics
- Equipment manufacturing
- Fabrication
- Food and Beverage
- Personal Care and Beauty
- Pharmaceutical
- Retail POP/ Paper and Board
- Tobacco

While our business model explains how we compete, our strategy of Building for the Future explains the long-term direction this position allows us to take

# OUR COMPETITIVE ADVANTAGE

## Market-leading positions

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

## Passion and skills of our employees

Our people are our greatest asset. They "make it work" for their colleagues and customers every day.

## Strength of customer relationships

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

## Diverse and market-leading product and service ranges

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

## Global footprint with local execution

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

# STAKEHOLDER ENGAGEMENT

**At Essentra we actively manage a range of key stakeholder relationships, recognising that our success and sustainability depends on their input and involvement.**

The Board understands the importance of forming and retaining good working relationships with all stakeholder groups. Effective engagement enables the Board to ensure stakeholder interests are considered when making decisions and is crucial for achieving the long-term success of the Company. The following disclosure describes how the Board has had regard to the matters set out in Section 172(1) (a) to (f) and forms the Directors' statement required under Section 414CZA of the Companies Act 2006.

**Effective engagement enables the Board to ensure stakeholder interests are considered when making decisions and is crucial for achieving the long-term success of the Company.**

**Stakeholder group**

## Investors

The major interests in our shares are set out on page 145.

**Key metrics:**
- Earnings Per Share (EPS)
- Total dividends paid
- Total Shareholder Return (TSR)
- Dividend yield and cover

**Why is it important to engage?**
Continued access to capital is of vital importance to the long-term success of our business.

Through our engagement activities, we strive to obtain investor buy-in to our strategic objectives and our execution of them.

We create value for our shareholders by generating strong and sustainable results that translate into dividends.

We are seeking to promote an investor base that is interested in a long-term holding in the Company.

**How management and/or Directors engaged?**
The key mechanisms of shareholder engagement included:
- AGM
- full year and half year presentations
- one-on-one investor meetings with the Chairman, Chief Executive, Chief Financial Officer, Senior Independent Director, Chair of the Remuneration Committee.

**What were the key topics of engagement and what feedback and input did the Board/ management obtain?**
Other than our routine engagement with investors on topics of strategy, governance and performance, below are specific matters on which we engaged investors and that influenced outcomes and actions this year:
- the impact of the COVID-19 pandemic on the Company's financial position and resilience
- cancellation of 2019 final and 2020 interim dividend payments
- placing of new ordinary shares to fund the acquisition of 3C! Packaging, Inc. and strengthen Essentra's balance sheet
- environmental, social and governance issues, particularly in relation to the Single-use Plastics Directive and its impact on the Filters business.

We also actively manage our relationship with debt investors, holding regular business updates where we discuss Essentra's future debt strategy and how this can be best delivered.

**What was the impact of the engagement including any actions taken?**
The successful capital raise enabled Essentra to acquire 3C! Packaging and strengthened Essentra's balance sheet, positioning the Company well to pursue other strategic opportunities, whilst remaining within the target leverage range of 1x to 2x.

Stakeholder group

## Suppliers

The Company has a large number of international suppliers and also partners with a high volume of small businesses.

Each division presents distinct key supplier groups. 85% of Filters and Packaging's raw materials come from a small proportion of suppliers used. 80% of our indirect spend eg on IT, is concentrated with a small number of key suppliers. The Components division utilises a mature network of key suppliers.

**Why is it important to engage?**
Our suppliers are fundamental to the quality of our products and to ensuring that as a business we meet the high standards of conduct that we set ourselves.

We are fundamentally a conversion business and are dependent on our suppliers to provide our goods ethically, within our code of conduct, on time and to the quality required by our customers.

Innovation is key to the success of our business and engaging with suppliers early is fundamental to the enabling of new products.

**How management and/or Directors engaged?**
We engage with local suppliers through working group initiatives that are run by regional management.

Our supplier code of conduct and Modern Slavery Statement is shared with all key and new suppliers.

Our Procurement team runs a supplier development programme with all key suppliers.

**What were the key topics of engagement and what feedback and input did the Board/ management obtain?**

- the impact of the COVID-19 pandemic on business continuity and the Company's financial position
- impact of Brexit on business continuity in our UK and European factories
- sustainable procurement has continued to gain an increased focus.

**What was the impact of the engagement including any actions taken?**
We develop long-term, strategic relationships formed on the basis of trust and understanding and which are to the mutual benefit of both parties. We collaborate with our suppliers on key initiatives and innovation projects.

In order to mitigate the impact of COVID-19 and Brexit, the Company developed a broad set of contingency plans.

The key supplier management programme initiated in 2019 has allowed us to drive our environmental and social policies down the supply chain.

As anticipated, by the end of 2020 more than 70% of our supplier spend was covered by our Ethics Code certification.

## Employees

Our employees are vital in ensuring we provide quality products and services to our customers and operate our business activities effectively and efficiently.

**Key metrics:**

- Employee engagement
- Safety KPI: Lost Time Incident and Number of Days Lost
- Gender diversity in management levels

**Why is it important to engage?**
The Company's long-term success is based on the daily commitment of our workforce to our purpose, values and goals.

To maintain our competitive advantage and meet the growing demands of the environment in which we operate, we need a workforce which is adaptive and whose skill base constantly evolves. We also value workers with long-term practical experiences.

**How management and/or Directors engaged?**
We engage with our people regularly and have developed a people strategy which seeks to create an environment in which our people are happy at work and that best supports their wellbeing.

We invest significantly in our people as we believe that maintaining low turnover rates across the entire workforce is the source of our industry-leading efficiency and productivity rates.

We distribute an employee survey to all our employees annually. Employees are provided with information of concern, including factors affecting company performance through regular Chief Executive updates and town hall briefings.

To meet the requirements of the 2018 Code, the Board has appointed two designated Non-Executive Directors to be responsible for the employee voice; Board Employee Champions.

**What were the key topics of engagement and what feedback and input did the Board/ management obtain?**
The impact of the COVID-19 pandemic on the Company's financial position and operations, as well as the impact on employees.

The results of the 2020 employee survey:

- 91% participation (90% 2019) and 77% (78% last year) engagement
- the survey told us that our employees feel particularly positive about working for Essentra, how we responded to the pandemic and our plans to build for the future.

Engagement between employees and the Board Employee Champions covered a number of key topics including recognition, reward and resource and investment allocation.

**What was the impact of the engagement including any actions taken?**
In responding to the COVID-19 pandemic we have made safeguarding employee wellbeing our top priority.

Based on survey feedback, in 2021 we will be focusing on strengthening engagement around careers and talent, new ways of working and recognition. Site action plans were agreed by the end of January 2021 and regular meetings are scheduled throughout the year to track progress.

In 2021 the Board will support the continued roll-out of the people strategy and continue to develop and evolve the Board Employee Champion roles.

Essentra is committed working with governments at national, regional and local level in establishing sound and transparent working relationships.

Stakeholder group

## Government and Regulators

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

**Why is it important to engage?**

As a global company with many local operations, Essentra is committed to working with governments at national, regional and local level in establishing sound and transparent working relationships. This is to ensure that the way we conduct business with customers and suppliers, and how we treat our people and the community in which we operate meets both local requirements as well as Essentra's Code of Ethics.

In accordance with our Ethics Code, Essentra does not provide financial contributions to political parties and lobby groups.

**How management and/or Directors engaged?**

Engagement with regulators and governments is undertaken in various ways across our global operations.

As a UK listed company the Board and the GMC manage many of these while our global teams engage local governments as necessary.

**What were the key topics of engagement and what feedback and input did the Board/ management obtain?**

The impact of the COVID-19 pandemic on the Company, in particular:

- how we have managed the safety our people through implementation of COVID-19 safety practices to ensure that we meet all local requirements and also identify additional support or measures that we could take to best safeguard our people depending on their location
- the position relating to government support in each country so as to replicate similar furlough or payment arrangements across the Group in all locations
- the need for our manufacturing sites to remain operational despite COVID-19 restrictions, especially those serving critical industries involved in the fight against COVID-19.

In 2020 Essentra FZE Company Limited reached a public settlement with the US Department of Justice and the US Office of Foreign Assets Control relating to sanctioned market compliance failures in the Filters business. A Deferred Prosecution Agreement was entered into with the US Department of Justice and a fine of $666,543.88 paid to settle certain sanctions violations by the Filters business in Dubai.

As previously advised, the Company had made a voluntary disclosure to the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC), with regards to certain other historical transactions by the Filters business dating as far back as 2015.

**What was the impact of the engagement including any actions taken?**

We maintain a strong and transparent dialogue with various government and regulatory agencies.

In many instances our COVID-19 safety approach exceeded local requirements and included testing as well as additional support for families through the provision of PPE and hygiene materials.

Some sites temporarily closed in line with local government regulations and staff were paid furlough or received pay to a minimum of 80% their usual pay, which was often in excess of local requirements.

The resolution of historical sanction issues has driven improvements through the compliance transformation programme that continues to be embedded within the Group and sees increasing awareness and understanding amongst staff at all levels.

The Company has co-operated fully with the US authorities and, whilst cautioned by OFAC on the importance of a robust sanctions compliance programme, no further enforcement action is being taken and the Company continues to operate within the terms of the Deferred Prosecution Agreement.

The Company maintains its focus on continuous improvement to drive the effectiveness of its response to sanction regimes and other compliance requirements.

**Stakeholder group**

## Customers

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

**Key metrics:**

- On Time and In Full (OTIF)
- Quality/complaints
- Net Promoter Score

**Why is it important to engage?**

Our customers are the lifeblood of our business and we recognise that their feedback and support is crucial to our future success.

**How management and/or Directors engaged?**

We have strategic global relationships with a number of multinational companies.

We have also invested in key account management structures across our businesses to manage relationships with customers. This ensures that we provide the most appropriate service for individual accounts

**What were the key topics of engagement and what feedback and input did the Board/ management obtain?**

- the impact of the COVID-19 pandemic and Brexit on business continuity
- our approach to sustainability across our sites, including corporate targets
- product innovation, including in terms of more sustainable products.

**What was the impact of the engagement including any actions taken?**

Development of long-term strategic relationships formed on the basis of trust and understanding and which are to the mutual benefit of both parties.

We continue to expand our product offering and build expertise within our sales teams.

Read more about how we responded to the COVID-19 pandemic on page 17

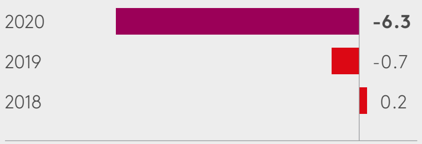
# KEY PERFORMANCE INDICATORS

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

**Alignment of KPIs to executive remuneration**

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

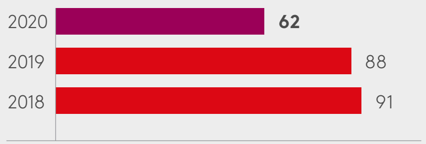
## Like-for-like revenue growth (%)




**How we measure it**
Revenue at constant exchange rates, excluding acquisitions and disposals

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

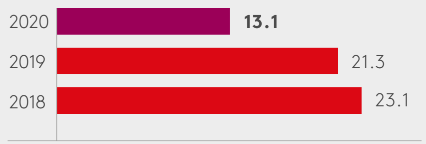
## Adjusted operating profit[1] (£m) ●




**How we measure it**
Operating profit at constant exchange rates, excluding the impact of amortisation of acquired intangible assets and adjusting items

**Why this is important**
Measures the profitability of the Company

## Adjusted earnings per share[1] (p) ●




**How we measure it**
Earnings per share at constant exchange rates, excluding the impact of amortisation of acquired intangible assets and adjusting items

**Why this is important**
Measures the benefits generated for shareholders from the Company's overall performance

## Net working capital[2] ratio (%) ●


**How we measure it**
Average net working capital[2] per month, as a % of revenue

**Why this is important**
Measures the ability of the Company to finance its expansion and release cash from working capital

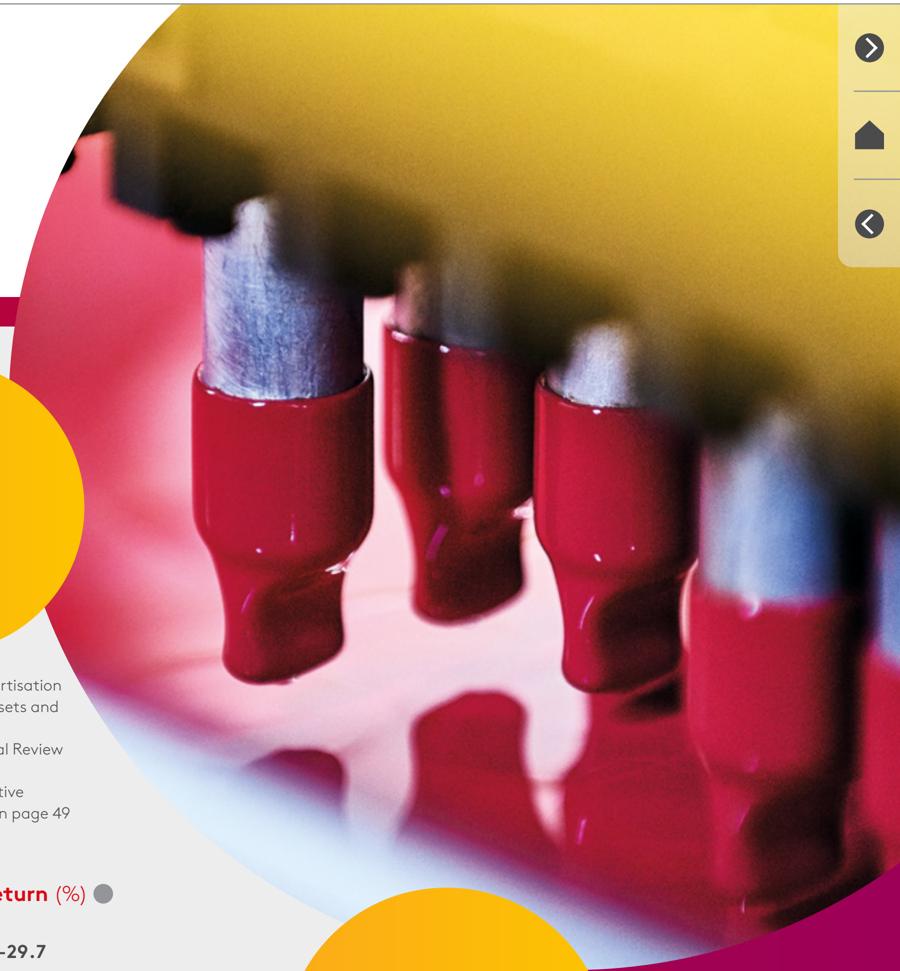
## Adjusted operating cash flow[3] (£m) ●


**How we measure it**
Adjusted operating profit less non-cash/other items, net working capital and net capital expenditure

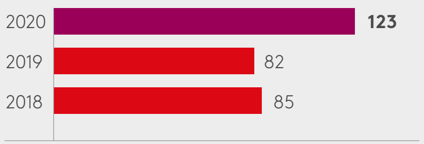
**Why this is important**
Measures the cash generation capability of the Company

**Adjusted operating cash flow** (£m)
**76**
(72 in 2019)

1 Excluding impact of amortisation of acquired intangible assets and adjusting items.
2 As defined in the Financial Review on page 46.
3 As defined in the Alternative Performance Measures on page 49



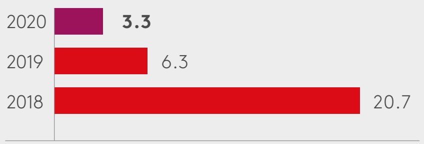
### Cash conversion (%)




**How we measure it**
Adjusted operating cash flow[3] as a percentage of adjusted operating profit[2]

**Why this is important**
Measures how the Company converts its profit into cash/quality of the Company's earnings

### Dividend per share (p)



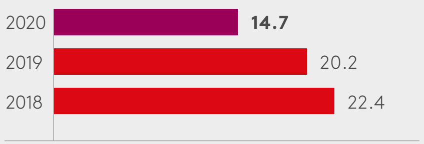

**How we measure it**
Total dividends paid divided by the number of relevant shares in issue

**Why this is important**
Measures the amount of cash per share which the Company returns to shareholders

**Dividend per share** (p)
**3.3**
(6.3 in 2019)

1 Excluding impact of amortisation of acquired intangible assets and adjusting items.
2 As defined in the Financial Review on page 46.
3 As defined in the Alternative Performance Measures on page 49

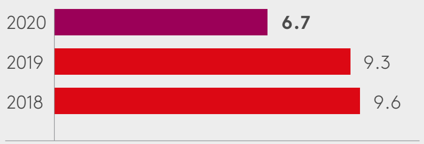
### Return on Capital Employed (%)




**How we measure it**
Adjusted operating profit[1] divided by (tangible fixed assets and net working capital)

**Why this is important**
Measures how effectively the Company uses its operational assets

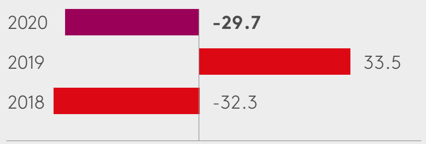
### Return on Invested Capital (%)




**How we measure it**
Adjusted operating profit[1] after tax divided by (capital employed plus intangible assets)

**Why this is important**
Measures the Company's ability to effectively deploy capital

### Total Shareholder Return (%)




**How we measure it**
Total annual increase in value. Based on the increase in share price and the dividend paid to shareholders

**Why this is important**
Measures the Company's ability to generate long-term value

**Cash conversion** (%)
**123%**
(82% in 2019)

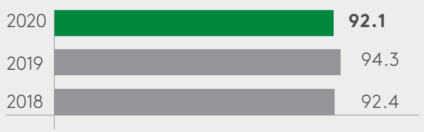
# NON-FINANCIAL KEY PERFORMANCE INDICATORS

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

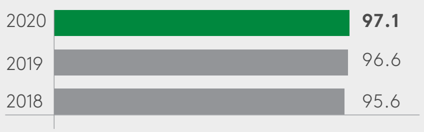
## Customers

**On Time and In Full** (%)

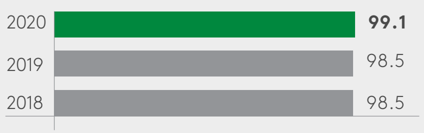
**Components**




**Packaging**




**Filters**




**Why this is important**

Our purpose is to responsibly provide the products and services our customers need to succeed. Our ability to deliver quality products on time and in full has been a key focus for 2020.

## Environment

**$CO_2$ emissions** (tonnes)

**Reduced by**

**13%**

(2020 vs 2019)

**Waste to landfill** (tonnes)

**Reduced by**

**36.2%**

(2020 vs 2019)

**Number of sites with zero waste to landfill Increased by**

**150%**

(2019: 8 2020: 20)

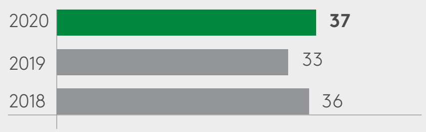
**Why this is important**

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

## Safety

**Lost-Time Incidents** (LTIs)

**Increased 12%**

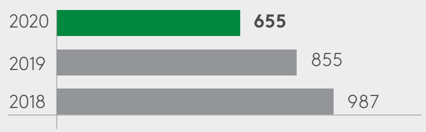



**Why this is important**

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

**Number of days lost**

**Reduced by 23%**



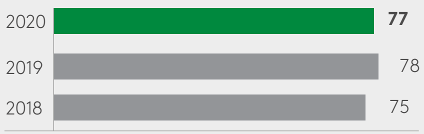

**Why this is important**

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

**77%**
**High levels of employee engagement maintained, keeping us ahead of the global and manufacturing industry averages**

# People

## Employee engagement (%)




### Why this is important

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

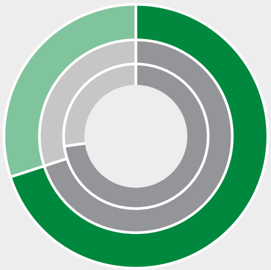
## Board gender diversity (%)

**2020**
- Men: 57% (4)
- Women: 43% (3)

**2019**
- Men: 50% (4)
- Women: 50% (4)

**2018**
- Men: 57% (4)
- Women: 43% (3)

## Group Management Committee gender diversity (%)

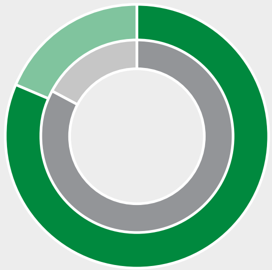


**2020**
- Men: 70% (7)
- Women: 30% (3)

**2019**
- Men: 70% (7)
- Women: 30% (3)

**2018**
- Men: 73% (8)
- Women: 27% (3)

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



**2020**
- Men: 81.6% (71)
- Women: 18.4% (16)

**2019**
- Men: 83% (80)
- Women: 17% (16)

### Why this is important

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

## Non-Financial information table

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

| Reporting requirement | Where to read more in this report |
|---|---|
| **Environmental matters:** Class leading sustainability | 36 |
| **Employees:** A winning, engaged and empowered team | 31 |
| **Health and safety:** A winning, engaged and empowered team | 31 |
| **Human rights:** A winning, engaged and empowered team | 34 |
| **Social matters:** A winning, engaged and empowered team | 31 |
| **Anti-Bribery and Corruption:** A winning, engaged and empowered team | 34 |
| **Business model:** Our business model | 21 |
| **Principal risks:** Risk Management Report | 50 |

# A WINNING, ENGAGED AND EMPOWERED TEAM

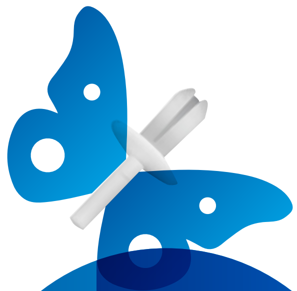
**Essentra's people are at the heart of our strategic change journey. In responding to the COVID-19 pandemic we have made their physical and emotional wellbeing our top priority and continue to work to improve diversity, talent development and engagement.**

Our employees are vital in ensuring we provide quality products and services to our customers and operate our business activities effectively and efficiently. Indeed, their talent and commitment drives the innovation that allows Essentra to provide added value to our customers, enhance supply chain logistics and reduce the environmental impact of operations.

## Communicating through uncertainty

As the COVID-19 pandemic started to impact our businesses in early March, we quickly established the four pillars that would guide us through the challenges, the first of these focused on our people and included the need to communicate. Establishing a more appropriate Group-wide communications rhythm facilitated a more timely and personal cascade of information. Group-wide communications, especially from our Chief Executive, became more frequent with a more informal tone, utilising video content with translation meant faster and more effective communication in a timely manner. We also established more two-way feedback using digital solutions and smaller group calls.

While COVID-19 highlighted some of the challenges we face in communicating to frontline factory and warehouse employees across a number of global locations and in 20 languages, we recognised the unique opportunity to support, engage and inspire our people and sought to overcome the challenges and connect with our global workforce.



**Our furloughed colleagues in India came together to use their time for COVID-19 related relief work in the local community, such as the preparation and distribution of 1,000 COVID-19 health and hygiene kits to migrant workers and their families in Bangalore.**

## Supporting Essentra employees on Furlough

**At the height of the pandemic in 2020 there were around 800 colleagues on furlough in several countries.**

Despite country-specific legislative frameworks around restrictions during a period of furlough, we wanted to create a consistent global support mechanism that allowed us to better maintain our connection with furloughed employees and helped them to manage the impact on their lives and make the best use of their time away from work.

In each market with furloughed employees, we identified a Local Furlough Coordinator (LFC). Their role included maintaining regular contact with furloughed employees, establishing virtual support networks, offering internal opportunities such as online training, encouraging and facilitating external activities such as volunteering and facilitating their return to work post a period of furlough.

The LFCs were linked so they could ask questions and share great ideas of things they were doing to support those on furlough. A global guide for line managers with furloughed employees was created which included advice on things such as: checking in on well-being, offering support, disseminating information, linking them to other furloughed employees, and recommending activities to make best use of their time.

Our response to the COVID-19 pandemic on page 17

## Essentra Thrives

**On 10 October, coinciding with World Mental Health Day, we launched our global health and wellbeing strategy: Essentra Thrives. The strategy formed a key part of our Diversity and Inclusion programme in 2020; enabling our people to bring their whole selves to work and reach their full potential within a supportive, diverse and kind culture.**

The cornerstone of this strategy has been the extension of Employee Assistance Programmes across all our locations globally. These programmes include a free advice line available to employees and close family members in local languages 24 hours a day, 7 days per week, 365 days a year. The service is 100% confidential and provides a wide range of advice and support on things like financial worries, housing concerns, family challenges, relationships, stress and anxiety. All services can be accessed by family members who live in the same house as an Essentra employee.

In addition, the strategy is supported with Emotional Support First Aider training and leadership training on understanding mental health. These efforts are helping leaders look after their own emotional wellbeing as well support those around them at home and work.

This programme goes beyond the issues identified through COVID-19 as we see a continued need to focus on the physical and emotional wellbeing through 2021 and beyond.

ESSENTRA THRIVES Physically | Emotionally

| | |
|---|---|
| **Conscious leadership** | Leading with our values in mind. Empathetical and supportive approach to ensure the wider safety of all our people |
| **Resilience and emotional energy** | Ensure our people are supported to engage with energy for change and space to innovate |
| **Health, nutrition and vitality** | A healthy individual, will contribute to a winning, engaged and empowered team |
| **"Kindful" culture** | Respecting we are a diverse family with an open culture of inclusion across our global workforce |

### Safeguarding physical wellbeing

Throughout the pandemic we have remained committed to achieving and maintaining the highest standards of health and safety for our employees and everyone visiting our operations. As a result we introduced strict hygiene and protective safety measures across all of our global sites, in line with and often exceeding local regulations.

Our aim is to be in the top quartile of manufacturing companies for Incident Frequency Rates. We are therefore pleased to report that the total number of days lost due to incidents has reduced by 23%, from 855 in 2019 to 655 in 2020. The number of incidents resulting in Lost Time has increased slightly to 37 in 2020 from 33 in 2019.

In addition to these KPIs, in 2020 we identified the need and benefit of having a leading indicator measuring health and safety engagement and activities across each site. This will include time spent on health and safety projects, leadership walks, training, briefings and "toolbox talks". In 2021 we will use this to progress further visibility and engagement, which we hope will ensure improvements across a number of areas.

In November we held our second annual global Safety Week with a focus on "slips, trips and falls". This was an opportunity to reinforce every employee's role in taking responsibility for driving improvements and embedding our safety culture throughout the business.

## World-class engagement

In 2020, despite an incredibly challenging COVID-19 context, we undertook a slightly revised global employee engagement survey. We were able to maintain a market-leading participation rate of 91% (90% 2019), which means we can again be confident that the results reflect the true voice of Essentra. Our overall engagement metric continues to score well at 77% (78% last year), this is based on employees' views of feeling satisfied, proud and wanting to remain at Essentra. This score keeps us ahead of the manufacturing and global benchmark engagement averages and balanced well across our internal demographics, highlighting that our diversity and inclusion agenda is proving effective.

The survey told us that our employees feel particularly positive about working for Essentra, how we responded to the pandemic and our plans to build for the future. In 2021 we will be seeking to strengthen engagement around talent and careers, new ways of working and recognition. All site action plans were agreed by the end of January 2021 and regular meetings are scheduled throughout the year to track progress.

**LTI**

| Year | Number of lost times | % change |
|---|---|---|
| 2018 | 36 | |
| 2019 | 33 | |
| 2020 | 37* | +12% |

* Excludes 3C!

**Days lost**

| Year | Number of lost days | % change |
|---|---|---|
| 2018 | 987 | |
| 2019 | 855 | |
| 2020 | 655* | -23% |

* Excludes 3C!

Essentra was awarded "Payroll Software Supplier of the Year" in conjunction with Ceridian by the Global Payroll Association.

Our IT Service Desk Insourcing Project won the "Best Service Improvement Project 2020" at the Service Desk Institute Awards.

## Recognising our people

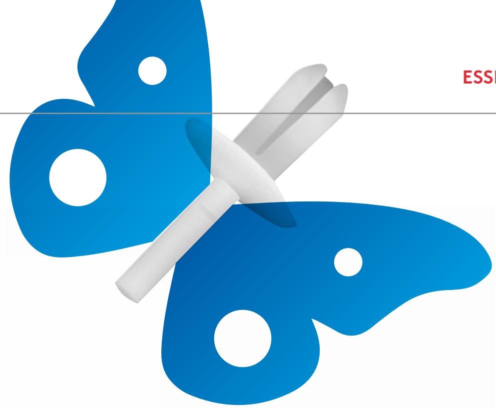
Our Group-wide "Make It Work" awards are now in their third year and celebrate the people who have gone above and beyond to deliver what Essentra does best: make it work. The award categories were adapted in 2020 to better reflect our new values and goals. In 2020 the number of nominations was close to double those received in 2019 and came from all divisions and functions across the organisation. Our winners (five individuals and one team) were announced in January 2021 and will be recognised in virtual events later in the year. During 2021 we will also be recognising some of our "COVID heroes" acknowledging their response to exceptional circumstances.

In July we took time to say thank you to our people and encouraged them to say thank you to each other. Thank you cards were issued to all employees and a small financial gesture added to their July pay. It was an opportunity to recognise our amazing Essentra team all over the world for everything they were doing to keep the Essentra family safe, successful and smiling during uncertain times.


High employee engagement maintained in 2020

**77%**

(78% in 2019)



## Creating a diverse environment

In 2020 we progressed our work to create a more diverse and inclusive workplace, focusing on the launch of our global health and wellbeing strategy, Essentra Thrives which is outlined on page 32. We continued to embed the global Diversity and Inclusion Policy launched in 2019 and partnerships with organisations such as everywoman, Business in the Community (BITC) and #WorkWithMe.

We remain committed to providing all employees with the opportunity to develop and advance, which includes giving full and fair consideration to all employment applications from disabled people. In the event of employees becoming disabled, we make every effort to ensure that the training, career development and promotion opportunities available are as far as possible identical to those of non-disabled employees.

In 2020 we joined BITC's Cross-Organisational Mentoring Circles for the third year and as part of the scheme ten Essentra UK-based employees will be participating from January 2021. The Circles aim to support the progression and impact of Black, Asian and Minority Ethnic (BAME) employees and address their current under-representation at senior levels.

## Being an ethical employer

Essentra has established a clear commitment to ensuring that its business activities are conducted in accordance with all applicable laws and regulations. The Group Compliance Strategy is based on risk-based policy and training protocols supported by appropriate technology platforms and expert guidance and advice. Our Ethics Code is the core foundation of the Group Compliance Strategy and is issued to all employees globally, supported by annual training on the Code and positive affirmation statements by the employees. In addition we have specific policies relating to Anti-Bribery and Corruption, Anti-Money Laundering and Third-Party Due Diligence. These policies are made available to all employees and specifically issued for affirmation to senior leaders and other employees who hold positions where such polices are relevant to ensure best practice. Further details on these policies can be found at essentraplc.com/responsibility.

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

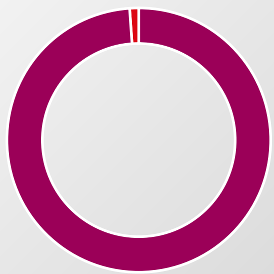
Throughout our international operations we support and endorse human rights – as set down by the United Nations Declaration and its applicable International Labour Organisation conventions – through the active demonstration of our employment policies, our supply chain and the responsible provision of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

## Gender split all employees

- Male: 66.4% (4,691 employees)
- Female: 33.6% (2,374 employees)

As at 31 December 2020.

## Permanent/contractor split all employees

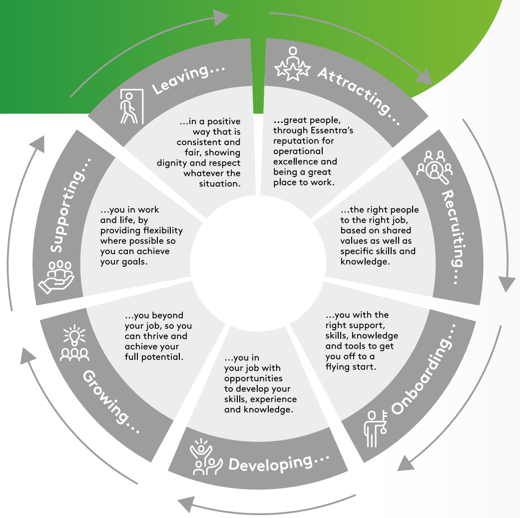


- Permanent: 99.9% (7,055 employees)
- Contractors: 0.1% (10 employees)

As at 31 December 2020.

# Bringing our employee lifecycle to life

**In 2020 we further embedded and progressed elements of our employee lifecycle which was introduced as part of a refreshed people strategy in 2019. The employee lifecycle is a model that identifies the ways in which an individual engages with Essentra and helps us shape that journey into a positive experience for everyone.**




| | Progress we made in 2020 | What we will do in 2021 |
|---|---|---|
| **Attracting** great people through Essentra's reputation for operational excellence and being a great place to work | • Developed and launched a new competency framework aligned to our refreshed values and goals<br>• The framework reflects learnings from the pandemic and the competencies needed for the future world of work | • Continue to develop and embed our competency framework<br>• Further develop our employer brand, for example through the development of an external careers site |
| **Recruiting** the right people to the right job, based on shared values as well as specific skills and knowledge | • Used new and consistent tools to assess candidates, and successfully used these remotely using digital solutions | • Continued development and training on assessment tools<br>• Focus on internal promotions and talent mapping |
| **Onboarding** our people with the right support, skills, knowledge and tools to get them off to a flying start | • Successfully onboarded new recruits remotely during 2020<br>• Piloted digital solution to onboarding that delivers a consistent and manager-led approach | • Global launch of digital onboarding solution which will also facilitate further remote onboarding and early engagement |
| **Developing** our people in their jobs with opportunities to develop skills, experience and knowledge | • Further roll out of LEAP (Leadership Essentials in Action) Programme for supervisors – including virtual<br>• Continuation of the Essentra Apprenticeship programme in the UK<br>• Continuation of the Future Leaders (Graduate) programme for 2019 intake and graduation of 2018 intake | • Extension of LEAP programme to middle managers<br>• Continuation of the Essentra Apprenticeship programme in the UK<br>• Continuation of the Future Leaders programme with a new intake expected in autumn 2021 |
| **Growing** our people beyond their job, so they can thrive and achieve their full potential | • Identified supplier for global Learning Management System (LMS)<br>• Upskilled leaders and managers in areas such as emotional wellbeing, communications and change management | • Launch of global LMS which will include a digital platform to communicate directly to employees who do not currently access email or the corporate intranet<br>• Learning available to all employees through the LMS system |
| **Supporting** our people in work and life, by providing flexibility where possible so they can achieve their goals | • Major focus in 2020 with support for employees through the pandemic<br>• Launch of global wellbeing strategy including Emotional Support First Aider training<br>• Extension of Employee Assistance Programme (EAP) provision to all global locations | • Further embed global health and wellbeing strategy and EAP provision to all global locations<br>• Extend Emotional Support First Aider training globally |
| **Leaving** in a positive way that is consistent and fair, showing dignity and respect whatever the situation | • Recognised 2020 was a difficult market and provided appropriate support for leavers with wider use of outplacement and local connections | • Global launch of digital approach to onboarding will include "offboarding" |

# CLASS-LEADING SUSTAINABILITY

**As part of our revised purpose as a responsible business and our Building for the Future strategic roadmap, we have set ourselves the goal of "class-leading sustainability". We made significant progress on our sustainability journey in 2020, across several fronts.**

In 2020, we undertook our first comprehensive materiality assessment, invested in the development of more sustainable products, set ambitious targets for the future and made good progress towards those targets.

During the year we re-confirmed the focus of our sustainability strategy around four pillars. We have mapped the relevant Sustainable Development Goals (SDGs) to these four pillars, with nine goals having a strong and direct link to Essentra's business. We acknowledge that this is a journey and to achieve these goals by 2030, we will look to further collaborate with stakeholders on a local and global basis to ensure that all challenges are overcome effectively.

**Environmental, social and governance (ESG) topics are crucial to our ability to effectively build for the future as well as meeting the increasing expectations of all our stakeholders, including employees, customers and investors. In 2020 we focussed on communicating our strategy and targets for environmental sustainability. In 2021 we will look to further codify, embed and communicate social and governance aspects.**

## Our Sustainability Strategy

### Responsible Resource Usage

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION; 17 PARTNERSHIPS FOR THE GOALS

Reducing our impact on the environment through waste reduction projects, driving sites to zero waste to landfill, trials of recycled and biodegradable materials and trials of "closed loop" business models in partnership with suppliers and customers

### Energy and Climate Change

7 AFFORDABLE AND CLEAN ENERGY; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION

Reducing Scope 1 and 2 greenhouse gas (GHG) emissions via energy efficiency (eg roll-out of LED projects across multiple sites), on-site energy generation (eg biomass for heating in Filters, four sites at pilot stage for solar PV in Packaging) and procurement of certified renewable energy

### People and Community

3 GOOD HEALTH AND WELL-BEING; 5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES

Ensuring we support the communities we operate in through our community engagement policy – each site chooses and actively supports one or more local initiatives. Continued focus on improving our health and safety performance for employees and visitors

### Responsible Supply Chain

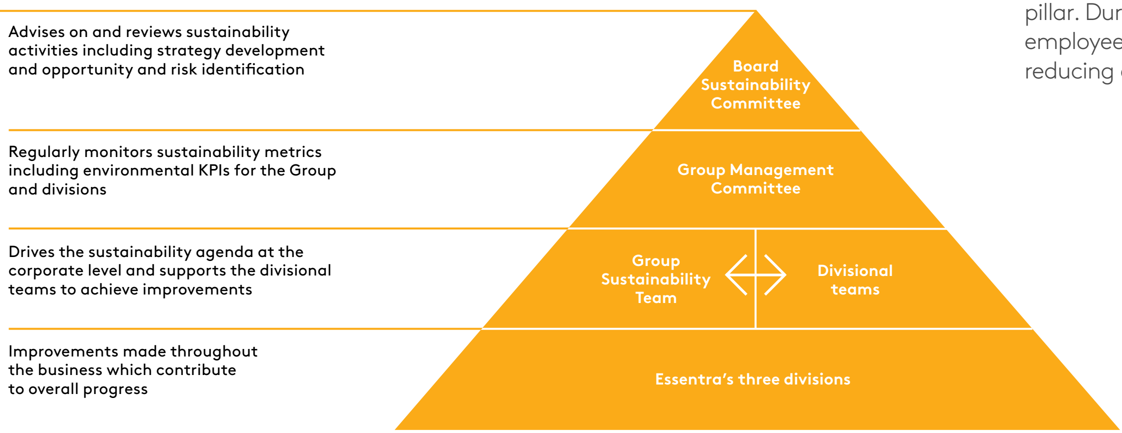
8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Ensuring our supply chain is robust through ongoing improvements in policies and standards including new KYS processes as part of BPR project, along with roll-out of a risk-based supplier audit programme

## Sustainability governance

Towards the end of 2019 a new Board Sustainability Committee was formed, which elevated the previous Group Sustainability Committee to Board level and underscored the increasing importance that both the Board and the Company's stakeholders are placing on this issue of Sustainability.

The Board Sustainability Committee met regularly in 2020, hearing from external sources of best practice and inputting to strategy, targets, risk management and performance.




## Employee engagement

We recognise that sustainability is an important topic in employee engagement and retention, as well as attracting new talent to the organisation.

In 2020 we further developed our Group-wide approach to internal employee engagement around sustainability, in particular in relation to key areas such as greenhouse gases and waste topics. During the year we created four Sustainability Specialist Interest Groups for each pillar of our strategy and in October held our first Sustainability Week, with events held across our global footprint.

The purpose of Sustainability Week was to educate employees on what Essentra was already doing in terms of sustainability and to get employees involved in activities directly related to the Energy and Climate Change pillar. During the week we encouraged employees to identify opportunities of reducing energy either at work or at home.

## Risk management

Since 2019 ESG has been recognised as a Principal Risk. In 2020 this was defined as encompassing the topics of exposure to tobacco-related products, potential changes in regulation related to single-use plastics, climate change and other issues. Additionally, an Emerging Risk of Climate Change was previously identified, and has now been absorbed within the ESG Principal Risk reflecting the increasing relevance of climate change and the risk it poses to Essentra's global operations.

We consider the growing interest from stakeholders in all areas of ESG including our sustainability agenda and identify the impact this could have on our reputation. It is important that this is managed effectively especially with the introduction of additional regulations such as Streamlined Energy and Carbon Reporting (SECR) and the EU Single Use Plastic Directive.

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

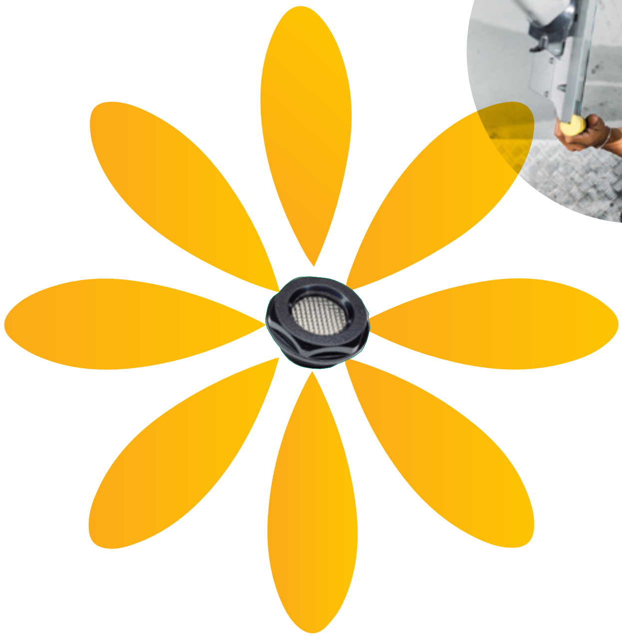
We are working and reviewing TCFD requirements as part of our risk management approach to ensure we are managing climate change risks. The Group Risk Committee oversee this process, ensuring we are fulfilling our obligations under TCFD.

**See our Risk Management Report on page 50**

## Product innovation across Essentra

Sustainability has been a key driver for innovation across Essentra with each division working with key stakeholders including customers, to improve their product and packaging portfolios. Throughout 2020, many sustainable product initiatives were explored, including the introduction of recycled plastic into our Components product ranges, more sustainable secondary packaging for beauty brands and biodegradable cigarette filters.

**Growth through innovation on page 42 and Operational Review on page 67**



### Voluntary Disclosures and Signatories

**Essentra is committed to reporting against voluntary external indices to increase transparency, motivate stakeholders and drive change within our business and the value chain.**

**Our disclosure scores help to drive ambition within the organisation to reduce greenhouse gas emissions and directly relate to measuring the Energy and Climate Change pillar of our sustainability strategy.**

In 2020, we maintained a silver Ecovadis rating with areas noted for improvement including tracking of additional KPIs, introduction of a sustainable procurement policy and more thorough supplier assessments that includes environmental and social topics.

During the year we also received an improved CDP score, moving from a C to B in Climate Change and a C to B- in Water. This improvement, moving to the "management" level, demonstrates that our business is taking co-ordinated action and is continually driving the ambition.

## Materiality assessment

In 2020 we completed our first sustainability materiality assessment, through a structured process that was overseen by an external consultant. The assessment has helped to set priorities for the business through the identification and evaluation of ESG and wider sustainability issues.

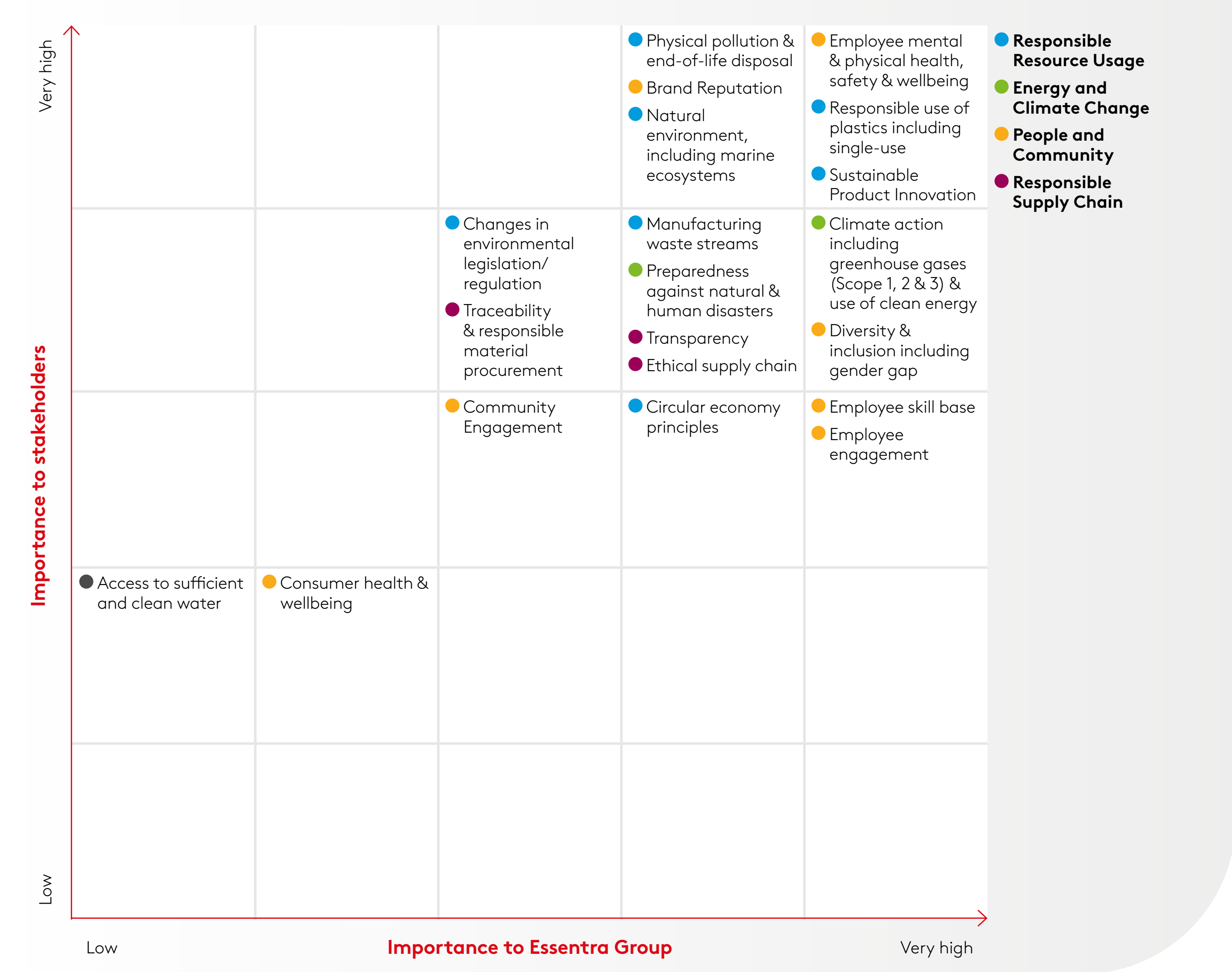
As part of the process, we identified key stakeholders such as customers, industry bodies and sustainability organisations and researched the key sustainability issues that matter to them. The key issues identified are weighted on both importance to Essentra and stakeholders and Essentra's level of influence or control over the issue.

Initially the topics were plotted for each business division and then combined to form a Group version that demonstrates the overall focus areas for Essentra.

We identified 20 material issues and a number of these relate specifically to the four pillars of our sustainability strategy. For example, we convert materials, often from non-renewable sources, into products which in some cases could impact the environment – key for us is Responsible Material Usage.

We are present in a large number of countries, employing people from diverse communities and purchasing materials and services in those countries – ensuring we engage appropriately with those people and communities is key, as is ensuring we have a responsible supply chain. Climate change is an issue that will increasingly affect us all, and our customers and their consumers are increasingly demanding an appropriate response from their supply chains – we need to play our part in energy and climate change. All these focus areas are being addressed at either Group, division or site level. The material issues will be re-evaluated annually to ensure they reflect the areas of highest priority to our stakeholders.

**Essentra Group Sustainability Materiality Matrix**



## Environmental targets and commitments

In August 2020 Essentra announced stretching environmental KPIs and targets, representing a significant step forward in the advancement of our established sustainability agenda and driven by the outputs of materiality matrices, regulation, customer feedback and voluntary disclosures.

The measures will see an accelerated reduction in our greenhouse gas (GHG) emissions, providing the roadmap to being carbon neutral by 2040 as the Essentra family steps up to play its part in achieving a low carbon economy. Our new waste management initiatives will ensure we do not send anything to landfill by at the latest 2030, building on the 20 sites that have already achieved this goal. During this period we also aim to reduce overall waste by a fifth across our business, while significantly increasing the usage of more sustainable raw materials such as fully biodegradable or post-consumer recycled products.

### Our Sustainability KPIs and Targets

| | #1 Scope 1 & 2 GHG emissions (normalised) | #2 Number of sites at zero waste to landfill | #3 Volume of waste produced (normalised) | #4 Per cent packaging/raw material from more sustainable sources |
|---|---|---|---|---|
| **Targets** | GHG carbon neutral by **2040**<br><br>**25%** reduction by 2025 (vs 2019 baseline) | All sites at zero waste to landfill by **2030** (or sooner) | **20%** reduction by 2030 (or sooner) | **20%** of material 2025 |
| **Comments** | • An interim target of a 25% reduction in normalised Scope 1 and 2 emissions by 2025 as measured against the 2019 baseline has been set.<br>• Will be achieved through a programme of energy efficiency improvements and emission reductions across the entire portfolio.<br>• Site level actions include the introduction of energy efficient LED lighting, site insulation and clean energy pilots.<br>• Various larger customers aiming to be carbon neutral by 2025–2040. | • 20 sites certified as zero waste to landfill in 2020, up from 8 in 2019.<br>• Initiatives being undertaken to help drive this goal include site level recycling projects and waste reduction programmes.<br>• Consistent with progress rate of larger customers. | • Initiatives being undertaken to help drive this goal include site level recycling projects and waste reduction programmes. | • Targeting 20% of all packaging and raw materials used in the Components Division's manufacturing processes to be from more sustainable sources by 2025 – as a proxy for a Group target.<br>• All businesses are actively engaged in material trials, customer collaborations and new product development with the aim of reducing material usage, increasing post-consumer recycled (PCR) content, using new materials from more sustainable sources or making packaging and products biodegradable.<br>• Consistent with European Circular Plastics Alliance targets. |

## Measurement and reporting

ERM CVS has assured the following environmental data for 2020: total Scope 1 and total Scope 2 greenhouse gas emissions, total waste volumes by destination, total water usage and the number of sites that have achieved Zero Waste to Landfill (ZWTL) status. Full details of the scope, activities, limitations and conclusions of ERM CVS' assurance engagement are included in their Assurance Statement on page 150.

| Tonnes $CO_2e$ | 2018 | 2019 | 2020 | % change between 2019 and 2020 |
|---|---|---|---|---|
| Scope 1 | 11,245 | 10,264 | 7,603 | -26% |
| Scope 2 | 65,852 | 62,111 | 55,327 | -11% |
| Total | 77,097 | 72,375 | 62,930 | -13% |
| Total $CO_2$ eq per £m revenue | 75.2 | 74.3 | 70.2 | -5.5 |

| Breakdown of Energy (MWh) | | 2019 | 2020 | Tonnes of $CO_2e$ 2019 | Tonnes of $CO_2e$ 2020 |
|---|---|---|---|---|---|
| Electricity | UK | 22,040 | 19,392 | 7,685 | 4,789 |
| | Global | 140,454 | 137,457 | 62,111 | 55,327 |
| Renewable Electricity Procured | UK | 19,652 | 16,577 | 0 | 0 |
| | Global | 19,652 | 16,577 | 0 | 0 |
| Natural Gas | UK | 23,852 | 11,166 | 4,831 | 2,241 |
| | Global | 44,960 | 30,209 | 9,107 | 6,119 |
| Diesel | UK | 8 | 0 | 2 | 0 |
| | Global | 2,467 | 3,696 | 606 | 908 |
| LPG | UK | 33 | 20 | 7 | 5 |
| | Global | 376 | 420 | 83 | 96 |
| Fuel oil | UK | 1,156 | 457 | 262 | 228 |
| | Global | 2,070 | 2,124 | 469 | 481 |

| Solid hazardous and non-hazardous waste destinations (tonnes) | 2018 | 2019 (restated)[5] | 2020 |
|---|---|---|---|
| Recycling | 20,404 | 28,775 | 31773 |
| Recovery | 2007 | 3043 | 3415 |
| Incineration | | 284 | 596 |
| Landfill | 4958 | 2989 | 1907 |
| % solid waste diverted from landfill | 82 | 92 | 95 |

| Liquid hazardous and non-hazardous waste by destination (cubic metres) | 2020 |
|---|---|
| Recycling | 243 |
| Recovery | 519 |
| Incineration | 89 |
| Landfill | 141 |
| % liquid waste diverted from landfill | 86 |

| Water usage (cubic metres) | 2020 |
|---|---|
| Water usage | 166,301 |

1. Boundary: Energy, water, and solid and liquid waste data by destination is collected for all global operations including manufacturing, warehouses, and offices across Essentra. The sites included within the emissions, energy use, water and waste reporting are those that constitute 99% of Essentra's electricity consumption within the operational control. The sites which collectively make up the lowest 1% of electricity consumption are excluded from reporting and the scope of external assurance due to their consumption being immaterial.
2. As defined by the Greenhouse Gas Protocol, Scope 1 includes direct emissions from the combustion of fossil fuels at operations within Essentra's operational control. Emissions from the use of refrigerant gases have not been included in our reported Scope 1 emissions. Scope 2 includes the indirect emissions from purchased electricity used by the organisation.
3. Emission factors: The emission factors used to calculate the Scope 2 emissions for 2020 from purchased electricity are those published by the International Energy Agency (IEA 2019) by country. The Greenhouse Gas Protocol 2017 emission factors have been used to calculate Scope 1 emissions.
4. Calculations: We collect all data on a monthly basis in our HSE reporting management system, Enabler and use this as the basis for all calculations. We have followed the Greenhouse Gas Protocol methodology to calculate figures for tonnes of $CO_2$ equivalent. Diesel, LPG and fuel oil consumption is measured in litres and converted to MWh.
5. Restating of data: 2019 solid non-hazardous and hazardous waste data has been restated for Recycling and Recovery due to corrections of previously reported data.

# GROWTH THROUGH INNOVATION

**In order to truly live our purpose to responsibly help our customers succeed, we need to innovate. Developments in technology, customer needs and the world around us are continually changing and that pace of change is increasing.**

As the world begins to recover from the COVID-19 pandemic in 2021 we believe society will likely continue to be more open to certain innovations or in need of new or different products and services. There will likely be many opportunities for Essentra and that, as a more resilient organisation with stronger customer relationships, we will be well positioned to take advantage of those.

In 2020 therefore we have looked to build the right foundations to enable our goal of Growth through Innovation.

**Growth through innovation**

**1** Creating and embedding an innovation mindset

**2** Building the right capabilities to drive innovation

**3** Establishing a robust process with appropriate targets and KPIs

## Leveraging the power of Artificial Intelligence

Essentra Components is partnering with Peak, a Decision Intelligence company, to improve business performance using data and machine learning. Peak's mission is to help companies put AI at the centre of all commercial decision making, unlocking the value of their data to drive tangible outcomes across teams.

The Components division has been reviewing how data can be used more effectively to drive commercial decision making to deliver divisional KPIs. The business is data rich and utilises this to drive decision making in a number of functions, although this has historically been managed across a number of teams utilising a variety of tools.

Early in 2020 the business therefore identified an opportunity to rapidly deploy AI enabled applications to drive decision making across a range of functions and activities. Through the second half of the year the team worked with Peak to identify and develop a number of use cases.

This has started with the development of a Product Recommendations tool that is initially being deployed via the division's transactional websites.

In 2021 we plan to expand the partnership with Peak into developing further commercial programmes starting with an AI customer segmentation tool and then lead scoring. These will both involve looking at past customers' profiles and buying habits, using our internal data augmented with external data, to help drive our commercial efforts to increase return on investment. Peak's Decision Intelligence system will generate predictive insights about our customers, supporting the broader application of our strategy and forming the basis of actions and optimisations.

## What is innovation?

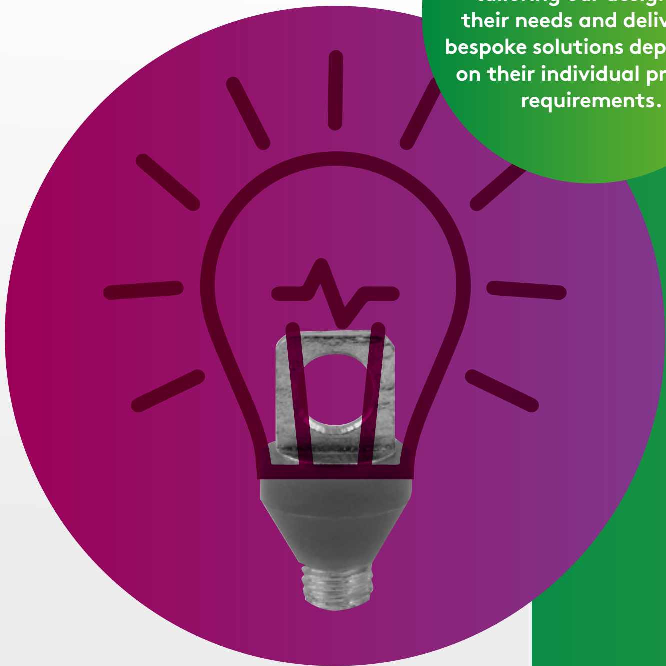
Having new ideas is often easy, but executing these ideas effectively is what defines innovation. Innovations can be made in:

- business processes, for example in how a product or service is produced or delivered to a customer
- products or services, when either a completely new product/service or a new feature or enhancement in an existing product/service is created
- business models, reflecting a fundamental change in how a company delivers value to its customers, whether through the development of new revenue streams or distribution channels.

## Why innovation is important

We live in a world of unrelenting change, as changing preferences and new technologies are revolutionising our work and home lives. These developments are changing the way we travel, learn, work, shop and communicate. Some "mega trends" are also being created or accelerated by COVID-19, such as increased sustainability, digital innovation and remote connectivity.

There will be always be commercial and operational opportunities for businesses, whether that is new products or approaches we can take to our supply chain. We believe innovation can generate growth by enhancing our core business and potentially building new ones. We also know from research that companies who innovate to keep pace with these changes are 20 times more successful than those who do not.



**Essentra is working with a number of customers, tailoring our designs to their needs and delivering bespoke solutions dependent on their individual product requirements.**

# Innovating to meet increased health concerns

Among the alternatives to cigarettes are Tobacco Heating Products (THPs) that, because the tobacco is heated and not burned, can potentially deliver substantially lower levels of toxicants when compared to traditional, combustible products.

A number of multi-national Tobacco companies have invested in developing in this technology which has resulted in strong growth rates, particularly when compared to combustible cigarettes, and one company has received FDA "approval" as reduced risk in USA.

The filters used are generally a complex construction, longer than cigarette filters and incorporate a number of different materials.

As experts in filter technology, Essentra is well positioned to serve this growing market. We have carried out extensive testing on these products and combining this with our experience of developing filters, now have a range of proprietary products available to serve our customers.

We are in advanced discussions with a number of customers to tailor our designs to their needs and deliver bespoke solutions dependent on their individual product requirements.

# Foundations for success

**At Essentra we have been collaborating with our customers on innovation for some time, for example by creating more sustainable products to meet the changing needs of customers and broader stakeholders. We currently have many approaches to driving growth through innovation, from light touch initiatives such as workshops through to a number of accelerated projects where we invest more heavily in customer research and partner with customers. In 2020 we looked to formalise some of our work around innovation, consciously building the right foundations to ensure continued success.**

## 1 Creating and embedding an innovation mindset

In 2020 we introduced "Growth through Innovation" as a strategic goal for the company. This has set out a clear ambition from the top of the organisation and ensures that innovation is embedded throughout the purpose and vision of our company.

Our goal is to build a consistent culture of innovation that incorporates, encourages and promotes collaboration, diversity, flexibility and agility. It should also embrace creativity as well as risk, so that learning is valued as much as a positive outcome. Role modelling is also important so that leaders embody an innovation culture and approach. In 2020 we created a new Make It Work Award category reflecting our strategic goal of Growth through Innovation and in 2021 we will ensuring that innovation has a greater prevalence in our communication, recognition and reward strategies.

## 2 Building the right capabilities to drive innovation

Clearly if our people are expected to help build and embed an innovation culture they need to understand more about the key success factors for innovation and develop the skills to sustain it. We also need to be more focused on innovation capabilities when hiring new recruits into Essentra. Our goal is to have diverse teams focused on innovation where all employees are supported to drive innovation activities, not just those with specific innovation deliverables.

In 2020 our Group Management Committee spent time considering the role that each of them play in driving innovation as well as identifying the core skills and capabilities required across Essentra and began to develop the understanding of innovation within our broader global leadership team. We also incorporated innovation within our competency framework and in 2021 we will feature innovation more explicitly within training programmes.

## 3 Establishing a robust process with appropriate targets and KPIs

At Essentra we currently have many approaches to driving growth through innovation, and in 2020 have established the foundations of a more robust process to manage a healthy pipeline of innovation activities with appropriate targets and KPIs.

In 2019 we developed a clear decision gate process in our Filters division and this is being expanded for use in other divisions. This process allows for a wide "funnel" of ideas at the early stage through to prototype development and assessment of commercial viability much later on. Throughout the process metrics are set which help measure performance and guide decisions. This process allows us to ensure tight and consistent project governance and structure resource accordingly.

# FINANCIAL REVIEW

Lily Liu
Chief Financial Officer


"2020 was an unprecedented year, in which we have delivered a resilient financial performance. A particular highlight for me has been our strong cash generation and strengthened balance sheet – which has enabled the Board to recommend resumption of dividends."

**Lily Liu**
**Chief Financial Officer**

## Trading performance

Considering the impact of the pandemic, the FY 2020 result for the Group was resilient. Overall, FY 2020 revenue decreased by 8.0% (-6.8% at constant exchange) to £896.5m, whilst on a LFL basis, revenue decreased by 6.3%. However, in order to fully understand LFL Group performance for the FY, progressive quarterly trading needs to be considered, as this gives more clarity on how, over time, the Company became increasingly proficient at dealing with the impacts and challenges of the pandemic. Q1 trading was largely unaffected by the pandemic, however with the advent of Q2 and the initial shock from the major global onset of COVID-19, the Company experienced its low point in trading performance during this second quarterly period. From thereon, as the year progressed, Group revenue on a LFL basis showed a steady improvement – going from -9.8% in Q2, to -6.7% in Q3 and finally further improving to -1.0% in Q4.

On an adjusted basis, operating profit was down 29.1% (-27.9% at constant FX) at £62.0m, which was driven in part by the disposal of various businesses in the prior year (£5.0m of the £24.0m decline), but mainly by the volume gearing effect from the revenue decline, which was exacerbated by temporary manufacturing inefficiencies caused by pandemic related issues, partially being offset by continued successful pricing management and cost control actions. Adjusted operating margin dropped by 210bps (200bps at constant FX) to 6.9%.

Including amortisation of acquired intangible assets of £22.6m and a pre-tax charge from adjusting items of £17.7m, operating profit as reported was £21.7m (2019: £80.0m); prior year included an overall adjusting items credit of £15.4m (mainly due to gains on business disposals), whilst 2020 has a total charge from adjusting items of £17.7m (mainly due to restructuring costs).

## Net financial expense

Net finance expense was above the prior year at £15.7m (2019: £14.5m), this was mainly driven by adverse FX movements on property leases in Turkey and Hungary that are denominated in non-local currencies.

## Tax

The effective tax rate on underlying profit before tax (before adjusting items) was 19.2% (2019: 19.9%). This reduced tax rate is driven by a change in the geographical split of profits across the Company.

Adjusted operating profit

**£62.0m**

Adjusted operating cash flow

**£76.3m**

**Operating cash conversion of 123%. Adjusted free cash flow was £56.9m in 2020, which was 40% higher than the previous year.**

Operational Review on page 67

## Net income

On an adjusted basis, net income of £37.4m was down 36.1% (34.7% at constant FX) and adjusted basic earnings per share decreased by 38.5% (37.2% at constant FX) to 13.1p. On a total reported basis, net income of £6.3m and earnings per share of 1.7p compared to £41.2m and 14.7p respectively in 2019.

## Net working capital

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

The decrease in net working capital to £108.1m (2019: £113.8m) was largely due to lower inventory and receivables levels, which were driven by the reduced trading volumes combined with a concerted effort by the Company to implement a series of initiatives to adapt and optimise working capital levels, in light of the pandemic. These lower inventory and receivables were netted off by a decrease in trade and other payables. It should also be noted that an element of the year-on-year reduction in overall net working capital is attributable to FX impact.

## Cash flow

Adjusted operating cash flow was £76.3m (2019: £71.8m). This includes an inflow of net working capital for the year of £6.2m (2019: outflow of £10.3m) and net capital expenditure of £44.7m (2019: £56.6m). Net capital expenditure equated to 111% (2019: 155%) of the depreciation charge (including amortisation of non-acquired intangible assets) for the year of £40.2m (2019: £36.4m). Net interest paid was £12.8m (2019: £13.3m) and tax payments were £7.5m (2019: £16.5m), due to the aforementioned lower profitability levels in the year as well as a refund of tax in the US. The inflow in respect of pension obligations was £0.9m (2019: outflow of £1.3m).

Adjusted free cash flow of £56.9m compared to £40.7m in FY 2019.

| **Free cash flow reconciliation** | **£m** |
|---|---|
| Adjusted operating profit | 62.0 |
| Non-cash/other items | 52.8 |
| Net working capital | 6.2 |
| Net capital expenditure | (44.7) |
| **Adjusted operating cash flow** | **76.3** |
| Tax paid | (7.5) |
| Net interest paid | (12.8) |
| Pension obligations | 0.9 |
| **Adjusted free cash flow** | **56.9** |

## Net debt

Net debt at the end of the period was £210.4m, a £74.0m decrease from 1 January 2020 (including lease liabilities). The overall decrease was mainly driven by a combination of the free cash flow generated during the year along with cash raised from the placement of new share capital in the Company, being netted off against cash paid for the acquisition of 3C! Packaging Inc. and an increase in lease liability movements (which are driven by a new lease for the aforementioned Components Germany warehouse project along with recently extended leases on our Components Turkey and Filters Hungary facilities). The ratio of net debt to EBITDA including lease liabilities was 1.8x (31 December 2019: 2.0x), whilst excluding lease liabilities was 1.5x (31 December 2019: 1.9x).

## Balance sheet

As at the end of 2020, the Company had shareholders' funds attributable to Essentra equity holders of £617.8m (2019: £533.1m). Total capital invested in the business was £942.6m (2019: £919.5m).

This finances non-current assets of £868.6m (2019: £841.8m), of which £263.0m (2019: £276.0m) is tangible fixed assets, the remainder being intangible assets, right-of-use assets, deferred tax assets, retirement benefit assets and long-term receivables.

A strengthened balance sheet reflected in a net debt to EBITDA ratio improvement (excluding lease liabilities) from 1.9x in 2019 to 1.5x in 2020.

The Company has net working capital of £108.1m (2019: £113.8m), current provisions of £5.5m (2019: £3.3m) and long-term liabilities other than borrowings of £142.5m (2019: £128.3m).

## Pensions

As at 31 December 2020, the Company's IAS 19 net pension liability was £23.9m (2019: £17.4m). This increase in the liability is a result of an actuarial loss (driven by a reduction in discount rate) being netted off against a positive return of plan assets.

## Treasury policies and controls

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

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

## Foreign exchange risk

The majority of Essentra's net assets are in currencies other than sterling. The Company's normal policy is to limit the translation exposure and the resulting impact on shareholders' funds by borrowing in those currencies in which the Company has significant net assets. As at 31 December 2020, Essentra's US dollar-denominated assets were approximately 27% hedged by its US dollar-denominated borrowings, and its euro-denominated assets were approximately 32% hedged by its euro-denominated borrowings.

The majority of Essentra's transactions are carried out in the functional currencies of its operations, and therefore transaction exposure is limited. However, where such exposure does occur, Essentra uses forward foreign currency contracts to hedge its exposure to movements in exchange rates on its highly probable forecast foreign currency sales and purchases over a period of up to 18 months.

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

## Refinancing activities

One of the main sources of funding for the Company is a Revolving Credit Facility (RCF) provided by a group of eight highly-rated banks, which as at the year end was set to mature in its entirety in November 2022. However, for a tranche involving five of the eight banks (worth £225m), we have recently agreed an extension to the facility based on new terms, which will now mature in November 2023. The Company continues to review its financing, including the lenders in the original tranche still set to mature in November 2022.

## Fundraise in 2020

On 18 September 2020, the Company successfully completed the placing and subscription of new ordinary shares in the Company. In aggregate, the fundraise comprised of 38,461,538 new ordinary shares, raising net proceeds of £96.7m. This fundraise enabled the acquisition of 3C! Packaging, Inc. and helped reduce the Company's leverage ratio to within target range of 1x-2x, providing the platform for further strategic optionality.

## Dividends

Earlier in the year, in light of the unprecedented uncertainty due to the pandemic, the Company announced that the Board had concluded that all reasonable steps should be taken to conserve cash and, accordingly, decided to cancel the 2019 final and 2020 interim dividend. The Board has since reviewed the overall dividend payment for this financial year and taking into consideration: the resilient financial performance of 2020, the Company's stronger balance sheet position, and the encouraging outlook, concluded that there should be resumption of a payment for the FY 2020 final dividend of 3.3p per share (to be paid in June 2021). The dividend payment being proposed is to be funded in full from cash flows generated from the operations of the Company during 2020. Going forwards, a progressive dividend policy will be adopted.

## Finance team update

The Tax and Treasury teams at Group Head Office have been brought together to form one combined function.

**Lily Liu**
**Chief Financial Officer**
5 March 2021

# ALTERNATIVE PERFORMANCE MEASURES

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

**FY 2020 results at a glance**

| | FY 2020 £m | FY 2019 £m | % change Actual FX | % change Constant FX |
|---|---|---|---|---|
| Revenue | 897 | 974 | -8 | -7 |
| Adjusted operating profit | 62 | 88 | -29 | -28 |
| Adjusted pre-tax profit | 46 | 73 | -37 | -35 |
| Adjusted net income | 37 | 59 | -36 | -35 |
| Adjusted earnings per share | 13.1p | 21.3p | -38 | -37 |
| Dividend per share | 3.3p | 6.3p | -48 | n/a |
| Reported operating profit | 22 | 80 | -73 | -72 |
| Reported pre-tax profit | 6 | 66 | -91 | -91 |
| Reported net income – total | 6 | 41 | -85 | -84 |

The financial information in this FY 2020 Annual Report is prepared in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted persuant to Regulation (EC) No 1606/2002 as it applies in the European Union, and with the accounting policies set out on pages 156 to 164.

## Basis of preparation

### Continuing operations

Unless otherwise stated, the FY 2020 results and narrative contained in this Annual Report reflect the revenue and adjusted operating profit of the Essentra Group on a continuing basis.

### Non-GAAP measures

Throughout this FY 2020 Annual Report, the following terms are used to describe Essentra's financial performance.

### Constant exchange rates

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

For the principal exchange rates for Essentra for the year ended 31 December 2020 ("FY 2020"), see the table below. Retranslating at FY 2020 average exchange rates reduces the prior year revenue and adjusted operating profit by £12.3m and £1.5m respectively.

| Principal exchange rates | US$:£ | €:£ |
|---|---|---|
| Average | | |
| FY 2020 | 1.29 | 1.13 |
| FY 2019 | 1.28 | 1.14 |
| Closing | | |
| FY 2020 | 1.37 | 1.12 |
| FY 2019 | 1.32 | 1.18 |

### Like-for-like basis

The term "like-for-like" describes the performance of the continuing business on a comparable basis, adjusting for the impact of acquisitions, disposals and foreign exchange. The FY 2020 LFL results are adjusted for the acquisition of the Innovative Components business on 26 June 2019, the acquisition of Nekicesa Packaging on 6 September 2019, the acquisition of 3C! Packaging on 17 September 2020, the divestment of the Pipe Protection Technologies business on 14 January 2019, the divestment of the Extrusion business on 11 June 2019, the divestment of the Speciality Tapes business on 28 June 2019 and finally the divestment of the Card Solutions business on 23 July 2019.

### Adjusted basis

The term "adjusted" excludes the impact of amortisation of acquired intangible assets and adjusting items, less any associated tax impact. In FY 2020, amortisation of acquired intangible assets was £22.6m (2019: £22.9m), and there was a pre-tax charge for adjusting items of £17.7m (2019: credit of £15.4m). For the current year charge for adjusting items, £12.7m is driven by the previously announced strategic initiatives that have resulted in the proposed closure of certain sites in 2021, across the Components and Packaging divisions. The remainder is attributable to: £4.6m for external professional costs associated with certain corporate development activities, £1.6m for transaction and integration costs of acquisitions, and £0.2m of external advisory and consultancy costs in relation to the review of the compliance of certain group companies' export activities with US laws, as previously disclosed in the 2019 Annual Accounts. This is offset by a £1.4m release of excess provision held for potential penalties in relation to this activity. Further details on adjusting items are shown in note 2 to the Consolidated Financial Statements.

The Company has changed the layout of its consolidated income statement to present adjusted operating profit measure below the income statement. In addition, the description previously used for adjusting items has been changed from "exceptional and other adjusting items" to "adjusting items", whilst its scope and definition remains unchanged.

Constant exchange, like-for-like and adjusted measures are provided to reflect the underlying performance of Essentra. For further details on the performance metrics used by Essentra, please refer to page 27.

### Cash flow

Adjusted operating cash flow is net cash flow from operating activities, excluding income tax paid, pensions adjustments, and cash flows relating to adjusting items, less net capital expenditure. It is a measure of the underlying cash generation of the business. Net capital expenditure is included in this measure as management regard investment in operational assets (tangible and intangible) as integral to the underlying cash generation capability of the Company.

### Reconciliation of GAAP to non-GAAP measures

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

**Divisional performance**

The revenue and adjusted operating profit for each division is stated before the elimination of inter-segment revenue and the cost of central services, as reconciled to the reported results set out in note 1 on pages 165 to 167.

### Summary growth in revenue by division

| % growth | Like-for-like | Acquisitions/ disposals | Foreign exchange | Total reported |
|---|---|---|---|---|
| Components | -10 | +2 | -2 | -10 |
| Packaging | -4 | +7 | – | +3 |
| Filters | -6 | – | -3 | -8 |
| Specialist Components | | -100 | – | -100 |
| **Total** | **-6** | **-1** | **-1** | **-8** |

### Net income

| £m | FY 2020 | FY 2019 |
|---|---|---|
| **Adjusted net income** | **37.4** | **58.5** |
| Amortisation of acquired intangible assets | (22.6) | (22.9) |
| Adjusting items | (17.7) | 15.4 |
| Tax on adjustments | 9.2 | (9.8) |
| **Profit after tax** | **6.3** | **41.2** |

### Cash flow

| £m | FY 2020 | FY 2019 |
|---|---|---|
| **Operating profit – adjusted** | **62.0** | **87.5** |
| Depreciation and amortisation of non-acquired intangible assets | 52.2 | 47.7 |
| Share option expense/other movements | 0.6 | 3.5 |
| Change in working capital | 6.2 | (10.3) |
| Net capital expenditure (excluding disposal proceeds relating to adjusting items) | (44.7) | (56.6) |
| **Operating cash flow – adjusted** | **76.3** | **71.8** |
| Tax* | (7.5) | (16.5) |
| Cash outflow in respect of adjusting items | (11.1) | (34.2) |
| Pension obligations | 0.9 | (1.3) |
| Add back: net capital expenditure (excluding disposal proceeds relating to adjusting items) | 44.7 | 56.6 |
| **Net cash inflow from operating activities – continuing operations** | **103.3** | **76.4** |
| **Operating cash flow – adjusted** | **76.3** | **71.8** |
| Tax* | (7.5) | (16.5) |
| Net interest paid | (12.8) | (13.3) |
| Pension obligations | 0.9 | (1.3) |
| **Free cash flow – adjusted – continuing operations** | **56.9** | **40.7** |

* Tax paid excludes the tax paid on business disposals. This is included within the cash outflow in respect of adjusting items

# RISK MANAGEMENT REPORT

**Risk management is integral to protecting and creating stakeholder value.**

Our risk management framework page 52
Reviewing our principal risk profile page 54
Monitoring emerging risks page 55

## Responding to COVID-19 disruption in 2020

The preparation of the Essentra risk management report for 2019 was completed before COVID-19 escalated from an issue apparently confined to China to a global pandemic leading to disruption to societies and economies on a scale that few ever imagined.

Similar to many we did not have pandemic as a Principal Risk or as an emerging threat likely to cause major disruption to our business at the beginning of 2020 but as we moved through the year we continued to challenge our assessment of our Principal Risks, our risk mitigation activities and our overall risk profile to ensure it appropriately reflected the changes in the risk environment, particularly given the uncertainties which dominated global business prospects and operations due to COVID-19.

As the likely extent of the pandemic became clearer, so the Company's crisis management response saw the GMC meeting at least three times a week and the Board at least once, enabling swift response and action to changes in the risk profile with a focus on health and safety, supporting our customers and the cash position. As time progressed, the cadence of such meetings has decreased but the GMC continues to meet at least once a week to assess the latest COVID-19 developments and to ensure that we are well positioned for future growth in the context of the changes in the business and social environments.

Whilst during 2020 we and our employees faced many new and different challenges as a result of COVID-19 we believe our risk management approach and framework enabled us to respond quickly and robustly to the issues which arose across our sites and in international supply chains.

As a result of COVID-19 we identified a number of learnings we are confident we can take to drive further improvement in our risk management activities to enhance our capability to identify, assess and respond effectively to potential threats or future disruption to our business and to ensure a strong foundation to support our future growth objectives.

Looking ahead to 2021, the COVID-19 pandemic, including the potential impact of further variants, remains a global crisis, and at the date of this report the situation remains volatile and uncertain across many areas of the world. Whilst the Company's risk landscape has changed to reflect the impacts of COVID-19 we believe that our focused risk management efforts across the Company have enabled an agile and resilient response to the unrivalled challenges posed by the pandemic and delivered effective mitigating actions.

The impact of COVID-19 has tested and challenged the effectiveness of our approach to risk and its management. We adapted our ways of working as needed and are confident that our risk management framework responded effectively in protecting value during the year. As we build for the future there remains a continued focus on enhancing our approach to risk management and building on the lessons learnt in 2020 to ensure risk management practices continue to not only protect stakeholder value but to support its creation in line with our strategic growth objectives.

There are risks emerging that the second or subsequent further waves of COVID-19 will handicap recovery and return-to-work plans with continued disruption across supply chains

We continue to closely monitor the impact of the COVID-19 pandemic on our Principal Risks and have been taking steps to actively manage and mitigate those risks, for example:

- We have introduced stronger authentication for remote access services to reflect the increased Cyber Security risk posed by remote working.
- We have recognised the importance of wellbeing for our employees and introduced a global assistance programme for all employees together with the accelerated launch of our Thrive initiative focused on mental health.
- We have been successful in securing alternative sources of supply for key raw materials and supply guarantees to help minimise the challenges of a disrupted supply chain.

## Roles and responsibilities of the GRC

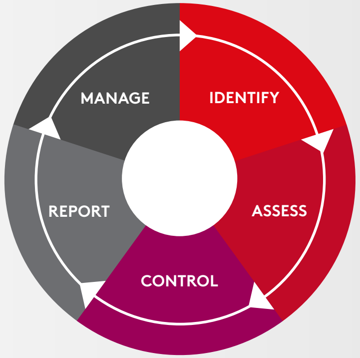
**Identify**
- Establish the process for identifying and understanding key business risks
- Identify risks in each of our businesses and enabling functions
- Risk reviews with senior leadership
- Review Principal, Key and Emerging Risks

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

**Control**
- Ownership defined
- Establish key control processes and practices
- Controls to manage the risk within appetite
- Monitor the operation of the controls
- Tracking progress of mitigation initiatives

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

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




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

## Our risk governance structure

**Facilitators**
Group Assurance
Divisional Risk Champions
Enabling Function Risk Champions

Direct and monitor
Report

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

**Group Risk Committee (GRC)**
Chaired by the Chief Executive and comprised of the Group Management Committee members and other key enabling function resources, the GRC is responsible for monitoring key risks and ensuring the effectiveness of divisional and functional risk management.

**Audit and Risk Committee**
Responsible for reviewing the effectiveness of the Group's risk management systems and processes.

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

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

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

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

and societies. The successful adoption of a new working model, based around social distancing requirements, workspace and office transformations, augmented work schedules, reduced travel and continued remote working will require careful planning and successful change management to ensure a transition which provides opportunity and benefit for our business and our people as opposed to a threat to our operations and the wellbeing of our employees.

Whilst COVID-19 has taken the majority of the headlines in 2020, it has also been important for us to continue to scan the horizon for additional new, emerging or disruptive risks which could significantly impact the Company's ability to meet its strategic growth objectives. Despite the focus on mitigating the impacts of COVID-19, we have paid close attention to the increasing momentum associated with the risk agendas for ESG and climate change (see Class leading sustainability on page 36), whilst the potential impacts of international trade deals and the US election results have also been on our risk radar during the year.

## Risk management approach

Our risk management activities aim to drive performance aligned to our purpose, encourage growth through innovation and support the achievement of our strategic objectives (as set out in the Growth through innovation section on page 42). In doing this, we take a balanced approach that puts risk management at the core of the senior management agenda. We are committed to managing risks in a proactive and effective manner to protect and enhance value, and provide assurance to the Board and our stakeholders.

We have continued to make good progress in improving our risk management processes in 2020 as we continue to ensure our risk management processes are aligned with FTSE 250 upper quartile practice. This included a number of initiatives to drive enhanced risk reporting and further embed risk activities to improve risk culture across the Company. Particular focus was placed on assigning responsibility and accountability for Principal and Emerging Risks, particularly those risks that cut across divisions and enabling functions. The approach continues to be adopted from ISO 31000 Risk Management guidelines and includes a RACI (responsible, accountable, consult and inform) matrix to drive clear responsibility and accountability.

## Risk management framework

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

Our risk management framework continues to evolve in line with best practice to ensure that it supports the Company's growth and strategic objectives. A robust, but flexible, approach to the management of risk is fundamental to the continued success of the Company. In 2020 the challenges presented by the COVID-19 pandemic included relocation of staff, remote working and temporary inaccessibility of some business locations. A clear focus was placed on accommodating new ways of working and ensuring the continued operation of our risk management framework. Through regular discussions and virtual workshops with all divisional and enabling function leadership teams, we ensured clear accountability for the identification, assessment, and mitigation of risks throughout the Company.

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

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

## Risk categories

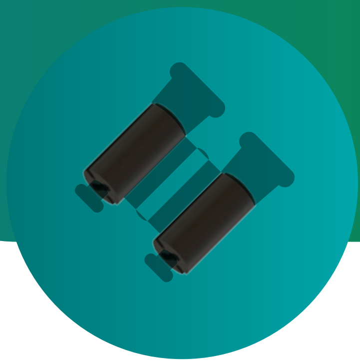
**The Company has considered the risks it is facing under the following four risk category headings and has identified 12 Principal Risks.**

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

### Strategic
Internal risks that may impede achievement of strategic goals.

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

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



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

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

## Strengthening our framework

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

In 2020 the Group Assurance team engaged directly with divisional and enabling functions leadership teams on the development of their risk registers and risk reporting practices. This included conducting virtual risk knowledge workshops, in line with ISO 31000, to drive a consistent understanding and application of risk. Each workshop included a discussion of the Board-approved rating criteria for financial and reputational impact and likelihood, to ensure that a consistent rating based on risk to the Company is applied. In 2020 we paid particular attention to emerging risks and on ensuring clarity across roles and responsibilities for those risks that cut across divisions and enabling functions. Principal Risks were subject to deep dives during the year at Board and GRC meetings using a standard reporting template. This enabled consistency of risk reporting across the Company.

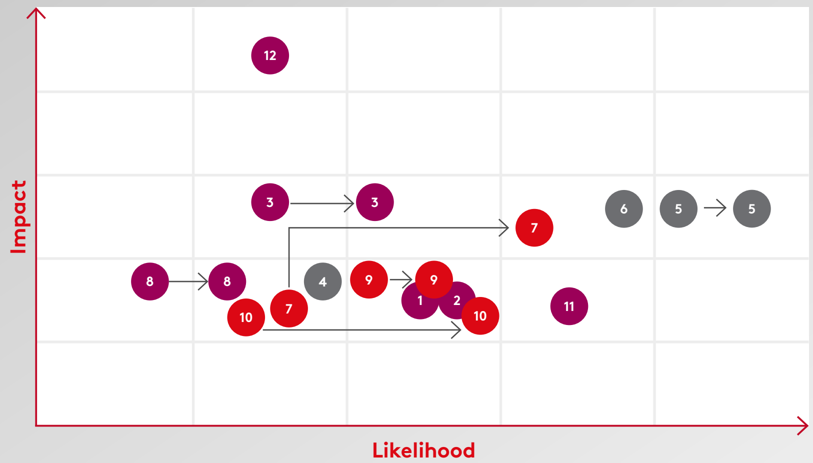
In 2021 we will build on lessons learnt from COVID-19 as we seek to further improve our risk management practices. A key focus will be placed on further embedding risk culture and streamlining processes across the Company, ensuring risk management remains an integral part of all business activities.

## Risk governance structure and oversight

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

The GRC met eight times in 2020, each meeting with a full attendance. The GRC is chaired by the Chief Executive and its membership comprises the GMC members, Head of Legal, Group Head of Assurance and Head of Communications. Non-member

### Principal Risks




| | |
|---|---|
| 1. Failure to Achieve Acceptable Returns from the Packaging division | 7. Business Continuity Planning and Management |
| 2. Tobacco Industry Dynamics | 8. Environmental, Social and Governance |
| 3. Delivery of Strategic Projects | 9. Internal Processes and Control |
| 4. Regulatory – Governance | 10. Safety, Health and Wellbeing |
| 5. Cyber Attack | 11. Talent to Deliver our Future |
| 6. Macroeconomic and Trade Deal Uncertainty (including Brexit) | 12. Exposure to the Cyclical Industrial Market (Components division) |

Strategic Risks
External Risks
Operational Risks
Movement

## Key changes in the year

During 2020 we undertook a robust review of our risk profile.

At half year we disclosed the following key changes:

- One new Principal Risk, Exposure to the Cyclical Industrial Market (Components division), was identified to capture the risk that changes to the Components division cost base and business model do not happen quickly enough or are not robust enough to minimise the impact on operating margins as a result of cyclical downturns in global industrial production.
- Geopolitical Risk was removed as an Emerging Risk and incorporated within the Macro-economic and Trade Deal Uncertainty Principal Risk.
- An additional Emerging Risk in relation to the changing structure of the debt market was identified.
- The likelihood assessment of six Principal Risks was increased: PR3 Delivery of Strategic Projects, PR5 Cyber Attack, PR7 Business Continuity Planning and Management, PR8 Environmental, Social and Governance, PR9 Internal Processes and Control and PR10 Safety, Health and Wellbeing. The impact assessment of PR7 Business Continuity Planning and Management was also increased.

Since our half year disclosure we undertook further review of risk profile and do not believe there has been any further change the impact or likelihood assessments of our Principal Risk profiles. A key change since our half year disclosure includes:

- Removal of Climate Change risk as an Emerging Risk. We have elevated the profile of this risk and considered it as part of our wider ESG Principal Risk. Please refer to the detailed Principal Risk disclosure which details the initiatives being undertaken in this area including fulfilment our obligations under TCFD requirements.

standing attendees are the Group Health, Safety and Environment Director and the Group Financial Controller. Other members of senior management are also invited to present reports on risk activities. We also welcomed external presentations from subject matter experts on topics including ESG and sustainability. The Chair of the Audit and Risk Committee has a standing invite to attend all GRC meetings and receives copies of the minutes of every meeting.

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

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

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

The divisional and enabling functions leadership teams undertake regular reviews during the course of the year and engage in facilitated discussions with Group Assurance to consider the risk environment for their particular functional or geographic area of responsibility and how these could impact on the achievement of the Company's strategic objectives.

### Principal Risks

The GRC has responsibility for overseeing Essentra's Principal Risks. Our Risk Management approach in relation to COVID-19 has been to consider the completeness and appropriateness of our Principal Risks. Whilst COVID-19 has not been identified as a standalone Principal Risk, we have considered its impact on each of our Principal Risks and our risk appetite. Where necessary we have identified suitable mitigating actions. A top-down and a bottom-up assessment is undertaken to identify our Principal Risks. The assessment is performed against the four risk categories.

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

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

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

The Board believes the Principal Risks are specific to Essentra and reflect the risk profile of the Company at the current time. All Principal Risks are managed within their individual risk appetite. As a result, the 12 Principal Risks are a combination of one new, as disclosed at half year, and 11 previously disclosed risks.

The Board and GRC evaluate the potential effects of Principal Risks materialising over a three-year period to understand how they could impact the Company's long-term viability.

## Emerging Risks

| Emerging Risk | Owner | Risk description | Controls |
|---|---|---|---|
| Regulatory change | Company Secretary and General Counsel | Essentra is a global company that must comply with regulatory requirements in many countries. Regulation is increasing worldwide and may potentially impact our products, operations, workforce and relationships with suppliers, customers and stakeholders.<br>COVID-19 has significantly impacted supply chains and the working environment, potentially leading to new or additional areas of regulatory scrutiny and subsequent regulatory change. | We remain alert to longer-term regulatory developments including those related to single use plastics and tobacco-related and tobacco-alternative products.<br>The Company's Legal, Risk and Governance team continuously monitors changes in regulations and emerging good practice seeking external support or guidance as necessary.<br>Strengthening of internal divisional resources to identify market and product changes and any potential associated regulatory requirements. |
| Technology disruptors | Chief Information Officer | The risk that Essentra does not manage its response to evolving technologies effectively. This may include losing competitive advantage as rivals deploy advanced manufacturing technologies, artificial intelligence and robotics to strengthen product development, marketing, production, distribution and support functions. | We continue to monitor and review developments in the external market through our networks. This includes innovation and futures sessions with existing suppliers. We are also involved in a range of external technical focus groups. |
| Evolving conditions of the Debt Market | Chief Financial Officer | The debt market is evolving, and the lending condition and appetite can be impacted by key events, we have recently observed the effect from the COVID pandemic. Essentra continues to have strong liquidity and we will stay alert to the change of investors' appetite and respond optimally to it and maintain our profile in the debt market. | We remain alert to the change in investors' appetite and we continue to respond to this and maintain our profile in the debt market.<br>The treasury team monitors changes in the debt markets and is in regular contact with banks inside of the Essentra bank group and other financial institutions to ensure that we have the widest variety of market options that are available. |

**Emerging Risks and wider key risks have been identified and are being monitored by the Company. Mitigation actions in response to such risks are an important part of the divisional and enabling functions risk reporting to the GRC and Board.**

The evaluation is based on plausible worst case scenarios.

To make this evaluation, the estimated financial impact of each Principal Risk crystallising was considered. The Board and GRC assessed the potential impact on the Company's viability, based on selected severe plausible risk scenarios. These were developed in conjunction with senior management. The Principal Risks that were considered to have a potentially significant impact on the Company's viability are included in the Long-Term Viability Statement on page 148.

In addition to the Principal Risks, Emerging Risks and wider key risks have been identified and are being monitored by the Company. Mitigation actions in response to such risks are an important part of the divisional and enabling functions risk reporting to the GRC and Board.

## Emerging Risks

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

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

Emerging Risks have the potential to increase in significance and affect the performance of the Company and as such are continually monitored through our existing risk management processes described on page 110. Our risk management process ensures Emerging Risks are identified and aids the GRC and the Board's assessment of whether the Company is adequately prepared for the potential opportunities and threats they present.

The process enables new and changing risks to be identified at an early stage so we can analyse them thoroughly and assess any potential exposure.

We undertake a top-down and a bottom-up assessment to identify Emerging Risks. Risk management workshops for divisional and enabling functions leadership teams were facilitated by the Group Assurance function this year, to provide a bottom-up view of Emerging Risks. These workshops include discussion of potential Emerging Risks based on externally sourced Emerging Risk data. The Company's potential exposure is assessed against the Board's approved risk measurement criteria. The process enables new and changing risks to be identified at an early stage so we can analyse them thoroughly and assess potential exposure.

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

We have created a list of Emerging Risks to be reviewed on a regular basis at the GRC and Board level as set out page 55.

The GRC and the Board have undertaken a rigorous assessment of Emerging Risks during 2020 and have established procedures to closely monitor Emerging Risks on an ongoing basis including:

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

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

N New
— No change
Λ Increased
V Decreased

## Strategic Risk

### Failure to Achieve Acceptable Returns from the Packaging Division

**Change in risk level**
Unchanged

**Ownership**
Packaging Division Managing Director

**Relevance**
Company specific

**Description**

The potential for a failure to deliver improving returns each year and demonstrating delivery of industry average returns by end of 2021 has been identified as a Principal Risk since 2017.

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

**COVID-19**

There has been no change in the risk profile; COVID-19 has impacted our ability to deliver growth in 2020 with the underlying pharmaceutical market in particular disrupted by the lack of patient visits to GPs and significantly fewer elective surgeries resulting in lower demand for branded and generic drugs.

**Mitigation**

This Principal Risk is addressed annually with the development of the business strategy and plan. Both strategy and plan reflect this risk, and key initiatives are developed to further improve business performance (see Operational Review page 71 for more information). Key mitigation actions include:

- strengthening the existing value proposition for customers using the knowledge and expertise from our recent acquisition of 3C! and Nekicesa to support the continuing top line growth and margin improvement
- continuing to drive cost savings through operational continuous improvement projects at each manufacturing site, efficiency improvements through investment in new equipment, procurement initiatives
- continuing to optimise the manufacturing supply chain and overhead costs
- maintaining our focus on key account management and enhancing this with capabilities to support local customer site problem solving
- continued delivery against key customer performance metrics of quality, On-Time-In-Full, manufacturing lead times, safety and supply chain efficiency.

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

Strategic Risk

## Tobacco Industry Dynamics

**Change in risk level**
Unchanged

**Ownership**
Filters Division Managing Director

**Relevance**
Company specific

### Description

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

Whilst the Company has a strong market position the future growth opportunities may be affected by dynamics of the tobacco industry such as the declining combustible markets, shifting towards Next Generation Products (NGP) as well as moving towards other tobacco substitutes. The focus of stakeholders on ESG objectives provides an additional area of challenge for the business.

There is continued legislation to reduce smoking prevalence and promote the use of more sustainable products and practices, for example the EU Single Use Plastics Directive. This presents an opportunity for growth through our sustainable product portfolio.

The change in global consumption and end markets for our products requires increased oversight of where our products are used and a robust regulatory framework. Tobacco-related litigation could also affect Essentra, although there is no history of the Company being involved in such a claim.

### COVID-19

2020 saw a notable impact of COVID-19 accelerating volume declines in the combustible market, postponement of new product introductions and disruption of the duty free market due to global travel restrictions. These factors have, in turn, placed further cost pressures on both our customers and suppliers. There was considerable disruption in the first half of the year caused by the global pandemic but a strong second half of the year demonstrated that underlying demand remains in place.

Greater stability should also be achieved through full year impact of the two significant outsourcing contracts in 2021 and first commercial production from our Joint Venture Company in China, the world's largest tobacco market. In addition, our focus on innovation is delivering a pipeline of new products that we believe can deliver a competitive advantage in 2021 and beyond. Essentra is well placed to compete and succeed as we continue to drive our operational and innovation capabilities in line with key market trends.

A number of initiatives are targeted to be completed in 2021 which are anticipated to minimise the risk over time.

### Mitigation

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

**Key mitigating actions include:**

- establishing the manufacturing facility of our China JV to allow first product shipments in H1 2021 within the world's largest tobacco market
- implementation of the two outsourcing contracts agreed in 2019, now both in full supply. One additional contract has been agreed with an independent customer in 2020
- enhanced innovation capabilities resulting in multiple product patent applications in the key segments of NGP and sustainability
- operational KPIs continue to improve with an additional focus on lead time reduction in 2020 to ensure our customers continue to get the best possible service
- implementation of key account management has provided a more robust pipeline, as demonstrated by continued outsourcing wins
- the integration of the Tapes business provides new growth opportunities in Food and Beverage and e-Commerce segments
- building on lessons learnt to further enhance our compliance programme to further develop a robust regulatory framework.

**Implementation of the two outsourcing contracts agreed in 2019, now both in full supply. One additional contract has been agreed with an independent customer in 2020.**

A portfolio of key strategic projects has been developed and is maintained to ensure appropriate focus of key projects by a Group Project Management team to monitor and control major strategic programmes, investments and capital expenditure projects.

Strategic Risk

## Delivery of Strategic Projects

| Change in risk level | Ownership | Relevance |
|---|---|---|
| Increased | Strategy and Commercial Director | Company specific |

### Description

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

**COVID-19**

During 2020 as a result of COVID-19 impacts and restrictions; we encountered some delays in project delivery. This added complexity in project co-ordination due to remote working and travel restrictions. Additionally, there has been a need to review our project pipeline from both a strategic and budgetary perspective as we continue to build for the future. Our ability to successfully deliver strategic projects given the prolonged period of COVID-19 requires us to also manage our employee wellbeing through effective change management.

### Mitigation

**Strategy and Governance**

- an annual strategic review with the Board and the GMC where we proactively monitor the market, review our strategy and our strategic programmes, particularly in light of the impact of COVID-19. This process is led by the Strategy and Commercial Director
- review and approval of key, strategic projects by Board and GMC, as appropriate with robust governance and detailed reporting of project KPIs and key milestones.

**Project Management**

- a portfolio of key strategic projects has been developed and is maintained to ensure appropriate focus of key projects by a Group Project Management (PMO) team to monitor and control major strategic programmes, investments and capital expenditure projects
- day-to-day project management using a standard project management methodology based on PMI PMBOK ("Project Management Body of Knowledge") established a standard Project Management tool based on Microsoft Project to further enhance visibility and governance
- interventions, as required, by Group PMO, to initiate, course correct and undertake remedial actions on programmes and projects.

**M&A**

- acquisition pipeline management to identify suitable acquisition targets with best value-creation potential
- an annual post-investment review and project lessons learnt to identify key learnings to embed into future initiatives
- use of external advisers to provide expertise, assistance and rigorous due diligence, as appropriate.

**Employee**

- maintain strong focus on the capability of our employees. This is achieved by mobilising teams which possess the right skills to deliver our strategic programmes
- support project managers' development through a variety of training programmes and professional qualifications
- increased use of technology and video conferencing to support teams and project activities
- In order to ensure a continued focus on the people element in projects, relevant change management principles are being embedded in all key strategic projects and more broadly, change management training introduced across the Company.

External Risk

## Regulatory – Governance

**Change in risk level**
Unchanged

**Ownership**
Company Secretary and General Counsel

**Relevance**
Industry general

### Description

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

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

**COVID-19**

Changes in supply chains and the adoption of remote working environments as a result of COVID-19 potentially increase compliance and control risks. COVID-19 has potentially increased the risk in relation to data privacy given the additional collection of personal data. We have not seen a significant change in other regulatory risks.

Whilst the external environment is generating additional compliance demands and undertaking increased levels of enforcement, the Company continues to drive continuous improvements in its compliance activities and overall the level of risk to the Company has remained the same.

### Mitigation

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

- a "tone from the top" from the Board and GMC on the importance of ethics and compliance
- through the Company's compliance programme (including employee training), we aim to conform with all applicable laws and regulations, and encourage a culture of openness, honesty and integrity
- improved compliance communication with "Be smart, be sure" campaign
- continuous improvement of the Group compliance framework to ensure effective compliance programme with appropriate policies, processes, reporting and monitoring
- a Group Compliance Committee that directs and oversees the Company's implementation of compliance programmes, policies and procedures required to meet legal, compliance and regulatory requirements
- strengthening of internal divisional resources to support embedding of regulatory compliance within the respective businesses and continued investment to drive better governance
- extensive focus on third party due diligence, sanctioned market activity to take account of lessons learnt from the past
- the Company's Legal, Risk and Governance team continuously monitors changes in regulations and emerging good practice seeking external support or guidance as necessary.

External Risk

## Cyber Attack

**Change in risk level**
Increased

**Ownership**
Chief Information Officer

**Relevance**
Industry general

### Description

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

**COVID-19**

The risk has been heightened, primarily due to a significant increase in remote working as part of COVID-19 crisis management. The Company is mitigating these additional risks through consistent deployment of our security controls to devices away from the office, maintaining software updates and the introduction of stronger authentication for remote access services.

Cyber attacks are a serious threat to the smooth running of our business. We continue to invest in our cyber security programme which includes mitigation and risk reduction activities across people, process and technology.

### Mitigation

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

- endpoint protection, encryption of data, network firewalls, web and email content protection
- deployment of strong authentication for remote access and cloud based services
- continued cyber security awareness training for all employees
- vulnerability and penetration testing for all external facing Company services and websites
- pending implementation of cloud-to-cloud data service monitoring (CASB)
- improvements to security operations capability across monitoring and alerting (people, processes and tools)
- Enhanced IT security team capabilities complemented by third party advisory services
- ISO 27001 certification (renewed in Dec 2020).

External Risk

## Macroeconomic and Trade Deal Uncertainty (including Brexit)

**Change in risk level**
Unchanged

**Ownership**
Group Programme Director

**Relevance**
Industry general

### Description

As a global business, changes to global economic conditions or trading arrangements have the potential to impact us. Our international trade flows expose the Company to tariffs, duties or quotas imposed through trade sanctions and also to macroeconomic effects due to regional or global industrial output changes.

Essentra will need to adapt to geopolitical changes that impact on patterns of trade and the movement of labour and capital. A trend towards protectionism, regionalism and a rebalancing from West to East creates risks and opportunities that Essentra will need to manage and exploit.

In light of the Trade and Co-operation Agreement being agreed between the UK and the EU, our Brexit focus has moved to continuing to ensure we are following robust customs and shipment processes and proactive management of goods across the UK-EU border, to minimise delays to our customers, and our working capital.

### Mitigation

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

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

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

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

### Brexit

Over the past few years, the Company conducted a thorough review of Brexit risks and implemented a series of changes to minimise raw material and finished product flows across the EU-UK border, and to mitigate the associated risks including supply chain disruption and to ensure the appropriate customs processes and procedures are in place to allow for effective and efficient flow of goods and materials between the UK and the EU. We continue to work with our supply chain partners to minimise disruption and ensure flow of goods across the EU-UK border.

**Over the past few years, the Company conducted a thorough review of Brexit risks and implemented a series of changes to minimise raw material and finished product flows across the EU-UK border, and to mitigate the associated risks including supply chain disruption.**

## Operational Risk

### Business Continuity Planning and Management

**Change in risk level**
Increased

**Ownership**
Group Programme Director

**Relevance**
Industry general

**Description**

We operate a global manufacturing footprint and supply chain. Making this supply chain resilient is a critical factor in serving our customers, to minimise the impact of potential disruptions.

Business continuity management issues can be focused on particular locations, driven by single point supply chain failures. Here, our global footprint provides risk diversification, via alternative manufacturing routes.

Equally, business continuity issues can be broader in nature and impact a number of sites simultaneously as has been the potential with COVID-19. Our global footprint may expose us to a broader set of potential multi-site disruption risks, than more focused companies.

Robust business continuity planning and management practices are required to minimise the impact on production capability, supply chain management, customer relationships, reputation, revenue and profit.

The Company experienced some minor disruption through COVID-19 related issues, during 2020. The vast majority of sites remained operational, with a small number of sites temporarily shut due to government imposed lockdowns.

**Mitigation**

The Company continues to review and refresh its business continuity management and planning frameworks and processes.

Mitigating factors that the Company has in place for single location issues include:

- leveraging our global manufacturing footprint to provide alternative manufacturing locations
- fire and other risk prevention systems
- assessing and managing operational risks via the enterprise risk management process
- ensuring comprehensive maintenance plans are in place for key manufacturing equipment, and/or alternative manufacturing routes are identified
- maintaining an insurance programme and working closely with our insurers, FM Global, to ensure complete and comprehensive cover to prevent losses.

Additional measures to mitigate against multi-site issues include:

- enhancing our multi-site capabilities and manufacturing flexibility
- identifying alternative sources of supply for key raw materials and supply guarantees where necessary and feasible
- global, standard site/network assessment approaches for pandemic and other issues.

During 2021 the company will work with our insurers to model the potential impact of climate change

## Strategic Risk

### Exposure to the Cyclical Industrial Market (Components Division)

**Change in risk level**
Year on year
New risk in 2020 as disclosed at half year

**Ownership**
Components Division Managing Director

**Relevance**
Company Specific

**Description**

The Components division serves industrial OEM customers and hence, is exposed to overall Industrial Production trends. Global Industrial Production has tended to be cyclical in nature with major economic downturns leading to a downturn in Industrial Production. From the Global Financial Crisis in 2008-2009 to the current COVID-19 crisis, economic cycles have impacted demand in the broad industrial market.

The Components division sells to a broad base of key end markets including Automotive, Capital Goods and Electronics. This broad base of customers provides some risk diversification, however, future downturns in Industrial Production are almost certain to happen, albeit with an uncertain timeframe.

The Components division can make changes to its cost base and business model to maintain operating margins against fluctuations in demand. The risk is that such changes do not happen quickly enough, or are not robust enough to minimise the impact on operating margins.

**Mitigation**

Key mitigating actions being undertaken to protect the division from future industrial declines include the following:

- Optimising our fixed cost base such that it is a lower proportion of operating costs

The Components division undertakes continuous review of its operating footprint to optimise manufacturing and distribution cost to serve. Our new distribution facility in Nettetal, Germany provides an opportunity for this as we leverage delivery network capabilities to reduce our distribution footprint while delivering enhanced service level to our customers.

Our increased investment in the automation of production and distribution activities enabled by robotics will further help to reduce fixed costs.

- Increased variability of our cost base

We also undertake reviews of how better to manage labour, striking the right balance between permanent and temporary employees, so that we are able to effectively manage our cost base.

- Diversification across the market sectors we sell to; both within the industrial sector and also beyond it

We have introduced a category management approach focusing on faster growing and resilient markets. We continue to explore entry opportunities in new markets to further mitigate this risk.

- Innovation

We continue to exploit our innovation capabilities to secure new opportunities and diversify with the use of new materials in the event of future restrictions on the use of plastics.

**Governance-related issues are managed through the Company's comprehensive risk management processes. In addition environmental and social topics are managed via the Board Sustainability Committee, chaired by a Non-Executive Director, and including membership from Board and GMC.**

Strategic Risk

## Environmental, Social and Governance

| Change in risk level | Ownership | Relevance |
|---|---|---|
| Increased | Company Secretary and General Counsel | Industry general |

### Description

Environmental, Social and Governance (ESG) issues are becoming increasingly fundamental for all companies. For Essentra, this includes exposure to tobacco-related products (see Developing more sustainable cigarette filters on page 76), potential changes in regulation related to single-use plastics (see Increasing recycled and renewable content on page 68), climate change and other topics (see Supporting ethical beauty brands on page 72).

Failure to meet stakeholder expectations on increasing environmental and/or social governance obligations could lead to reputational or commercial risk for the Company. This includes risks arising from changing investor attitudes, increasing customer expectations, social attitudes towards the health and environmental impact of our products which may impact on our ability to market them, along with ability to attract and retain talent, given increasing employee focus on sustainability-related topics

### Mitigation

Governance-related issues are managed through the Company's comprehensive risk management processes.

In addition environmental and social topics are managed via the Board Sustainability Committee, chaired by a Non-Executive Director, and including membership from Board and GMC. The role of this Committee is to:

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

The Board Sustainability Committee's recommendations link into and inform the work of the GMC, the divisions and the enabling functions, to reduce risk exposure appropriately (see page 37).

The Company is also establishing a Sustainability Working Group comprising representatives from the divisions, Group HSE, Group HR, Group LRG, Group Communications and Group Investor Relations to monitor and respond to ESG and sustainability related-topics on a day-to-day basis.

Specifically, the GRC is also reviewing our approach to managing climate change risk, including fulfilling our obligations under TCFD requirements.

The Components division is exposed to potential impacts of ESG initiatives and climate change risks including reduction in single use plastics. The division is actively working to incorporate more sustainable materials and believes it has the innovation capabilities to enable future growth opportunities with the use of these materials. Similarly, Filters is exposed to single use plastic legislation and is actively developing new innovative products including the recently launched ECO range of biodegradable filters.

Operational Risk

## Internal Processes and Control

| Change in risk level | Ownership | Relevance |
|---|---|---|
| Increased | Chief Financial Officer | Company specific |

### Description

Processes and controls play an important part in our ability to prevent and detect inappropriate and unethical behaviour. This includes fraud, deliberate financial misstatement and improper accounting practices. If the design, operation or the assurance over these controls is ineffective or ownership is not defined or controls are overridden, there is a greater risk of operational loss.

**COVID-19**

In response to COVID-19 there has been greater adoption of flexible and remote working arrangements. There is an ongoing need to adapt our controls and processes to these changing ways of working.

### Mitigation

During the year, Minimum Control Standards (MCS) continued to be rolled out across various sites in the Group, establishing a consistent minimum standard of financial controls across the Company. The MCS steering group continued in its role as the governing body overseeing activities. A total of 70 out of 79 sites now have had the MCS roll-out, which account for approximately 94% of Group revenue.

MCS implementation action plans were continually assessed and tracked through the course of the year. The primary responsibility for site roll-outs and embedding of MCS rests with divisional management, with central co-ordination by Group Finance.

With the MCS framework now rolled out to a large majority of the sites, the Company is shifting its focus onto the implementation of internal testing methodology to ensure continuing compliance with the framework.

Furthermore, the MCS project has been conducted in close collaboration with other wider business initiatives, such as Business Process Redesign, which saw the first implementation of the new system at the head office during the year. The new system entails establishment of standard operating procedures, and improves the landscape around enforcement of internal controls.

In the face of the challenges posed by COVID-19, the Company has ensured continued communications to the sites regarding the importance of continuing robustness in internal controls.

Group Assurance audit procedures were carried out to assess performance of internal controls. These reviews were temporarily disrupted in the first half of the year due to COVID-19, but resumed in the second half of the year. Additionally, Group Finance performed a separate layer of independent testing to further evaluate the effectiveness of implementation thus far. The Company has also started reviewing the potential additional requirements in the UK with regards to internal controls, and this will continue into 2021.

Monitoring controls and processes continue to be performed to prevent and detect inappropriate and unethical behaviour. This includes fraud, deliberate financial misstatement and improper accounting practices.

**Minimum Control Standards continued to be rolled out across various sites in the Group, establishing a consistent minimum standard of financial controls across the Company. A total of 70 out of 79 sites now have had the MCS roll-out, which account for approximately 94% of Group revenue.**

Operational Risk

## Safety, Health and Wellbeing

| Change in risk level | Ownership | Relevance |
|---|---|---|
| Increased | Group Human Resources Director | Industry general |

### Description

The safety, health and wellbeing of our employees is of the highest priority for the Company.

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

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

Increasingly, especially given recent COVID-19 related events, the mental and emotional wellbeing of our leaders, managers and workforce is becoming a focus. The organisation is working in a different way, which is impacting individuals physically as well as emotionally. The prolonged period of COVID-19 and the potential impact of further variants increases risks in this area.

### Mitigation

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

Some of the key mitigations which are in place include:

- regular reporting to the GMC, GRC and the Board on Health, Safety and Environment (HSE) related matters
- a Group HSE policy detailing required standards, governance, roles and responsibilities at all sites
- launch of our health and wellbeing strategy with a specific workstream that considers our leaders, managers and employees
- performance monitoring and Health and Safety Audits, incorporating reporting and escalation arrangements to ensure all actions are closed
- root cause analysis is conducted for any issues identified through investigation of serious incidents, including Near Misses
- our Global "Stop, Think, Examine, Proceed" ("STEP") programme is a hazard identification and process improvement initiative. This empowers the entire workforce to recognise and address opportunities with corrective actions assigned clear owners for completion within 48 hours
- focused HSE events throughout the year to highlight particular risks and help keep safety at the forefront of our minds.

With the increased focus on mental and emotional health and wellbeing, we have introduced awareness training for leaders and mangers. We have developed training materials for employees and are now moving towards introducing proactive steps for employees to manage their own wellbeing. Our health and wellbeing strategy, Essentra Thrives, launched with the introduction of the global assistance programme for all employees. We are continually looking at areas where we can enhance the health, safety and wellbeing of our employees.

**Our health and wellbeing strategy, Essentra Thrives, launched with the introduction of the global assistance programme for all employees. We are continually looking at areas where we can enhance the health, safety and wellbeing of our employees.**

Strategic Risk

## Talent to Deliver Our Future

| Change in risk level | Ownership | Relevance |
|---|---|---|
| Unchanged | Group Human Resources Director | Industry general |

### Description

Failure to acquire, retain, develop and motivate the required management and leadership necessary to evolve our business, develop our culture and meet future customer needs. The change agenda coupled with the impact of COVID-19 creates a need to focus on retention of key talent, avoiding burn-out and presenteeism. Additionally, we must continue to grow the agile skills required to build for the future.

### COVID-19

The impact of COVID-19 changes the talent landscape in the short-term, with a focus on retention of the key leaders to transition and change to a post pandemic working model. As we move forward, retention will need to be balanced with attraction to boost the talent needed to deliver our strategy in key areas such as digital. The market conditions are predicted to change with great speed post COVID, with key talent in areas such as agility and change leadership predicted to be in high demand and therefore we need to consider:

- our ability to retain talented leaders and managers who have the agility and skills we will need going forward
- ensure we have the right retention tools to motivate and drive performance
- ensuring the resilience of our leadership and management teams as the pandemic continues; the prolonged period is having a toll on the emotional wellbeing of our people
- recognising the impact of COVID-19 on employees and the real issues of presenteeism and fatigue.

COVID-19 will reshape business needs, the talent market as well as the expectations of our managers and leaders. We must continue to be proactive and forward looking in order to balance the needs of our business today and its requirements tomorrow.

### Mitigation

Key mitigations include reviewing the people strategy to ensure it underpins the approach to enhance the employee experience, drive changes needed and have skilled leaders for the future. This strategy considers:

- ensuring the variable pay schemes are adequate to retain key talent and reward high performance
- building management capability across the wider team to ensure we manage through the change journey in an engaged and considered way
- talent mapping and succession planning that considers current and future business requirements
- develop the health and wellbeing strategy with a specific consideration of the actions needed to aid retention of our wider workforce
- communication with employees is a critical step to ensure engagement, drive a sense of purpose and belonging across the workforce
- assessing what training and support we can provide to future leaders, middle managers on resilience and developing their personal career path in a considered way.

**The change agenda coupled with the impact of COVID-19 creates a need to focus on retention of key talent, avoiding burn-out and presenteeism.**

# COMPONENTS: CONTINUATION OF OUR DIGITAL JOURNEY

**Revenue**

**£255.0m**
(2019: £283.3m)

**Adjusted operating profit[1]**

**£45.5m**
(2019: £60.3m)

**Adjusted operating margin[1]**

**17.8%**
(2019: 21.3%)

1 Excluding amortisation of acquired intangible assets and adjusting items.

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

Scott Fawcett
Managing Director
Components

## Our markets

- Automotive
- Equipment Manufacturing
- Fabrication
- Electronics
- Construction
- Retail POP/ Paper and Board

## What we measure

**82k**
(2019: 93k)

### Active customers

**Why we measure it**
Reflects marketing effectiveness and measures the potential population for further growth opportunities

**How we have done**
Reduction impacted by macroeconomics in addition to continued focus on mid-sized customers

**45**
(2019: 41)

### Net Promoter Score

**Why we measure it**
Reflects our customers' overall satisfaction with our products and service, as well as loyalty to our brand

**How we have done**
The increase of 4 points is reflective of the continued roll-out of the new websites and of remaining operational throughout a very challenging year

**92.1%**
(2019: 94.3%)

### On Time and In Full

**Why we measure it**
Demonstrates the ability to meet delivery demand

**How we have done**
Though our sites remained operational throughout the year, OTIF fell due to reductions in stock levels being exposed as demand improved faster than expected through H2, coupled with labour shortages in the US and operational onboarding challenges with the new German Hub warehouse

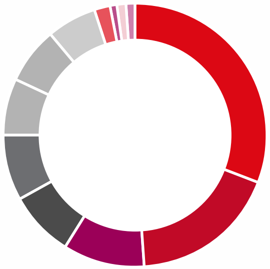
**14**
(2019: 13)

### Lost Time Incidents

**Why we measure it**
Indicates our overriding commitment to health, safety and welfare in the workplace

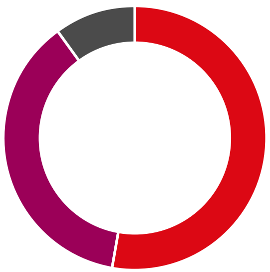
**How we have done**
Number of incidents remained high, however we did see a significant reduction in severity as we continue to focus on improving the safety culture across the division

## Revenue by segment



- Other Industrial Equipment: 31%
- Metal Fabrication: 18%
- Industrial Vehicles: 10%
- Industrial Electronics: 8%
- Consumer Electronics: 8%
- Automotive: 7%
- Production Machinery: 7%
- Furniture and Fixings: 6%
- Medical: 2%
- Oil & Gas: 1%
- Energy Generation (incl. renewables): 1%
- Food, Beverage and Chemicals: 1%

## Revenue by destination



- Europe and Africa: 53%
- Americas: 37%
- Asia including Middle East: 10%

## Who we are and what we do

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

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

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

**The business is introducing recycled plastic into standard product ranges to create a “new normal” of using recycled material across our global manufacturing operations.**

## Increasing recycled and renewable content

In 2020 the Components division embarked on a comprehensive programme focusing on improving the sustainability of the product range for the benefit of our customers, as well as the wider community and planet.

Many of the division's products are plastic which has the benefit of being lightweight and durable. In exploring recycled materials and the potential recyclability of products, we want to ensure these important characteristics are retained.

Essentra Components is a signatory of the European Circular Plastics Alliance which aims to boost the European plastics recycling industry by stimulating demand and supply.

The business is introducing recycled plastic into standard product ranges to create a “new normal” of using recycled material across our global manufacturing operations. Our target is to use 20% recycled or renewable polymer raw materials by 2025.

In 2020 the division also conducted successful trials on a low-density polyethylene (LDPE) recycled content product, which we will look to launch in 2021.

**Completed roll-out of a new web platform across Europe with 2021 plans for launch in Asian markets.**

## 2020 Review

### Progress made in 2020

In 2020 we continued to make progress towards the delivery of our vision and strategy despite the impacts of the pandemic. We completed the roll-out of our new web platform across Europe and introduced an agile monthly improvement process. We plan to continue the agile improvement process in 2021, to further enhance the customer experience, as well as launching the site into a number of our Asian markets. We also launched our new European automated warehouse in Germany, which gives us the platform to improve service levels and reduce cost to serve across mainland Europe. We continued to invest in our BPR programme, which we have been developing in 2020 ahead of roll-out across Europe in 2021. We have also launched our new CRM platform in 2020 (which will be integrated with the new ERP platform).

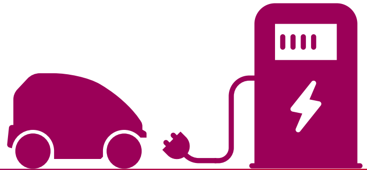
In 2020 we decided to consolidate warehouse operations from three European warehouse sites into the aforementioned German warehouse. Furthermore, the closure of three manufacturing sites (one in Sweden and two in the US), as well as the exit of three smaller warehousing and distribution (express) sites in the US, have been announced. These actions will all take effect in 2021 and allow us to improve service for our customers, maximise the opportunities for automation and support anticipated growth for the division.

### Financial performance

Revenue for the year decreased by 8.5% to £255.0m on constant currency basis. Adjusting for the acquisition of Innovative Components, LFL revenue was -10.1%. Within the Group, Components is the division which is most exposed to industrial cyclicality. However, it has seen the greatest level of quarterly trading performance recovery during the course of the year.

On a LFL basis, revenue was 5.3% down in Q1, which was reflective of the pandemic causing disruption in China earlier than in the rest of the world and a soft end-market backdrop in the US. As we moved into Q2 and as the pandemic took a firm grip across the globe, we saw an accelerated slowdown in customer demand, with LFL revenue falling to -20.0% in the quarter. However, from then on, we have seen a steady recovery in the division's trading performance – Q3 improved to a level of -13.9%, whilst Q4 improved further to -0.3%.

Caps and plugs full year sales were down 14%, however with this sector largely indexing to the automotive market, we saw the sharpest decline in Q2 with recovery thereafter; Q4 sales were flat on 2019. Access Hardware was more resilient with full year sales down 5% but exiting the year with Q4 in growth at 2%. Despite depressed market volumes, we saw some excellent wins in the telecommunications equipment market.



## Market trends and dynamics

**The pandemic clearly had a significant impact on our business through the year, Global PMI finished the year at 53.8 with six months of positive sentiment following the initial shock from the first wave, when PMI dropped to a record low 39.8 in April.**

**Latest forecasts from Oxford Economics indicate that overall Industrial Production in 2021 will return to 2019 levels, although some of the sectors such as automotive may not recover fully within the year. Following the introduction of new customs arrangements between the UK and the EU, we have focused on ensuring continuity of service for customers, but the additional administrative burden has resulted in some supply chain disruption. This remains a risk we will continue to monitor, as we move forward.**

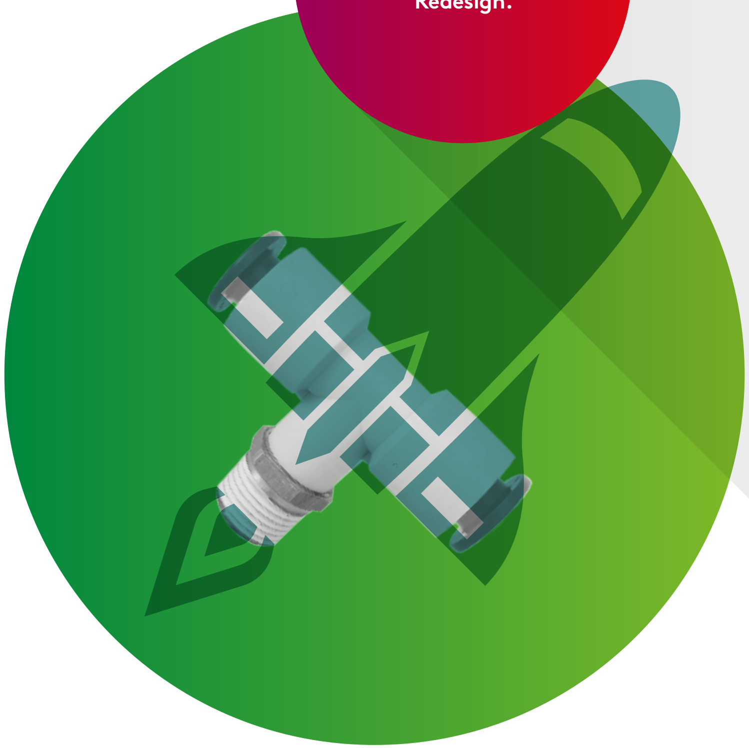
**Commenced operations at European Automated Warehouse in Germany, providing platform for improved service levels and reduction in cost to serve across mainland Europe.**

As the pandemic developed, we saw rapid changes in mix across many product areas but probably most significantly in the fasteners category where we saw demand for high volumes of plastic fastening to supply in to face shields, office partitions and retail checkout screens markets.

Despite this, the fasteners range was down 6% for the year. Fibre, wire and cable management products performed better than the divisional average, -5% for full year but +7% in Q4. Notably we saw increased demand in the domestic appliance sector as people invested in home improvement rather than travel. A strong medical device focus throughout the year saw us supply significant orders to the ventilator market, including supporting VentilatorChallengeUK as outlined on page 15.

Adjusted operating profit decreased by 23.4% to £45.5m, equating to a margin of 17.8% (2019: 21.3%). This 350bps dilution reflected the aforementioned volume impact of a softer macro environment,which was exacerbated by temporary manufacturing inefficiencies caused by pandemic related issues, partially being offset by continued successful pricing management and cost control actions.

**Development and roll-out of the new Business Process Redesign.**



## 2021 priorities for Components

- Continue to improve our digital customer experience in 2021, launching the website into a number of our Asian markets
- Complete the development and commence roll-out of the new Business Process Redesign (ERP and CRM) platform
- Improve service levels enabled by optimising performance in the new German Hub warehouse
- Continue to strengthen the acquisition pipeline further with a focus on product and market adjacencies as potential areas for future expansion
- Expansion of our sustainable product offering including introducing recycled plastic into standard product ranges

# PACKAGING: DEEPENED CUSTOMER RELATIONSHIPS

**Revenue**
**£363.2m**
(2019: £352.7m)

**Adjusted operating profit[1]**
**£13.8m**
(2019: £15.1m)

**Adjusted operating margin[1]**
**3.8%**
(2019: 4.3%)

1 Excluding amortisation of acquired intangible assets and adjusting items.

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

Iain Percival
Managing Director
Packaging

## Our markets

Pharmaceutical

Personal Care and Beauty

## What we measure[1]

**97.3%**
(2019: 96.6%)

### On Time and In Full

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

**How we have done**
Improved OTIF through enhanced planning and scheduling coupled with using our network of plants more efficiently

**30%**
(decrease vs 2019)

### Customer complaints

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

**How we have done**
Improved quality through enhanced defect root cause analysis and corrective actions

**15**
(2019: 18)

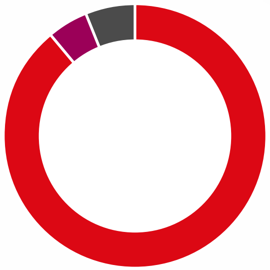
### Lost Time Incidents

**Why we measure it**
Measures the opportunity cost of incidents in the workplace

**How we have done**
Improved safety through broader engagement from our teams in identifying and fixing hazards before they become a risk to an employee's safety

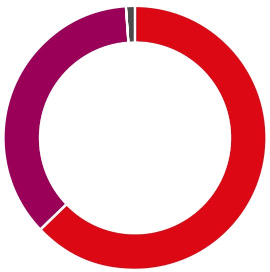
1 All measures are presented on a LFL basis

## Revenue by segment



- Health and Personal Care: 89%
- Food and Beverage: 5%
- Other: 6%

## Revenue by destination



- Europe and Africa: 63%
- Americas: 36%
- Asia including Middle East: 1%

## Who we are and what we do

We design, develop and manufacture folding cartons, leaflets and labels to the world's leading pharmaceutical and beauty companies.

We are focused on Healthcare and Beauty markets, both of which have strong long term growth dynamics and this focus enables us to better understand our customers' needs.

We use our knowledge and understanding of the markets and supply chains we operate in to help our customers solve problems locally and globally through designing, developing and delivering innovative products and services. This ability to support our customers' manufacturing locations locally whilst having the global scale and position to support them in a geographically diverse way is a distinct advantage for Essentra Packaging, making us a valued and trusted partner.

**We are collaborating with customers to reduce packaging waste as well as improve the recyclability of packaging.**

## Supporting ethical beauty brands

The Packaging division is proactively working with several global customers to increase the sustainability of pharmaceutical and beauty packaging. This includes collaborating with customers to reduce packaging waste as well as working to improve the recyclability of packaging, for example by substituting foil and laminates with paper based design and the provision of removable labels that encourage effective consumer recycling.

In particular the division's Design Hub is working with customers to create appropriate packaging solutions for ethical and sustainable beauty brands.

During 2020, a customer approached Essentra to provide a range of branded packaging solutions that met the sustainable and ethical brand values while remaining optimised for manufacture. The team developed the complete packaging solution including product labels, carton navigation and communication. The solution included two cartons which do not require glue, thereby ensuring their vegan and sustainability credentials. Made from FSC board, the cartons are also fully recyclable.

Awarded "Packaging News" 2020 UK Packaging Company of the Year.

## 2020 Review

### Progress made in 2020

2020 saw a further year of operational progress with quality and service both improving on 2019 on a LFL basis with 30% fewer quality complaints and OTIF at 97.3%, all achieved whilst coping with the immense operational and logistical challenges of the pandemic. Organisational strength has been significantly improved by targeted recruitment and use of existing talent development processes. We have also built capabilities in supply chain management, continuous improvement and procurement which have supported improved service, efficiency and cost optimisation.

Despite the pandemic impacting our markets through reduced prescriptions and fewer elective surgeries, the division continued to support customers through 2020, indeed many directly involved in the fight against COVID-19. This support is evidenced in the results of our Customer Survey in which we scored 8.1 out of 10 against last year's 7.9 and a Packaging industry average of 7.6.

A major highlight of the year was the value enhancing acquisition of 3C! Packaging, in September. Integration activities are progressing well with delivery of early procurement synergies and growth pipeline opportunities being progressed.

## Market trends and dynamics

In 2020 total prescription volumes have contracted by an estimated 3% in the USA and 2.8% across the EU5 which is unprecedented in a market that delivered constant growth over a decade. Prescription drugs demand went down significantly driven by the reduction of patient visits to General Practitioners, and with the hospitals focusing their activity on COVID-19 treatments, stopping elective surgeries and other non-critical activities.

The demand for vaccines experienced a significant slow-down in Q2 2020 with vaccination campaigns being put on hold, and has started to rebound at the end of 2020, with an increase expected in 2021 with the supply of COVID-19 vaccines.

Some market segments like Over The Counter (OTC) drugs experienced significant growth during the pandemic, spiking in Q2 2020, but this did not offset the overall lower demand for healthcare products.

We expect the market to return to moderate growth in the second half of 2021, with the healthcare systems having to catch up on the significant backlog of elective surgeries, chronic diseases and cancer diagnostic and treatments. The pandemic has shown our customers the importance of working with suppliers that can offer a robust supply network, business continuity plans, and the ability to maintain high levels of service and quality despite the challenging environment – an area where Essentra Packaging has delivered excellent metrics in 2020. This resulted in a number of supply contracts being signed before the end of 2020.

The beauty market, which is more reactive than healthcare, was severely impacted at the beginning of the pandemic (some of our key customers reduced demand by 30% over a few months) but rebounded in Q3 and is returning progressively to pre-COVID-19 run rates for Q1 2021. This market is undergoing a significant transformation driven by consumers expecting more sustainable products, this will generate opportunities to win share positioning, with the right offering and approach.

**Support to fight against COVID-19 through supply of products to the pharma industry, including packaging for leading anti-viral drug and two of the leading vaccines.**

Another highlight was that in November we received external recognition from a leading industry publication "Packaging News" with the award of "UK Packaging Company of the Year".

In 2020 we proposed the closure of our manufacturing sites in Portsmouth, UK and Moorestown, US in 2021. These actions reflect the significant reduction in demand in some key areas and withdrawal of key customer production due to the pandemic, whilst also supporting supply chain optimisation.

## Financial performance

Revenue for the year increased 2.8% to £363.2m at constant currency. On a LFL basis, the revenue decline was -4.0% for the year. In H1, despite the onset of the pandemic, underlying demand remained relatively robust. LFL performance in H1 was -3.0%.

This performance was reflective of a tough prior year comparison as H1 2019 was bolstered by short-term customer demand on the back of the new regulatory requirements as prescribed by the Falsified Medicines Directive.

During the year the division was impacted by pandemic-induced supply chain performance issues and temporary facility closures. These closures were rectified from May and the division delivered positive monthly revenue growth towards the end of H1. However, with the advent of H2, underlying demand saw softness in certain end markets owing to an impact from the reduction in the levels of prescriptions and elective surgeries through lockdown periods.

Over the course of H2, there was a steady improvement, as the pharmaceutical and beauty markets started to slowly recover; Q3 was -8.5%, this improved to -1.3% in Q4 (both on a LFL basis).

Adjusted operating profit decreased 9.6% to £13.8m, equating to a margin of 3.8% (50 bps decline). This was largely driven by the volume gearing effect from the revenue decline, which was exacerbated by temporary manufacturing inefficiencies caused by pandemic related issues. Netted off against these was the impact of continued successful pricing management and cost control actions.

**Continuing progress on zero waste to landfill sites, reducing $CO_2$ emissions.**

## 2021 priorities for Packaging

- **Continuing to roll-out and embed our supply chain agility programmes, technical support and innovation capabilities (including sustainable solutions through our Design Hub network in the US and Europe) will allow us to deliver our value proposition of supporting our customers in solving their local and global problems**
- **Continuing progress on zero waste to landfill sites, reducing $CO_2$ emissions, ensuring we have responsible sourcing of our materials and supporting our customers in their sustainable and responsible product development**

# FILTERS: LEVERAGING INNOVATION FOR SUSTAINABILITY

**Revenue**

**£278.3m**
(2019: £303.6m)

**Adjusted operating profit[1]**

**£25.2m**
(2019: £36.2m)

**Adjusted operating margin[1]**

**9.1%**
(2019: 11.9%)

1 Excluding amortisation of acquired intangible assets and adjusting items.

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

Kamal Taneja
Managing Director
Filters

## Our markets

Tobacco

Food and Beverage

## What we measure

**99.1%**
(2019: 98.5%)

### On Time and In Full[1]

**Why we measure it**
Demonstrates the ability to meet delivery demands

**How we have done**
Maintained world-class service performance; improved planning and increased flexibility underpin performance

**9%**
(reduction vs 2019)

### Quality complaints per billion rods[1]

**Why we measure it**
Demonstrates the ability to meet quality demands

**How we have done**
Maintained world-class service performance

**11%**
(reduction vs 2019)

### Waste[1]

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

**How we have done**
Significant reduction of 11% in waste vs 2019 following a reduction of 30% in 2019 vs 2018

**2**
(2019: 2)

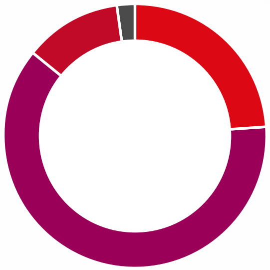
### Lost Time Incidents[2]

**Why we measure it**
Indicates our overriding commitment to health, safety and welfare in the workplace

**How we have done**
Health and safety is always our first priority, we are proud to maintain our high standards of safety despite the challenges presented by the pandemic

1 Measures presented for Core Filters business only excluding Tear Tapes
2 Presented for total division Including Tear Tapes

## Revenue by segment



- Mono: 24%
- Specialty: 62%
- Tapes: 12%
- Other: 2%

## Revenue by destination

- Europe and Africa: 28%
- Americas: 19%
- Asia including Middle East: 53%

## Who we are and what we do

We provide outsourced filter manufacturing services for the tobacco industry and solutions to enhance the open/close functionality of packaging whilst also informing and protecting the contents.

Our customers are primarily for tobacco companies for whom we provide filters to meet both legislative requirements and also to differentiate our customers' brands – be that visually, through flavour transmission etc. Our Tapes are used in a number of markets (eg e-Commerce Paper & Board, Food & Beverage) where safe and easy opening of a package is critical to the customer experience.

We supply over 1,200 filter product specifications to more than 185 customers in over 65 different countries, including all the multinational tobacco companies, Independents and State Monopolies.

**Focused innovation investment culminated in development of proprietary sustainable filters in 2020.**

## Developing more sustainable cigarette filters

It is widely reported that cigarette filters are one of the most littered items globally and, once littered, they can persist in the environment for an extremely long time. Therefore the industry, Essentra Filters included, has focused R&D efforts on developing alternative materials which are less impactful to the environment while still offering the same level of performance and filtration as traditional cigarette filters.

In 2020 Essentra Filters developed a new range of plastic free filters, aiming to meet all requirements of the EU Single Use Plastic (SUP) Directive. These are also 100% biodegradable and degrade more rapidly than filters constructed with cellulose acetate. All these new filters were covered by patent applications and, although early, have been well received by the market demonstrating the strength of the Filters Decision Gate process.

The division has also been evolving current Tapes products to further minimise their environmental impact, ultimately launching a new "Supastrip PCR" product in 2020. This product includes 70% post-consumer recycled (PCR) content in the film and still provides the same easy opening performance as SupaStrip®.

Plans on track to establish a manufacturing facility for China Joint Venture towards the end of Q2 2021.

## 2020 Review

### Progress made in 2020

In 2020 our overall operational performance continued to improve, with some good improvements in KPI metrics, thanks to a focus on a reduction in lead time and the establishment of a Commercial Excellence team that is contributing to a much stronger key account management process.

In relation to the division's game changers, the two previously announced outsourcing contracts are now operational, with full production capacity being achieved on both of these. Additionally during the year, the division also won another outsourcing contract with an independent customer.

The China JV remains on track to commence production towards the end of Q2 2021, providing a great platform to capture the many opportunities available in the world's largest tobacco market.

We continue to build our pipeline of next generation products (NGP) opportunities – with one further patent application made, one proprietary product launch and joint developments ongoing with several partners. The division also has a number of ongoing projects collaborating with customers and suppliers on biodegradable filters. As previously reported, in December

## Market trends and dynamics

Historically market decline (excluding China) has been 3-5%, however, various trading updates from tobacco companies in 2020 have shown volume declines in excess of this. In the short term customers also paused any significant new product introductions (NPIs) and have increased focus on costs.

According to Euromonitor the growth rate for cigarettes globally is -3.7%, although strong growth is forecast in next generation products (16.8% for THP and 3.1% for E-cigarettes).

China remains a significant growth opportunity, accounting for c.45% of cigarette volumes in 2019 and an increasing demand for special filters. Our China joint venture provides a great platform to capture the many opportunities available in the world's largest tobacco market.

The EU SUPD has catalysed the requirement for more sustainable alternatives to the standard, cellulose acetate filter and the majority of resources are now focused in either this area or alternative products (eg THP).

For our Tapes business the pandemic has driven an increase in online purchases, hence significantly increasing opportunities within the paper and board segment. Conversely, within the food and beverage segment, cost focus has led to tapes being de-specified on a number of accounts.

**Launch of Tobacco Heating Product (THP) Vortex Filter in 2020, expanding the division's NGP offering.**

2020 the division launched three proprietary biodegradable filter products (Eco Sensation, ECO Cavitec and ECO Cavitec Sensation), aiming to meet all requirements of the EU Single Use Plastic (SUP) Directive on plastic and biodegradability. Even though it is early days for this launch, we are receiving very positive feedback and interest from our customers.

## Financial performance

On a constant currency basis, total Filters divisional revenue was 5.6% down on the prior year period, of which the core Filters business (division excluding Tear Tapes) was down by 4.9%.

H1 was 11.2% down for the overall division affected by two short-term factors: the impact from government enforced facility closures in India and Paraguay and the continued effect on prior period comparatives due to business disruption in the Middle East following the sanction compliance issues announced in our year end 2019 results.

As we moved into H2, the division returned to delivering marginal half-yearly growth, bolstered by the optimisation of production volumes for the previously announced outsourcing contract wins. In H2, the overall division recorded growth of 0.2%, whilst the core Filters business delivered growth of 0.7%. Growth in H2 would have been even better had it not been for certain logistical challenges towards the end of the period, in shipping product in Asia, derived from regional container shortages.

Adjusted operating profit decreased 29.2% to £25.2m, equating to an operating margin of 9.1% (decline of 300 bps). This was largely driven by the volume gearing effect from the revenue decline and a mix effect from proportionally less NPI projects. Additionally, temporary manufacturing inefficiencies caused by pandemic related issues also adversely impacted profits during the year.

**Drive additional operational excellence initiatives to help shorten the supply chain and further reduce waste.**

## 2021 priorities for Filters

- **Manufacturing facility in our China JV to be operational with first customer shipments towards the end of Q2**
- **Continued development and launch of sustainable products building on recent momentum**
- **Expand our Key Account Management approach into Tapes and adopt a category approach allowing us to better serve our target markets**
- **Drive additional operational excellence initiatives to help shorten the supply chain and further reduce waste**
- **Identify and secure new outsourcing opportunities**

# GROUP MANAGEMENT COMMITTEE

## Executive Board Directors

**Paul Forman**
**Chief Executive**

Further details on Paul's skills and experience can be found on page 83.

**Lily Liu**
**Chief Financial Officer**

Further details on Lily's skills and experience can be found on page 83.

## Divisions

**Scott Fawcett**
**Managing Director, Components**

Scott Fawcett joined Essentra in 2010 as Managing Director of the European Components business, and was appointed divisional Managing Director 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.

**Iain Percival**
**Managing Director, Packaging**

Iain Percival joined Essentra as Managing Director, Essentra Packaging in 2017, before which he was divisional CEO, Beverage Cans Europe for Rexam plc. Prior to this, Iain held a number of increasingly senior roles at Rexam plc, Toyota Motor – Europe Manufacturing and Dowty Group, and has extensive experience in category management, manufacturing and supply chain optimisation.

**Kamal Taneja**
**Managing Director, Filters**

Kamal Taneja joined Essentra as Managing Director, Essentra Filters in 2017 from Amcor Tobacco Packaging, where he worked as Vice President and General Manager, based in Singapore. Prior to this, Kamal held increasingly senior roles at Ingersoll Rand and Trane, and has extensive marketing, commercial, operational and supply chain optimisation experience throughout the Asia Pacific region.

## Enabling Functions

**Richard Cammish**
**Chief Information Officer**

Richard Cammish joined Essentra as Chief Information Officer in June 2017. Prior to this he was Group Chief Information Officer for Coats plc. During his career, Richard has gained extensive IT, digital and international experience in organisations including Heineken, Cadbury, British American Tobacco and Mars. He has also worked for a leading management consultancy and in a technology start-up business.

**Oshin Cassidy**
**Group Human Resources Director**

Oshin Cassidy joined Essentra as Group Human Resources Director in January 2019. Prior to joining Essentra, Oshin was Group Human Resources Director at Imagination Technologies, and has extensive human resources experience having previously held senior roles at global organisations including Securitas, ComfortDelGro, Centrica and QinetiQ.

**Kathrina FitzGerald**
**Strategy and Commercial Director**

Kathrina FitzGerald was appointed as Strategy and Commercial Director in January 2018. Prior to joining Essentra, Kathrina worked with DMGT plc – a portfolio of information and media businesses – where she held a number of increasingly senior roles during her ten-year tenure, including Business Development Director, Managing Director of DMGT International and Director of Strategy and Development. Kathrina started her career at JP Morgan, where she spent seven years in investment banking.

**Jon Green**
**Company Secretary and General Counsel**

Jon Green joined Essentra and was appointed Company Secretary and 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.

**Nick Pennell**
**Group Programme Director**

Nick Pennell joined Essentra as Group Operations Director in 2017 and became Group Programme Director in January 2021, reflecting the importance of programme delivery to achieving Essentra's strategic objectives. Prior to joining Essentra Nick was Chairman of Lavery/Pennell and a Partner at Booz Allen Hamilton/Booz and Co. in the UK and China. Nick has extensive experience of performance improvement, operational and strategy development projects gained across the industrial and energy sectors, and in many geographies.

# Directors' report

# CHAIRMAN'S CORPORATE GOVERNANCE STATEMENT

## Dear Shareholder

**On behalf of the Board, I am pleased to present the Corporate Governance Report for the year ended 31 December 2020.**

The Board holds corporate governance and its principles in the highest regard and believes that good governance should be at the heart of all its decisions and discussions. The 2018 UK Corporate Governance Code (2018 Code) and its principles has continued to apply throughout the year and supported our discussions and decision making with openness, integrity and accountability at the forefront of our minds. The Board has reviewed its operations and governance framework and confirms that, as at the date of this Report, the Company has complied with the provisions set out in the 2018 Code, other than the two points reported in more detail on page 85.

The Corporate Governance Report that follows sets out and explains the processes in place which are essential for delivery of long-term success. We have provided additional information wherever possible so that our shareholders and other stakeholders who may read this report are able to gain a deeper understanding of how we approach governance. Information required to be reported under the Directors' Report is reported both here and within the Strategic Report and cross-references have been provided throughout to signpost this.

This is our second year reporting on Section 172 (1) Companies Act 2006, and with feedback on the first year of S172 reporting available, we have increased our disclosures in this area to explain how we have engaged our stakeholders and to describe the outcomes. Our statement on Section 172 and stakeholder engagement can be found on pages 23 to 26.

It has been a challenging and busy year: the Board met weekly for much of 2020 and received regular updates between meetings on the four priorities of employee physical and emotional wellbeing, continued high levels of customer support, cash conservation and building for our future. This was initiated and replicated at GMC which ensured we were well placed to respond to both UK and other government announcing new COVID-19 rules.

Throughout the year the Board ensured it remained focused on its other key areas of responsibilities too and the report that follows outlines the activities of the Board. As a Board we found working remotely stretched our dynamics and we agreed to bring forward our Board evaluation so that we could examine and understand the impact of remote meetings on the Board dynamic. We made initial enhancements to our governance arrangements in early 2020 including the appointment of a Head of Governance who has ensured we have run efficiently.

Another key area of focus is the progress made in the compliance transformation programme which has had particular regard to the impact of the Deferred Prosecution Agreement requirements. The programme is headed up by our Company Secretary and General Counsel, Jon Green. He has been determined that COVID-19 should have limited impact on this important programme and has made good progress in raising awareness across the Group.

Finally, you will read that our AGM will be live streamed which will allow more shareholders to join us. We propose adopting new Articles of Association that will allow us to hold hybrid AGMs in future years. We believe this will increase our opportunity to engage with you and we hope you will join us virtually at our AGM this year. More details can be found in the Notice of Annual General Meeting.

**Paul Lester, CBE**
Chairman
5 March 2021

# BOARD OF DIRECTORS

**Experienced, effective and diverse leadership – Our Business is led by our Board of Directors, biographical details of the Directors are available at essentraplc.com/about-us/board-of-directors**

**Committee membership key**

1 Audit and Risk Committee
2 Nomination Committee
3 Remuneration Committee
4 Sustainability Committee
5 Committee Chairman

## Paul Lester, CBE

**Non-Executive Chairman**

Independent on appointment

2 5

**Appointed to the Board:**
December 2015

**Skills and experience:**
Following his appointment to the Board in December 2015, Paul was made Non-Executive Chairman in May 2016. Paul brings a wealth of experience to Essentra, gained in increasingly senior operational and strategic executive roles, and has also served on a number of Boards in a Non-Executive capacity for more than 20 years.

**Other current appointments:**
- Non-Executive Chairman, McCarthy & Stone plc
- Non-Executive Chairman, Ready Power Rail Services Group Limited, First Port Limited, Appello Limited and Marley Limited.

**Past appointments:**
- Chief Executive, VT Group plc and Graseby plc,
- Chairman of John Laing Infrastructure Fund, Greenergy, Forterra plc and Knight Square Holdings
- Group Managing Director, Balfour Beatty plc President of the Society of Maritime Industries the BSA and the Engineering Employers Federation

## Paul Forman

**Chief Executive**

Independent on appointment

2 4

**Appointed to the Board:**
January 2017

**Skills and experience:**
As Chief Executive Paul combines strong commercial and operational leadership with a detailed understanding of company rationalisation, as well as growth through acquisition, development and delivery of a clear vision and corporate strategy. Prior to joining Essentra, Paul was Group Chief Executive of Coats Group plc – the world's leading industrial thread manufacturer – for seven years. Previously Paul held a number of increasingly senior operational and strategic positions at a variety of companies, and has a proven track record of international manufacturing experience at the highest level.

**Other current appointments:**
- Non-Executive Director and Senior Independent Director, Tate & Lyle plc

## Lily Liu

**Chief Financial Officer**

Executive Director

4

**Appointed to the Board:**
November 2018

**Skills and experience:**
Lily joined Essentra as Chief Financial Officer in 2018, before which she was CFO of Xaar Plc Group, a FTSE listed inkjet technology developer and manufacturer of industrial inkjet printheads. Prior to this, Lily was CFO, Smiths Detection at Smiths Group Plc, and has 20 years of experience in the manufacturing and engineering sectors.

Lily began her career with a Chinese investment firm before emigrating to Australia to complete an MBA, and she has worked across three continents (Asia, Europe and Australia).

**Other current appointments:**
None

## Tommy Breen

**Senior Independent Director**

1 2 3

**Appointed to the Board:**
April 2015

**Skills and experience:**
Previously Tommy was Chief Executive of DCC Plc, an international sales, marketing, distribution and support services group, headquartered in Dublin and with operations in 13 countries. Tommy has significant experience relevant to Essentra, in particular of growing diverse businesses both organically and via acquisition during his 30 year career with DCC.

**Other current appointments:**
- Non-Executive Director and Chairman Designate, Homeserve plc
- Non-Executive Chairman, Lota View Holdings Limited
- Executive Director, W&R Barnett Limited

**Committee membership key**

1 Audit and Risk Committee
2 Nomination Committee
3 Remuneration Committee
4 Sustainability Committee
5 Committee Chairman

**Nicki Demby**
**Non-Executive Director**

1 2 3 4 5

**Appointed to the Board:**
June 2019

**Skills and experience:**
Nicki brings extensive advisory experience to Essentra, having provided Board level counsel to many UK and international businesses over more than 25 years. Nicki has been a Partner of Deloitte LLP and led the Deloitte "Women on Boards" programme, as well as teaching a number of programmes for Non-Executive Directors. Nicki is a Fellow of the Institute of Chartered Accountants and a Fellow of the Chartered Institute of Personnel Development. Nicki combines her Board work with advice on senior executive career strategy and development.

**Other current appointments:**
- Partner, Stork & May.

**Mary Reilly**
**Non-Executive Director**

1 2 3 4 5

**Appointed to the Board:**
July 2017

**Skills and experience:**
Mary is currently Non-Executive Director and Chair of the Audit Committee of global media internet company Travelzoo – a US-listed publisher of travel, entertainment and local offers and of Mitie Group plc, a facilities management company. She is a Non-Executive Director of Gemfields Group Limited, a world-leading supplier of responsibly sourced gemstones. Mary brings a wealth of accounting, finance and international management experience to Essentra, having previously been a Partner of Deloitte LLP for more than 20 years, as well as serving on a number of Boards in a Non-Executive capacity since 2000.

**Other current appointments:**
- Non-Executive Director and Chair of the Audit Committee, Travelzoo
- Non-Executive Director and Chair of the Audit Committee, Mitie Group plc
- Non-Executive Director, Gemfields Group Limited

**Ralf Wunderlich**
**Non-Executive Director**

2 3 4 5

**Appointed to the Board:**
June 2017

**Skills and experience:**
Based in Germany, Ralf is currently an independent consultant and a senior adviser to private equity firms. He is an advisor to the Board of Elif Packaging, and a Non-Executive Director for the Shepherd Building Group Board. He is a Non-Executive Director of Huhtamaki Oyj (a Nasdaq Helsinki-listed global food packaging company). He is a former member of Amcor Limited's Global Executive Team and former President of the business group Amcor Flexibles Asia Pacific (Packaging Solutions).

Ralf brings much experience to Essentra from his time spent in senior executive positions at leading global packaging companies across Europe, the Americas and Asia.

**Other current appointments:**
- Non-Executive Director, AptarGroup, Inc.,
- Non- Executive Director, Huhtamäki Oyj
- Non-Executive Director, Shepherd Building Group Limited;
- Adviser to the Board, Elif Packaging

**Jon Green**
**Company Secretary**

4

**Appointed to the Board:**
Secretary to the Board in July 2005

**Skills and experience:**
Jon Green joined Essentra in March 2005, and was appointed Company Secretary & General Counsel in July 2005. Jon is a qualified solicitor and heads the Legal, Risk & Governance team. His responsibilities extend to include legal, compliance and risk management together with the delivery of the internal audit programme. Prior to joining Essentra, Jon worked as an in-house lawyer for a number of large international businesses, including Hays plc and Unilever plc

# CORPORATE GOVERNANCE REPORT

The Board can confirm that it has complied with the Provisions as set out in the 2018 UK Corporate Governance Code (the "Code"), other than:

- Provision 36 of the Code on post-employment shareholding but which is included in the proposed Directors' Reward Policy which is subject to a vote by shareholders at the AGM in May 2021
- Provision 38 of the Code on pension contribution rates, which the Company is working towards and will be fully effective for Executive Directors from 1 Jan 2023 onwards.

The Corporate Governance Report reflects the pillars of the Code. Some of the information required by the Code is included in the Strategic Report and is cross-referenced here to avoid unnecessary duplication.

## Fair, balanced and understandable

One of the key requirements is for the Annual Report to be fair, balanced and understandable. In coming to a conclusion that the Annual Report is fair, balanced and understandable the Board has the support of the ARC, which makes recommendations to it on this and also considers the process adopted by the organisation in drafting the Annual Report, which requires Group-wide co-ordination and review. That process runs alongside the formal audit of the Financial Statements conducted by the External Auditor.

The Board further takes into account representations made by management and the views of the internal and external auditors as to the integrity of the narrative and financial statements. The comprehensive review process carried out initially by the ARC and then Board, is used by the Board who has determined that the 2020 Annual Report, taken as a whole presents a fair, balanced and understandable position and provides shareholders with the information necessary to assess the performance, strategy and business model of the Company.

## Leadership and accountability

The Board of Directors is appointed by shareholders, who are the owners of the Company. It is the Board's principal collective responsibility to provide effective and entrepreneurial leadership to the Company and to be responsible to shareholders for the long-term sustainable success of the Company taking into account the interests of all stakeholders.

## Key topics raised in the 2018 Code

**Company purpose**
Pages 15, 16 and 87

**Sustainability**
Pages 36 to 41 and 100 to 101

**Business model**
Pages 21 and 22

**Stakeholder engagement**
Pages 23 to 26

**Our people**
Pages 31 to 35

**Audit, Risk and internal control**
Pages 105 to 112

### Board meetings during the year

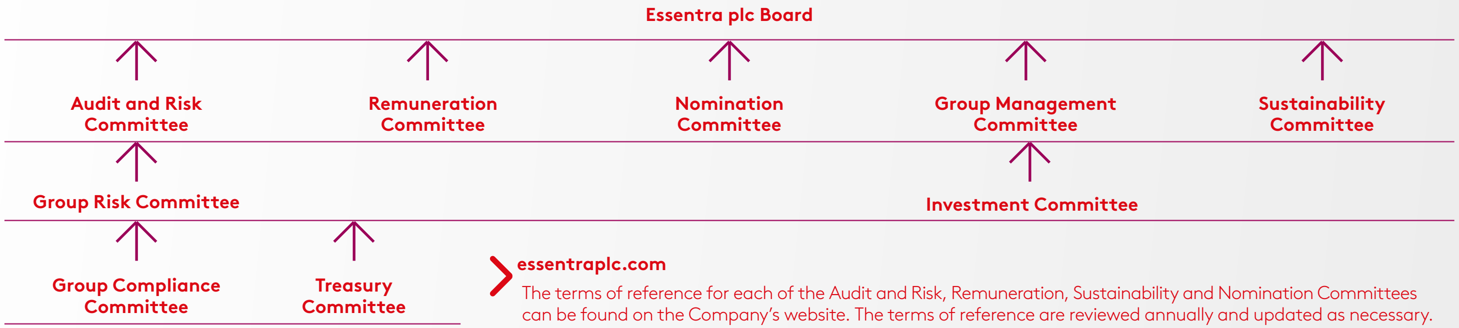
| | Meetings during the year |
|---|---|
| **Paul Lester,** Non-Executive Chairman | 8 (8) |
| **Paul Forman,** Chief Executive | 8 (8) |
| **Tommy Breen,** Senior Independent Director | 8 (8) |
| **Lily Liu,** Chief Financial Officer | 8 (8) |
| **Mary Reilly,** Non-Executive Director | 8 (8) |
| **Lorraine Trainer,** Non-Executive Director[1] | 3 (3) |
| **Ralf Wunderlich,** Non-Executive Director | 8 (8) |
| **Nicki Demby,** Non-Executive Director | 8 (8) |

1 Lorraine Trainer retired from the Board on 21 May 2020. Figures in brackets denote the maximum number of meetings that could have been attended. The Company Secretary and General Counsel acts as Secretary to the Board and is supported by the Head of Governance who attends all the meetings.

The Board delegates authority to manage the business to the Chief Executive Officer and delegates other matters to Board Committees and management as appropriate. The Board has formally adopted a schedule of matters reserved to it for its decision.

In providing leadership to the Company, the Board should establish the Company's purpose and values and set a strategy to deliver them, whilst ensuring that the behaviours that shape its culture are aligned to the strategy. The Board should consider shareholder and other stakeholder views and the main trends and factors which will affect the long-term success and future viability of the Company – and how these and the Company's Principal Risks, uncertainties and opportunities have been addressed. More information on this can be found in the Risk Management Report on pages 50 to 66.

## Our structure




essentraplc.com
The terms of reference for each of the Audit and Risk, Remuneration, Sustainability and Nomination Committees can be found on the Company's website. The terms of reference are reviewed annually and updated as necessary.

### Essentra plc Board (the "Board")

In fulfilling its role, the Board:

- establishes the Company's purpose, values and strategy and has satisfied itself that these and its culture are aligned
- sets, continually reviews and tests the Company's strategic aims
- determines the nature and extent of acceptable risks in achieving the Company's strategic objectives
- assesses shareholder and stakeholder interests from the perspective of the long-term sustainable success of the Company
- 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
- 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

### Audit and Risk Committee

The Audit and Risk Committee supports the Board and is responsible for: monitoring the integrity of the Company's Financial Statements; reviewing, challenging and approving its accounting policies; and scrutinising the effectiveness of the internal and external auditors and the Company's internal control and risk management systems.

### Remuneration Committee

The Remuneration Committee is established by the Board and is responsible for setting a remuneration policy for Directors and senior executives. This policy is designed to promote the long-term success of the Company, taking into consideration the reward, incentives and conditions available to the Company's workforce, shareholders and other stakeholders. The Remuneration Committee determines an appropriate balance between fixed and performance-related and immediate and deferred remuneration. The Remuneration Committee is also responsible for setting the fees of the Chairman.

### Nomination Committee

The Nomination Committee is responsible for regularly reviewing the structure, size and composition of the Board for any changes that it considers to be appropriate. The Nomination Committee will lead the process for Board appointments and make recommendations to the Board taking into account the Company's strategic priorities and the main trends and factors affecting the long-term success and future viability of the Company.

### Group Management Committee

The Group Management Committee (GMC) provides general executive management of Essentra within agreed delegated authority limits determined by the Board. Specifically, the GMC supports the Chief Executive in achieving Essentra's values and goals.

### Sustainability Committee

The Sustainability Committee focuses on all environmental aspects and is responsible for providing advice on and co-ordinating, sustainability-related activities across the Company. The Sustainability Committee reviews the strategies, policies, management, initiatives, targets and performance of the Company within its sustainability framework.

### Group Risk Committee

The Group Risk Committee is responsible for monitoring Principal, Key and Emerging Risks, and ensuring the effectiveness of divisional and functional risk management. Further details of the Company's risk management framework can be found on page 51.

### Group Compliance Committee

The Group Compliance Committee (GCC) is established to oversee the Group's implementation of compliance programmes, policies and procedures required to meet legal, compliance and regulatory requirements. The Company Secretary and General Counsel is be the Chairman of the GCC and is accountable for the Company for compliance activities. The GCC is responsible for executive monitoring of the overall progression of compliance activities.

### Investment Committee

The Investment Committee was introduced at the start of 2020 and operates as a sub-committee of the GMC. The Chief Financial Officer is the Chairman of the Investment Committee and its membership includes all of the GMC. The Investment Committee provides control and challenge around major capital expenditure over £250k.

### Treasury Committee

The Treasury Committee operates as a sub-committee of the GRC. It sets the Treasury Policy for approval by the Board, and reports to the GRC for management of treasury related risks and to the ARC for the effectiveness of the process for managing those risks.

# ESSENTRA PURPOSE, VALUES AND CULTURE

**During 2020, the Board, GMC and senior leaders took the opportunity to reconsider the Company's purpose, values and goals to ensure they remained relevant and aligned with the strategy.**

During 2020, the Board, GMC and senior leaders took the opportunity to reconsider the Company's purpose, values and goals to ensure they remained relevant and aligned with the strategy. Following discussion across the organisation, the Board agreed that the purpose was still relevant but needed to reflect the importance the business and the Essentra family placed on doing business responsibly, whether this involved considering business ethics in who we do business with, ensuring customers had the best product possible, to striving to do more to meet sustainability targets. The Board were pleased that the inclusion of 'responsible' came with the support and commitment of the Essentra family.

In meetings its purpose, Essentra's values are used on a daily basis. Formally known as the Six Principles, the values enable our people to understand what matters the most and to drive those values forward in their roles and everyday work. Whether recruiting new people, providing Health & Safety training or assessing risks, the values can be applied to all spheres of Essentra.

More detail on our purpose can be found in the Chief Executive's Review on pages 8 to 14 and Delivering on our purpose on pages 15 and 16.

Safety, respect and diversity

Openness, honesty and integrity

Energy for change

## Essentra Values

The values are used both in behaviours and to guide decision making and setting policies and provide a means of periodically assessing and evaluating culture. The Essentra family culture has come to the fore during the pandemic and the commitment shown by leaders who upheld the values to keep people safe which in turn reassured our people, and served to ensure the purpose of responsibly providing products and services to continue to be met.

## Matters considered by the Board in 2020

The Board's agenda is set by the Chairman and carefully planned, in conjunction with the Company Secretary and General Counsel, and with the support of the Head of Governance, to ensure that appropriate time is given to managing the affairs of the Company. This ensures focus on the Company's strategic activities and key monitoring activities as well as reviewing significant issues so that matters are considered in line with the schedule of reserved matters. An annual cycle of agenda items is in place to support the work of the Board.

In addition to scheduled Board meetings, the Board met on a weekly basis for part of 2020 to receive updates on the four priorities set following the outbreak of the pandemic. These four priorities are reported on in more detail at pages 17 and 18.

### Strategy

- Approved changes to the Company's strategic roadmap that sets out the Company's purpose, values and goals
- Approved the equity raise
- Approved the acquisition of 3C!
- Held a virtual strategy session with GMC members, approved the business plan supported by an in depth-review of each divisional strategy
- Received regular strategy update sessions
- Received regular updates on progress of the Business Process Redesign project.

### Financial

- Approved the Company's trading statements, full year and half year results and quarterly trading statements
- Received weekly financial reports on cash management and performance in response to the potential impact of COVID-19
- Approved the Group budget for 2021
- Cancelled the 2019 final dividend in order to preserve cash in light of uncertainties faced by the global pandemic
- Approval of major capital and operating expenditure proposals
- Review of refinancing proposals.

### Operational and Risk

- Received regular reports from the Chief Executive and the Chief Financial Officer
- Received detailed presentations from senior management across the businesses and considered reports from enabling functional management about matters of material importance to the Company
- Undertook a considered review of each Principal Risk and Emerging Risk and approved the introduction of a new Principal Risk and Emerging Risk
- Received regular updates on progress of the Business Process Review project
- Review of risk strategy and risk appetite
- Continued consideration of Brexit implications and mitigating strategies
- Continued consideration of cyber security risk.

### Governance and Ethics

- Received updates from the Board Employee Champions and agreed a framework for virtual visits
- Undertook the annual acquisition integration review
- Participated in two externally facilitated Board evaluation, review of the conclusions and agreement on subsequent action plans
- Received feedback from an external review on the quality and balance of Board agendas and papers
- Reviewed and approved gender pay reporting
- Reviewed and approved the annual Modern Slavery Statement
- Received updates on the outcome of sanctioned market compliance failures in the Filters business
- Review of the Company's Right to Speak claims and ensuring arrangements are proportionate and independent
- Received updated training on the Market Abuse Regulation.

### Leadership and People

- Received weekly updates during the peak of COVID-19 on the safety and wellbeing of our people
- Monitored performance and continued development of Health and Safety risk and at each meeting assessed Health and Safety performance
- Reviewed of the annual employee engagement survey results.

## Principal decisions

Principal decisions are defined as both those that are material to the Company, but also those that are significant to any of our key stakeholder groups. For more detail on our key stakeholder groups see page 23. In making the following principal decisions the Board considered the views of its key stakeholders, as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the Company.

### Principal decision 1

**Equity Raise**

- The Board agreed to place new ordinary shares up to a value of £97m (net of costs) to raise additional equity
- Each of the Directors chose to subscribe for new shares, and in total, directors subscribed for £230k of new shares
- An accelerated bookbuild process was used by the brokers, however the Board were conscious that other retail investors, including staff may want the opportunity to participate in the equity fundraise and agreed an offer should be made on the PrimaryBid platform to enable as many investors to participate as possible
- The Board agreed that £50m of the net proceeds of the equity raise would be used to acquire 3C! whilst the additional amount raised would be used to strengthen the Company's balance sheet and to give the Company flexibility to pursue other compelling strategic opportunities as and when they arise
- The Board agreed that the reasons for their decision ensured the Company retained financial strength which would in the long term benefit of a variety of stakeholders including shareholders, staff, customers and suppliers.

### Principal decision 2

**Acquisition of 3C!**

- The Board approved the acquisition of 3C! as the acquisition met the Company's strategic and financial criteria, by creating significant value, strengthening the Company's customer proposition and offering significant synergies
- The Board considered its stakeholders in reaching this decision and concluded that the acquisition would be a positive opportunity
- The Board also considered the implications for the Packaging division and agreed that it would strengthen the Packaging division's position with its key customers in the US pharmaceutical sector
- The Board considered additionally that the acquisition would create a North Carolina hub providing the Packaging division with greater strength for future growth which would benefit staff, customers and suppliers.

### Principal decision 3

**Cash Preservation**

- The Board decided that due to the uncertainty that COVID-19 had presented to consider measures available to preserve cash to maintain the best position possible
- The Board discussed and agreed that cancellation of the 2019 full year dividend would support its approach to cash preservation during the COVID-19 period and also agreed to not declare a HY2020 interim dividend
- The Board recognised the importance of dividends to all shareholders but believed this was a responsible action to take to conserve cash during a period of uncertainty
- The Board also recognised that the need to preserve cash was important for the long-term success of the business and all of its stakeholders
- The Board keeps dividend payments under review.

# BOARD EMPLOYEE ENGAGEMENT

**During 2020, the Board Champions, Mary Reilly and Ralf Wunderlich continued to engage with staff throughout the Essentra family. The Board both enjoy hearing from Mary and Ralf and are committed to the Voice of the Employee initiative.**

The Board have made a commitment to:

- receive updates at every meeting
- review themes and to engage management as appropriate where the Board have any concerns
- review formal employee feedback for themes that may be raised directly with people in the sessions to ascertain their view on those matters

A schedule of visits had been agreed for 2020 but as it became apparent that Mary and Ralf would not be able to visit in person, an alternative framework was created to ensure that the Board still heard from people directly. The framework uses virtual meetings and sessions are facilitated by the Future Leaders who have worked with Mary, Ralf and the Head of Governance, to deliver Voice of the Employee sessions.

Positive feedback has been received by both our people and the Board. Whilst the sessions are confidential, Mary and Ralf, with the support of the Future Leaders, have started to track whether there are any themes in order that they can be addressed as they think appropriate.

In addition to Voice of the Employee sessions, Mary joined a number of team meetings across the businesses so that she could speak with people directly to hear for herself how they were managing to work remotely and to provide colleagues with an opportunity to raise any concerns with her. Unfortunately, it was not possible to replicate this with staff working on the shop floor due to our own COVID-19 safety measures and therefore during 2021 the Voice of the Employee sessions will focus on reaching out to a wider group of staff to ensure they have the same opportunity to provide their feedback.

The Board look forward to further feedback over the course of 2021.

# Q&A WITH RALF WUNDERLICH

## The Role of the Board Champion

- The role was introduced following the introduction of the requirement for employee engagement in the 2018 UK Corporate Governance Code
- The Board has appointed two designated Non-Executive Directors to the role referred to as the Board Employee Champion, in order to ensure that enough sites and people have an opportunity for direct contact with the Champions
- The Board is keen to hear and understand the views of employees and the impact that Board decisions have on the workforce
- The Champions represent the employee views and consider how the decisions taken by the Board will impact the workforce. It is not a spokesperson for the Company in front of employees, more an employee spokesperson in front of the Board
- The Board attaches high importance to employee engagement and want to engage with staff to deepen their understanding of Essentra's working culture and approach to key issues including as health & safety, inclusion, diversity and sustainability
- The Board want to understand what our people consider to be the greatest risks as well hear about the positive side of work for Essentra
- The Board Employee Champion is not an HR position – it is to listen to our family members and make sure they have a voice that is heard directly by the Board so they can calibrate messages that management and the engagement survey tell us
- Details of discussions remain anonymous but the Champions report back to the Board at every meeting

"It is great for the Board to hear directly about what matters the most – safety, sustainability, community, company culture."

**Ralf K. Wunderlich**
**Non-Executive Director**

Q&A

### What are your reflections on your first full year as a Board Champion?

I was so pleased to become a Board Champion and join Mary in this very important role. Mary and I had worked on great plan to engage with many of our people and intended to visit sites and had a planned schedule of visits but it was evident that by the end of Q1 these would not go ahead. We would need to adapt those plans if we were to meet our people and at that point we agreed to move to virtual meetings. As we considered what we could do virtually, it was hugely disappointing to have to accept we would not reach as many staff as would have done if we had visited a site. However, we have now got a good structure around our virtual meetings and we are sure that as lockdown continues, we will be better prepared and able to meet staff in 2021 and hopefully by the second half of 2021 some in-person meetings are possible.

### What have you enjoyed most about the role?

I enjoy meeting our people and hearing about what matters to our people. Safety is our number one priority and a paramount concern for the Board, and by talking with staff it is obvious that it is indeed everybody's number one priority. I really enjoy people talking to me about what Essentra means to them, and how they feel about working for

# Q&A

Essentra. That is one of the questions in the Employee Engagement Survey and being able to hear it direct from people makes a real difference.

## What are the benefits of having this designated role on the Board?

The role gives the Board the opportunity to hear from people at different levels across the organisation, especially staff on the shop floor. It is great for the Board to be able to hear directly about what matters the most – safety, sustainability, community, company culture amongst others – how they feel about helps the Board in performing their duties.

The role is there for the good and bad days too. Mary and I are ready to listen to staff who have had to live through the impact of difficult decisions taken by management and are ready to answer and discuss any issue.

## What are the main themes coming out of your meetings with employees?

This year, staff have been concerned about the pandemic: their safety, their emotional wellbeing. The Board were pleased that the Essentra Thrives initiative expanded the Employee Assistance Programme to all staff across the globe.

## Have there been any surprises?

Our people are always very straightforward and open with us and I really value their honesty. We found the same when we were able to visit sites in 2019. This gives Mary and I insights into what is important and we can then take that back to the Board. If we hear of something that's not right, it means we can tackle that with the Board and management's support.

## What has been the reaction from employees to the role?

I am always genuinely pleased to see that our people take the sessions seriously and are straightforward with their feedback and questions. They want to talk to us and seem to enjoy the opportunity. We explain our roles at the start of the session so that people are clear on what to expect.

We have also involved our Future Leaders in our sessions. They have helped organise the sessions and gain the opportunity to work directly with senior managers as well as the Board, and of course, they get to listen to what their colleagues across the globe have to say too.

## What has been the reaction from the Board?

The Board always hear back from Mary or I at every meeting. The Chairman, Paul Lester, makes it a point to have feedback on each and every Board meeting agenda. Clearly this indicates the importance the Board places on employee engagement and representation. As this is still relatively new to UK boards, we are still learning to ensure that the most value can be taken from the feedback we get.

## What have been the challenges of the role and how do you see it developing?

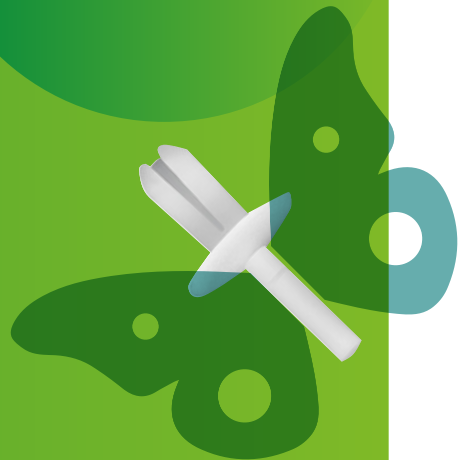
There have been two challenges. The first is the COVID-19 pandemic: we had to flip from in-person visits to virtual and put a framework in place to make that happen. The other longer-term challenge is language – with so many sites in so many locations, we have had to think about how to ensure we can hear what people are saying. To help with this, our graduates suggested using a mobile app so that people could submit questions in their language in advance and we can address those.

## What are you hoping to see evidence of during your visits, both virtual and in person, in 2021?

With vaccinations now available, I am hopeful this will bring us all back to a more normal, or new normal business life. I am hopeful that I will be able to get to meet our people in person and those on the shop floor. Our business has made some difficult decisions in 2020 in connection with restructuring the business, and I am looking forward to meeting the people who have had to live through those changes.

**"As this is still relatively new to UK boards, we are still learning to ensure that the most value can be taken from the feedback we get."**

**Ralf Wunderlich**
Non-Executive Director



# DIVISION OF RESPONSIBILITIES


**The roles of the Chairman and the Chief Executive are separately held and are so defined as to ensure a clear separation of responsibilities. 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.**

The Board considers that, for the year ended 31 December 2020, the Non-Executive Directors were each independent. In making this assessment of 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 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 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 Senior Independent Director (SID) can be contacted via the Company's registered office. During the year, this role was held by Tommy Breen, and upon his retirement, the role will pass to Mary Reilly in 2021 subject to her re-election as a Non-Executive Director. The SID 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 Chief Financial Officer, or where such contact is inappropriate.

## External commitments

The Board is fully aware of current external commitments for all of the Non-Executive Directors and is satisfied these do not distract from the time committed to Essentra. Non-Executive Directors are also required to discuss any additional external appointments with the Chairman prior to their acceptance. In addition, the time commitments of the Chairman are the subject of review by the SID, in conjunction with the other Non-Executive Directors. The Conflict of Interest register is reviewed at each Board meeting.

**In considering the Chairman's continued time commitments to the Company, the Non-Executive Directors also viewed positively his exemplary attendance record at Essentra, ensuring that he was able to attend 100% of Board and Committee meetings.**

While there were no material changes to the time commitment of the Chairman during the year, the Board took note of Paul Lester's appointment as Chairman of Marley Limited. The Board concluded that he continues to be able to fully satisfy his obligations to Essentra. In considering the Chairman's continued time commitments to the Company, the Non-Executive Directors also viewed positively his exemplary attendance record at Essentra, ensuring that he was able to attend 100% of Board and Committee meetings and other additional informal meetings with Board members throughout the year. The Board expects this attendance record to continue going forward and Paul Lester has given assurances of his continued commitments to the Company.

During the year Mary Reilly took a role as a Non-Executive Director at Gemfields Limited. This was notified to the Board and Nomination Committee beforehand who believe Mary has sufficient time to still fulfil her role as Chairman of the ARC and Board Champion. Mary continues to be available to meet outside of formal meetings.

Ralf Wunderlich was appointed to Shepherd Building Group Limited towards the end of the year and having notified the Board and Nomination Committee of this appointment, the Board concluded he still had sufficient time for his roles of Chairman of the Sustainability Committee and Board Champion. As with Paul Lester and Mary, Ralf also remains available to meet outside of the formal meeting schedule.

All of the Board have attended all Board and Committee meetings this year and with their commitment to their roles clear, the Board is content that the Non-Executive Directors devote sufficient time to the business of Essentra. Executive Directors may accept outside appointments, provided that such appointments do not in any way prejudice the ability to perform their duties on behalf of Essentra.

Paul Forman, Chief Executive, currently holds one external non-executive position, and the Board is of the view that this is not detrimental to the performance of his duties given the time requirements involved and that this appointment is beneficial to Essentra given Paul's exposure to another business and their response to a wide variety of issues. The letters of appointment for Non-Executive Directors are available for review at the Company's registered office and prior to the AGM. With fluctuating COVID-19 arrangements in place, please contact CompanySecretary@essentra.com if you wish to view these documents prior to travelling.

## Directors' elections

The Company's Articles of Association require that all new Directors seek election to the Board at the AGM following their appointment. In compliance with the 2018 Code, all eligible Directors will put themselves forward for re-election on an annual basis. As Tommy Breen has announced his retirement from the Board, he will not stand for re-election. The Board, including the Chairman, is satisfied that each of the Directors being put forward for re-election continues to be independent and effective and that their ongoing commitment to the role is undiminished. The Notice of Meeting contains additional information as to the recommendations of the Directors' re-election.

## The conduct of Board matters

During the year, there were eight scheduled Board meetings. In addition to these scheduled formal meetings, the Board met weekly for a number of months during the first lockdown in the UK and on a number of other occasions as required.

Informal discussions are also held between the Chairman and the Non-Executive Directors on a regular basis and additionally prior to or post each scheduled Board meeting. Regular contact is also maintained with the Chief Executive and with members of the GMC. The SID has also held meetings with Non-Executive Directors without the Chairman present.

**The GMC met virtually several times a week during 2020 as it steered the business safely through Covid-19 and intends to meet on a weekly basis in 2021 until such time as it is appropriate to reconsider its meeting cadence.**

The Board is supported in its role by Board Committees and whilst they are a valuable part of the Company's corporate governance structure, the Board, as a whole, maintains oversight of such important matters and, after each Committee meeting, the Chairman of the Audit and Risk Committee reports on the matters which have been reviewed. In particular the Board looks to the Audit and Risk Committee to undertake the majority of the work involved in monitoring and seeking assurance as to compliance with the internal controls and risk management practices within this structure.

Other specific responsibilities are delegated to the Remuneration, Nomination and Sustainability Committees. The Board believes that it, and its Committees, have the appropriate composition to discharge their respective duties effectively with the appropriate level of challenge and independence, and that the members of the Board in conjunction with the senior executive teams are well equipped to drive and deliver, the Company's strategic objectives.

The Board is of the view that it has a highly competent Chairman who, together with each of the other Non-Executive Directors, has considerable international experience at a senior level in the management of activities broadly similar to those carried out by Essentra and the material issues likely to arise for the Group.

Operational matters and the responsibility for the day-to-day management of the businesses are delegated to the Chief Executive, supported by members of senior executive management as appropriate, within delegated authority limits. The support of the GMC ensures a strong link between Essentra's overall corporate strategy and its implementation within an effective internal control environment and robust risk management.

Full details of the membership of the GMC can be found on pages 79 and 80.

The GMC met virtually several times a week during 2020 as it steered the business safely through COVID-19 and intends to meet on a weekly basis in 2021 until such time as it is appropriate to reconsider its meeting cadence. The GMC has adopted a clear governance framework: agendas are set according to the framework and all matters arising are addressed. Papers are circulated in advance of the meetings and the CEO makes good practice of ensuring views of all GMC are heard. As these behaviours are modelled across the business, it has encouraged these practices to be shared across other management committees, all of which have contributed to continual improvements in effective corporate governance and timely upward reporting within the Group.

## Board paper review

In addition to the Board Effectiveness reviews, as detailed on page 104 of the Nomination Committee report, an externally facilitated review of Board papers was undertaken. The review identified areas of good practice in the quality and content of some Board papers. For instance, reports to the Board on cyber risk were highly commended, and this meant the Board were very well cited on the risk and mitigating actions being taken. Other Board papers had scope for improvement to reduce the dependency on appendices and ensure reports were succinct and clearly set out the input required from the Board.

## 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 2020, the Group Operations Director was responsible for co-ordinating the operation of detailed policies on health and safety and the environment, and the Company Secretary and General Counsel was responsible for co-ordinating policies on ethics, which support Essentra's commitment to its corporate responsibility principles. Further details of these policies can be viewed on the Company's website.

## Diversity

During 2020, the Diversity and Inclusion Steering Group that had been established in 2019, met early in the year and considered plans for diversity initiatives during 2020. The onset of the pandemic made it challenging for the Group to continue their work as people needed to focus on safety measures, however, this did not diminish the importance attached to Diversity & Inclusion. With a global workforce facing challenges brought about by COVID-19 it was agreed that all employees should be included in the Essentra Thrives initiative, and they now have access to the Employee Assistance Programme regardless of their location or grade. The emotional wellbeing of all our people is a priority and location or grade should not be a barrier to receiving support.

The Board continues to confirm a strong commitment to diversity including, but not limited to, gender diversity at all levels of the Group, and considers its own composition provides a reasonable indication of its approach to this commitment. Further information can be found on page 103.

## Sustainability Committee

The Sustainability Committee has now met for its first full year. Under the leadership of Ralf Wunderlich, a Sustainability strategy has been developed and targets agreed so that sustainability can be reflected in the wider strategy. Given the important work undertaken by the Sustainability Committee, a separate report has been prepared on its activities and can be found on pages 100 and 101 whilst a more information on Class-Leading Sustainability can be found on pages 36 to 41.

## 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. The decision to authorise a conflict of interest can only be made by non-conflicted Directors. A register of Directors' Interests is maintained so that any potential concerns are addressed before any material issues may arise.

The Conflict of Interests register and the schedule of Directors' Interests is reviewed at each Board meeting. 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 and 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 and General Counsel, and for the year under review, his advice was sought in relation to share dealings only. 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.

**The Board continues to confirm a strong commitment to diversity including, but not limited to, gender at all levels of the Group.**

## Shareholder communications

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

All shareholders can meet any of the Directors of the Company should they so wish. In particular, the SID is available to shareholders should they have concerns or wish to share their views. Feedback from meetings with shareholders is provided regularly to the Board so they are aware of any issues or concerns, and ensures that the Board has a balanced view from major investors. Following advice from the UK government, the AGM in 2020 was held as a closed event in order to observe COVID-19 safety measures and shareholders were encouraged to submit questions in advance of the meeting. For 2021, the Board will host both an in-person and virtual AGM so that the Board can continue to communicate with all shareholders, including private investors, who are provided with the opportunity to put questions to the Directors. Shareholders are encouraged to attend virtually but will need to lodge votes by proxy. The Notice of AGM includes a proposal to amend the Articles of Association in order that hybrid meetings can be held in future years which will allow votes cast electronically to be counted on the day. The Board support the proposal to amend the Articles and believe this will provide an increased opportunity for shareholder engagement. The Articles also set out some minor amendments and the AGM Notice explanatory notice sets out the details of these changes in more detail.

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

The Company also communicates and engages regularly with its major institutional shareholders and ensures that all the Directors, including the Non-Executive Directors, understand the views and concerns of major shareholders in relation specifically to their views on governance and performance of the Company against strategy. The Chief Executive, Chief Financial Officer and Investor Relations Director have primary responsibility for investor relations. Virtual presentations for analysts and shareholders were held during the year, and virtual meetings were also undertaken with key institutional investors to discuss strategy, financial performance and investment activities. Slide presentations are made immediately available after the full and half year results, and are also available on the Company's website to view and download. The Company ensures that any price-sensitive information is released to all shareholders at the same time, in accordance with regulatory requirements. During the year the Chairman, SID, Chairman of the Remuneration Committee and Chairman of the Sustainability Committee have held independent meetings with shareholders and additionally the Chairman has attended meetings with the Chief Executive. At each Board meeting reports are presented detailing the engagements with shareholders to ensure that the Board as a whole has a clear understanding of the views of the shareholders.

## Financial reporting

The Directors have acknowledged, in the Statement of Directors' Responsibilities set out on page 149, their responsibility for preparing the Financial Statements of the Company and the Group. The Directors are responsible for preparing the Annual Report and Accounts, and they consider that the Annual Report and Accounts taken as a whole are fair, balanced and understandable. The External Auditor has included a statement about their reporting responsibilities in the Independent Auditors' Report, set out on pages 210 to 218.

**Directors, understand the views and concerns of major shareholders in relation specifically to their views on governance and performance of the Company against strategy. The Chief Executive, Chief Financial Officer and Investor Relations Director have primary responsibility for investor relations.**

**In accordance with the 2018 Code, the Board acknowledges its overall responsibility to shareholders to ensure that an adequate system of risk management and internal control is in place.**

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

## Internal controls

In accordance with the 2018 Code, the Board acknowledges its overall responsibility to shareholders to ensure that an adequate system of risk management and internal control is in place 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. This is essential for reliable financial reporting and also for the effective management of the Group.

The internal control and risk management process for financial reporting processes is documented within the Essentra Accounting Manual (the "Manual") that is updated on a regular basis. The Manual sets out the procedures and process established for internal and external financial reporting and incorporates accounting policies that are adopted by the Company, as well as processes and controls relating to tax and treasury matters. The Manual sets out clear processes that cover, amongst other matters, segregation of duties, reporting responsibilities and review and approval requirements. The Manual prohibits management overrides and the processes set out within the Manual are also reflected within financial reporting systems and the framework for financial controls within the Group. A Delegation of Authority is in place, that is also reviewed and updated on a regular basis, that identifies approval processes for different matters. The Manual is applied across the entire Group and supported by a twice yearly confirmations from divisional management in relation to adherence to the Group accounting policies.

Further details on the Company's risk management system and internal controls can be found on pages 109 and 110.

The following enables the Board to review the effectiveness of the system of internal control and the financial reporting processes:

- the ARC meets regularly and reports to the Board, no less frequently than at every Board meeting following an ARC meeting
- the terms of reference provide a framework for the ARC to review and oversee the quality, integrity, appropriateness and effectiveness of the Group's internal control framework
- the Board has met with divisional Managing Directors as has the ARC, who have discussed with them the internal control environment at local sites
- every month, each division submits detailed operating and financial reports covering all aspects of performance. These are reviewed by the Chief Financial Officer and 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 (including financial) and procedures at both the half year and year end.

## 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 policy provide cover, to the extent that a Director is proven to have acted dishonestly or fraudulently.

## Roles and responsibilities

### Chairman

- Sets the Board agenda primarily focused on strategy, performance, value creation, culture, stakeholders and accountability, and ensuring that issues relevant to these areas are reserved for Board decision
- Shapes the culture in the Boardroom
- Encourages Board members to engage in Board and Committee meetings
- Fosters relationships based on trust, mutual respect and open communication between Non-Executive Directors and the Group Management Committee
- Develops a working relationship with the Chief Executive
- Provides guidance and mentoring to new Directors as appropriate

### Senior Independent Director (SID)

- Provides a "sounding board" for the Chairman
- Serves as an intermediary for the other Directors when necessary
- Acts as an alternative point of contact for shareholders where contact through the normal channels of Chairman, or other Executive Directors has failed to resolve any concerns, or for which such contact is inappropriate
- Leads the annual assessment of the effectiveness of the Chairman

### Non-Executive Directors

- Providing constructive challenge to executive management
- Bring experience and objectivity to the Board's discussions and decision-making
- Monitor the delivery of the Group's strategy against the governance, risk and control framework established by the Board
- Responsible for evaluating the performance of the Chairman, led by the SID

### Chief Executive

- Proposes the strategy to the Board and implements the strategy which has been approved by the Board
- Communicates to the workforce the expectations in respect of the Company's culture and for ensuring that operational policies and practices drive appropriate behaviour
- Develops manageable goals and priorities for the management team
- Leads and motivates the management teams
- Ensures that the Board is aware of the views of the senior management team on business issues
- Develops proposals to present to the Board on all areas reserved for its judgement

### Chief Financial Officer

- Lead, direct and oversee all aspects of the finance and accounting functions of the Group
- Contributes to the development of strategy and management of the Group's business
- Manage relationships with the external auditor and key financial institutions and advisors
- Ensure effective internal controls are in place and compliance with appropriate accounting regulations for financial, regulatory and tax reporting

### Company Secretary

- Maintains a record of attendance at Board meetings and Committee meetings
- Responsible for ensuring good information flows to the Board and its Committees, and between the GMC and the Non-Executive Directors
- Advises the Board on all regulatory and corporate governance matters
- Assists the Chairman in ensuring that the Directors have suitably tailored and detailed induction and ongoing training and professional development programmes

# GROUP SUSTAINABILITY COMMITTEE REPORT

**The Sustainability Committee is responsible for driving forward the Group wide approach to sustainability with a focus on reducing and ideally eliminating any environmental impact. The Sustainability Committee agreed within its Terms of Reference that it would report to shareholders on its activities so that shareholders can better understand the role of the Sustainability Committee.**

**Ralf Wunderlich**
Non-Executive Director

## Roles and responsibilities

The role and responsibility of the Sustainability Committee is to:

- Review and assess the Company's exposure to sustainability-related issues
- Assess the Company's responses to these issues
- Understand whether these responses are consistent with the risk appetite of the Company
- Identify potential gaps in approach and high-level approaches to closing those gaps

### Membership and attendance

| | Meetings during the year |
|---|---|
| **Ralf Wunderlich,** Chairman | 4 (4) |
| **Nicki Demby,** Non-Executive Director | 4 (4) |
| **Mary Reilly,** Non-Executive Director | 4 (4) |
| **Paul Forman,** Chief Executive Officer | 4 (4) |
| **Jon Green, C**ompany Secretary and General Counsel | 4 (4) |
| **Nick Pennell,** Group Programme Director | 4 (4) |

**Other attendees**

During 2020, the Chairman, the SID, the Chief Financial Officer, the Strategy and Commercial Director, the Group Communications Director and the Group HSE Director were invited to attend every meeting.

Figures in brackets denote the maximum number of meetings that could have been attended. The Committee Secretary was initially the Group Sustainability Coordinator, and the role has now been passed on to the Head of Governance.

Lily Liu was appointed as a member of the Sustainability Committee with effect from 1 January 2021.

## Key activities 2020

- Approved four sustainability targets for i) zero waste to landfill sites, ii) total waste production, iii) the percentage of packaging and raw materials from sustainable sources and iv) Scope 1 and 2 greenhouse gas (GHG) emissions
- Agreed KPIs to support reporting progress on the sustainability targets and monitored reporting against those KPIs
- Reviewed disclosures and the results of the Carbon Disclosure Project which has moved from a 'C' to a 'B'
- Reviewed disclosures made under the voluntary Ecovadis index and the progress made towards improving the existing silver score
- The Sustainability Committee invited two guest speakers – a major bank and Helsinki Nasdaq listed manufacturing company – to share their journeys to support the Sustainability Committee as it develops its understanding of best practices and learnings from other companies and various stakeholders
- Received updates on key sustainability initiatives including the reduction of single use plastics across the Group.

## Embedding sustainability and reducing risk

Following the first full year of the Sustainability Committee, the increasing focus on sustainability has ensured the Sustainability Committee has been very active in supporting the Group as it has increased its focus in this area. During the year, we asked our people what mattered to them and their response highlighted how important sustainability was to them. This was incorporated into the wider strategy and having engaged with staff, there was a momentum to continue to seek out ideas and initiatives that could be shared across the organisation.

Those ideas and the energy created has been shared with the wider organisation by establishing a Sustainability Working Group comprising representatives from the divisions, Group HSE, Legal function, Group Communications and Group Investor Relations. The Sustainability Working Group has also been able to monitor and respond on ESG and sustainability related topics on a day-to day-basis.

Building on the response from employees, the Sustainability Committee agreed four sustainability targets. These continue to be embedded within the organisation and monitoring the progress against the agreed KPIs will be the focus for the Sustainability Committee during 2021.

The Sustainability Committee has contributed to setting targets used by the Remuneration Committee to align remuneration with sustainability. This has further underpinned the importance and commitment placed on sustainability.

The Sustainability Committee has also considered how sustainability initiatives and the development of the Group's sustainability strategy can reduce and mitigate the Principal Risk on Environmental, Social and Governance (ESG) risks. Recommendations made by the Committee has helped to inform the work of the GMC, divisions and enabling functions thereby reducing the Group's exposure to the Principal Risk on ESG. For example, disclosures made as part of CDP reporting have identified further improvements that can be made across the Group, that when implemented will both decrease the risk exposure and increase the CDP rating.

## Task Force on Climate Disclosure (TFCD)

The Sustainability Committee will spend time during 2021 considering the impact of TCFD disclosures in order to meet TFCD reporting requirements. The Sustainability Committee will focus on the four TFCD disclosure areas of governance, strategy, risk management and metrics and targets and review existing activity and reporting metrics as well as identify where there may be gaps in order to reach an agreed approach.

**"As sustainability continues to gather momentum, it is embedded within the organisation that will provide the greatest impact for the environment."**

# NOMINATION COMMITTEE REPORT COMPOSITION, SUCCESSION AND EVALUATION

"The Nomination Committee actively considers whether succession plans build diversity and inclusion into the talent pipeline."

**Paul Lester, CBE**
Non-Executive Chairman

## Roles and responsibilities

- Reviewing the size, structure and composition of the Board to ensure they remain appropriate to the Company's strategic objectives
- Support the development and keep under review diversity and inclusion
- Recommending membership of the Board and its Committees and leading the process for new Board appointments
- Undertaking succession planning for the Board and senior executive positions and keeping under review the leadership needs of the business
- Determining the independence of Directors
- Assessing whether Directors commit enough time to discharge their responsibilities
- Reviewing the induction and training needs of Directors

### Membership and attendance

| | Meetings during the year |
|---|---|
| **Paul Lester** | 3 (3) |
| **Paul Forman,** Chief Executive | 3 (3) |
| **Tommy Breen,** Non-Executive Director | 3 (3) |
| **Mary Reilly,** Non-Executive Director | 3 (3) |
| **Lorraine Trainer,** Non-Executive Director | 1 (1) |
| **Ralf Wunderlich,** Non-Executive Director | 3 (3) |
| **Nicki Demby,** Non-Executive Director | 3 (3) |

**Other attendees**
During 2020, the Group HR Director and the Chairman of the Diversity and Inclusion Steering Group attended by invitation as appropriate.

Figures in brackets denote the maximum number of meetings that could have been attended. The Company Secretary and General Counsel acts as Secretary to the Nomination Committee, with the support of the Head of Governance who also attends all meetings.

Lorraine Trainer retired from the Board on 20 May 2020 and therefore was only scheduled to attend 1 of the meetings.

## Key activities 2020

- Reviewed the composition, structure, size and skill set of the Company's Board and the Committees and recommended the appointment of Lily Liu to the Sustainability Committee
- Reviewed the Company's approach to a diversity and inclusion
- Reviewed succession planning for the Board, key roles on the GMC and senior management roles and the plans to address any development needs for senior management
- Reviewed the leadership needs of the business as it developed its strategy including the impact of COVID-19 on the nature of leadership required by the organisation
- Reviewed the results of the Board Evaluation and implemented an action plan accordingly
- Reviewed and approved the Nomination Committee Report for inclusion within the 2019 Annual Report
- Reviewed and agreed revised Terms of Reference for the Nomination Committee

## Key Activities for 2021

- Ongoing review of succession planning for the Board, its Committees, the GMC and senior management roles
- Monitoring the introduction and effectiveness of a Board Apprentice
- Encouraging further action to embed and develop diversity and inclusion across the organisation
- Assess whether directors are able to commit enough time to discharge their responsibilities

## Board apprentice

During the year, the Nomination Committee agreed to pilot the introduction of a Board Apprentice in 2021. Both the Board and the Nomination Committee recognise there is a general lack of available talent from within ethnic minority communities with the attributes required for UK plc board positions. The Nomination Committee therefore agreed to trial a Board Apprentice scheme with a view to increasing the pool of talent available to all plc boards. The individual selected will have the appropriate attributes to go on to become a future Non-Executive Director but be in need of an opportunity to gain plc board experience which this role will provide. This will run as a 12-month programme and will provide both the individual and the Board with benefits. We look forward to reporting on this initiative in our next annual report.

## Talent management and succession planning

The Nomination Committee continues to take an active interest in the quality and development of talent and capabilities below Board level, particularly at GMC level and senior management.

The Chief Executive presented his annual management succession plan to the Nomination Committee which was considered in detail with ongoing updates provided at following meetings. This process helps to ensure that the development of senior management and other high performing individuals is actively managed so that the business has the leadership it requires. The Nomination Committee also considers whether the succession plan builds diversity in senior roles and where necessary this allows the Nomination Committee, the Chief Executive and the Group HR Director to agree actions to better ensure the talent pipeline is more diverse. The development of a diverse range of talent will continue to be a focus in 2021. The Nomination Committee noted the importance of the Future Leaders Programme, which successfully recruited a diverse and broad selection of graduates. Continued engagement with the Future Leaders was critical to not just the programme's success and to maintaining momentum by those selected throughout their careers.

## Sustainability

During the year, as the Sustainability Committee continued to embed itself into the governance framework and in the organisation, the Nomination Committee agreed to appoint Lily Liu to the Sustainability Committee. Lily had initially attended the Sustainability Committee as a regular invitee, and her enthusiasm and interest in sustainability was evident in her contribution as was her commitment to integrate sustainability within the strategy planning cycle for 2021. The Nomination Committee are very pleased to approve Lily's appointment.

**The Nomination Committee agreed to trial a Board Apprentice scheme with a view to increasing the pool of talent available to all plc boards.**

## Diversity and inclusion

The Nomination Committee and the Board continue to review diversity and inclusion and noted that whilst some initiatives had out of necessity received a lower profile whilst the organisation managed its way through the global pandemic, the importance of diversity and inclusion remained. The launch of Essentra Thrives, which supports health and wellbeing across the organisation, emphasised the importance of including all of Essentra's people and providing them with the same level of support regardless of role or location. The Committee agreed that as the organisation emerged from the pandemic, a relaunch of diversity and inclusion would benefit everyone by continuing to build awareness and understanding amongst staff. This would also reflect agreed activity that formed the wider organisational strategy.

During 2020, Diversity and Inclusion Steering Group that had been established in 2019, met early in the year and considered plans for diversity initiatives during 2020. The Group considered the challenges it faced across the globe with differing attitudes towards diversity and inclusion. Whilst the Diversity and Inclusion Steering Group agreed it was appropriate to focus on people's safety as a priority during the global pandemic, there was agreement that this did not decrease the importance or need of diversity. The Diversity and Inclusion Steering Group look forward to renewing their focus and continuing their work in 2021.

The Nomination Committee also considered the Board's diversity and looked at its composition. The Board agreed that its composition was reasonably diverse both from gender and ethnicity but that a Board Apprentice could further encourage greater ethnic diversity and provide views and insights that could benefit the performance of both the Board and the organisation as a whole.

## Board nomination process

Whilst there were no appointments made during the year, the Nomination Committee follows a process to ensure that an open and transparent process is used in line with its Terms of Reference. The process takes into account the independence of the candidate, an assessment of the candidate's skills against the required skills and experience for the role and how the appointment supports the Board's commitment to diversity.

The Nomination Committee agreed that the fundamental objective for all appointments remained the that the best person needed to be 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, remains the key component of Essentra policies across its international operations at all levels. Further details on the Company's approach to diversity and inclusion can be found on page 34.

## Board evaluation

As required the 2018 Corporate Governance Code, the Board undertakes an annual review of its effectiveness. The Board engaged Lintstock to carry out this review and with the Chairman of the Nomination Committee, the scope of evaluation and areas for focus were agreed. The conclusions were provided to the Board in February 2020 with an action plan developed and further discussions held by the Board in May 2020 following a re-scheduling of the presentation due to COVID-19. These actions were implemented in early 2020 and included:

- a review of the strategy for each one of the divisions
- development of ESG throughout the organisation
- initiating a processes for stronger talent management and succession planning
- recruitment of a Head of Governance to enhance board support and strengthen governance throughout the organisation

## A second board evaluation

The Board agreed in October 2020 to carry out a further review, as the Board was conscious that not having been able to meet in person had made the dynamics of the Board more challenging. The informal time that the Board would usually spend together had been lost, and the Board believed that it needed to consider its performance again through a fresh pair of eyes. Sam Allen Associates (SAA) was appointed to externally facilitate an interview-driven review of the effectiveness and performance of the Board, its committees and directors. SAA engaged with the Chairman of the Nomination Committee to set the scope and areas of focus. The conclusions were presented to the Board in early 2021:

- the Board is very experienced and fully involved in decision making and competent on all regulatory matters
- the Board has adapted well to a rapidly changing situation with robust debate throughout 2020
- there is a good process for stakeholder management with regular meetings with shareholders along with virtual employee engagement sessions.
- Board support had improved considerably over the year
- the Audit and Risk and Remuneration Committees were very well run and highly effective

## Priorities for change

The Board agreed that following the second review, the following priorities would be addressed during 2021:

- a refreshed focus on Board dynamics to ensure that the Board operated as efficiently as possible with creative approaches to be adopted to ensure the Board worked well together
- more time would be spent on divisional strategies supported by regular reporting on the agreed performance metrics for each of the divisional strategies
- increased focus on succession planning from senior management upwards to further develop a diverse talent pipeline in line with strategic expectations.

## Key objectives and selecting a service provider for 2020 evaluation

Neither Lintstock nor SAA have any other connection with the Company or individual Directors.

# AUDIT, RISK AND INTERNAL CONTROL

"The Committee has continued to play a key role within the Company's governance framework to support the Board in matters relating to financial reporting, internal controls, compliance and risk management."

**Mary Reilly**
Non-Executive Director

## Roles and responsibilities

### Financial Reporting

- Ensuring the interests of the shareholders are properly protected
- Monitoring and reviewing the integrity of the Financial Statements and any formal announcements relating to financial performance
- Reviewing the relevance of our current accounting policies
- Challenging significant accounting judgements

### Risk Management, Internal Control and Compliance

- Reviewing regular reports from the Group Risk Committee and reviewing risk management processes
- Reviewing the effectiveness of the internal financial controls
- Right to Speak arrangements and the follow up of any claims made through this mechanism
- Reviewing regular updates from the Group Compliance Committee and assessing progress on the compliance transformation programme

### Internal Audit

- Overseeing the internal audit activities
- Monitoring and reviewing the effectiveness of the Internal Audit function
- Agreeing the annual internal audit plan and reviewing the output from that

### External Audit

- Making recommendations to the Board in relation to the appointment, reappointment and removal of the External Auditor
- Reviewing the relationship with the External Auditor and monitoring their independence and objectivity
- Continuous challenge of the effectiveness and quality of the external audit process
- Agreeing the scope, terms of engagement and fees for the external audit
- Initiating and supervising a competitive tender process for the external audit when required
- Monitoring the engagement policy of the External Auditor to supply non-audit services
- Reviewing and discussing reports presented by the external auditor at each meeting

## Dear Shareholder,

As Chairman of the Essentra plc Audit and Risk Committee (the "ARC"), I am pleased to present my Report for the year ended 31 December 2020 to shareholders.

The Report provides an insight into the ARC's deliberations and activities throughout the year and explains how it has fulfilled its oversight role on behalf of the Essentra Board, by monitoring and robustly challenging the integrity of the Group's financial reporting the systems of internal control and its risk management framework. The Report explains how the ARC has met the requirements placed on audit committees by the 2018 Code and applicable guidance, laws and regulations. In carrying out its duties the ARC also operated in accordance with recommendations set out in the FRC Guidance on Audit Committees which was published in April 2016 and remain cognisant of updated FRC guidance, letters and reports that are relevant to the work of the ARC.

The Committee has continued to play a key role within the Company's governance framework to support the Board in matters relating to financial reporting, internal control and risk management. COVID-19 brought a focus to the system of internal controls and financial reporting and we sought assurance over these with the support of our Group Assurance team.

As the pandemic impacted the original 2020 internal audit plan, a revised plan of internal audits was put in place for H2 that focussed on key areas of risk to the business at that time so that the audit would also support the business' approach to those areas. The ARC has since agreed an extended internal audit plan for 2021.

Audits during 2020 were conducted on balance sheet reviews, financial controls, supply chain integrity, safeguarding people, business resilience and security. Our Group Assurance team were able to both support the businesses whilst providing an additional level of assurance that the ARC needed. Audits were undertaken remotely using a combination of in-depth reviews and self-assessment checklists with follow up discussions held with relevant colleagues. We continue to develop our internal audit practices to take account of the challenges presented by the pandemic.

The ARC also spent time reviewing the processes associated with the Company's risk management and supported the Board in its assessment of the Principal and Emerging Risks and the effectiveness of the mitigation plans. Following an extensive review of how COVID-19 may have changed the risk profile and appetite, the ARC recommended redefining some of our Principal Risks and the introduction of a new Principal Risk: Exposure to the Cyclical Industrial Market – Components division. Emerging Risks were also refined and a new risk identified: Evolving Conditions of the Debt Market.

In light of the matters highlighted in last year's Annual Report regarding the investigations into historical non-compliance with US trade sanction laws in the Filters division and the settlements reached with the DoJ and OFAC in 2020, the ARC have paid particular attention to the accounting and reporting implications of the agreed settlements and the ongoing programmes to enhance compliance procedures across the Group. During the year, the ARC received regular reports on the compliance transformation programme to ensure that it was being implemented across all of the business. Despite the challenges presented by COVID-19 and the focus on safety, the Company continued with training and other compliance activities. The plan agreed for 2021 continues to drive improvements and takes account of changes in risk profile and lessons learnt, and has provided assurance to the ARC that the terms of the DPA agreed with the DoJ can be met on an ongoing basis.

The detailed report which follows, aims to provide insight into the workings and activity of the ARC throughout the year as it seeks to assist the Board in discharging its responsibilities. The Report covers, inter alia, the integrity of Financial Reporting; the relationship with the External Auditor; the progress made with the compliance transformation programme and the effectiveness of the risk management process and internal control processes. I believe that the ARC has the necessary experience, expertise and financial understanding to fulfil its responsibilities and meet the increasing governance demands.

As we emerge from the disruption caused by the pandemic, the ARC will be focused on overseeing the extended Group Assurance programme and ensuring that the risk management, internal control and compliance activities remain robust and effective. The ARC will also be working with the External Auditor on the transition of the partner. Finally, as Chairman of the ARC, I am pleased to engage with shareholders and continue to be available to meet if asked.

**Mary Reilly**
**Non-Executive Director**
Audit and Risk Committee Chairman
5 March 2021

### Membership and attendance

| | Meetings during the year |
|---|---|
| **Mary Reilly,** Chairman | **4 (4)** |
| **Tommy Breen,** Non-Executive Director | **4 (4)** |
| **Lorraine Trainer,** Non-Executive Director | **2 (2)** |
| **Nicki Demby,** Non-Executive Director | **4 (4)** |

**Other attendees**
Lorraine Trainer resigned as a Non-Executive Director on 20 May 2020 and therefore only attended 2 meetings.

The External Auditor, Chairman of the Board, Chief Executive, Chief Financial Officer, Head of Group Assurance, Group Financial Controller, Ralf Wunderlich and members of the Group Management Committee (GMC) attended meetings by invitation, as appropriate. During the year, the ARC met the External Auditor, PricewaterhouseCoopers LLP (PwC), and the Group Head of Assurance without the Executive Directors being present.

The ARC received presentations from the Chief Executive, the Chief Financial Officer, Group Financial Controller, Divisional Managing Directors, Group Head of Tax, Group Head of Treasury, UK Shared Services Finance Director, the Chief Information Officer and the Chief Information Security Officer.

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

The Company Secretary and General Counsel acts as Secretary to the ARC with the support of the Head of Governance who attends all meetings.

# REPORT OF THE AUDIT AND RISK COMMITTEE

## Governance

All the ARC members are independent Non-Executive Directors, and have financial and/or related business experience gained in senior positions at other large diverse organisations. Mary Reilly has been the Chairman of the ARC since April 2018, and the Board is satisfied that Mary has recent and relevant financial experience. Mary spent the majority of her career at Deloitte and is an experienced audit chair. Each of the other ARC members also has relevant experience: Nicki Demby is a fellow of the Institute of Chartered Accountants and formerly a partner of Deloitte LLP and Tommy Breen is a former CEO of an international sales, marketing and services group. Biographies for the ARC members can be found on page 83 and 84. As a whole the Board believes that the members of the ARC are competent in the business sectors within which the Essentra Group operates. The ARC supports the Board and reports to it following each Committee meeting. No member of the ARC has a connection with the current External Auditor.

In the performance of its duties the ARC has independent access to Group Assurance and the External Auditors and may obtain outside professional advice if required. Group Assurance and the External Auditor has direct access to the Chairman of the ARC who held a number of meetings with the Group Assurance team and the External Auditor during the year outside formal Committee meetings. The Chairman of the ARC also liaises with the Chief Financial Officer as well as the Company Secretary and General Counsel as necessary to ensure there is robust oversight and challenge in relation to financial control, risk management and compliance.

Two evaluations were carried out of the Committee during the year.

The first review was carried out by Lintstock who made recommendations relating to the performance of the meetings. An action plan was agreed and implemented early in 2020. The overall performance of the ARC was very highly rated.

A second evaluation was undertaken by Sam Allen Associates at the end of 2020 to consider whether the dynamics of the ARC had been impacted through a prolonged period of virtual meetings. The second evaluation reconfirmed that the ARC worked well and to be "a very diligent and effective Committee" that made time for "good debate on important matters".

There is an annual cycle of items considered by the ARC covering the requirement of the external audit cycle and any other relevant matter, as detailed in the Terms of Reference of the ARC. The agenda cycle is reviewed annually to ensure that the ARC remains proactive and relevant. The current Terms of Reference for the ARC are available at essentraplc.com and are also reviewed annually. The Terms of Reference provide a framework for the ARC's work to review and oversee the quality, integrity, appropriateness and effectiveness including the following:

- Financial Statements and external financial reporting
- significant financial judgements
- Tax and Treasury function review
- cyber security response
- the compliance programme
- the efficacy of the Internal Audit function
- the risk management processes and practice
- the relationship with, and performance of the External Auditor.

**"The ARC operates very well and was said to be a very diligent and effective Committee."**


## Financial Statements and external financial reporting

Ensuring the integrity of the Financial Statements and associated announcements is a fundamental responsibility of the ARC. In recommending to the Board, with regard to the approval of the 31 December 2019 Annual Report and the 30 June 2020 Half Year Report, the ARC reviewed, examined and challenged the Chief Financial Officer and External Auditor on their respective assessments on such items as going concern basis of preparation, accounting policies and disclosures, any financial reporting issues, significant financial judgements made and appropriate levels of disclosures to ensure that the reports are fair, balanced and understandable. The ARC also challenged the External Auditor on the appropriateness of their audit coverage and their measure of materiality.

During the year, the pandemic resulted in an increased focus on viability and the ARC reviewed the contents and suitability of the Long-Term Viability Statement and going concern, and challenged the risk scenarios, the range of sensitivities applied and the potential impacts considered in line with FRC guidance.

## Tax and treasury review

During the year joint presentations were made to the ARC by the Group Head of Tax and the Group Head of Treasury due to the recognition of the close working relationship of these two functions, particularly in relation to:

The tax strategy, attitude to tax risk and governance and monitoring:

- tax actions taken during the year and the impact of COVID-19 on cash management
- short and long-term liquidity
- a review of transfer pricing global documentation processes
- a review of the Senior Accounting Officer process.

Updates were also provided on global regulatory changes, including the EU mandatory disclosures rules and Corporate Criminal Offence Act 2020, and compliance matters including activity to be undertaken during the year. The ARC considered the matters presented and were satisfied with the approach being taken.

Following the resignation of the Group Head of Treasury, the Tax and Treasury functions have been combined and is led by the Group Head of Tax who has taken on the role of joint role of Group Head of Treasury and Tax.

Additional details on the Group Tax Strategy can be found on essentraplc.com/responsibility.

## Cyber security response

The Chief Information Officer attended ARC meetings on a regular basis and provided ARC with regular reports on the improvements and controls being implemented within the Group to help mitigate against the increasing risk posed to businesses by cyber attack. Cyber security had been greatly increased across the Group in response to the increasing risk profile, particularly given the impact of COVID-19 and changes in working practices, and with the move to our people working at home, there were further enhancements put in place to ensure the security of our systems which was supported additionally by cyber security awareness training.

The Chairman of the ARC also held additional sessions with the Chief Information Officer and the Chief Information Security Officer and reported back to the Committee on the work undertaken by the relevant teams to ensure appropriate cyber resilience activities were in place.

**The GCC has seen significant cultural change and lessons learnt to be shared.**

## Compliance

The Company's commitment to conducting its business activities in accordance with all applicable laws and regulations was further enhanced in 2020 through the introduction of an executive Group Compliance Committee (GCC).

The GCC is chaired by the Company Secretary and General Counsel and has met monthly throughout 2020 with representation from across the divisions and Group. The GCC reports to each ARC on the response to key compliance risks and the programme of activities designed to mitigate exposure.

Notwithstanding the impact of COVID-19, which meant the GCC had to re-prioritise its plans, good progress was still made. The GCC has remained focused on driving effectiveness and continuous improvements in compliance. The Compliance Plan has seen significant cultural change and the sharing of information across divisions has allowed synergies to be harnessed to best use, for instance in monitoring the effectiveness of training.

The compliance transformation programme has had particular regard to the impact of the Deferred Prosecution Agreement requirements around regulatory and sanctions compliance, third-party due diligence and anti-money laundering and undertook activity that supported these key areas.

## Key activities 2020

- Compliance training, both online, and remote sessions in place of in person sessions
- Regular review of training completion rates across the Group
- Risk assessments
- Policy reviews, development of short form summaries and a tool box approach to training materials
- Re-brand of compliance materials
- Development of a Compliance Charter and Framework
- Development of a refreshed Ethics Code
- Development of a Compliance Plan for 2021
- Testing of the effectiveness of the training programme within one division and to be replicated across all divisions during 2021

## Right to speak and whistleblowing

The ARC received updates at each of its meetings on any right to speak issues raised and sought assurance from management on the issues raised and the Company's response. At the outbreak of COVID-19, our people were understandably concerned about safety measures being taken and we encouraged our people to use the right to speak process to ensure any inconsistencies in approach and safety measures were reported to senior management directly. This approach allowed remedial action to be taken quickly thereby ensuring the ongoing safety of our Essentra family.

During the year, particular concerns were expressed regarding potential conflicts of interest impacting one site and the ARC oversaw a thorough investigation of the allegations, including the use of external resource, and continues to monitor the impact of the Company's response including local management transition to mitigate future risk.

## Internal control and internal audit

Essentra has a well-established Internal Audit function, which sits within Group Assurance to monitor and review material controls such as financial, operational and compliance controls. The ARC is required to assist the Board in fulfilling its responsibilities for ensuring the capability of the Group Assurance function and the adequacy of its resourcing and plans. The ARC, and the Board, are committed to a prioritised and structured internal audit programme to drive improvements in the Company's internal control systems.

Group Assurance assists the Company in accomplishing its objectives by bringing a systematic and disciplined approach to the evaluation, assurance and improvement in the effectiveness of the organisation's risk management, internal control and governance processes. In order to achieve this the ARC reviews:

- the internal audit plan and its achievement of the approved internal audit plan's activities
- the adequacy of the budget and resources of the Group Assurance function
- the operational initiatives for the continuous improvement of the function's effectiveness
- follow-up of internal audit activities which focus on unsatisfactory audit results
- the adequacy of management's response and the necessary actions taken to address and rectify any weaknesses identified in a timely manner.

As the year unfolded it became evident the original internal audit plan would not be able to be carried out due to the impact of COVID-19. A revised schedule was put in place for H2 that focused on key risk areas to the business and the ARC ensured the plan remained robust and relevant as well as being achievable despite the necessary change to remote audit practices and different ways of working. The ARC has approved an internal audit plan for 2021 which provides a significant increase in activity, with additional investment in internal resource and co-source arrangements to ensure the delivery of an extensive programme of assurance despite the potential ongoing impacts of COVID-19. The Group Assurance team continues to adapt its audit approach and methodologies to take account of the new best practice which are emerging.

## Risks Management Process

The ARC's discussions and considerations and oversight of the risk management process continued throughout the year working closely with the Group Risk Committee and the Group Assurance function. This enabled the ARC to assess the quality of existing practices and processes used to identify, assess and mitigate responses to risks to the Company achieving its long term strategic objectives. The ARC undertook deep dives into risk areas which provided the opportunity for the ARC to challenge the effectiveness of the Company's response, its actions and the process used to consider the effectiveness of the mitigations.

The ARC concluded that the process had been very thorough and was assured further that the Chairman of the ARC had also been present at the Group Risk Committee meetings in which the risks had been reviewed. The ARC's work in turn supported the Board by providing it with assurance it needed as to the robust nature of the process used by the Company to identify risk.

More information on Principal and Emerging Risks can be found on pages 50 to 66, the Long Term Viability Statement on page 147 and 148 and the Risk Management Process on 110.

## External Auditor

During the year the ARC:

- reviewed and agreed the scope and strategic nature of the audit work to be undertaken
- agreed the terms of engagement and fees to be paid to the External Auditor
- reviewed the qualifications, resources and independence of the External Auditor and assessed its performance with particular regard to the overall quality of the external audit and especially challenged the External Auditor's ability to carry out a robust audit remotely
- reviewed the level of non-audit work being carried out by the External Auditor and confirmed the level of services ensured their continued independence
- the Chairman of the ARC met with the External Audit partner frequently outside of the meeting schedule.

## Assessment of the External Auditor

The ARC is provided with reports, reviews, information and advice throughout the year, as set out in the terms of the External Auditor's engagement and performance is formally assessed by the ARC in conjunction with the GMC. The ARC assesses the External Auditor's independence annually and remains satisfied that the External Auditor is effective and provided appropriate independent challenge to the Company's management.

## Independence of the External Auditor

The ARC believes that it is important to maintain the objectivity and independence of the External Auditor by minimising their involvement in projects of a non-audit nature. The Revised Ethical Standard 2019 provides a whitelist of services which may be provided to public interest entities – if the service is not on the list, it must not be provided to the Group. There is a policy in place which reflects best practice in relation to the engagement of the External Auditor to supply non-audit services in compliance with the whitelist, with defined parameters and approval requirements.

**"The Group Assurance team continues to adapt its approach to take account of new best practices and the key challenges impacting the business."**

The ARC Chairman, without the approval of the Committee, is authorised by the Company to engage the External Auditor on non-audit related work where the service is in compliance with the whitelist of services under the Revised Ethical Standard 2019, and the fees per project are not considered to be significant, provided that the annual aggregate of non-audit related fees shall not exceed 70% of the average of the audit fees paid in the last three consecutive financial years.

Details of the fees paid to PwC up until 31 December 2020 can be found in note 2 of the Notes to the Consolidated Financial Statements, which includes fees paid to the External Auditor and its network firms for audit services, audit-related services and non-audit services.

PwC provided a letter confirming that it believes it remains independent within the meaning of the regulations on this matter and in accordance with their professional standards. The ARC formally reviewed the letter which describes arrangements in place to identify, report, and manage any conflicts of interests and policies and procedures including the extent of non-audit services, to maintain independence and the subsequent monitoring.

## Effectiveness of the External Auditor

The ARC assessed the effectiveness of the External Auditor by reviewing:

- the External Auditor's fulfilment of the agreed audit plan and the quality of their work including the depth and appropriate challenges
- feedback highlighting the major issues that arose during the course of the audit
- feedback from the businesses and management evaluating the performance of each assigned audit team.

## Engagement of the External Auditor

The External Auditor was originally engaged by the Company in 2017 following a competitive tendering process. The External Auditor is engaged to express an audit opinion on the truth and fairness of the Financial Statements. The external audit includes the review and testing of the system of internal financial controls and the data contained in the Financial Statements to the extent necessary. In order to protect independence and objectivity and provide fresh challenge to the business, the External Auditor periodically changes the audit partners at a Group, divisional and country level, in accordance with professional and regulatory standards. Such changes are carefully planned to ensure that the Group benefits from staff continuity without incurring undue risk of inefficiency. The External Auditor is required to rotate the lead partner every five years, and such changes will be carefully planned to ensure business continuity without undue risk or inefficiency. The current audit partner is Nicholas Stevenson who has been in this role since PwC was appointed in April 2017. The year end 2021 will be Nicholas's last year and the External Audit partner and the ARC has already started working with PwC to ensure a smooth and effective transition.

The ARC has been kept up to date with the development of regulations concerning audit tenure and the longevity of audit firm relationships with companies they audit. In 2016 a comprehensive competitive tender was undertaken for the external audit and subsequently the appointment of PwC to replace the Company's previous auditors was approved by the shareholders at the 2017 AGM. As detailed above the ARC is satisfied with the External Auditor's effectiveness and independence and accordingly has recommended to the Board that PwC be reappointed as the Company's External Auditor at the 2021 AGM. The Company will continue to consider on a regular basis any potential benefits from tendering the audit process having regard, in particular, to the importance of audit quality or the continued independence of the External Auditor. There are no contractual obligations in place that restrict the Company's choice of statutory auditor.

The Company has complied throughout the year with the Statutory Order 2014 issued by the Competition and Markets Authority.

## Significant financial judgements

### Goodwill and intangible assets

As required by IAS 36, the Company undertakes an assessment of the carrying value of intangible assets on an annual basis, or more frequently if there is an indication of impairment. The details of the work carried out and the results are in note 8 of the Notes to the Financial Statements. The assumptions for 2021 and beyond (such as the annual growth rate and the terminal growth rate) are based on the 2021 annual plan and management's financial projections in subsequent years. The impairment reviews performed by management contain a number of significant judgements and estimates including revenue growth, profit margins and discount rates. A change in these assumptions can result in a material change in the valuation of the assets and the eventual outcome of the impairment assessment. The ARC evaluated and challenged the methodology of the impairment review and the assumptions on which it was based, including the financial plans approved by the Board.

The ARC discussed the current year assessment at length with the Chief Financial Officer, the Chief Executive and the External Auditor the review and assumptions presented, including consideration of the impact of COVID-19 on such assessments. After due consideration the ARC was satisfied that the impairment assessment is appropriately carried out. The relevant disclosure is set out in note 8 of the Notes to the Financial Statements.

### Adjusting items

The Financial Statements include certain items which are disclosed as adjusting items. The nature of these items is explained within the Group Accounting Policy, and includes transaction costs and gains or losses relating to acquisitions and disposals of businesses, acquisition related integration and restructuring costs, and other items such as impairment losses. Following an extensive review, the ARC is satisfied that the Company's definition of adjusting items remains clear and that appropriate level of disclosure is included. The definition remains consistent with the prior year, and in the current year the ARC has been involved in a rigorous review of the items presented and following a robust discussion the ARC agreed to adopt a de minimus approach. The ARC challenged the Chief Financial Officer about the appropriateness of items presented including impairment and restructuring activities to ensure they are one-off material items rather than incurred in the ordinary course of business and are presented separately to allow a better understanding of the Group's ongoing activities. Further details can be found in note 2 of the Notes to the Financial Statements.

### Tax liabilities

The Company is, on occasion, subject to tax assessments that may represent potential future tax exposures, which arise from tax authorities in a number of the jurisdictions in which the Group operates. The Group assesses all such exposures in the context of specific country tax laws, where applicable, makes provisions for any settlements which it considers appropriate.

The Company operates in a number of tax jurisdictions, and recognises tax based on interpretation of local laws and regulations which are sometimes opaque. Where the amount of tax payable is uncertain, the Directors are required to exercise significant judgement in determining the appropriate amount to provide in respect of potential tax exposures. The ARC challenged the nature and extent of the tax provisioning of the Company and sought assurance that the Company was working diligently to resolve outstanding liabilities in an appropriate fashion. The potential tax exposures over the Company's transfer pricing position and the deductibility of interest on internal financing are also considered.

The ARC reviewed the assumptions of the tax liabilities at the start of the year, those created during the year and the effective tax rate as indicated in the Financial Statements from page 151 and note 4 of the Notes to the Consolidated Financial Statements. The ARC questioned and challenged the Chief Financial Officer and Head of Group Tax as to the appropriateness of the Company's risk attitude and appetite in this area. The ARC was satisfied that the tax liabilities are appropriate, and that the Group's tax disclosures are adequate given the nature of the Company's activities.

### Going concern and long-term viability assessment

The ARC reviewed the assumptions applied for going concern and long-term viability assessment. At half-year 2020 and at year-end 2020, an extensive process was applied to the going concern that assessed the outcome of a range of scenarios. This included a downside scenario that reflects the current uncertainty in the global economy but which was thought to be severe but plausible. The results of this scenario show that there is sufficient liquidity in the business for a period of at least 12 months from the date of approval of these financial statements, and do not indicate any covenant breach during the test period. The scenario includes assumption for similar extent of disruptions as seen in 2020. Set against this were mitigating actions including tight management of capital expenditure, sales and general overhead, and working capital.

As appropriate during a period of uncertainty, the External Auditor provided significant challenge to the ARC on the process used to undertake the assessment and the outcome of the scenarios. The ARC, on behalf of the Board, challenged the assumptions and sensitivities around the scenarios presented by management and where judgement had been applied, the ARC sought and was provided with explanation that the ARC were satisfied with. In turn, management dedicated an extensive period of time and resource to stress testing a range of scenarios that provided a range of outcomes.

More information on the Group's going concern can be found on pages 146 and 147.

The ARC also reviewed the Group's long-term viability assessment for the period to 31 December 2023 which considered a range of scenarios based on the potential financial impact of the Group's Principal Risks crystallising as well as the risks associated with COVID-19 also impacting the risks. Similar to the challenges the ARC presented management in assessing the going concern position, the ARC challenged the relevance and assumptions of the Principal Risks to the Company's long term viability. The External Auditor again challenged the ARC on the process adopted and was satisfied that a robust and through process was in place so that the ARC was able to make a recommendation to the Board on the Group's long-term viability.

The more detailed assessment of the Group's long-term viability is set out in the Long-Term Viability Statement on pages 148.

# CHAIRMAN OF THE REMUNERATION COMMITTEE'S LETTER

**2020 was a year of responsible remuneration. The Executive Directors received reduced salaries, reduced pension allowances, no annual bonuses and no LTIP awards were made in 2020**

## Dear Shareholder

As Chair of the Remuneration Committee I am pleased to present to you the Directors' Remuneration Report for the year ended 31 December 2020.

### Consultation with our shareholders

I had the opportunity to consult with some of our shareholders during the year as we considered our proposals for the new Directors' Remuneration Policy. We heard a range of views and these perspectives were invaluable in shaping our final proposals.

The discussions were particularly helpful in terms of the way we intend to link part of incentive outcomes in the future to the progress of the business on environmental sustainability. Our shareholders emphasised that the performance measures we use should be relevant to the business and to value creation. In future we have decided to link part of the outcomes of our variable pay plans to progress against our longer-term environmental sustainability targets. We believe these are important to some of our key stakeholders; our customers, our employees, our suppliers and our shareholders, as well as to the future of the environment in which we do business. The products we manufacture and distribute are integral to the supply chain of many of our customers. Our customers want to work with a manufacturer who takes a responsible approach to environmental issues. It is important to our current and future employees they work for a business that is reducing its environmental impact. Increasingly, our shareholders want to invest in a company that is making progress on the environmental sustainability issues that are relevant to our business.

Our proposal is to take a balanced approach given the feedback we received. I want to thank our shareholders for their time and input, which was helpful and constructive.

### Responding to the pandemic in 2020 – a year of responsible remuneration

At the beginning of 2020, the COVID-19 outbreak was in its very early stages and the severity and scale of its impact was not yet apparent. The first of our businesses to be impacted was in mainland China in January 2020. As with many international groups, Essentra's ability to do business was immediately and significantly affected.

**Nicki Demby**
Non-Executive Director

## This report includes:

- The proposed Directors' Remuneration Policy to be approved at the 2021 AGM; and
- The Annual Directors' Remuneration Report, describing how the current Policy has been put into practice during 2020, and how we plan to implement the new Policy in 2021.

This is my first Directors' Remuneration Report since my appointment as Chair of the Remuneration Committee at the AGM in May 2020. I would like to thank my predecessor, Lorraine Trainer, for her contribution as Chair of the Remuneration Committee prior to the AGM in 2020.

**We have provided financial support to all our global employees when they were unable to work as a consequence of local or national Government restrictions arising from the pandemic**

All of the 34 countries in which we do business have been impacted by the pandemic and we have responded to successive Government imposed restrictions in each of those countries. We recognise that it has caused considerable uncertainty and hardship for our employees, customers and suppliers.

In line with our values, Essentra's first response was focused on protecting the safety, health and wellbeing of our employees. Our 2020 Employee Survey indicated that 85% of our employees felt that we had taken the appropriate steps to ensure they remained safe and healthy. We did not use UK Government provided furlough support, nor did we borrow debt from the UK Government. We have provided financial support to all our global employees when they were unable to work as a consequence of local or national Government restrictions arising from the pandemic and to the families of those employees who have sadly lost their lives. There have been some notable and inspiring examples where Essentra employees responded quickly to ensure that our products reached local customers in the health sector when they had an urgent need. Our Board Employee Champions, Mary Reilly and Ralf Wunderlich, continued to engage with groups of employees throughout 2020 using "virtual coffee mornings", as we were no longer able to hold physical meetings.

Through the year we have focused on safeguarding our employees, supporting our customers, managing our cash flow and building for the future. In a year of responsible remuneration, and as part of managing our cash flow, the fixed pay of our Board and Senior Leaders across the business was reduced by 20% for three months during the most uncertain period of the year, and any inflationary salary increase was removed. Other leaders in the business also reduced their fixed pay and any annual salary increase was made on an exceptional basis only.

Furthermore we made no LTIP awards in 2020. This was an unusual decision in the market place. It reflected that our Senior Leaders were prepared to personally contribute to making cost savings in the business. Stock market volatility in late March and April when the LTIP grant is usually made was also a concern.

All these measures funded company furlough payments to employees unable to work in India, South Africa and Paraguay and also contributed to payments for those needing to isolate. This considered approach has meant that we have maintained 80% of earnings across the global workforce throughout the year, providing the financial support needed.

Essentra has adapted to the new economic environment. We suspended the payment of our dividend in order to protect our cash position. Towards the end of 2020 we launched a detailed review of our global footprint which resulted in the proposed closure of certain sites in 2021 across the Components and Packaging divisions. While we deeply regret the impact these proposals will have on some of our colleagues, these actions were both necessary and consistent with our strategy to build for the future.

## Acquisition of 3C!

Looking ahead, Essentra is committed to emerging from the pandemic with a resilient business. In September 2020, we raised equity to buy 3C!, a packaging business in the US, and to strengthen our balance sheet. The acquisition adds manufacturing capacity and service capability to our existing Packaging footprint in the Americas as well as access to proprietary serialisation technology.

## The need for a flexible approach to remuneration

Long term value creation for shareholders and pay for performance continue to be at the heart of our remuneration policy and practices. As we do business in 34 countries, attracting and nurturing a mix of talent with a range of backgrounds, skills and capabilities enables Essentra to thrive. This is the case in good times, but has perhaps become more important in more difficult times.


**The awards under the Long Term Incentive Plan will include a measure linked to our progress against our published target for the reduction of greenhouse gas emissions.**

Remuneration remains a key part of attracting and retaining the people who we need to lead our business. We need to ensure that our reward packages are appropriate and fair in the context of the business and the wider employee profile. We aim to deliver market competitive pay in return for performance against the Company's strategic objectives.

It is important that we maintain flexibility in our approach to remuneration so that we can remain adaptable in a rapidly changing world. This has never been clearer than over the last year. We have very carefully considered some alternative approaches. We have concluded that a Directors' Remuneration Policy which is fundamentally similar to our previous approach will provide the necessary flexibility for the future. Detailed aspects have been updated to meet new external governance requirements that have emerged since the last time we sought shareholder approval and to provide some limited areas of additional flexibility. The proposed changes are described in detail later in this Report.

The approach to setting executive remuneration continues to be guided by the following principles:

- delivery of the business strategy
- creating sustainable, long-term performance
- consideration of stakeholder interests.

We intend to keep our approach to Directors' Remuneration under review and may seek shareholder approval sooner than required by UK legislation if this becomes necessary.

## Linking reward to performance

For 2020 no annual bonus is payable to the Executive Directors. The targets were set in February 2020 before the economic impact of COVID-19 pandemic could be fully understood. Although the business performance remained resilient, the targets proved unattainable in the economic environment that followed.

The performance targets set for the 2018-20 LTIP were also not achieved. This was partly attributable to the impact of the COVID-19 pandemic in the final year of the performance period.

## Linking reward to strategy

The table below summarises the KPIs that we are planning to use in the annual bonus in 2021.

| KPI | |
|---|---|
| Adjusted Operating Profit | 40% |
| Adjusted Operating Cash Flow | 30% |
| Strategic Objectives – including 10% on progress against Zero Waste to Landfill | 30% |

The Strategic Objectives will include our progress as a business against our objective of Zero Waste to Landfill by 2030. Performance will be reviewed by the Sustainability Committee.

We are widening the 2021 annual bonus performance target ranges and reducing the proportion of bonus paid for achieving threshold performance (from 20% to 10%) to reflect the difficulty of setting financial targets in the current economic environment.

The awards under the Long-Term Incentive Plan will include a measure linked to our progress against our published target for the reduction of greenhouse gas (GHG) emissions. Reducing our carbon footprint is beneficial to the environment and drives reductions in the cost of energy to the business. The emissions targets set are consistent with the stated goal to reduce GHG emissions by 25% from 2019 to 2025. Performance will be reviewed by the Sustainability Committee and externally audited.

The table below summarises the KPIs that we are planning to use in the LTIP compared to our last grant in 2019. No LTIP awards were made in 2020.

| | LTIP | |
|---|---|---|
| **KPI** | **2019** | **2021** |
| Adjusted EPS | 33% | 40% |
| Return on Invested Capital | 33% | 30% |
| Total Shareholder Return | 33% | 20% |
| Progress in reducing GHG emissions | | 10% |

The Remuneration Committee carefully considered the appropriate size of the 2021 LTIP awards, taking into account a range of factors including share price performance, the decision not to make any LTIP awards in 2020 and the need to avoid windfall gains. The Committee concluded that appropriate award levels for 2021 will be unchanged from the award levels in 2019 at 200% and 150% of salary for the CEO and CFO respectively. We have carefully reviewed the performance ranges to be used for each element of the award. We have taken a balanced approach to setting the LTIP performance ranges given the uncertain economic environment in which the awards are being made. The Committee retains the discretion to adjust the outcomes of the LTIP awards to reflect the overall performance of the business over the performance period.

## Considering the 2018 UK Corporate Governance Code (the '2018 code')

During the past year the Remuneration Committee has continued to discuss the 2018 Code and its implications for Essentra. As noted last year our remuneration arrangements are already compliant with many of the 2018 Code provisions. The current Executive Directors have agreed to further reduce their annual pension allowances with effect from 1 April 2021 by 3.1% of salary for Paul Forman (to 20% of salary) and 3% of salary for Lily Liu (to 15% of salary). This follows reductions of £11,900 p.a. and £2,100 p.a. respectively in 2020. Further reductions in pension provision to the level of the relevant workforce will be completed by the end of 2022. Our proposed new Policy indicates that the pension provision for any future Executive Director will be in line with the relevant workforce.

The Remuneration Committee is satisfied that the current Policy was operated as intended since its introduction in 2018.

## Remuneration for Executive Directors

The Executive Director salaries were reviewed and will increase in April 2021 by 1.9%, in line with the wider UK workforce.

## Remuneration in our wider workforce

The Remuneration Committee continues to consider remuneration in our wider workforce when making decisions that affect our senior executives. The Committee has also discussed a number of broader issues relating to workforce and executive pay. These include feedback received by our Board Employee Champions on employee share plans, merit increases, and the ratio of Chief Executive pay to that of our other employees. These topics are reflected in the approach to reward across the workforce.

## Conclusion

Essentra is committed to emerging stronger from the pandemic. It is important that we maintain flexibility in our approach to remuneration so that we can remain agile in a rapidly changing world. I hope that you will find this report to be clear and helpful in understanding of our remuneration practices and that you will be in support of the resolution on the Directors' Remuneration Policy and the advisory resolution on the Annual Remuneration Report at the 2021 AGM. As ever, the Remuneration Committee welcomes any questions or comments from shareholders.

I am grateful to the Chairman and my colleagues for their professional guidance and support in making responsible decisions on remuneration.

**Nicki Demby**
**Non-Executive Director**
**Remuneration Committee Chairman**
**5 March 2021**

**Essentra is committed to emerging stronger from the pandemic. It is important that we maintain flexibility in our approach to remuneration so that we can remain agile in a rapidly changing world.**

# REMUNERATION AT A GLANCE

## 2021 remuneration structure for Executive Directors

| | 2021 | 2022 | 2023 | 2024 | 2025 | Commentary | Changes for 2021 |
|---|---|---|---|---|---|---|---|
| **Base salary** | | | | | | | Paul Forman: salary increase from £643,125[1] to £655,345 (1.9%) effective 1 April 2021.<br>Lily Liu: salary increase from £353,976[2] to £360,700 (1.9%) effective 1 April 2021. |
| **Pension allowance** | | | | | | | Paul Forman's pension allowance to be reduced by 3.1% of salary effective 1 April 2021<br>Lily Liu's pension allowance to be reduced by 3.0% of salary effective 1 April 2021 |
| **Benefits** | | | | | | Car allowance, private medical insurance and life assurance cover | No change |
| **2021 annual bonus**<br>50% cash<br>50% shares (deferred for three years) | PERFORMANCE PERIOD | (50% DEFERRED FOR THREE YEARS) | | | | • Maximum opportunity:<br>– Paul Forman 150% of salary<br>– Lily Liu 125% of salary<br>• Performance conditions:<br>– Adjusted Operating Profit: 40%<br>– Adjusted Operating Cash Flow: 30%<br>– Strategic Objectives: 30% | No change<br>Within Strategic Objectives 10% is based on progress towards Zero Waste to Landfill |
| **2021 LTIP**<br>Three year performance period (2021-23) and two year deferral (2024-25) | PERFORMANCE PERIOD | | | (DEFERRED FOR TWO YEARS) | | • Conditional award of shares:<br>– Paul Forman 200% of salary<br>– Lily Liu 150% of salary<br>• Performance conditions:<br>– EPS Growth: 40%<br>– Return on Invested Capital: 30%<br>– Relative TSR: 20%<br>– Reducing greenhouse gas emissions: 10% | No change<br>Reweighting of existing measures and introduction of greenhouse gas emissions reduction target |

1 Salaries effective from 1 April 2020 were originally intended to be £658,560 and £362,000 for Paul Forman and Lily Liu respectively. As outlined in our Stock Exchange announcement of 14 April 2020, the CEO waived his proposed 2.4% annual increase in his salary which would have applied from 1 April 2020 and the CFO's salary increase was also reduced by 2.4%.

**" 2020 was a year of responsible remuneration. The Executive Directors received reduced salaries, reduced pension allowances, no annual bonuses and no LTIP awards were made in 2020."**

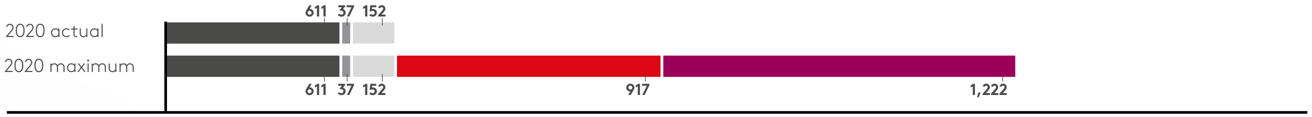
**Nicki Demby**
Non-Executive Director

## Incentive outcomes for 2020

| | Performance period | Performance measures | Pay-out | |
|---|---|---|---|---|
| Annual bonus | 2020 | Adjusted Operating Profit, Adjusted Operating Cash Flow, Personal and Strategic Objectives | Paul Forman 0% of maximum<br>Lily Liu 0% of maximum | Details on page 135 |
| LTIP | 2018-2020[1] | Adjusted EPS, Adjusted Cumulative Operating Cash Flow, Relative TSR | Paul Forman 0% of maximum | Details on page 135 |

1 Lily Liu did not hold LTIP awards for this performance cycle as she joined the Board in November 2018.

**Paul Forman** (£000)




**Lily Liu** (£000)


- Salary
- Benefits
- Pension
- Bonus
- LTIP

## Summary of Committee decisions related to COVID-19

| Element of Remuneration | Committee Decision | Rationale |
|---|---|---|
| 2020 Salary/Fee increases | • In light of the continuing need to manage our cash position and liquidity, the Committee approved the Executive Directors' decision to voluntarily waive the 2.4% annual increase in their salaries that would have applied from 1 April 2020, and the CFO's salary increase was also reduced by 2.4%.<br>• In addition, Executive Directors agreed to a 20% reduction in base salaries from 1 April to 30 June 2020. The Chairman and Non-Executive Directors also agreed to a 20% reduction in their fees for this period. | • Our response to the COVID-19 situation has been to safeguard our people, support our customers, and to manage our cash. Our people's health and wellbeing has been our top priority. By temporarily reducing the Executive and Non-Executive Directors' pay this has helped fund furlough arrangements in countries that have required us to temporarily close a factory or office.<br>• The Company has not taken advantage of the Job Retention Scheme or any other UK Government assistance resulting from COVID-19. |
| 2020 Bonus | • The Executive Directors' 2020 bonus was based on financial targets set before COVID-19 impacted our financial performance and no adjustments were made.<br>• No bonus was payable due to the impact of the COVID-19 pandemic. | • The Committee felt this was a responsible decision in light of the impact of the pandemic on wider stakeholders in the business. |
| 2020 LTIP Award | • The Committee agreed to not make a 2020 LTIP award. | • Not granting LTIP awards helped to support the profitability of the Company in an exceptionally difficult year. |

**"Our peoples' health and wellbeing has been our top priority. By temporarily reducing the Executive and Non-Executive Directors' pay this has helped fund furlough arrangements in countries that have required us to temporarily close a factory or office."**

**Nicki Demby**
Non-Executive Director

# THE DIRECTORS' REMUNERATION POLICY REPORT

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

The current Directors' Remuneration Policy was approved by our shareholders at the AGM in 2018. We are required by law to put a new Policy to our shareholders for approval three years later. This will be presented at the 2021 AGM. The current Policy Report can be found in full in the Essentra Annual Report 2017, a copy of which can be downloaded from www.essentraplc.com.

The Remuneration Committee has reviewed the continued appropriateness of the current Policy Report in the context of the Company's corporate strategy. Shareholder approval will be sought at the AGM on 20 May 2021 for the updated Policy Report set out below. Subject to shareholder approval, the updated Policy Report will take effect immediately after the AGM and will apply to the 2021 financial year.

The Remuneration Committee discussed this Policy Report over a series of meetings which considered the strategic priorities of the business, governance requirements and evolving market practice. Input was sought from the CEO, CFO and members of the HR team, while ensuring that conflicts of interests were suitably mitigated. Consideration was given to the wider workforce when evaluating the approach to Directors' remuneration. We have consulted with our major shareholders and taken advice from our independent advisers, Deloitte.

**Summary of key changes:** The key proposed changes in our updated Policy are summarised below. These changes bring our Policy in line with current mainstream UK market practice and are consistent with the Essentra corporate strategy.

| Policy change | Rationale for change and implementation in 2021 |
|---|---|
| **Introduction of post-employment shareholding guideline and change to design of in-employment shareholding guideline** | In line with the UK Corporate Governance Code, the updated Policy will incorporate a guideline for a Director to remain compliant with their in-employment shareholding guideline for two years after leaving employment.<br>The shareholding guideline that applies whilst a Director is in-employment will remain at 300% of salary for the CEO and 200% of salary for other Executive Directors. In order to better align the guideline with incentive vesting outturns, the existing requirement to meet the guideline within six years of appointment will be replaced by a requirement to retain at least 50% of post-tax vested shares until the guideline is satisfied. |
| **Extend malus and clawback provisions in the bonus and LTIP** | In line with the FRC's Guidance on Board Effectiveness, potential malus and clawback triggers will be widened to include business failure. |
| **Alignment of pension provision** | In line with the UK Corporate Governance Code, we will continue with our phased approach to reducing the Executive Director pension allowances to align with the relevant workforce by the end of 2022. Any new Executive Directors will have pension provision from appointment in line with the relevant workforce. |
| **Addition of Environmental, Social and Governance (ESG) measures as an alternative type of measure in the bonus or LTIP** | As a manufacturing company our environmental impact forms an important element of how we do business. Accordingly, scope to include ESG measures in future bonus or LTIP awards forms part of the new Policy.<br>In 2021, we will introduce a greenhouse gas (GHG) emissions target into our LTIP. The targets set will be consistent with the goal of reducing GHG emissions by 25% by 2025 relative to a 2019 baseline. |
| **Equalise the maximum permitted bonus opportunity for all Executive Directors at 150% of salary** | In order to give the Remuneration Committee flexibility during the three-year Policy period, it is proposed to align the maximum bonus opportunity that can be offered under the Policy to all Executive Directors at 150% of salary (currently the CFO has a lower maximum opportunity of 125% of salary). As a Committee, we are mindful of the importance of using this flexibility in a responsible manner and can confirm that the bonus opportunity will be unchanged in 2021 (CEO: 150% of salary; CFO: 125% of salary). |
| **Change to Non-Executive Directors' (NEDs) fee structure** | In recognition of future increases in the level of time commitment required from a NED in our highly international business, the new Policy will provide flexibility to make additional payments to NEDs in the event that an individual is required to make a significant additional time commitment and/or to reflect travel time. The new Policy also specifically makes reference to the additional fee payable to the Board Employee Champion role, introduced in 2019 to ensure the Board actively seek feedback direct from the global workforce. |

# Remuneration Policy

## 1. Overview

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 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.

The Chief Executive's remuneration proposals for the other members of the Group Management Committee, including the Company Secretary (GMC) are reviewed by the Remuneration Committee, and the Committee's recommendations with regards to 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 places significant focus on, and spends considerable time reviewing the risks surrounding the Company's existing remuneration policies on an annual basis and has determined that there are currently no significant concerns with the structure or operation of the remuneration policy.

The Remuneration Committee's main responsibilities are to:

- Develop the Company's Remuneration Policy for the Executive Directors, the members of the GMC and other senior executives, covering basic salary, bonus, long-term incentives, retirement provisions and other benefits
- Strike an appropriate balance between:
  - the fixed and variable; and
  - the cash and equity-related components of total remuneration packages
- Review and determine the terms of employment and remuneration of the individual Executive Directors and nominated senior management, 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 long-term incentive plans
- Review the workforce remuneration and related policies and the alignment of incentives and reward with culture
- Select, appoint and determine the terms of reference for independent consultants to advise the Remuneration Committee on remuneration matters

In determining the policy for the Executive Directors, the Remuneration Committee's key objectives are to:

- Ensure that senior executives' remuneration is designed so as to attract, retain and motivate high quality executives in a manner that aligns their remuneration with the interests of shareholders and other stakeholders, particularly in the design of the performance-related elements of their remuneration packages and their shareholding guidelines
- Promote the achievement of both the Company's annual and longer-term strategic objectives. The Remuneration Committee considers the alignment of Company performance and the remuneration of its senior executives, including the Executive Directors, to be an important element of driving shareholder value. It believes that senior executives 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
- Encourage Executive Directors to act in a fair and responsible manner without unnecessary risk-taking having regard to the long-term performance of the Company

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 (ESG) responsibilities.

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

The Remuneration Committee structures Executive Directors' remuneration in two distinct parts:

- fixed remuneration of basic salary, pension provision and benefits; and
- 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. All incentives are designed to be aligned to delivery of Essentra's strategic priorities.

## 3. Policy Table

### Basic salary

| Purpose and link to strategy | Operation | Opportunity | Performance measures |
|---|---|---|---|
| To reflect the particular skills and experience of an individual and to provide a competitive basic salary | Generally reviewed annually with any increase normally taking effect from 1 April, although the Remuneration Committee may award increases at other times of the year if it considers it appropriate.<br>The review takes into consideration a number of factors, including (but not limited to):<br>• The individual Director's role, experience and performance<br>• Business performance<br>• Pay and conditions elsewhere in the Group<br>• Market data for comparable roles in appropriate pay comparators | No absolute maximum has been set for Executive Director base salaries.<br>Any annual increase in salaries is at the discretion of the Committee taking into account the factors stated in this table and the following principles:<br>• Salaries would typically be increased at a rate consistent with the average salary increase (in percentage of salary terms) for the relevant workforce.<br>• Larger increases may be considered appropriate in certain circumstances (including, but not limited to, a change in an individual's responsibilities or in the scale of their role or in the size and complexity of the Group).<br>• Larger increases may also be considered appropriate if a Director has been initially appointed to the Board at a lower than typical salary. | Not applicable. |

## 3. Policy Table continued

### Bonus

| Purpose and link to strategy | Operation | Opportunity | Performance measures |
|---|---|---|---|
| To ensure the delivery of Company performance-related objectives, aid retention and to align Directors' interests with those of the Company's shareholders. | One half of the total bonus is paid in cash shortly after the announcement of the annual results.<br>The other half is deferred into shares in the Deferred Annual Share Bonus ("the DASB") which will normally vest after three years subject to continued service.<br>Performance is assessed against measures and targets which are established by the Remuneration Committee. As performance increases so does the percentage payable up to the maximum.<br>The bonus is subject to malus and clawback provisions for a period of three years following the determination of the bonus. Circumstances in which these provisions could be applied by the Remuneration Committee are material misstatement in the Company's Financial Statements, error in assessing the performance conditions, serious misconduct by an individual, business failure or serious reputational damage to the Company or a relevant business unit.<br>An additional payment (in the form of cash or shares) may be made in respect of shares which vest under deferred awards to reflect the value of dividends which would have been paid on those shares during the vesting period (this payment may assume that dividends had been reinvested in Company shares on a cumulative basis). | 150% of basic salary. | The bonus will be based on performance using appropriate financial, strategic and individual performance measures.<br>The majority of the bonus will normally be determined by measure(s) of the Company's financial performance. The remainder of the bonus will be based on financial, strategic, ESG, operational or other suitable business measures appropriate to the individual Director.<br>No more than 20% of each financial measure will vest at threshold performance. |

## 3. Policy Table continued

### Long-Term Incentive Plan (LTIP)

| Purpose and link to strategy | Operation | Opportunity | Performance measures |
|---|---|---|---|
| To drive the long-term delivery of the Company's strategic objectives, aid retention and to align Directors' interests with those of the Company's shareholders. | An annual grant of performance share awards usually with a three-year performance and additional two-year holding period.<br><br>Awards are subject to the LTIP plan rules, including malus and clawback provisions for a period of three years following the vesting of the awards. Circumstances in which these provisions could be applied by the Remuneration Committee are material misstatement in the Company's Financial Statements, error in assessing the performance conditions, serious misconduct by an individual, business failure or serious reputational damage to the Company or a relevant business unit.<br><br>An additional payment (in the form of cash or shares) may be made in respect of shares which vest under LTIP awards to reflect the value of dividends which would have been paid on those shares during the period up to the release of the shares (this payment may assume that dividends had been reinvested in Company shares on a cumulative basis). | An award to any Executive Director would be limited to a maximum of 300% of salary. | Vesting will be subject to performance conditions as determined by the Remuneration Committee on an annual basis.<br><br>The performance conditions will usually be some combination of relative TSR, adjusted EPS, adjusted cumulative operating cash flow, ESG and a capital return measure although the Remuneration Committee will retain discretion to include alternative performance measures which are aligned to the corporate strategy.<br><br>The Remuneration Committee may adjust the weightings of the performance conditions for each award although usually each condition would have a weighting in the range of 10% to 40% of the award.<br><br>Performance will usually be measured over a three-year period.<br><br>Up to 25% of each element vests at threshold performance, usually rising on a straight-line basis for performance up to the maximum level for full payment. If below threshold performance, that element of the award will not vest. |

## 3. Policy Table continued

### Employment and Post-Employment Shareholding guideline

| Purpose and link to strategy | Operation | Opportunity | Performance measures |
|---|---|---|---|
| To align the interests of Executive Directors and shareholders, encourage a focus on long-term performance and risk management. | Whilst in-employment, Executives Directors are expected to build up a shareholding worth 300% of salary for the Chief Executive and 200% for the Chief Finance Officer. The shareholding guidelines are to be built up by retaining 50% of post-tax vested shares from the date of approval of this Policy.<br><br>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.<br><br>Executive Directors will also be expected to remain compliant with the above guideline for a period of two years post-employment. This guideline will apply to shares from incentive awards due to be released from the date of adoption of the Policy at the 2021 AGM. The Committee would retain discretion to waive this guideline if it is not considered appropriate in the specific circumstances.<br><br>Non-Executive Directors are encouraged to hold a minimum of 7,500 shares. | Not applicable. | Not applicable. |

## 3. Policy Table continued

### All Employee Plans – Sharesave

| Purpose and link to strategy | Operation | Opportunity | Performance measures |
|---|---|---|---|
| To create alignment of employees' interests with those of shareholders. | 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 choose to participate. The Remuneration Committee has the discretion to set the option price up to a 20% discount on the share price at the time employees are invited to participate.<br>An equivalent US plan is operated aligned to the UK plan where possible. | For the UK plan, shares worth up to the value of the savings an Executive Director agrees to make over the saving period at the previously agreed option price. The savings amount is subject to the HMRC limit, currently £500 per month.<br>The US Plan is limited to the monthly dollar equivalent of the UK Sharesave plan and an option price of up to a 15% discount. | The Remuneration Committee agree the annual discount to be applied to the Sharesave schemes.<br>No performance conditions apply to All Employee Plans. |

### Pension

| Purpose and link to strategy | Operation | Opportunity | Performance measures |
|---|---|---|---|
| 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. | Any future Executive Director appointment will have a pension provision in line with the relevant workforce.<br>The pension provision for the current Executive Directors will continue to be phased down to align with the relevant workforce by the end of 2022. The next stage in this process, effective 1 April 2021, will see pension allowances reduced to 20% and 15% of salary respectively for the CEO and CFO. | Not applicable. |

## 3. Policy Table continued

### Other benefits

| Purpose and link to strategy | Operation | Opportunity | Performance measures |
|---|---|---|---|
| To provide cost-effective benefits comparable with similar roles in similar companies. | Other benefits include family medical expenses, life insurance, and car allowance.<br>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.<br>Executive Directors are entitled to reimbursement of reasonable expenses. | There is no overall maximum as the level of benefits depends on the annual cost of providing individual benefits in the relevant local market and the individual's specific role. | Not applicable. |

### Chairman and Non-Executive Directors – Fees

| Purpose and link to strategy | Operation | Opportunity | Performance measures |
|---|---|---|---|
| To attract a high-calibre Chairman and Non-Executive Directors with the relevant experience and skills. | A basic fee is payable to the Chairman and Non-Executive Directors (NED's) with supplementary fees for those NED's with additional responsibilities, such as acting as Senior Independent Director, chairing a Board Committee, an additional defined role such as a Board Employee Champion or for a significantly increased time commitment.<br>Additional payments may be made to Non-Executive Directors for time spent travelling on Company business.<br>Fees are reviewed periodically with reference to market levels in companies of a comparable size, complexity and taking account of the responsibilities and time commitment of each role.<br>The Chairman and the Non-Executive Directors do not participate in the Group's incentive arrangements or pension plan or receive any other benefits other than where travel to the Company's registered office is recognised as a taxable benefit in which case the Chairman or a Non-Executive Director may receive the grossed-up costs of travel as a benefit.<br>The Chairman and non-Executive Directors are entitled to reimbursement of reasonable expenses. | Fees for the current year are stated in the Annual Report on Remuneration.<br>Fee increases may be greater than those of the wider workforce in any particular year as they reflect changes to responsibilities and time commitments and the periodic nature of any increases. | Not applicable. |

## 4. Remuneration Committee discretion

The Remuneration Committee will operate the bonus plan and long-term incentive plans according to their respective rules and will be consistent with normal market practice, the Listing Rules and relevant income tax and social security rules, 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 (or an award of shares outlined in this Policy that is yet to be granted) 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 bonus plan and LTIP from year to year

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

The Remuneration Committee may make minor amendments to the Remuneration Policy as set for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without obtaining shareholder approval for that amendment.

## 5. Existing awards

The Remuneration Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Remuneration Policy 2021 (set out above) where the terms of the payment were agreed:

- (i) before the Remuneration Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or
- (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

## 6. Choice of performance measures and approach to target setting

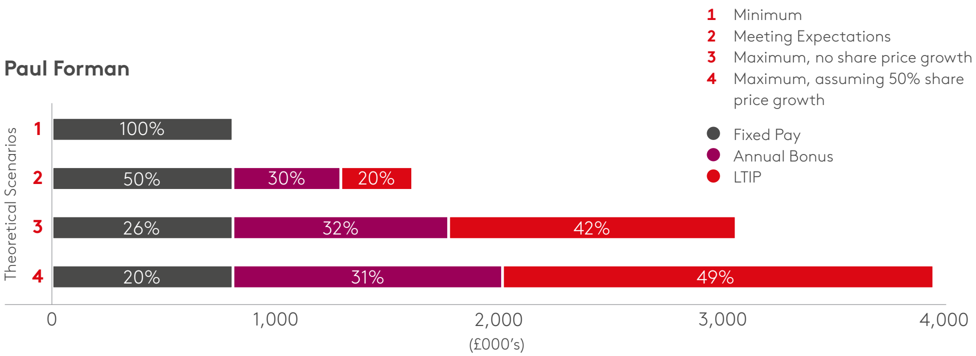
The Remuneration Committee sets performance metrics under both the bonus plan and LTIP which are clearly aligned to the Group's strategy and are usually part of its Key Performance Indicators (KPIs). Personal objective performance measures within the bonus are also directly linked to key strategic objectives.

Targets are set at the start of each performance period by the Remuneration Committee taking into account relevant internal and external reference points and are designed to be appropriately stretching.

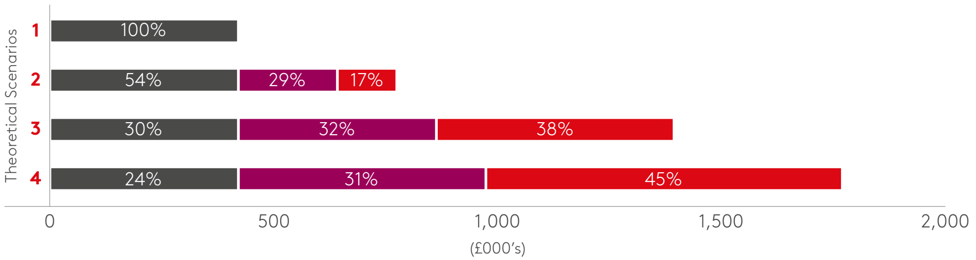
## 7. Remuneration mix

The graphs below demonstrate the potential remuneration mix for both of the Executive Directors in 2021 in four theoretical scenarios: minimum, meeting expectations, maximum (assumed no share price growth) and maximum (assumed 50% share price growth over the LTIP performance period).

### Paul Forman




### Lily Liu




**Assumptions:**
1 Salary: to be paid during 2021.
2 Benefits: 2020 reported taxable benefits.
3 Bonus maximum of 150% of salary for Paul Forman and 125% of salary for Lily Liu.
4 LTIP award of 200% of salary for Paul Forman and 150% of salary for Lily Liu.
5 Pension allowance assumed to be 20% for Paul Forman and 15% of salary for Lily Liu.
6 Meeting expectations scenario assumptions – 50% of bonus maximum paid and 25% of LTIP award vests.
7 Maximum scenarios assumptions – 100% of bonus maximum paid and 100% of LTIP award vests.
8 No dividend accrual considered.
9 Sharesave awards have been ignored.

## 8. 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. Any annual increase in salary for a new appointment would be at the discretion of the Remuneration Committee and would typically be broadly consistent with the average salary increase for the relevant workforce. However, larger increases may be considered appropriate in certain circumstances. For example, 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 relevant workforce) over a period of two to three years, subject to their development in the role.

### Bonus

New appointees will be able to participate in the bonus plan up to the limit described in the Policy Table; and, in the first year, being pro-rated to reflect the proportion of employment during the year. In the first year, the Remuneration Committee may set different performance measures and targets for the bonus to those of the other Executive Directors, depending on the timing and scope of any appointment. In order to facilitate recruitment, the Remuneration Committee may compensate for any bonus forgone when the individual leaves their previous employer.

### Share incentives

New appointees will be granted awards under the LTIP up to the limit described in the Policy Table. An award may be made shortly following a new appointment. In the first year, the Remuneration Committee may set different performance measures and targets for the LTIP to those of the other Executive Directors, depending on the timing and scope of any appointment.

### Pension

A contribution to a defined contribution plan or a cash supplement in line with the relevant workforce.

### 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.

### Buy-out awards

To potentially facilitate the recruitment through the buy-out of existing awards and compensation arrangements from their current employer, the Remuneration Committee will retain the ability to make a one-off buy-out award. In doing so, the Remuneration Committee will take account of all relevant factors, including any performance conditions attached to incentive awards, the likelihood of those conditions being met, the proportion of the vesting/performance period remaining and the form of the award (eg, cash or shares). The overriding principle will be that any buy-out award should be of comparable commercial value to the compensation which has been forfeited. 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 or appointments following the Company's acquisition of or merger with another company or business, any variable pay element or legacy arrangements 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.

**Non-Executive Directors**

In the event of the appointment of a new Non-Executive Director, remuneration arrangements will normally be in line with the structure set out in the Policy Table for Non-Executive Directors. In the event that a Non-Executive Director is required to temporarily take on the role of an Executive Director, their remuneration may include any of the elements listed in the Policy Table for Executive Directors.

## 9. 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. Paul Forman has a service contract dated 2 January 2017 and Lily Liu has a service contract dated 15 November 2018, 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.
- The Remuneration Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment.
- Any such payments may include, but are not limited to, paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with their cessation of office or employment.
- The service contract for any new appointment would be on a similar basis to that described above.
- The payment of any bonus will be at the Remuneration Committee's discretion, based on the individual circumstances and would usually be pro-rated for the period of service and may be paid entirely in cash. In determining the level of bonus to be paid, the Remuneration Committee may, at its discretion, take into account performance up to the date of cessation or over the financial year as a whole based on appropriate performance measures as determined by the Remuneration Committee.
- Under the rules of the LTIP, 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) 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 the date of cessation. The Committee retains discretion to allow the holding period for vested awards to expire at the end of the normal two year period or, if appropriate, at an earlier date.

- The DASB awards 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. DASB awards will either vest on the normal vesting date or at the point of the participant leaving date if deemed a good leaver by the Remuneration Committee.

## 10. Non-Executive Directors

The Chairman and 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.

## 11. Relationship between remuneration of 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 permanent employees in the relevant markets, 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. The Essentra Management Bonus Plan also provides a consistent approach for the Executive Directors and Managers within Essentra by aligning the same performance conditions for their bonus plans.

Essentra currently manages a number of employee forums including sessions with the two Employee Champions, and with specific groups covering diversity and inclusion, employee engagement focus groups, leadership team sessions and other focus groups. Executive pay is a regular item for these forums.

## 12. 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. A thorough consultation process was undertaken with our major shareholders and representative bodies before this updated Policy Report was submitted for the approval of all shareholders.

## 13. 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

## Membership and attendance

| | Meetings during the year |
|---|---|
| **Nicki Demby,** Non-Executive Director | 6 (6) |
| **Tommy Breen,** Non-Executive Director | 6 (6) |
| **Mary Reilly,** Non-Executive Director | 6 (6) |
| **Ralf Wunderlich,** Non-Executive Director | 6 (6) |
| **Lorraine Trainer[1],** Non-Executive Director | 1 (2) |

1 Lorraine Trainer left the Remuneration Committee in May 2020. She missed the February 2020 Committee meeting due to illness.

**Other attendees**
During the year, the Chairman, Chief Executive, Chief Financial Officer, Group Human Resources Director and Director of Reward were invited by the Remuneration Committee to provide views and advice. None participated in discussions regarding their own remuneration.

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

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

- Deloitte LLP (Deloitte), who are a member of the Remuneration Consultants Group and have signed up to its Code of Conduct, provided advice to the Remuneration Committee on the draft Directors' Remuneration Policy, the 2018 Code, the Company's incentive plans, and on the remuneration of the Executive Directors and other senior executives within the Company. Deloitte were appointed by the Remuneration Committee who review their performance annually, and are content with the continued advice and level of service provided. The Remuneration Committee continues to be satisfied with the level of independence. Fees charged for the year under review are £77,650. The fees are charged on a time and expenses basis. Deloitte also provided other remuneration, consulting and tax services to the Company during 2020.
- 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 including the calculation of the TSR LTIP performance measure. Fees charged for the year under review are £13,404. The fees are charged on a time and expenses basis. The Remuneration Committee continues to be satisfied with the advice provided and level of independence. Aon Hewitt also provided actuarial advice to the Company for its USA pension scheme and are appointed as the Group's insurance broker.
- The Remuneration Committee continuously monitors and reviews the Company's relationships with its independent advisers.

## Key activities

**Remuneration Committee 2020 key activities**
Meetings during 2020

**Q1 2020**
- Approved 2019 annual bonus out turn for Executive Directors and GMC members.
- Approved performance measures and targets for the 2020 annual bonus of Executive Directors and GMC members.
- Approved the 2017 LTIP out turn for Executive Directors and other senior management.
- Reviewed 2019 Directors' Remuneration Report for inclusion in the 2020 Annual Report.

**Q2 2020**
- Considered remuneration issues in relation to COVID-19: 20% reduction in base salaries and fees for Directors and GMC for 3 months, withdrawal of inflationary salary increase for Executive Directors and no 2020 LTIP award.
- Discussed the Directors' Remuneration Policy and possible changes.

**Q3 2020**
- Discussed draft changes to the Directors' Remuneration Policy and shareholder consultation process.
- Considered the impact of the share placing on share plans.

**Q4 2020**
- Considered adjusting the 2018 LTIP outturn for M&A activity during the performance period.
- Considered the design of the 2021 annual bonus for Executive Directors and GMC.
- Considered the design of the 2021 LTIP for Executive Directors and other senior management.
- Discussed shareholder feedback from consultations on the Directors' Remuneration Policy.
- Reviewed the draft 2020 Directors' Remuneration Report.
- Reviewed Executive Directors and GMC share ownership.

**This section of the Remuneration Report will be subject to an advisory vote at the 2021 AGM.**

## Total Single Figure of Remuneration Table for 2020 (audited)

The remuneration received by Executive Directors for the year ended 31 December 2020 (and the 31 December 2019 comparative) was as follows:

| | Year | Salary and fees for the year or from the date of appointment £000[8] | Taxable benefits[1] £000 | Cash in lieu of pension[2] £000 | Total fixed remuneration £000 | Bonus (cash and deferred shares) £000 | Long-Term Incentive Plan[3] £000 | Total variable remuneration £000 | Other £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | | |
| Paul Forman | 2020 | 611 | 37 | 152[9] | 800 | – | – | – | | 800 |
| | 2019 | 639 | 37 | 160 | 836 | 288 | 172 | 460 | | 1,296 |
| Lily Liu | 2020 | 330 | 14 | 64[9] | 408 | – | – | – | | 408 |
| | 2019 | 327 | 33 | 65 | 425 | 114 | – | 114 | 5[7] | 544 |
| **Non-Executive Directors** | | | | | | | | | | |
| Paul Lester | 2020 | 238 | – | – | 238 | – | – | – | | 238 |
| | 2019 | 250 | – | – | 250 | – | – | – | | 250 |
| Tommy Breen | 2020 | 59 | – | – | 59 | – | – | – | | 59 |
| | 2019 | 61 | – | – | 61 | – | – | – | | 61 |
| Lorraine Trainer[4] | 2020 | 24 | – | – | 24 | – | – | – | | 24 |
| | 2019 | 64 | – | – | 64 | – | – | – | | 64 |
| Mary Reilly | 2020 | 71 | – | – | 71 | – | – | – | | 71 |
| | 2019 | 77 | – | – | 77 | – | – | – | | 77 |
| Ralf Wunderlich[5] | 2020 | 69 | – | – | 69 | – | – | – | | 69 |
| | 2019 | 57 | – | – | 57 | – | – | – | | 57 |
| Nicki Demby[6] | 2020 | 57 | – | – | 57 | – | – | – | | 57 |
| | 2019 | 30 | – | – | 30 | – | – | – | | 30 |
| Totals | 2020 | 1,459 | 51 | 216 | 1,726 | – | – | – | – | 1,726 |
| Totals | 2019 | 1,505 | 70 | 225 | 1,800 | 402 | 172 | 574 | 5 | 2,379 |

1 Taxable benefits comprise a car allowance, private medical insurance and life insurance cover.
2 Neither Paul Forman nor Lily Liu are entitled to any benefit under the Essentra Defined Benefit Pension Scheme.
3 The 2018 LTIP lapsed as the minimum performance conditions were not met. The 2017 LTIP value for Paul Forman has been restated based on the share price on the date of vesting (8 September 2020) of 293.2p.
4 Lorraine Trainer stepped down from the Board in May 2020 at the AGM.
5 Ralf Wunderlich was appointed as a Board Employee Champion in November 2019.
6 Nicki Demby was appointed Chair of the Remuneration Committee in May 2020 at the AGM.
7 Sharesave grant on 3 April 2019. This figure is the difference between the exercise price and the share price at the date of grant.
8 Due to COVID-19 all Directors had a 20% reduction in salary and fees for three months.
9 Paul Forman's pension allowance was reduced to 23.1% of salary at 1 April 2020. Lily Liu's pension allowance was reduced to 18% of salary as at 1 April 2020.

## CEO pay ratio (unaudited)

This is the second year that we are publishing our CEO pay ratio. We have elected to continue to follow Option A of the regulations, and to calculate the ratios using the full-time equivalent pay and benefits for all UK employees in respect of 2020. We have chosen Option A as this provides a more accurate figure of the Chief Executive's pay in relation to the wider UK population. Salary for the UK workforce is at 31 December 2020.

| | Method | 25th Percentile | 50th Percentile | 75th Percentile |
|---|---|---|---|---|
| Salary | A | £ 19,494 | £26,951 | £38,413 |
| Total pay | A | £21,074 | £26,951 | £41,402 |
| FY 2020 | A | 38:1 | 30:1 | 19:1 |
| FY 2019 | A | 67:1 | 50:1 | 36:1 |

The salary for the employees at the above percentiles are typical salaries for performing operational roles in our factories. The roles at these quartiles are a Customer Service Representative, Digital Team Leader and Lead Maintenance Engineer. The majority of remuneration for these roles is fixed rather than performance linked. The ratios are calculated based on the total remuneration payable to the Chief Executive in respect of 2020, as set out in the single figure table above.

The CEO pay ratio for 2020 has reduced to 30:1 at the median. This reflects the three month salary reduction that the CEO voluntarily agreed in order to help fund the furlough payments for our employees globally, that no annual bonus was paid for 2020 and that none of the 2018 LTIP awards vested.

The CEO pay ratio will fluctuate year-on-year, reflecting the higher proportion of variable remuneration that the Chief Executive may receive relative to other employees, the value of which is dependent on Essentra's performance and share price movements. As a result, the Remuneration Committee does not believe it is appropriate to target a specific CEO pay ratio. However, the Committee will annually assess whether the year-on-year movement in the ratio is consistent with Company performance and employee reward decisions.

## Annual bonus (audited)

Under the terms of the annual bonus arrangements for 2020, Paul Forman was entitled to a potential maximum bonus of up to 150% of basic salary and Lily Liu of up to 125% of basic salary. Bonus payments are normally made one-half in cash and one-half in shares deferred for three years. There are no further performance conditions related to this deferral.

For the year ended 31 December 2020, the performance measures for the Executive Directors were Adjusted Operating Profit (40%), Operating Cash Flow (30%) and Strategic Objectives (30%). No bonuses are payable unless 85% of the Target Adjusted Operating Profit is achieved.

## 2020 Annual Bonus Outturn

| Performance Measure | Weighting | Base performance | Target performance | Stretch performance | Actual performance £m | % of maximum bonus payable |
|---|---|---|---|---|---|---|
| Adjusted Operating Profit | 40% | £82.8m | £92.0m | £96.6m | £62m | 0% |
| Adjusted Operating Cash Flow | 30% | £81.8m | £90.9m | £95.5m | £76.3m | 0%[1] |

1 No bonus is payable under any performance measure as a result of missing 85% of the target Adjusted Operating Profit.

At the start of the year, the Committee set a stretching range for Adjusted Operating Profit and Adjusted Operating Cash Flow based on the original financial forecast for 2020. The Adjusted Operating Profit and Adjusted Operating Cash Flow targets were not changed for the economic impact of COVID-19.

In the Committee's view, the Executive Directors delivered a resilient financial performance despite the significant economic downturn. Many of the key strategic objectives set for the year were also successfully achieved. However, due to missing the underpin Adjusted Operating Profit Target, there was no payment due to the Executive Directors under either the 30% strategic element or the 70% financial element of the bonus.

In determining the outcome of the annual bonus for 2020 the Remuneration Committee gave careful consideration to exercising its discretion including a number of matters not addressed by the mechanics of the plan. The Remuneration Committee has taken a thoughtful and balanced view and in the round we have determined that the overall outcome of the annual bonus is appropriate.

## LTIP awards (audited)

## Performance conditions for LTIP awards made in 2018

| Condition | Threshold (25% Vesting) | Maximum | Actual outturn | Vesting |
|---|---|---|---|---|
| 3 year Relative TSR v FTSE250 (exc investment trusts) (33.33%) | Median | Upper quartile | Below median | 0% |
| 3 year Compound Annual Growth in Adjusted EPS (33.33%) | 6% | 15% | -16.9% | 0% |
| 3 year Cumulative Adjusted Operating Cash Flow (33.33%) | £252m | £292m | £225.3m | 0% |

At the conclusion of the performance period, the Remuneration Committee discussed whether any discretion should be applied to the formulaic outturn of the LTIP. In conclusion, the Committee was comfortable that the formulaic vesting outturn of 0% of maximum was fair and reasonable, and was satisfied that adjusting for M&A activity during the three year performance period would make no difference to the formulaic outturn.

## Equity incentives (audited)

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

| | Date of grant | At 1 Jan 2020 | Awarded in year | Exercised/ transferred in year | Lapsed in year | At 31 Dec 2020 | Share price at date of grant | Earliest vesting date | Expiry date |
|---|---|---|---|---|---|---|---|---|---|
| **Paul Forman** | | | | | | | | | |
| LTIP[1] | 8 Sept 17 | 387,076 | – | 58,496 | 328,580 | – | 529.0p | 8 Sept 20 | 7 Sept 23 |
| LTIP[1] | 6 Apr 18 | 292,877 | – | – | – | 292,877 | 426.8p | 6 Apr 21 | 6 Apr 24 |
| LTIP[1] | 13 Aug 19 | 321,241 | – | – | – | 321,241 | 400.4p | 15 Aug 22 | 13 Aug 25 |
| DASB | 29 Mar 18 | 52,059 | – | – | – | 52,059 | 432.2p | 1 Mar 21 | 1 Mar 21 |
| DASB | 29 Mar 19 | 74,342 | – | – | – | 74,342 | 413.0p | 1 Mar 22 | 1 Mar 22 |
| DASB | 30 Mar 20[2] | | 56,840 | – | – | 56,840 | 253.4p | 1 Mar 23 | 1 Mar 23 |
| **Lily Liu** | | | | | | | | | |
| LTIP[1] | 13 Aug 19 | 205,594 | | – | – | 205,594 | 400.4p | 15 Aug 22 | 13 Aug 25 |
| DASB | 30 Mar 20[3] | – | 22,642 | – | – | 22,642 | 253.4p | 1 Mar 23 | 1 Mar 23 |

1 Subject to a two-year holding period post vesting.
2 Face value of DASB award to the Chief Executive is £143,805.
3 Face value of DASB award to the Chief Financial Officer is £57,284.

A total of 174,389 (2019: 1,529,082) share incentive awards were granted during the year ended 31 December 2020 to Executive Directors and other senior executives on the GMC, all relating to the DASB awards on annual bonuses earned in 2019.

## Performance shares awards granted during the year (audited)

No awards were granted in 2020 as the Committee felt it would be inappropriate to grant an LTIP award when the salaries of many employees that were furloughed around the world were reduced by 20%. This helped fund the cost of paying 80% of salaries for all furloughed workers globally.

## Directors' shareholdings (audited)

The beneficial interests of the current Directors in office during the year, in the issued ordinary share capital of the Company were as follows:

There have been no changes in the Directors' interests since 31 December 2020 and the date of this Report.

| | Beneficially owned | | LTIP | | DASB | SAYE |
|---|---|---|---|---|---|---|
| | 31 Dec 2019 | 31 Dec 2020 | Vested | Unvested | Unvested | Unvested |
| **Executive Directors** | | | | | | |
| Paul Forman | 260,000 | 308,461 | 58,496 | 614,118 | 183,241 | – |
| Lily Liu | – | 19,230 | – | 205,594 | 22,642 | 5,503 |
| **Non-Executive Directors** | | | | | | |
| Paul Lester | 7,500 | 11,346 | – | – | – | – |
| Tommy Breen | 10,000 | 13,846 | – | – | – | – |
| Lorraine Trainer | 9,092 | 9,092 | – | – | – | – |
| Ralf Wunderlich | 136,000 | 170,230 | – | – | – | – |
| Mary Reilly | 7,500 | 9,423 | – | – | – | – |
| Nicki Demby | 750 | 2,673 | – | – | – | – |

Paul Forman and Lily Liu are required to build up a shareholding worth 300% and 200% of salary respectively from the date of appointment. Beneficially owned shares include the unvested DASB awards and shares held directly. Current holdings as a percentage of salary are 262% for Paul Forman and 36% for Lily Liu.

Salary used is the prevailing annual salary as at 31 December 2020.

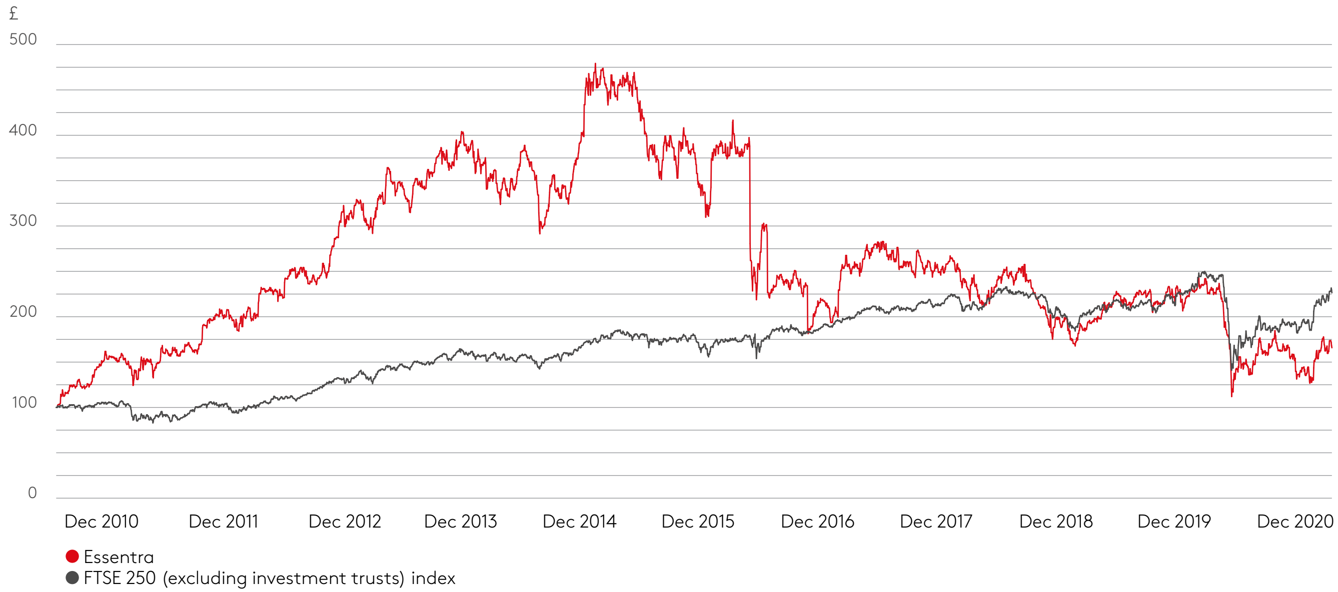
The Executive Directors are regarded as being interested in 1,084,091 (2019: 1,033,311) ordinary shares in Essentra plc currently held by the Essentra Employee Benefit Trust (EBT) as they are, together with other Essentra employees, potential beneficiaries of the EBT.

As at 31 December 2020, potential and actual share issuance through employee related share plans totalled 1.65%, 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 Total Shareholder Return (TSR) performance of the Company versus the FTSE 250 (excluding investment trusts) index for the last ten years. This index has been selected as it is considered the most appropriate published general index in which the Company is a constituent.

This graph shows the value, by 31 December 2020, of £100 invested in Essentra on 31 December 2010, compared with the value of £100 invested in the FTSE 250 (excl. Investment Trusts) Index. The other points plotted are the values at intervening financial year-ends.



## Chief Executive remuneration table (unaudited)

| | Mark Harper | Colin Day | | | | | | Paul Forman | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 Jan – 14 Apr 11 | 1 Apr –31 Dec 11 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Total remuneration (£000) | 1,715 | 1,046 | 1,570 | 3,824 | 5,661 | 2,281 | 876 | 1,267 | 1,420 | 1,296 | 800 |
| Annual bonus (% maximum) | 100 | 100 | 100 | 100 | 60 | 46.2 | 0 | 48 | 64.2 | 30.2 | 0 |
| LTIP vesting (% maximum) | 100 | n/a | n/a | 100 | 100 | 50 | 0 | 0 | 0 | 13.53 | 0 |

Mark Harper retired on 14 April 2011 and Colin Day was appointed as a Director on 1 April 2011. Colin Day retired as Chief Executive on 31 December 2016 and Paul Forman was appointed as Chief Executive on 1 January 2017.

## Year-on-year change in pay for Directors compared to the average of employees (unaudited)

In line with the requirements in The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, which implement Articles 9a and 9b of the European Directive 2017/828/EC1 (commonly known as the Revised Shareholder Rights Directive), the table below shows the percentage change in Directors' remuneration and average remuneration of employees from the year ended 31 December 2019 to the year ended 31 December 2020. Given the small number of people employed by the Essentra Plc entity, data for all employees of the Essentra Group has been included.

There were no salary increases in 2020 except for statutory and negotiated increases and a few market rate adjustments on an exceptional basis. As a result, the average salary increase is 1.7% from 2019 to 2020. Average bonuses have fallen due to the economic impact of the COVID-19 on the Group's financial performance.

The increase in fees for Nicki Demby and Ralf Wunderlich reflect their respective appointments to the Board in 2019, and as Chair of the Remuneration Committee in 2020 and appointment as Board Employee Champion in November 2019.

| | Average employee[1] | Paul Forman | Lily Liu | Paul Lester | Tommy Breen | Lorraine Trainer | Ralf Wunderlich | Mary Reilly | Nicki Demby |
|---|---|---|---|---|---|---|---|---|---|
| Salary / Fees | +1.7% | -4.3% | +0.9% | -4.8% | -3.3% | -62.5% | +21% | -7.8% | +90% |
| Benefits | +4.7% | 0% | -57.6% | n/a | n/a | n/a | n/a | n/a | n/a |
| Bonus | -73.3% | -100% | -100% | n/a | n/a | n/a | n/a | n/a | n/a |

1 The average employee salary is based on all global employees. The average employee benefits and bonus are based on employees located in the UK and USA. The differing approach reflects the information held in global systems.

## Relative importance of spend on pay (unaudited)

| | 2020 £m | 2019 £m | % change |
|---|---|---|---|
| Staff costs[1] | 271.8 | 287.1 | -5.3% |
| Distributions to shareholders | – | 54.2 | -100% |
| Revenue – total[2] | 896.5 | 974.1 | -8.0% |
| Adjusted Operating Profit – total[2] | 62.0 | 87.5 | -29.1% |

1 Staff costs are as per note 5 of the Financial Statements.
2 Revenue and Adjusted Operating Profit have fallen as a result of the impact of COVID-19 on our markets.

## Payment to past Directors or for loss of office (audited)

There were no payments to past Directors or payments to Directors for loss of office in respect of 2020.

## Implementation of Remuneration Policy for 2021 (unaudited)

When considering the implementation of the policy for 2021, the Committee was mindful of the 2018 Code and considers that the executive remuneration framework appropriately addresses the following factors:

| | |
|---|---|
| Clarity | We provide open and transparent disclosures both internally and externally in relation to our executive remuneration arrangements. |
| Simplicity | Variable remuneration arrangements for our executives and our wider workforce are simple in nature with individuals eligible for a bonus and, at more senior levels, a single long-term incentive plan. These are well understood by both participants and shareholders. |
| Predictability | Our executive remuneration framework contains maximum opportunity levels for each component of remuneration with variable incentive outcomes varying depending on the level of performance achieved against specific measures. |
| Alignment to culture | The performance measures used for annual bonus and LTIP awards are KPIs that drive behaviours that are closely aligned to our strategy and Company values. In 2021 the LTIP will include a greenhouse gas (GHG) emissions measure and the strategic objectives will include a reduction of waste to landfill target. |
| Proportionality and risk | The Committee believes that our variable pay structures provide a fair and proportionate link between Company performance and reward. In particular, the use for Executive Directors of annual bonus deferral, LTIP holding periods and shareholding requirements provide a clear link to the ongoing performance of the Company and therefore long-term alignment with stakeholders. For example, under the proposed Directors' Remuneration Policy, the shareholding guideline for Executive Directors continues two years after leaving Essentra.<br>We are also satisfied that the variable pay structures do not encourage inappropriate risk-taking.<br>Notwithstanding this, the Committee retains an overriding discretion that allows it to adjust formulaic outcomes from incentive plans so as to guard against disproportionate outturns. Malus and clawback provisions also apply to both the annual bonus and LTIP. |

### Executive Director Contracts

The Executive Directors have open-ended contracts with their reappointment being confirmed annually at the AGM.

### Salary

Basic salary for each Executive Director is determined by the Remuneration Committee, taking into account the role, responsibilities, performance, experience of the individual and market movement. Any salary change is normally effective in April each year.

| | Paul Forman £ | Lily Liu £ |
|---|---|---|
| Annual salary effective from 1 April 2021 | 655,345 | 360,700 |
| Annual salary effective from 1 April 2020, excluding 20% reduction from 1 April – 30 June 2020 | 643,125 | 353,976 |

### Benefits

Executive Directors are provided with the following benefits:

- car allowance
- private medical insurance with family level cover
- life assurance cover of four times basic salary

### Pension

Paul Forman's pension allowance was reduced by £11,900 from 1 April 2020. He currently receives a pension allowance equal to 23.1% of base salary. Lily Liu's cash allowance in lieu of pension was reduced by £2,100 from 1 April 2020. She currently receives a pension allowance equal to 18% of base salary.

From 1 April 2021, pension allowances will be further reduced to 20% and 15% of salary respectively for Paul Forman and Lily Liu. This continues the phased approach to align with the wider workforce by the end of 2022.

### 2021 Annual bonus

Under the terms of the annual bonus arrangements for 2021, Paul Forman is potentially entitled to a maximum bonus of up to 150% of basic salary and Lily Liu 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 deferred for three years, in accordance with the rules of the DASB.

The measures and weightings for the annual bonus for 2021 will be consistent with those in 2020:

| Measures | Weighting (%) |
|---|---|
| Adjusted Operating Profit | 40% |
| Adjusted Operating Cash Flow | 30% |
| Strategic Objectives – including 10% on progress against Zero Waste to Landfill | 30% |

In 2021, there will be no bonus payable unless the Remuneration Committee determines that the Company's 2021 financial performance is satisfactory. For achieving threshold Adjusted Operating Profit and Adjusted Operating Cash Flow, 10% of the relevant portion of the bonus will be payable. Progress against Zero Waste to Landfill will be reviewed by the Sustainability Committee.

The Remuneration Committee believes that Adjusted Operating Profit and Adjusted Operating Cash Flow targets are commercially sensitive, and will not disclose the targets on a prospective basis. The targets and actual performance against them will be disclosed on a retrospective basis in the 2021 Remuneration Report.

The Remuneration Committee has the discretion, within a three-year period after the determination of the bonus, to withhold or recover annual cash bonuses or DASB awards through malus and clawback provisions in specified circumstances.

These circumstances take into account where the original bonus was overpaid, due to a material misstatement in the Company's Financial Statements or due to an error in assessing the applicable performance conditions or if there has been serious misconduct by an individual, if there has been serious reputational damage to the Company or a relevant business unit, or in the event of corporate failure.

**2021 LTIP**

An award granted under the LTIP consists of a conditional right to receive shares in the Company, subject to satisfaction of performance conditions over a three-year period. An additional two-year holding period applies. Malus and clawback provisions also apply to LTIP awards for three years from vesting.

The following LTIP awards are intended to be granted to Executive Directors during 2021.

| Condition | Paul Forman | Lily Liu |
|---|---|---|
| LTIP awards as a percentage of salary | 200% | 150% |

| Condition | Threshold (25% Vesting) | Maximum |
|---|---|---|
| Compound Annual Growth in Adjusted EPS[2] (40%) | 5% | 13% |
| ROIC[2] (30%) | 8.5% | 14.5% |
| Relative TSR v FTSE250[1] (20%) | Median | Upper quartile |
| Reduction in GHG Emissions[3] (10%) | 10% | 15% |

1 FTSE 250 excluding companies in the following industries: basic materials, energy, financial services, real estate, utilities and travel and leisure.
2 Adjusted EPS and ROIC are subject to adjustment from portfolio management/changes.
3 Externally audited Scope 1 and 2 GHG emissions consistent with our publicly stated commitment to be carbon neutral by 2040, and an interim reduction of 25% by 2025 relative to a 2019 baseline.

### Non-Executive Director fees

The fees for the Chairman are set by the Remuneration Committee, while fees for the Non-Executive Directors are determined by the Chief Executive and the Chairman.

All Non-Executive Directors had a 20% fee reduction for 3 months from 1 April to 30 June 2020. There will be no change to Non-Executive Directors' fees in 2021. No individual was present for the discussion related to their fees.

| Annual fee effective | Chairman | Non-Executive Director | Additional fee for Senior Independent Director | Additional fee for Audit and Remuneration Committee chairs | Additional fee for Sustainability Committee chair | Additional fee for Employee Champions |
|---|---|---|---|---|---|---|
| From 1 October 2019 | £250,000 | £52,000 | £10,000 | £13,000 | £11,000 | £10,000 |

## Outside appointments (unaudited)

Paul Forman is the Senior Independent Director of Tate & Lyle. Paul received and retained fees of £78,000 in respect of this directorship during 2020.

## Statement of shareholder voting (unaudited)

The results of shareholder voting in relation to the approval of the 2019 Directors' Remuneration Report at the 2020 AGM and the Directors' Remuneration Policy Report at the 2018 AGM were as follows:

| | Annual Report on Remuneration (2020 AGM) | | Remuneration Policy Report (2018 AGM) | |
|---|---|---|---|---|
| | No. of votes | % | No. of votes | % |
| Votes cast in favour | 207,406,775 | 99.70 | 225,065,322 | 99.52 |
| Votes cast against | 620,224 | 0.30 | 1,077,739 | 0.48 |
| Total votes cast | 208,026,999 | | 226,143,061 | |
| Abstentions | 16,212,347 | | 6,066 | – |

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

By order of

**Nicki Demby**
Non-Executive Director
Remuneration Committee Chairman
5 March 2021

# 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 2020 and audited Financial Statements of the Company and its subsidiary undertakings for the year ended 31 December 2020. The Company's Registered Office is Avebury House, 201-249 Avebury Boulevard, Milton Keynes MK9 1AU.

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

The Directors' Report comprises pages 81 to 148, and where information has been included in the Strategic Report sections of the Annual Report this has been incorporated by reference are as set out below:

| | |
|---|---|
| Membership of Board during 2020 financial year | page 85 |
| Financial instruments and financial risk management | pages 45 to 47 |
| $CO_2$ emissions | page 41 |
| Corporate Governance Report | pages 85 to 99 |
| Future developments of the business of the Group | pages 42 to 44 |
| Employee diversity | page 34 |
| Stakeholder Engagement | pages 23 to 26 |

## Results and dividends

The profit on ordinary activities after taxation of the total Group for the year ended 31 December 2020 was £6.3m (2019: profit £41.2m).

The Company did not pay a dividend in 2020 following a decision by the Board to preserve cash in view of the global pandemic and the uncertainties that created.

| | Per share p | Total £m |
|---|---|---|
| Interim dividend paid 30 October 2020 | – | – |

The Directors recommend that a final dividend of 3.3p (2019: 6.3p) per share be paid. No interim year dividend was paid for 2020 therefore the total dividend distribution for the year is 3.3p (2019: 6.3p).

The final dividend, subject to shareholders approval at the AGM, will be paid on 1 June 2021 to shareholders on the register on 23 April 2021.

## Directors

As at 31 December 2020 and the date of the Report, the Board of Directors comprised:

| | |
|---|---|
| Paul Lester | Non-Executive Chairman |
| Paul Forman | Chief Executive |
| Lily Liu | Chief Financial Officer |
| Tommy Breen | Non-Executive Director |
| Nicki Demby | Non-Executive Director |
| Mary Reilly | Non-Executive Director |
| Ralf Wunderlich | Non-Executive Director |

The Company requires all Directors appointed since the last AGM to be elected at the following AGM and for all other directors to be re-elected at each AGM. Tommy Breen has confirmed that he will retire from the Board from the close of the 2021 AGM and will not stand 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 and General Counsel as soon as possible. During 2020 the current register was approved at each Board meeting 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 as at 31 December 2020 and as at the date of this Report is shown on page 137.

## Share capital

The issued share capital of the Company is shown in note 20 of the Notes to the Financial Statements.

On 31 December 2020, there were 302,590,708 ordinary shares of 25p each in issue. There were 908,650 ordinary shares of 25p each held in treasury. The rights and obligations attaching to the Company's ordinary shares, and the provisions governing the appointment and replacement of, as well as the powers of, the Company's Directors, are set out in the Company's Articles of Association, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary.

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

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

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

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

## Substantial shareholders

As at 31 December 2020 the Company was advised of the following voting rights attaching to the Company's shares in accordance with the Disclosure and Transparency Rules:

| | % holding |
|---|---|
| Invesco | 6.64% |
| RLAM | 5.99% |
| Majedie | 5.18% |
| Ninety One UK Limited | 5.02% |
| Ameriprise Financial, Inc. and its group | 4.98% |
| Standard Life | 4.82% |
| Heronbridge | 4.81% |
| AXA | 4.81% |
| Norge Bank | 3.02% |
| Kames Capital | 2.99% |

## Employees

As at 31 December 2020, the Company employed 7,065 people globally and 1,280 people in the UK. Information on the Group's policies on employee recruitment, engagement and the employment of disabled persons can be found in "A winning, engaged and empowered team" from page 31 to 35.

## Political contributions

In line with Group policy, the Company made no political contributions (2019: £nil).

## Environmental

The disclosures concerning $CO_2$ emissions required by law are included in Class-leading sustainability on page 41.

## Directors' indemnities

During the year, and as at the date of this Report, qualifying third-party indemnities are in force under which the Company has agreed to indemnify the Directors and the Company Secretary and 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 provided by a group of eight banks, dated November 2017, consisting of two five-year multi-currency revolving credit facilities of £285m and €100.8m, set to mature in its entirety in November 2022. For a tranche involving five of the eight banks worth £225m, an extension has been agreed to the facility based on new terms, which will now mature in November 2023. The Company continues to review its financing, including the lenders in the original tranche still set to mature in November 2022.

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.

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 Essentra Components site at Langford Locks, Kidlington, Oxford, OX5 1HX on 20 May 2021 at 12 noon. The meeting will be held as a virtual meeting and physical attendance will only be possible if UK government regulations in place at the time permit this. Any updates will be posted on the Company's website and shareholders are asked to check the website in the approach to the AGM. Details of how to join the AGM can be found in the Notice of Annual General Meeting.

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 2020 AGM, the Directors were granted authority to allot relevant securities up to a nominal amount of £21,931,502, 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 £25,140,172 representing approximately one-third of the Company's issued share capital, excluding treasury shares, at 5 March 2021 (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 £50,280,343 representing approximately two-thirds of the issued share capital, excluding treasury shares, at 5 March 2021 (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 21 July 2021) except in relation to share options.

## Allotment of shares for cash

At the 2020 AGM, shareholders approved a special resolution to enable the Directors to allot shares for cash without first offering them to existing shareholders in proportion to their existing shareholdings. That approval expires at the end of the forthcoming AGM and resolutions 13 and 14 in the Notice of AGM seek to renew it.

As per previous years, the Company seeks a resolution which authorises disapplication of pre-emption rights in respect of up to an aggregate nominal amount of £3,771,026 (representing 15,084,103 ordinary shares). This aggregate nominal amount represents approximately 5% of the issued ordinary share capital of the Company (excluding treasury shares).

In addition to the above Resolution, the Company seeks a Resolution which authorises disapplication of pre-emption rights in respect of up to an aggregate nominal amount of £3,771,026 (representing 15,084,103 ordinary shares) in connection with acquisitions and other capital investments as contemplated by the Pre-Emption Group's Statement of Principles. This aggregate nominal amount represents an additional 5% of the issued ordinary share capital of the Company (excluding treasury shares).

These authorities will expire at the conclusion of the following AGM or, if earlier, on 21 July 2022. 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 2020 AGM, shareholders approved a special resolution to enable the Company to purchase its own shares. That approval expires at the end of the forthcoming AGM.

At this year's AGM, the Directors consider it expedient to seek shareholders' approval to enable the Company to purchase, in the market, up to 10% of its issued share capital (excluding any treasury shares) for cancellation, or to be held in Treasury, such power to apply until the end of next year's AGM (or if earlier, 21 July 2022). In accordance with the requirements of the Listing Rules of the Financial Conduct 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 2020, 42,487 ordinary shares were transferred out of Treasury by the Company to satisfy share options under the Company's Sharesave and executive share incentive plans.

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

## Proposed amendment to the Articles of Association

In order that the Company can best engage with shareholders at its AGM, the Notice of AGM includes a resolution to amend the Articles of Association so that hybrid meetings can be held. Approval of this will allow the Company to hold both a physical and virtual meeting simultaneously and for electronic votes to be counted. Further details of the proposed amendments can be found in the Notice of AGM. The Board support the adoption of this amendment to the Articles.

## External Auditor

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

## Recommendation

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

## Derivatives

Information related to derivatives is included in the Accounting Policies on page 157 and in note 15 and note 19 to the Notes of the Financial Statements.

## Going concern statement

At 31 December 2020, the Group's financing arrangements amounted to £448.0m, comprising United States Private Placement (USPP) of US$100.0m (with a range of expiry dates from November 2024 to April 2030) and a multi-currency revolving credit facility (RCF) of £375.0m (of which £225.0m expires in November 2023 following extension agreed with lenders in January 2023, and the remaining amount in November 2022).

At 31 December 2020, £161.2m of the RCF facility was undrawn. The facility is subject to two covenants, which are tested semi-annually: net debt to EBITDA (leverage) and EBITA to net finance charges. Despite the macroeconomic uncertainty, the Group has not sought to change either of the two covenants. The Directors believe that the Group is well placed to manage its business risks notwithstanding the impact of current events such as Brexit and, after making enquiries including a review of forecasts and predictions, taking account of reasonably possible changes in trading performances and considering the existing banking facilities, including the available liquidity, have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months following the date of approval of the financial statements, and no breaches of covenants are expected.

The uncertainty as to the future impact on the Group of the COVID-19 pandemic has been considered as part of the Group's adoption of the going concern basis, taking into account the experience during 2020 and the most recent circumstances. As at 31 December 2020 and as at the date of approval of these financial statements, all of the Group's manufacturing and distribution facilities are operational and have broadly resumed to pre-pandemic levels of service. Across the Group, public health measures advised by governments are being followed in support of their efforts to contain the spread of the virus, and the supply chain is being proactively managed as are operating costs and the timing of capital expenditure.

As part of the going concern assessment, the Board has also considered a downside scenario that reflects the current uncertainty in the global economy and which we consider to be severe but plausible. The results of this scenario show that there is sufficient liquidity in the business for a period of at least 12 months from the date of approval of these financial statements, and do not indicate any covenant breach during the test period. The scenario includes assumption for similar extent of disruptions as seen in 2020. Set against this were mitigating actions including tight management of capital expenditure, sales and general overhead, and working capital. Since the first COVID-19 external announcement issued by the Company, the Group has been cash generative and hence the liquidity position has further improved. Overall liquidity (defined as available undrawn borrowing facility plus cash and cash equivalent excluding the amount attributable to non-controlling interests) at the end of December was approximately £285m, which improved from approximately £260m at half-year, achieved by diligent cash flow management in the Company.

The severe but plausible scenario does not indicate a material uncertainty which may cast significant doubt over the Company's and Group's ability to continue as a going concern. Therefore, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Further information on the Group's borrowing facilities, cash resources and other financial instruments are described in the Financial Review on pages 45 to 49.

The Directors have prepared plans and forecasts for a period of at least twelve months from the date of signing these financial statements. Based on these, and taking into consideration the risks detailed in note 19, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and accordingly have adopted the going concern basis in preparing the consolidated financial statements. This disclosure has been prepared in accordance with the Financial Reporting Council's UK Corporate Governance Code.

## Post balance sheet event

In January 2021, the Company entered into a restated and amended Revolving Credit Facility with certain banks which extended the arrangements of the existing facility.

In February 2021, HMRC confirmed that the Company and its subsidiary, Essentra Filter Products International Limited, were not beneficiaries of EU State Aid and therefore there were no funds due to HMRC for recovery of State Aid.

In late February 2021, OFAC confirmed that no further enforcement action would be taken against the Company or its subsidiaries in respect of supplementary matters raised with OFAC in 2020.

In accordance with Provision 31 of the 2018 UK Corporate Governance Code, the Directors have assessed the longer-term viability of the Company over the three-year period to December 2023.

The assessment has been based on the Company's strategy and implementation programme, balance sheet and financing position, and the potential impact of the key risks and uncertainties described above. The Company strategy has been translated into a three-year strategic plan comprising a one-year detailed budget and a financial forecast for the following two years. The plan will be subject to annual updates by management and review by the Board. As a consequence, the Directors have chosen a three-year time horizon for the Long-Term Viability Statement (LTVS) as being an appropriate time frame for assessing the viability of the Company. However, the Directors have also given due consideration to any potential risks beyond this time horizon.

## Long term viability statement

In accordance with provision 31 of the 2018 UK Corporate Governance Code, the Directors have assessed the longer-term viability of the Company over the three year period to December 2023.

The assessment has been based on the Company's strategy and implementation programme, balance sheet and financing position, and the potential impact of the key risks and uncertainties described above. The Company strategy has been translated into a three-year strategic plan comprising a one-year detailed budget and a financial forecast for the following two years. The plan will be subject to annual updates by management and review by the Board. As a consequence, the Directors have chosen a three-year time horizon for the Longer-Term Viability Statement (LTVS) as being an appropriate time frame for assessing the viability of the Company, as this is the period reviewed by the Group Board in its strategic planning process. The Directors believe that this presents a reasonable degree of confidence over this longer-term outlook, However, the Directors have also given due consideration to any potential risks beyond this time horizon.

This assessment was informed by our judgements as to the potential financial impact of the following Principal Risks if they materialise over the three-year period:

- Failure to Achieve Acceptable Returns from the Packaging Division
- Cyber Attack, including an impact on operational disruption
- Macro-economic and Trade Deal Uncertainty (including Brexit)
- Delivery of Strategic Projects.

In order to support the assessment of the viability, the Directors have considered the following realistic and plausible scenarios. The Directors have assumed that the risks in each scenario would all crystallise simultaneously. In Scenario 4, the Directors have considered the worst case events from each of the selected Principal Risk.

### Scenario 1

| | Level of severity tested |
|---|---|
| Failure to Achieve Acceptable Returns from the Packaging Division (middle) | Revenue reduction of £9.1m, £11.5m and £20.8m, respectively, and decline of the operating profit of £5.5m, £7.8m and £10.7m, respectively, for the three year period |
| Cyber event with Business Continuity Impact (middle) | Revenue reduction of £2.6m and decline in the operating profit of £1.6m with one-off exceptional cash cost of £5m in 2021 |
| Macro-economic and Trade deal uncertainty (including Brexit) (severe) | Revenue reduction of £44.8m, £69.8m and £85.5m, respectively, and decline of the operating profit of £15.7m, £23.5m and £28.6m, respectively, for the three year period |
| Delivery of Strategic Projects (base) | In line with base case assumptions |

### Scenario 2

| | Level of severity tested |
|---|---|
| Failure to Achieve Acceptable Returns from the Packaging Division (severe) | Revenue reduction of £15.8m, £26.2m and £34.6m, respectively, and decline of the operating profit of £7.9m, £14.2m and £18.0m, respectively, for the three year period |
| Cyber event with Business Continuity Impact (severe) | Revenue reduction of £3.3m and decline in the operating profit of £2.2m with one-off exceptional cash cost of £10m in 2021 |
| Macro-economic and Trade deal uncertainty (including Brexit) (severe) | Revenue reduction of £44.8m, £69.8m and £85.5m, respectively, and decline of the operating profit of £15.7m, £23.5m and £28.6m, respectively, for the three year period |
| Delivery of Strategic Projects (middle) | Decline in revenue of £0m, £15.0m and £11.3m in 2021, 2022 and 2023, respectively, and decline of the operating profit of £1.4m, £7.0m and £7.3m, respectively, for the three year period |

### Scenario 3

| | Level of severity tested |
|---|---|
| Failure to Achieve Acceptable Returns from the Packaging Division (severe) | Revenue reduction of £15.8m, £26.2m and £34.6m, respectively, and decline of the operating profit of £7.9m, £14.2m and £18.0m, respectively, for the three year period |
| Cyber event with Business Continuity Impact (middle) | Revenue reduction of £2.6m and decline in the operating profit of £1.6m with one-off exceptional cash cost of £5m in 2021 |
| Macro-economic and Trade deal uncertainty (including Brexit) (severe) | Revenue reduction of £44.8m, £69.8m and £85.5m, respectively, and decline of the operating profit of £15.7m, £23.5m and £28.6m, respectively, for the three year period |
| Delivery of Strategic Projects (middle) | Decline in revenue of £0m, £15.0m and £11.3m in 2021, 2022 and 2023, respectively, and decline of the operating profit of £1.0m, £5.0m and £4.6m, respectively, for the three year period |

### Scenario 4

| | Level of severity tested |
|---|---|
| Failure to Achieve Acceptable Returns from the Packaging Division (severe) | Revenue reduction of £15.8m, £26.2m and £34.6m, respectively, and decline of the operating profit of £7.9m, £14.2m and £18.0m, respectively, for the three year period |
| Cyber event with Business Continuity Impact (severe) | Revenue reduction of £3.3m and decline in the operating profit of £2.2m with one-off exceptional cash cost of £10m in 2021 |
| Macro-economic and Trade deal uncertainty (including Brexit) (severe) | Revenue reduction of £44.8m, £69.8m and £85.5m, respectively, and decline of the operating profit of £15.7m, £23.5m and £28.6m, respectively, for the three year period |
| Delivery of Strategic Projects (severe) | Decline in revenue of £0m, £15.0m and £22.5m in 2021, 2022 and 2023, respectively, and decline of the operating profit of £1.4m, £7.0m and £7.3m, respectively, for the three year period |

In all of the scenarios assessed, there is no indication of potential breaches of banking covenants, and that there remains sufficient liquidity headroom from the Group's current borrowing facilities.

In making the assessment, the Directors have assumed that capital markets and bank funding will continue to be available over the period. Furthermore, management would be in a position to implement further effective mitigation actions to reduce the impact a potential risk event and to preserve cash resources. Mitigating actions considered by management include availability of alternative sources of funding, cost rationalisation measures, working capital and capital expenditure management and potential disposal of non-core assets.

Based on the viability assessment undertaken, the Directors have a reasonable expectation that the Group will be able to continue in operational existence and meet its liabilities as they fall due over the period of the assessment.

## 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 reasonable steps that they 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 5 March 2021.

By order of the Board

**Jon Green**
**Company Secretary**
5 March 2021

# STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

**The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.**

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the directors to prepare the group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable International accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

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

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

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' confirmations

Each of the directors, whose names and functions are listed in Directors' Report confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group;
- the company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and profit of the company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the directors' report is approved:

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

**Paul Forman**
Chief Executive

**Lily Liu**
Chief Financial Officer
5 March 2021

# INDEPENDENT ASSURANCE STATEMENT TO ESSENTRA PLC

ERM Certification and Verification Services (ERM CVS) was engaged by Essentra plc ('Essentra') to provide limited assurance in relation to the information set out below and presented in Essentra's 2020 Annual Report ('the Annual Report').

| Engagement summary | |
|---|---|
| Scope of our assurance engagement | Whether the 2020 data and explanatory notes for the following indicators presented on pages 40 and 41 of the Annual Report are fairly presented, in all material respects, in accordance with the reporting criteria:<br>• Total Scope 1 GHG emissions [metric tonnes of $CO_2$eq]<br>• Total Scope 2 GHG emissions [metric tonnes of $CO_2$eq]<br>• Total hazardous and total non-hazardous waste by destination (Landfill, Incineration without energy recovery, Recovery including incineration with energy recovery, and Recycling) [metric tonnes]<br>• Zero waste to landfill sites [number]<br>• Total water usage [cubic meters] |
| Reporting criteria | The WBCSD/WRI GHG Protocol (2004, as revised January 2015) for the Scope 1 and Scope 2 GHG emissions, and Essentra's internal methodology and reporting criteria for the waste and water data as described in the footnotes on page 41 of the Annual Report. |
| Assurance standard | ERM CVS's assurance methodology, based on the International Standard on Assurance Engagements ISAE 3000 (Revised). |
| Assurance level | Limited assurance. |
| Respective responsibilities | Essentra is responsible for preparing the data and for its correct presentation in reporting to third parties, including disclosure of the reporting criteria and boundary.<br>ERM CVS's responsibility is to provide conclusions on the agreed scope based on the assurance activities performed and exercising our professional judgement. |

## Our conclusions

Based on our activities, nothing has come to our attention to indicate that the 2020 data and explanatory notes for the indicators listed under 'Scope' above and shown on pages 40 and 41 of the Annual Report, are not fairly presented, in all material respects, with the reporting criteria.

## Our assurance activities

Our objective was to assess whether the selected data are reported in accordance with the principles of completeness, comparability (across the organisation) and accuracy (including calculations, use of appropriate conversion factors and consolidation). We planned and performed our work to obtain all the information and explanations that we believe were necessary to provide a basis for our assurance conclusions.

A team of assurance professionals undertook the following activities:

- Interviews with relevant Essentra staff to understand and evaluate the data management systems and processes (including IT systems and internal review processes) used for collecting and reporting the selected data;
- A review of the internal indicator definitions and conversion factors;
- Virtual visits to four Essentra sites (UK (2), Turkey and the United States) to review local data management and reporting processes, and the consistency of reported data with underlying source data and related information for each indicator;
- An analytical review of the data from all sites and a check on the completeness and accuracy of the corporate data consolidation;
- A review of the information relevant to the scope of our work in the Annual Report, to ensure consistency with our findings.

## Observations

Essentra's location-based Scope 2 GHG emissions for 2020 have been calculated by applying IEA (2019) emission factors to the underlying activity data. The Scope 2 GHG emissions for 2020 calculated using these emissions factors are higher than would be the case if IEA (2020) emission factors had been applied.

Essentra collects refrigerant gas usage data from its sites, however due to the lack of detailed information regarding the specific gases used emissions from this source have not been included in Essentra's Scope 1 GHG emissions for 2020.

## The limitations of our engagement

The reliability of the assured data is subject to inherent uncertainties, given the available methods for determining, calculating or estimating the underlying information. It is important to understand our assurance conclusions in this context. Due to travel restrictions as a result of COVID-19 our assurance work for the 2020 reporting period was either desk-based or used virtual interviews and meetings with the Essentra corporate reporting team and the sites selected for virtual visits. We did not undertake any in-person visits to Essentra operations.

Beth C.B. Wyke

**Beth Wyke**
**Partner, Head of Corporate Assurance**
24 February 2021

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ERMCVS
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ERM CVS is a member of the ERM Group. The work that ERM CVS conducts for clients is solely related to independent assurance activities and auditor training. Our processes are designed and implemented to ensure that the work we undertake with clients is free from bias and conflict of interest. ERM CVS and the ERM staff that have undertaken this engagement work have provided no consultancy related services to Essentra in any respect.

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