



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

SETTLEMENT AGREEMENT

This settlement agreement (the “Agreement”) is made by and between the U.S. Department of the Treasury’s Office of Foreign Assets Control (OFAC), and Essentra FZE Company Limited (“Essentra FZE”) and its subsidiaries worldwide (collectively referred to hereafter as the “Respondent”).

I. PARTIES

OFAC administers and enforces economic sanctions against targeted foreign countries, regimes, terrorists, international narcotics traffickers, and proliferators of weapons of mass destruction, among others. OFAC acts under Presidential national emergency authorities, as well as authority granted by specific legislation, to impose controls on transactions and freeze assets under U.S. jurisdiction.

Essentra FZE, a company incorporated in the United Arab Emirates (UAE), manufactures and sells cigarette filters and tear tape for customers in the Middle East, Africa, and elsewhere. It is currently a wholly-owned subsidiary of Essentra plc, a public company organized under the laws of the United Kingdom that manufactures essential components, cigarette filters, and packaging materials, and has operations in 33 countries around the world. Prior to March 2019, Essentra FZE was owned by a joint venture between Essentra plc and a foreign-based tobacco company (“Company 1”).

II. APPARENT VIOLATIONS

Between September 2018 and December 2018, Respondent appears to have violated the North Korea Sanctions Regulations, 31 C.F.R. part 510 (NKSR), on at least three occasions. Specifically, Respondent appears to have violated § 510.212 of the NKSR when it caused U.S. persons to export, directly or indirectly, financial services to the Democratic People’s Republic of Korea (DPRK) or otherwise facilitate export transactions that would have been prohibited if engaged in by U.S. persons in apparent violation of §§ 510.206 and 510.211 of the NKSR. These dealings occurred when Respondent received three wire transfers for payments totaling approximately \$333,272 (or equivalent value) in their accounts at the foreign branch of a U.S. person financial institution¹ for the exportation of cigarette filters to the DPRK (referred to hereafter as the “Apparent Violations”).²

III. FACTUAL STATEMENT

During the relevant time period, Essentra FZE maintained accounts at the foreign branch of a U.S. financial institution located in Dubai, UAE into which three wire transfers associated with the Apparent Violations were deposited.

¹ Pursuant to § 510.326 of the NKSR, a foreign branch of any entity organized under the laws of the United States or any jurisdiction within the United States is a U.S. person subject to the prohibitions of the NKSR.

² See Penalty Calculation Spreadsheet.

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At all relevant times, Essentra FZE was aware that the products it was selling in exchange for payment received via these wire transfers were ultimately destined for the DPRK, and agreed with the buyer's request to transact through multiple layers of front companies to obfuscate this fact. Specifically, Essentra FZE addressed invoices to a front company for Company 1 ("Front Company 1"), and identified the consignee as a Chinese company that is associated with a DPRK company ("DPRK Company 1"). These invoices correspond to purchase orders submitted by Front Company 1 that identify DPRK Company 1 as the customer, and Essentra FZE as the exporter.

In early 2018, a regional director for Company 1 ("Company 1 Employee") organized a meeting in Dubai, UAE between themselves, a senior manager ("Essentra FZE Employee 1") and a customer-facing employee ("Essentra FZE Employee 2") from Essentra FZE,³ and two other persons; one of whom was confirmed to be a DPRK national ("DPRK National 1"). During this meeting, it was made clear that Company 1 had an existing business relationship with DPRK National 1 and DPRK Company 1. The ensuing discussion concerned Essentra FZE's ability to produce a specific type of cigarette filter for exportation to the DPRK. Soon after this meeting, Essentra FZE Employee 2 began exchanging messages with DPRK National 1, which included the following conversation:

DPRK National 1: *But don't mention that customer is in my country.*
Essentra FZE Employee 2: *Ok sure*
DPRK National 1: *You understand what I mean?*
Essentra FZE Employee 2: *Yes*
DPRK National 1: *You just mention China or where else. Contract will be signed by other foreign company*
Essentra FZE Employee 2: *Understood*

Essentra FZE Employee 2 later confirmed that DPRK National 1 was referring to the DPRK when DPRK National 1 asked Essentra FZE Employee 2 not to mention: "*that customer is in my country[.]*" A few days later, DPRK National 1 again asked Essentra FZE Employee 2 to:

[J]ust tell them the destination is China, don't mention about my country[.]

To which Essentra FZE Employee 2 responded:

Ok. We have sent it to address given by [Company 1 Employee][.]

In April 2018, during negotiations surrounding the product specifications, quantity, and price, Essentra FZE Employee 2 received a draft "revised contract" from Company 1 Employee that identified Front Company 1 as the producer and exporter of filter rods, stated the filter rods would be exported from the UAE to China, but did not specifically identify the buyer. In late May 2018, Essentra FZE Employee 1 contacted Company 1 Employee asking, "*Any news on NK contract... Eagerly awaiting the progress[;]*" to which Company 1 Employee replied, "*We have got the contract signed now waiting for the payment[.]*" In early June 2018, an executed version of this contract between Front Company 1 and DPRK Company 1 was provided to Essentra FZE.

³ Essentra FZE Employee 1 and 2 have since been exited from the company.

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In late June 2018, discussions regarding the need for additional contracts between Front Company 1 and DPRK National 1 were sent to Essentra FZE Employee 2 by Company 1 Employee. These additional contracts concerned the exportation of filter rods of a different specification than those identified in the prior contract.

Due to Essentra FZE's fulfilment of orders for filter rods pursuant to these contracts, three wire transfers (one denominated in USD that transited through the United States, and two denominated in AED) were deposited into Essentra FZE's bank accounts at the foreign branch of a U.S. financial institution between September 2018 and December 2018. Essentra FZE's receipt of these wire transfers was in contravention of existing internal policies that prohibited trade with the DPRK, and restricted the use of U.S. dollars in specific transactions.

IV. TERMS OF SETTLEMENT

OFAC and Respondent agree as follows:

1. In consideration of the undertakings of Respondent in Paragraph 2 below, OFAC agrees to release and forever discharge Respondent, without any finding of fault, from any and all civil liability in connection with the Apparent Violations arising under the legal authorities that OFAC administers.
2. In consideration of the undertakings of OFAC in Paragraph 1 above, Respondent agrees and represents:
 - A. Within fifteen (15) days of the date Respondent receives the unsigned copy of this Agreement, to:
 - i. Sign, date, and send a digital copy of this agreement to [REDACTED] [REDACTED] Respondent should retain a copy of the signed Agreement and a receipt or other evidence that shows the date that Respondent sent a digital copy of the signed Agreement to OFAC; and
 - ii. Complete settlement with OFAC in the amount of **\$665,112**. Respondent's obligation to pay this settlement amount shall be deemed satisfied by the payment of a greater amount in satisfaction of penalties assessed by the U.S. Department of Justice (DOJ) arising out of the same conduct.
 - B. **Cooperation:** To comply with all other terms in the Deferred Prosecution Agreement that Respondent entered into with the DOJ on or about July 16, 2020; and to cooperate fully with OFAC in any and all matters relating to the Apparent Violations, and other related conduct engaged in by Respondent or other persons investigated by OFAC, until the date upon which Respondent submits its fifth Annual Certification to OFAC pursuant to Subparagraph D(vi) of this Agreement.
 - C. To waive: (i) any claim by or on behalf of Respondent, whether asserted or unasserted, against OFAC, the U.S. Department of the Treasury, and its officials and

employees arising out of the facts giving rise to the enforcement matter that resulted in this Agreement, including but not limited to OFAC's investigation of the Apparent Violations; and (ii) any possible legal objection to this Agreement at any future date.

D. Compliance Commitments: Respondent has terminated the conduct described above and has established, and agrees to maintain for at least five years following the date this Agreement is executed, sanctions compliance measures that are designed to minimize the risk of recurrence of similar conduct in the future. Specifically, OFAC and Respondent understand that the following compliance commitments have been made:

i. Management Commitment:

- a. Respondent commits that senior management has reviewed and approved Respondent's sanctions compliance program.
 - b. Respondent commits to ensuring that its senior management, including senior leadership, executives, and the board of directors, are committed to supporting Respondent's OFAC compliance program.
 - c. Respondent commits to ensuring that its compliance function is delegated sufficient authority and autonomy to deploy its policies and procedures in a manner that effectively controls Respondent's OFAC risk.
 - d. Respondent commits to ensuring that its compliance function receives adequate resources—including in the form of human capital, expertise, information technology, and other resources, as appropriate—that are relative to Respondent's breadth of operations, target and secondary markets, and other factors affecting its overall risk profile.
 - e. Respondent commits to ensuring that senior management promotes a "culture of compliance" throughout the organization.
- a. Specifically with respect to the conduct outlined above as reflective of senior management's commitments, Respondent has worked to review, improve and restructure its compliance program that was in place when the Apparent Violations were identified. This includes, but is not limited to:
1. A review of the sanctions compliance program applicable to the Respondent including the approval of new and enhanced policies and procedures for OFAC compliance (the "Sanctions Compliance Program") as part of an overall Compliance Transformation plan presented and approved by the Essentra plc Audit and Risk Committee and Essentra plc Board, and communicated to the management team of the Essentra plc Filters Division, which the Respondent is part of, including Respondent's senior management;

2. The appointment of new senior management at the Respondent who have received specific training on sanctions compliance, are aware of the Apparent Violations, and have taken steps to ensure that relevant staff are aware of their obligations under the OFAC Compliance Program and understand the importance of compliance with the Sanctions Compliance Program;
3. The appointment of a new Global Compliance Director and replacement OFAC Compliance Officer with overall responsibility for implementing the divisional compliance program applicable to the Respondent and to ensure consistency across the division;
4. The General Manager of the Respondent, as the Respondent's most senior executive, has overall responsibility for OFAC compliance by the Respondent and its employees and representatives, assisted as required by the Global Compliance Director, OFAC Compliance Officer and relevant local staff in sales, procurement and finance (all of which have/will received sanctions compliance training);
5. Access to third-party due diligence platforms and internal enterprise resource planning software and systems, to assist the Respondent in day-to-day sanctions risk assessments for new and existing customers and suppliers;
6. Access to a confidential whistleblowing hotline through which employees can raise concerns regarding any compliance matters including sanctions compliance to the extent they do not feel able to do so through direct communications with management;
7. The imposition of quarterly sanctions compliance reporting obligations on the Respondent to report to the Global Compliance Director, who in turn reports to the Essentra plc Group Compliance Committee, to monitor and control sanctions risks; and
8. The inclusion of management from the full spectrum of business functions on the Group Compliance Committee (e.g. legal, assurance, compliance, finance, human resources and information technology).

ii. Risk Assessment:

- a. Respondent represents that it conducts an OFAC risk assessment in a manner, and with a frequency, that adequately accounts for potential risks. Such risks could be posed by its clients and customers, products, services, supply chain, intermediaries, counter-parties, transactions, and geographic locations, depending on the nature of the organization. The risk assessment will be

updated to account for the root causes of any apparent violations or systemic deficiencies identified by Respondent during the routine course of business.

- b. Respondent represents that it has developed a methodology to identify, analyze, and address the particular risks it identifies. The risk assessments will be updated to account for the conduct and root causes of any apparent violations or systemic deficiencies identified by Respondent during the routine course of business, for example, through a testing or audit function.
- c. Specifically with respect to the conduct outlined above, Respondent has:
 - 1. Been part of a risk assessment conducted by the Essentra plc Filters Division that has taken account of the OFAC compliance risks presented by the businesses in each jurisdiction in which the division operates, including the UAE, and has assessed the risk based on the existing customer profile, geography and overall potential for sales of products to customers in relation to which OFAC compliance risks may arise;
 - 2. Conducted a review of its customers to identify those with links to sanctioned jurisdictions and take appropriate action to mitigate any OFAC risk;
 - 3. Reviewed its controls in relation to its banking and supply chain arrangements to mitigate risks with business conducted with jurisdictions subject to OFAC sanctions but that are not otherwise prohibited under applicable local law; and
 - 4. Enhanced its customer due diligence procedures in line with the requirements of the Sanctions Compliance Program, as set out in relation to “Internal Controls” below.

iii. Internal Controls:

- a. Respondent has designed and implemented written policies and procedures outlining its sanctions compliance program. These policies and procedures are relevant to the organization, capture Respondent’s day-to-day operations and procedures, are easy to follow, and designed to prevent employees from engaging in misconduct.
- b. Respondent has implemented internal controls that adequately address the results of its OFAC risk assessment and profile. These internal controls should enable Respondent to clearly and effectively identify, interdict, escalate, and report to appropriate personnel within the organization transactions and activity that may be prohibited by OFAC. To the extent

information technology solutions factor into Respondent's internal controls, Respondent has selected and calibrated the solutions in a manner that is appropriate to address Respondent's risk profile and compliance needs, and Respondent routinely tests the solutions to ensure effectiveness.

- c. Respondent commits to enforcing the policies and procedures it implements as part of its sanctions compliance internal controls through internal or external audits.
- d. Respondent commits to ensuring that its OFAC-related recordkeeping policies and procedures adequately account for its requirements pursuant to the sanctions programs administered by OFAC.
- e. Respondent commits to ensuring that, upon learning of a weakness in its internal controls pertaining to sanctions compliance, it will take immediate and effective action, to the extent possible, to identify and implement compensating controls until the root cause of the weakness can be determined and remediated.
- f. Respondent has clearly communicated the sanctions compliance program's policies and procedures to all relevant staff, including personnel within the sanctions compliance function, as well as relevant gatekeepers and business units operating in high-risk areas (e.g., customer acquisition, payments, sales, etc.) and to external parties performing sanctions compliance responsibilities on behalf of Respondent.
- g. Respondent has appointed personnel to integrate the sanction compliance program's policies and procedures into Respondent's daily operations. This process includes consultations with relevant business units, and confirms that Respondent's employees understand the policies and procedures.
- h. Specifically with respect to the conduct outlined above, Respondent has:
 - 1. Updated and enhanced its overall Sanctions Compliance Program, to address the core risks identified in the divisional risk assessment;
 - 2. Updated and enhanced its customer due diligence procedures in line with the requirements of the Sanctions Compliance Program, to ensure that any nexus to sanctioned jurisdictions is identified and understood to allow the Respondent to take informed decisions as to any sanctions risks associated with new business, and any additional controls that may be required in light of identified risks;
 - 3. Respondent's enhanced customer due diligence measures include the use of third-party due diligence platforms, as well as manual Know-Your-

Client and Know-Your-Supplier checks and sanctions risk assessment forms; and

4. Respondent maintains records of the steps it has taken pursuant to the Sanctions Compliance Program.

iv. Testing and Audit:

- a. Respondent commits to ensuring that the testing or audit function is accountable to senior management, is independent of the audited activities and functions, and has sufficient authority, skills, expertise, resources, and authority within the organization.
- b. Respondent commits to ensuring that it employs testing or audit procedures appropriate to the level and sophistication of its sanctions compliance program and that this function, whether deployed internally or by an external party, reflects a comprehensive and objective assessment of Respondent's OFAC-related risk assessment and internal controls.
- c. Respondent commits to ensuring that, upon learning of a confirmed negative testing result or audit finding pertaining to its sanctions compliance program, it will take immediate and effective action, to the extent possible, to identify and implement compensating controls until the root cause of the weakness can be determined and remediated.
- d. Specifically with respect to the conduct outlined above, Respondent has implemented, or is subject to, the following controls and oversight:
 1. Respondent is subject to an annual sanctions risk review directed by the Essentra plc Group Compliance Committee;
 2. Essentra plc has a Group Assurance function, which consists of three full time employees, and periodically conducts (or instructs external auditors to conduct) reviews of the effectiveness of the Sanctions Compliance Program, including within Respondent's operations. Such reviews include, but are not limited to, third-party due diligence procedures and regulatory/sanctions compliance;
 3. Group Assurance is sponsored by and reports directly to the Audit and Risk Committee of Essentra plc. The Audit and Risk Committee itself meets periodically throughout the year to discuss any findings raised by Group Assurance; and
 4. Group Assurance has also been subject to an effectiveness review by an external firm of auditors, with Essentra plc implementing numerous

improvements to its policies and procedures based on the recommendations of the external auditors.

v. **Training:**

- a. Respondent commits to ensuring that its OFAC-related training program provides adequate information and instruction to employees and, as appropriate, stakeholders (for example, clients, suppliers, business partners, and counterparties) in order to support Respondent's sanctions compliance efforts.
- b. Respondent commits to providing OFAC-related training with a scope that is appropriate for the products and services it offers; the customers, clients, and partner relationships it maintains; and the geographic regions in which it operates.
- c. Respondent commits to providing OFAC-related training with a frequency that is appropriate based on its OFAC risk assessment and risk profile and, at a minimum, at least once a year to all relevant employees.
- d. Respondent commits to ensuring that, upon learning of a confirmed negative testing result or audit finding, or other deficiency pertaining to its sanctions compliance program, it will take immediate and effective action to provide training to relevant personnel.
- e. Respondent's training program includes easily accessible resources and materials that are available to all applicable personnel.
- f. Specifically with respect to the conduct outlined above, Respondent has:
 1. Conducted interactive training delivered by the Global Compliance Director and OFAC Compliance Officer to senior management, sales and other relevant employees at the Respondent, addressing the Apparent Violations, the scope of global sanctions and its application to Respondent's operations, the penalties for breach of sanctions, and Respondent's internal sanctions controls; and
 2. Provided copies of relevant Sanctions Compliance Policies and Procedures to relevant staff directly and through its intranet, where they are identifiable and accessible by all staff.

- vi. **Annual Certification:** On an annual basis, for a period of five years, starting from 180 days after the date the Agreement is executed, a senior-level executive or manager of Respondent will submit a certification confirming that Respondent has implemented and continued to maintain the sanctions compliance measures as committed above.

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- E. Should OFAC determine, in the reasonable exercise of its discretion, that Respondent appears to have materially breached its obligations or made any material misrepresentations under Subparagraphs B (Cooperation) or D (Compliance Commitments) above, OFAC shall provide written notice to Respondent of the alleged breach or misrepresentations and provide Respondent with 30 days from the date of Respondent's receipt of such notice, or longer as determined by OFAC, to determine that no material breach or misrepresentations has occurred or that any breach or misrepresentation has been cured.
- F. In the event OFAC determines that a material breach of, or misrepresentation in, this Agreement has occurred due to a failure to provide Cooperation or perform the Compliance Commitments, each as described above, OFAC will provide notice to Respondent of its determination and whether OFAC is re-opening its investigation. The statute of limitations applying to the Apparent Violations shall be deemed tolled until a date 180 days following Respondent's receipt of notice of OFAC's determination that a breach of, or misrepresentation in, this Agreement has occurred.
- G. Should the Respondent engage in any violations of the sanctions laws and regulations administered by OFAC—including those that are either apparent or alleged—OFAC may consider Respondent's sanctions history, or its failure to employ an adequate sanctions compliance program or appropriate remedial measures, associated with this Agreement as a potential aggravating factor consistent with the Economic Sanctions Enforcement Guidelines, 31 C.F.R. part 501, Appendix A.
3. This Agreement shall not in any way be construed as an admission by Respondent that Respondent engaged in the Apparent Violations.
 4. This Agreement has no bearing on any past, present, or future OFAC actions, including the imposition of civil monetary penalties, with respect to any activities by Respondent other than those set forth in the Apparent Violations.
 5. OFAC may, in its sole discretion, post on OFAC's website this entire Agreement and issue a public statement about the factors of this Agreement, including the identity of any entities involved, the settlement amount, and a brief description of the Apparent Violations.
 6. This Agreement consists of eleven pages, and expresses the complete understanding of OFAC and Respondent regarding resolution of OFAC's enforcement matter involving the Apparent Violations. No other agreements, oral or written, exist between OFAC and Respondent regarding resolution of this matter.
 7. This Agreement shall inure to the benefit of and be binding on each party, as well as its respective successors or assigns.

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Respondent accepts the terms of this Agreement on this 16th day of July 2020.

Cluz

Signature

Tay Swee Choon George

Respondent's Printed Name (or in the case of an entity, the name of Respondent's Duly Authorized Representative)

Company Secretary

Printed Title of Respondent's Duly Authorized Representative and Name of Entity (if applicable)

- Please check this box if you have not enclosed payment with this Agreement and will instead be paying or have paid by electronic funds transfer (see Paragraph 2(A)(ii) and the Electronic Funds Transfer Instructions enclosed with this Agreement).

Date: July 16, 2020

Andrea M. Gacki

Digitally signed by Andrea M.

Gacki

Date: 2020.07.16 08:56:00 -04'00'

Andrea M. Gacki
Director
Office of Foreign Assets Control