



**ZOTEFOAMS**

## Expanding our cellular materials presence **globally**

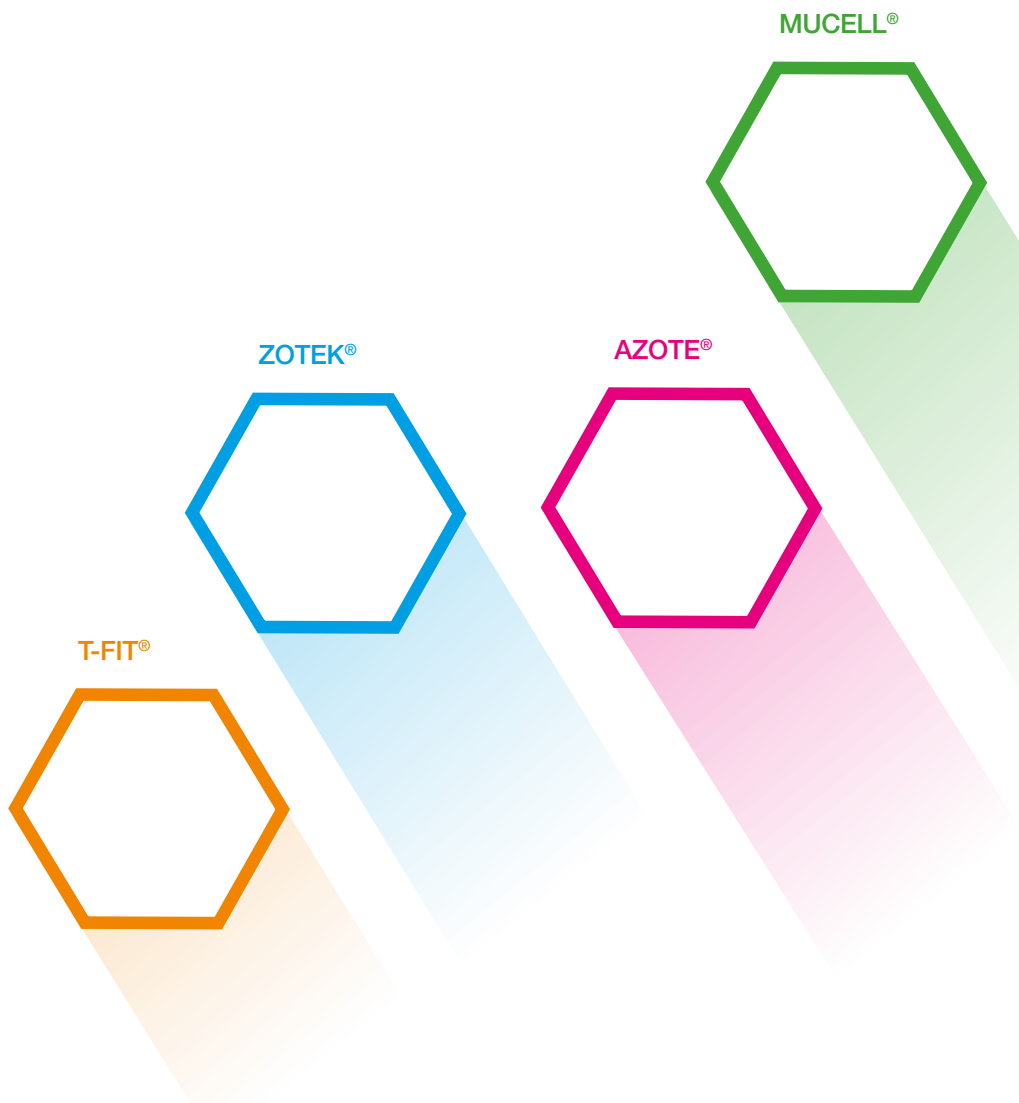
**Zotefoams plc**  
Annual Report 2015

MUCELL®

ZOTEK®

AZOTE®

T-FIT®



**ZOTEFOAMS** IS A WORLD LEADER IN  
CELLULAR MATERIAL TECHNOLOGY.

ZOTEFOAMS OPERATES AND SELLS  
GLOBALLY, OFFERING MATERIALS  
WITH UNIQUE ATTRIBUTES AND  
SOLUTIONS BACKED BY SIGNIFICANT  
INVESTMENT IN TECHNOLOGY.

Read more  
about our  
technology  
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Read more  
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#### Governance

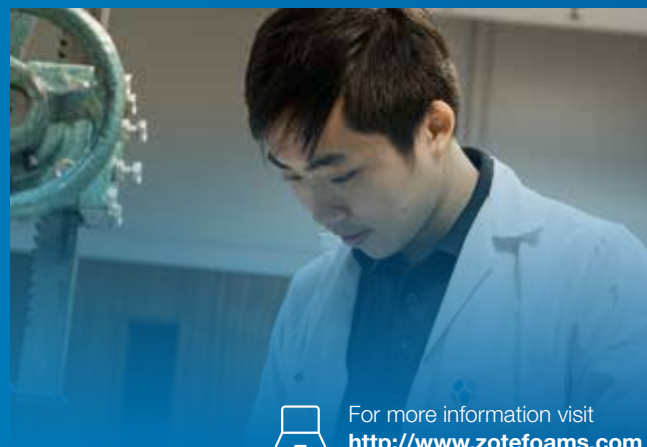
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#### Definitions

'Total Revenue' consolidates all external sales made by our joint venture as well as those made by ZoteFoams plc and its subsidiaries.



For more information visit  
<http://www.zotefoams.com>

## HIGHLIGHTS 2015

### Total Revenue growth of 11% to £54.44m (2014: £49.08m)

- Polyolefin foams: Total Revenue growth of 8% to £43.61m (2014: £40.44m)
- High-Performance Products: Total Revenue growth of 25% to £8.27m (2014: £6.61m)
- MuCell Extrusion LLC: Increase in sales of 25% to £2.62m (2014: £2.09m)
- Group Revenue: Growth of 10% to £53.87m (2014: £48.95m)

### Profit before tax and exceptional items

- Increased by 14% to £6.01m (2014: £5.27m), with reported profit before tax up 50%

### Gross margins increased

- 1.4% to 27.6% (2014 before exceptional item: 26.2%)



“We recognise that talent management is key to the delivery of opportunities created by our product portfolio and are increasing our investments in people, training and development to meet our ambitious goals.”

**Nigel Howard**  
Chairman

## AT A GLANCE

Using a unique manufacturing process with environmentally friendly nitrogen gas expansion, Zotefoams produces lightweight foams in the UK and USA for diverse markets worldwide. Zotefoams also owns and licenses patented MuCell® microcellular foams technology from a base in Massachusetts, USA, to customers worldwide and sells T-FIT® technical insulation.

### ZOTEFOAMS BY REGION



#### United Kingdom and Ireland

Group Headquarters and main factory, manufacturing Polyolefin and High Performance Products (HPP) foams for sale globally.

21%

Of Total Revenue



#### Continental Europe

Largest market for Polyolefin foams sold through a network of over 80 customers. Branch office in Germany.

39%

Of Total Revenue



#### North America

Local manufacturing presence in Kentucky for Polyolefin foams and headquarters of MuCell Extrusion LLC (MEL), based in Massachusetts, licensing technology globally. In 2016 opened Zotefoams Midwest LLC, in Oklahoma, to service the construction market.

30%

Of Total Revenue



#### Asia and the rest of the World

Joint ventures with INOAC Corporation for Polyolefin foams sales in Asia and King Lai Group in China for manufacture and sales of insulation. Local representation of MEL and HPP as well as branch office in Thailand dealing with T-FIT® technical insulation.

10%

Of Total Revenue

 [Read more about our strategy](#)  
See page 6–9

### REVENUE BY MARKET



Packaging

35%



Transportation

24%



Industrial

13%



Sport & Leisure

8%



Building &  
Construction

8%



Medical

6%



Other

6%

## POLYOLEFIN

Lightweight AZOTE® polyolefin block foams produced in Croydon, UK, and Kentucky, USA. The most common resin used is low-density polyethylene. Foams are typically produced in dimensions of 2m x 1m at various thicknesses and sold to a wide variety of applications globally.

Capacity improvements in UK and a significant investment in our Kentucky, USA, site to increase global capacity by approximately 20%, are aligned with our strategic objective to grow sales by twice global GDP. Sales in Asia are managed through a 50:50 JV company with INOAC Corporation of Japan, our largest customer in the region.

## Revenue

During 2015 Total Revenue from Polyolefin foams increased 8%, with a volume increase of 10% offset by slightly less favourable foreign exchange rates. Sales volumes increased in all major markets.

## AZOTE®

There are many grades of AZOTE® foams, manufactured using varieties of polyethylene polymer. These varieties of polymer, combined with colour, additives to enhance properties such as fire resistance, block size and foam density, allow the AZOTE® polyolefin foams range to be utilised in a hugely diverse range of applications.

## HPP

High-Performance Products. A portfolio of foam products that exhibit certain key properties, such as chemical, flammability or temperature resistance, due to the resins on which they are based. The manufacturing process uses the same unique, high-pressure nitrogen gas process as our AZOTE® range and, combined with know-how and our increasingly recognisable ZOTEK® speciality foams brand, offers good barriers to entry.

## Revenue

During 2015 Total Revenue in HPP increased by 25% and now represents 15% of Zotefoams' Group Total Revenue.

## ZOTEK®

ZOTEK® is the brand name for a family of HPP block foams. There are a number of foam variants manufactured from three main categories of polymer. ZOTEK® F fluoropolymer foams are made from PVDF resin while ZOTEK® N is the brand for nylon foams. There is increasing interest in our ZOTEK® PEBA range of foams for kinetic energy management, particularly in the sports industry.

## T-FIT®

T-FIT® technical insulation for cleanrooms is made from ZOTEK® F blocks although we are evaluating extending this product range to insulation parts made from some of our other foam products. T-FIT is currently sold in the pharmaceutical and biotech markets, predominantly in Asia.

## BLOCK FOAM TECHNOLOGY

At Zotefoams we focus on producing high-performance, high quality foams, under the brand names AZOTE® and ZOTEK®, using technologies exclusive to us.

At the heart of what we do is a unique, environmentally friendly, process that uses nitrogen gas to produce a range of closed cell cross-linked foams. The process comprises three distinct stages:

- High quality extrusion and cross-linking of solid polymeric sheet
- Impregnation of solid sheet with pure nitrogen gas at elevated temperature and extremely high pressure
- Final expansion of the impregnated solid sheet in the low pressure autoclave

This technology, as well as being environmentally friendly, is extremely flexible. Operating at temperatures up to 250°C/482°F allows us to foam a wide range of polymers. Some of the unique characteristics of Zotefoams' products come from the combination of foaming process and polymer performance, giving such attributes as very good fire resistance, high-temperature stability, toughness and insulation.

Regardless of polymer our technology produces foam that is:

- uniform
- pure
- durable
- lightweight

The separation of the process into the three distinct stages allows very accurate control of the individual parameters governing consistent production of high-quality foams.

## MEL

Our MEL business model is to license our proprietary technology to customers who save on polymer usage when manufacturing their products. A proportion of this saving is paid to MEL as a royalty fee. Licence and royalty fees should become the largest income stream for MEL when our business is more mature, but currently machinery sales, which enable customers to use our technology, are the largest portion of revenues.

Most of MEL's focus is on the packaging market, where polymer usage is high and there is a high degree of commonality between potential customers. Our MuCell® microcellular foaming technology is currently used in bottles, sheet and film products globally.

## Revenue

Total Revenue from MEL increased by 25% in 2015 driven by an increase in machinery sales and favourable foreign exchange rates. In 2015 MEL accounted for 5% of the Zotefoams Group Total Revenue.

## MUCELL® TECHNOLOGY

MuCell® technology is a remarkable patented process that creates 'micro-bubbles' in the core of plastic parts or products by injecting gas into them as they are manufactured.

This produces a foamed core bounded by a solid skin as one integral material that seems indistinguishable from a solid product.

A MuCell® extruded part or product can be designed to perform like solid plastic, but will typically use 15-20% less material. These cost and environmental benefits are delivered by using inert carbon dioxide or nitrogen gas, reducing plastic content at source.



# CHAIRMAN'S STATEMENT



## Results

Total Revenue increased by 11% to a record £54.44m (2014: £49.08m), with good growth from all business units, while profit before tax and exceptional items increased by 14% to £6.01m (2014: £5.27m). Basic earnings per share before exceptional items grew by 3.7% to 11.1p (2014: 10.7p). Group Revenue increased by 10% to £53.87m (2014: £48.95m) and profit before tax increased by 50% to £6.01m (2014: £4.01m).

Polyolefin foams, sold under the AZOTE® brand, is our largest business unit and recorded a Total Revenue increase of 8% to £43.61m (2014: £40.44m). Sales from High-Performance Products ('HPP') increased by 25% to £8.27m (2014: £6.61m) and now represent 15% (2014: 13%) of Total Revenue. MuCell Extrusion LLC ('MEL') sales grew 25% to £2.62m (2014: £2.09m).

## Strategy

Zotefoams' strategy is to expand through a combination of profitable organic growth of our Polyolefin and HPP businesses, new customers for our MEL technology licensing business, and through partnerships or acquisitions in related technologies, products or markets.

## Objectives

We target sales growth in our core Polyolefin business in excess of twice the average rate of global GDP growth. Our largest markets are Europe and North America, served by manufacturing facilities in Croydon, UK, and in Kentucky, USA, where we are currently investing in additional capacity. In Asia we have a joint-venture agreement with INOAC Corporation of Japan to develop the market for our AZOTE® polyolefin foams. We are also committed to developing a portfolio of unique foam products from high-performance polymers, with significant competitive advantages over rival materials, and to increase the customer base for MuCell® extrusion technology. This will allow us to command higher margins and affirm our position as a leading foam technology company. Delivering on part of our strategy in Asia, we are investing in a foam moulding operation in China to supply T-FIT® advanced insulation materials through our joint venture Kunshan ZOTEK King Lai Limited ('KZKL') with a local partner, the King Lai Group. We intend to achieve growth while continuing to improve our operating margins and return on capital employed.

## Investment

Zotefoams' growth is supported by a programme of investment in both capacity and technology. The largest single investment is in our Walton, Kentucky, facility, where a high-pressure autoclave along with supporting extrusion capacity and related infrastructure is now expected to be commissioned in the first half of 2017. This facility was proceeding to plan in all significant aspects until the supplier informed us of an unscheduled delay in the delivery of the autoclave.

Improvements in efficiency and output from existing capacity at our Croydon site, together with targeted investment will, we expect, cover our capacity needs until the Kentucky facility is fully commissioned. Additional investment at our Croydon site is also planned in anticipation of further growth in HPP sales volumes.

## Talent

Zotefoams' business relies on the skills, effort and dedication of our people and, on behalf of the Board, I would like to extend my thanks to each and every one of them. We recognise that talent management is key to the delivery of opportunities created by our product portfolio and are increasing our investments in people, training and development to meet our ambitious goals.

## Board composition

On 1 February 2016 Gary McGrath was appointed Finance Director in succession to Clifford Hurst, who retires from the Board on 16 May 2016. On behalf of the Board and employees, I would like to thank Clifford for his part in making Zotefoams a success over his past 15 years of service and wish him all the best for the future. On 31 March this year I will retire as Chairman of the Board, a post I have held since 2007, to be succeeded by Steve Good, who joined Zotefoams in 2014 as a Non-Executive Director and was appointed Chairman Designate in November 2015. I wish both Gary and Steve all the best at what is a very exciting time for Zotefoams.

## Dividend

In 2010 the Board adopted a progressive dividend policy subject to profit growth, investment requirements and the other needs of the Group. I am pleased to say we intend to retain this policy and, therefore, the Board is proposing a final dividend of 3.8p per ordinary share (2014: 3.7p) which, if

approved by the shareholders, would make a total of 5.60p per ordinary share for the year (2014: 5.45p), an increase of 3%. If approved, the final dividend will be paid on 25 May 2016 to shareholders on the register on 22 April 2016.

## Current trading and prospects

Sales for the first two months of 2016 have been higher than those of the comparative period in 2015. Sales in AZOTE® polyolefin foams have grown in line with our long-term target of twice the rate of global GDP growth, while our HPP business has also experienced a strong start to the year. MEL is currently experiencing high activity levels in machinery commissioning, following a particularly strong fourth quarter in 2015. The majority of Zotefoams' costs are sterling denominated, while approximately 80% of sales are outside the UK, mainly invoiced in US dollars or euros. The recent relative weakness of sterling will, therefore, have a positive impact on our Group, although this is unlikely to be significant this year, as the majority of expected foreign exchange exposure during 2016 has been hedged, in accordance with our policy, at rates prevailing before the recent sterling weakness. The price of our major raw material, low-density polyethylene, remains high but at a similar level to last year's average price.

## Outlook

Zotefoams sells globally into a variety of industries and we are therefore influenced by, and mindful of, worldwide economic conditions. Our strategy of organic development for materials based on our proprietary technology offers higher growth potential, but is accompanied by timelines which can be difficult to predict as we enter new applications or markets. We believe certain of our longer term developments are now reaching the point where market success is much more likely and we plan to further increase resources to support these opportunities. While being mindful of market and macro-economic conditions, the Board anticipates 2016 being another year of growth and remains confident about the long-term prospects for our business.

## Nigel Howard Chairman

14 March 2016

 [Read more about our strategy](#)  
See page 6-9

## CHANGES AHEAD

"It was clear when I joined Zotefoams late in 2014 that the Group had an exciting range of growth opportunities and was transitioning into a multi-site, multi-product, international company. The Group benefits from unique technologies, positioned to take advantage of global environmental and regulatory trends, has a product range with persuasive value propositions for our current and target customers, and strong barriers to entry, giving it an excellent platform for future growth.

After 18 months on the Board I am delighted to become Chairman, succeeding Nigel Howard, who has done a tremendous job in helping create an organisation with solid foundations and entrepreneurial flair. The key challenge ahead for the business is to deliver the full value from its portfolio of growth projects. To accomplish this and to successfully execute our strategy, we need to invest in talent and build organisational capability to complete our transition and become a materially larger, fast growing, truly international technology-driven Group. I am excited by this challenge and am looking forward to working with my fellow Board members and the management team to help deliver this for all of our stakeholders."

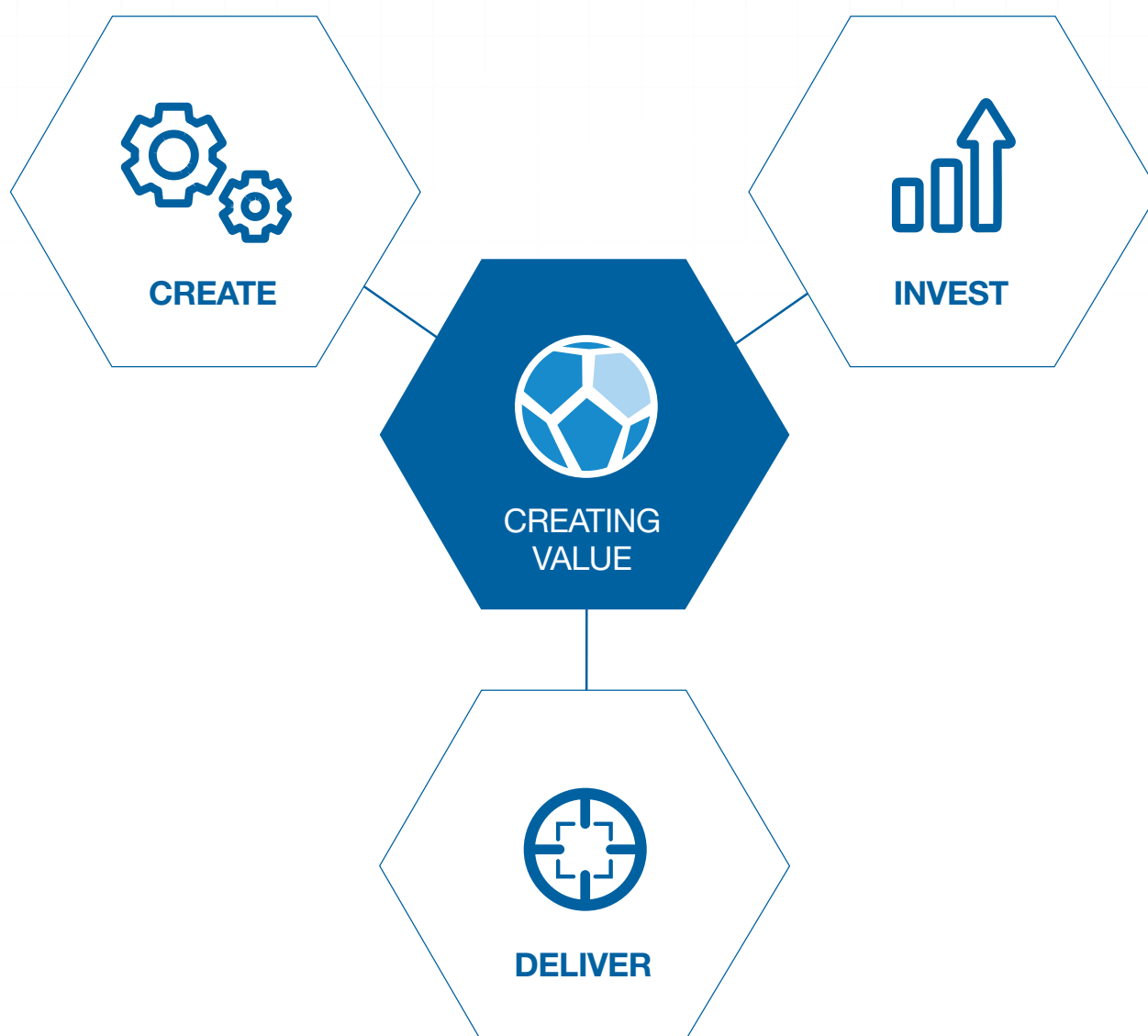


**Steve Good**  
Chairman Designate

 [Read more about our Board](#)  
See page 30-31

## BUSINESS MODEL

Our business model is designed to harness our unique manufacturing technologies and intellectual property to produce added-value products that meet or anticipate market requirements.



### Forward-looking statements

This document contains statements that are not historical facts, but forward-looking statements that involve risks and uncertainties, including the timing and results of technical trials, product development and commercialisation risks, the risks of satisfying the regulatory approval process in a timely manner and the need for and the availability of additional capital. A discussion of principal risks and uncertainties is contained in the section entitled 'Risk Management'. These forward-looking statements are based on knowledge and information available to the Directors at the date the Annual Report was prepared, and are believed to be reasonable at the time of its preparation, though they are inherently uncertain and difficult to predict. Actual results or experience could differ materially from the forward-looking statements.



Zotefoams is a world leader in cellular material technology. We make foams for the most demanding applications for our global portfolio of clients. Many of our products are highly differentiated based on our proprietary technology, and some of our newer foams are truly unique. In addition, MuCell Extrusion LLC ('MEL'), our technology licensing business, has a powerful combination of patents and know-how around the creation of microcellular plastic foams.



## INVEST

### People

Our business is reliant on the quality of our people. We employ people from a broad range of cultures and backgrounds. Further information on our equal opportunities policies may be found in the Corporate Social Responsibility Report. We invest in our people so they have the necessary skills to contribute to the success of Zotefoams.

### Products

We engage with our suppliers and customers to ensure that the products that we produce are of a consistently high standard and meet our customers' needs. By listening to our customers we gain an understanding of their requirements not just for the present, but for the future as well. We use this information, coupled with our extensive knowledge, to research and develop products to meet those needs.

### Processes

We invest in our business processes to improve operating efficiencies, increase capacity to meet future demands and reduce operating costs.



## CREATE

### Defensible technology leadership

By investing in our technology, often as an extension of our existing knowledge, we can differentiate from our competitors. We also consider technology leadership to be a considerable barrier to entry.

### Unique attributes

Our market position is based around the uniqueness of our product attributes and the advantages these bring to our customers.

### Market position

We are active in many markets, both geographical and across industries, and are therefore well-positioned to identify and deliver benefits for users of Zotefoams' technology and products.



## DELIVER

### Customer value

Delivering customer value is core to our business.

### Sustainable margin

We charge the right price to our customers to give a sustainable margin, and continuously strive for efficiency improvements to maintain or improve margins through the supply chain.

### Accelerated growth

Continuing to deliver value on core products, augmented by success in new and innovative areas.

# STRATEGIC FRAMEWORK

Zotefoams' strategy is to expand through a combination of profitable organic growth of our Polyolefin and High-Performance Products ('HPP') foams businesses, new customers for our MuCell Extrusion LLC ('MEL') technology licensing business, and through partnerships or acquisitions in related technologies, products or markets.

Strategic initiatives	Business model	What have we been doing in 2015?
<b>GROW</b> Grow sales in our Polyolefin business	Technology Processes People	Our objective is to grow sales in excess of twice global GDP growth. Sales of Polyolefin foams increased by 8% (2014: 4%), with a 10% increase in sales volume offset by slightly less favourable foreign exchange rates.
<b>DEVELOP</b> Develop a HPP portfolio and MEL customer base to deliver enhanced margins	Products Innovation Customer value	HPP sales grew by 25% and MEL sales grew by 25%. In both business units we continue to invest further in resources to deliver growth, with a clear understanding of the inherent profit potential being higher than the current Group operating margins. These business units now account for 20% of Total Revenue, up from 18% in 2014.
<b>PROFIT</b> Increase our operating margins	Market position Accelerated growth People	Group operating margins increased to 11.6% (2014 before exceptional items: 11.4%). This has been achieved by a combination of sales growth and operational efficiency.
<b>IMPROVE</b> Improve our return on capital employed	Sustainable margin Unique attributes People	Pre-tax return on average capital employed, excluding acquired intangible assets and their amortisation costs, decreased to 14.4% (2014: 14.7%). Levels of capital employed will continue to increase with the strategically significant investment in our Kentucky, USA, facility, planned to commission in 2017. We expect the return on capital to reflect this until the benefit of these investments can be realised.

## ZOTEFOAMS MEASURES ITS DEVELOPMENT AND PERFORMANCE AGAINST FOUR KEY OBJECTIVES THAT REPRESENT THE CORE ELEMENTS OF OUR STRATEGY

Most significant risks	Potential impact	Key measures
<p><b>Operational</b></p> <p><b>Supply chain</b></p> <p><b>Foreign exchange</b></p>	<p>Interruption of operational capability risks loss of existing orders or future potential business.</p> <p>Supply chain failure, particularly in raw materials or engineering parts, may compromise our ability to meet sales commitments or opportunities.</p> <p>c. 75% of Polyolefin foam sales are in currencies other than GBP. A short-term strengthening of sterling will impact reported sales while a longer-term structural strengthening may raise our manufacturing costs relative to competitors.</p>	<p><b>Sales volume growth in Polyolefin foams</b></p> <p><b>+10%</b></p>
<p><b>Technology</b></p> <p><b>Supply chain</b></p> <p><b>Operational</b></p> <p><b>People</b></p>	<p>Successful challenges to patents, replication of or improvements on our manufacturing processes would weaken our market position relative to competitors.</p> <p>Supply chain failure, particularly in raw materials or engineering parts, may compromise our ability to meet sales commitments or opportunities.</p> <p>Interruption of operational capability risks loss of existing orders or future potential business.</p> <p>To develop and sell new technology requires talented and dedicated people. As we grow we need to develop or recruit to meet our needs as, without a sufficient pool of requisite talent, we may not fulfil our potential.</p>	<p><b>Proportion of Total Revenue represented by HPP and MEL</b></p> <p><b>20%</b></p>
<p><b>Operational</b></p> <p><b>Macro-economic</b></p>	<p>Operational risks may lead to loss of revenues or additional costs and, in some cases, machinery redundancy and/or excess capacity, which will reduce ROCE.</p> <p>Macro-economic downturn may reduce overall demand leading to lower capacity utilisation and lower absolute margins, leading to reduced ROCE.</p>	<p><b>Improvement in Group Operating Margins</b></p> <p><b>+27 basis points</b></p>
<p><b>Commercial</b></p> <p><b>Supply chain</b></p>	<p>Loss or failure of a major customer or end user would lower sales and might increase costs in the short term as our supply chain re-balanced.</p> <p>Supply chain failure, particularly in raw materials or engineering parts, may compromise our ability to meet sales commitments or opportunities, losing margin in our business.</p>	<p><b>Improvement in Return on Capital Employed</b></p> <p><b>-0.3%</b></p> <p>due to strategic investment in USA not yet being operational</p>

## GROUP CEO'S REVIEW



### Business overview

Zotefoams is a diversified value-added plastics processor, utilising unique cellular materials technology in a variety of markets globally. Zotefoams manufactures block foams using high-pressure nitrogen gas technology, licenses intellectual property ('IP'), sells related machinery and also processes foams for specific markets. The block foams business units compete primarily through the superior foam properties created by our technology, offering reduced environmental impact and a better safety and technical performance. This business has significant barriers to entry, including capital cost, know-how, user specifications and, in our HPP business, patents. Zotefoams' block foams are sold, and often specified, under the AZOTE® and ZOTEK® brand names, which are well known in the industries we serve: automotive, aerospace, packaging, industrial parts, marine, building and construction, military and sports and leisure. Zotefoams also sells T-FIT® (replacing the T-TUBES® brand) technical insulation, manufactured from ZOTEK® foams, for pharmaceutical, semiconductor and biotech facilities. MuCell Extrusion LLC ('MEL') licenses a patented process that creates 'micro-bubbles' in the core of plastic parts or products by injecting gas into them as they are manufactured. This produces a foamed core, bound by a solid skin into one integral material that seems indistinguishable from a solid product. Products using MEL technology can be designed to perform like solid plastic, but will typically use 15-20% less material, realising both cost and environmental benefits, by using inert carbon dioxide or nitrogen gas and reducing plastic content at source. MEL shares in the customers' benefits by receiving a licence fee for IP and/or royalty on parts made.

	United Kingdom & Eire	Continental Europe	North America	Rest of the world	Total
<b>2015</b>					
Growth %	9%	6%	12%	40%	11%
Total Revenue (000's)	£11,372	£21,568	£15,975	£5,522	£54,437
% of Total Revenue	21%	39%	30%	10%	100%
<b>2014</b>					
Total Revenue (000's)	£10,465	£20,381	£14,277	£3,958	£49,081
% of Total Revenue	21%	42%	29%	8%	100%

## Results

Zotefoams manages and reports its business in three main business units defined by product type: Polyolefin foams, HPP foams and MEL. Total Revenue increased by 11% to

£54.44m (2014: £49.08m), with growth in all three segments and in all major geographies. Gross profit increased by 17% to £15.00m (2014: £12.84m excluding exceptional items) and our gross margin improved to 27.6%

(2014: 26.2%). We have increased our investment in distribution and administration capabilities to support future growth expectations and the further globalisation of our Group, while still delivering growth of 14% in operating profit before exceptional items to £6.33m (2014: £5.57m).

Group Revenue increased by 10% to £53.87m (2014: £48.95m). In 2014, there was an exceptional charge of £1.27m relating to the curtailment of the manufacture of microZOTE® foams. After this, operating profit increased by 47% to £6.33m (2014: £4.31m) and profit before tax by 50% to £6.01m (2014: £4.01m).

## Case study

### AZOTE® Polyolefin foam

#### MATTE BLACK PLASTAZOTE® foam for luxury packaging: non-staining and odour free

Plastazote® matte black polyethylene foam recently joined the AZOTE® family. It is a strong, resilient, light foam which provides strength and durability for the most challenging and luxurious packaging applications.

Plastazote® matte black is ideally suited as a component material in products requiring shock absorption and vibration

dampening, and as a material for cushioning components in packaging applications. Its purity makes it the ideal choice when working in contact with precious metals and other high value goods.

Easily fabricated, completely odour free and impervious to most chemical agents, this foam offers excellent strength and a dark matte black finish, which is ideal for luxury packaging applications where quality, look and feel are paramount.

Image courtesy of the Cellutec Group


**AZOTE®**
**ZOTEK®**
**T-FIT®**
**MUCELL®**

## Polyolefin foams

	2015 £m	2014 <sup>2</sup> £m	% Change
<b>POLYOLEFIN FOAMS</b>			
Total Revenue	43.61	40.44	8%
Group Revenue	43.04	40.30	7%
Segment profit pre amortisation <sup>1</sup>	7.60	6.01	26%
Segment profit post amortisation	7.55	5.99	
Segment profit margin <sup>1</sup>	17%	15%	

1 Excludes amortisation of acquired intangible items  
2 Excludes exceptional items

Our AZOTE® business unit operates regionally across Europe, North America and Asia, while HPP and MEL are global operations. As our business develops we are creating new opportunities, such as our joint venture in China and, in 2016, the

formation of Zotefoams Midwest LLC in Oklahoma, USA, which are extending our traditional business and moving us closer to key customers. These initiatives, operational in 2016, along with our major investment in capacity in Kentucky, USA, which is now expected to begin production in the first half of 2017, required significant investment in

time and expertise from our senior management team over the past year. We see these initiatives as the start of a period of transformational organic growth of our business using our unique technologies, while building on our IT systems, operational capability and continued investment in people.



## GROUP CEO'S REVIEW CONTINUED

### Case study

### MUCELL®

#### MuCell partners with Dow on innovative microfoaming technology

In an exclusive collaboration, MuCell Extrusion LLC partnered with Dow to launch an innovative microfoaming technology for the packaging industry in Latin America.

Dow is working with MuCell and mutual customers in Latin America to produce foamed films that replace solid films. Foaming films is an excellent route to more sustainable packaging by allowing the production of more units with the same amount of raw material, thus resulting in lower carbon emissions.

Some of the key benefits of the microfoaming technology include:

- Improved packaging performance such as superior sealing integrity and abuse resistance.
- Differentiated optical properties that deliver characteristics of premium packaging.
- A superior environment profile compared to traditional packaging.

Dow has played an instrumental role in helping MuCell develop five new foamed film customers in Latin America over the past year with substantial potential for the reduction of carbon emissions.



AZOTE®

ZOTEK®

T-FIT®

MUCELL®

Zotefoams' AZOTE® polyolefin foams are manufactured using our unique, high-pressure, nitrogen gas process. Sheets of extruded plastic, in this case mainly low-density polyethylene and ethylene-vinyl acetate co-polymers, are processed through large pressure vessels known as autoclaves at temperatures up to 250 degrees Centigrade and pressure up to 670 bar, before being expanded into sheets of foam in a lower-pressure autoclave. The autoclave process allows foams to be as light as 98.5% air by volume and lowers polymer usage for improved environmental impact. Our foams are consistent, closed cell (giving cushioning, very low water absorption and buoyancy), good insulators and can be processed in many different ways for a variety of end applications. Demand overall is driven by three main market trends: better use of resources, safety improvements and other performance benefits.

Total Revenue in Polyolefin foams increased by 8% to £43.61m (2014: £40.44m). Sales volumes increased by 10%, while foreign exchange rates were, in aggregate, 3%

adverse, as a weaker euro was only partially offset by a stronger US dollar. The segment profit was £7.55m (2014: £5.99m), after the amortisation of acquired intangible items.

In the UK and Continental Europe, which accounts for 69% (2014: 72%) of AZOTE® polyolefin foams' Total Revenue, sales volumes increased by 11%, while North America volumes grew by 2%. In Asia, where we operate a sales joint venture, sales volumes increased by 27% following a small decline the previous year. We see all areas offering scope for further sales growth in line with our stated objective of growing Polyolefin foams sales at twice the rate of global GDP. To support this global opportunity, we need to invest in capacity and our approach to this is described in more detail in the "investment" section of the report.

In 2015 we began the year very strongly, with an order book that was partly a result of delayed European shipments from late in 2014. Sales volumes throughout the year remained strong, with sales records in 8 out

of 12 months of the year. Inventory levels of customers increased during the first part of the year, generating an overall demand in the market for our products in excess of normal supply, but declined later in the year, leading to a more stable demand situation. Zotefoams' investment in manufacturing systems, efficiency and de-bottlenecking of capacity continued throughout the year and further capacity improvements are expected to be delivered from existing autoclaves as improvements in support services come on line in the first half of 2016. Input costs began the year at slightly lower levels than in 2014, however, by the end of the first quarter, the average euro price of our main raw material, Low Density Polyethylene ('LDPE'), began to trend upward. While the price of crude oil, the source raw material for LDPE, has reduced significantly over the past 18 months, the price for LDPE has remained at a similar level for the past three years. The overall price for LDPE in the year was similar to 2014, but with the second six months of 2015 approximately 10% higher than the first six months.

**HPP**

<b>HPP</b>	2015 £m	2014 £m	% Change
Total and Group Revenue	<b>8.27</b>	6.61	25%
Segment profit pre-amortisation	<b>0.82</b>	1.02	
Segment profit	<b>0.82</b>	1.02	
Segment profit margin	<b>10%</b>	15%	

The High-Performance Products ('HPP') business unit covers our ZOTEK® block foams as well as the recently rebranded T-FIT® technical insulation. ZOTEK® products use the same proprietary autoclave technology as our AZOTE® polyolefin foams but are manufactured from PVDF fluoropolymer, nylon or PEBA, generating a uniqueness based on the combination of the original polymer attributes and our foaming process. ZOTEK® F fluoropolymer foams are inherently fire and chemical resistant, ZOTEK® N nylon foams are tough and can operate in very high temperature environments, while ZOTEK® PEBA foams have excellent kinetic energy management properties. All of these foams are light weight, moisture resistant and good insulators.

HPP sales increased by 25% in the year to £8.27m (2014: £6.61m) and now represent 15% of Group Revenue. Within HPP the largest market is aviation, where growth is expected as a result of new applications (increased content per aeroplane) and an increase in the build rate of aeroplanes. Typical aviation applications are in window gaskets, air ducts, high-end seats, seals and gaskets. Following a strong performance in 2014, in which we delivered a near doubling of revenue from T-FIT® insulation products, 2015 sales from T-FIT® increased by 2%, which was below our expectations. This was due mainly to the timing of projects in the major application of cleanrooms insulation for pharmaceutical, biotech and semiconductor manufacture in China, India and the rest of Asia.

I am pleased to report that indications are positive for future growth in T-FIT®, supported by our joint venture to manufacture and sell these products in China, which we expect to be operational by the end of the first half of 2016.

The HPP segment reported a profit of £0.82m (2014: £1.02m), with sales growth offset by a planned higher investment of resource in sales, development and supply chain surety to support future opportunities. With these additional resources we have also made considerable progress in other markets such as industrial, automotive and sports and leisure, which we believe have excellent potential for future growth but may take longer to realise.

**MEL**

<b>MEL</b>	2015 £m	2014 £m	% Change
Total and Group Revenue	<b>2.62</b>	2.09	25%
Segment profit pre-amortisation	<b>(0.50)</b>	(0.10)	
Amortisation of acquired intangibles	<b>(0.30)</b>	(0.30)	
Segment loss	<b>(0.80)</b>	(0.41)	

MEL's business model is to develop and license IP and share in the savings or benefits of the licensee through a royalty and/or licence fee. The MuCell® extrusion technology is delivered through a gas injection system, which is sold to customers, often with other associated equipment and engineering support, to retrofit their existing extruders. Following product development

and end-user validation the customers will manufacture their products using our technology and pay us licence fees and/or royalties. MEL revenue, therefore, comes from two main sources: initial set-up (engineering and equipment sales) and operation (licence fees and/or royalties). MEL's IP comprises a significant body of patents and know-how in gas injection

methods and apparatus, product performance, additives, operating systems, die and screw design, etc. The main target market for MEL is consumer packaging, where production volumes are large and developments are scalable across geographic and product markets.

## Case study

# ZOTEK® PEBA USED IN INSOLE FOR PUMA'S INNOVATIVE EVOSPEED SL

PUMA is one of the world's leading Sports Brands, designing, developing, selling and marketing footwear, apparel and accessories. For over 65 years, PUMA has established a history of making fast product designs for the fastest athletes on the planet.

Light and fast have become lighter and faster with the introduction in June 2015 of PUMA's innovative football boot, the evoSPEED SL. PUMA's lightest yet match boot was designed to give footballers a new game advantage enhancing speed and agility.

ZOTEK® PEBA contributed to the radical weight reduction PUMA achieved with the evoSPEED SL boot, delivering significant performance benefits when combined with other innovative materials. The ZOTEK PEBA insole provided the ultimate in lightweight and high energy return.

ZOTEK® PEBA foam delivers performance over a wide temperature range, right down to -40°C. The combination of high energy return and low flex fatigue delivers performance way beyond traditional closed cell foams, and with none of the volatile chemicals.

Some of the world's best players, including Sergio Agüero, Marco Reus, Radamel Falcao, Marco Verratti, Antoine Griezmann and many more have worn the boot.

Marco Reus commented;

*"This new boot is a real change to what we have been wearing before, it actually looks and feels like a totally new product. They are so light, you can almost not feel them, and still I feel they give me exactly that support I need to have from a boot. This is a whole new direction of boot design."*

PUMA's evoSPEED SL football boots



AZOTE®

ZOTEK®

T-FIT®

MUCELL®

## GROUP CEO'S REVIEW CONTINUED

MEL Total Revenue increased 25% to £2.62m (2014: £2.09m), driven by more favourable US dollar exchange rates and a 47% increase in Equipment and Engineering sales, from £1.16m to £1.70m, as licensees convert their extrusion lines to use our technology. Licence and Royalty payments were at a similar level to the previous year, with underlying growth distorted by a one-off limited exclusivity licence fee in 2014. MEL is still an early stage growth business and our key performance measures include increasing the installed base at customers and further developing our licensable technology. Over the past 18 months we have delivered significant improvements in capital efficiency of line conversions from transfer mixer technology and the proven use of satellite units. Transfer mixers minimise operational downtime and cost when converting an extruder to MuCell®

technology, while satellite units allow more than one extruder to be run from a MuCell extrusion gas system at a minimal marginal cost. Improved conversion costs for customers are one reason why equipment revenues grew by 47% compared to 2014, representing 36 units (2014: 20 units), while the total installed base at customers is now 88 units (2014: 52 units), an increase of 69%. Approximately half of these units are now in operational use at customers and are generating revenue, while we anticipate that the majority of the remaining units will be commissioned for commercial use within 6-12 months. Following sale, commissioning and commercial ramp up, the value delivered from our strategy of increasing the installed base will be delivered over the life of our commercial contracts, which are typically 10-12 years.

Further development of IP remains a core activity for the MEL business unit and, pleasingly during 2015, improvements in processing certain polymers, additive technology as well as machinery modifications were developed and are factors which will contribute to our future success.

The MEL segment result was a loss (after amortisation costs associated with acquired intangible assets) of £0.80m (2014: loss of £0.41m), reflecting the increased investment made in people and IP development in MEL. Before amortisation costs on acquired intangible assets, the loss was £0.50m (2014: loss of £0.10m).

2015	Film	Blow Moulding	Sheet	Speciality	Total
Total units	19	35	22	12	88
Unit in use	5	19	12	9	45

2014	Film	Blow Moulding	Sheet	Speciality	Total
Total units	8	19	14	11	52
Unit in use	4	17	8	9	38



## GROUP CEO'S REVIEW CONTINUED

### Case study

### ZOTEFOAMS ANNOUNCES THE LAUNCH OF T-FIT® INSULATION PRODUCTS

In February 2016, Zotefoams plc announced that operations to produce a newly branded T-FIT® range of high-performance closed-cell foam insulation products are anticipated to commence in the second quarter of 2016.

T-FIT® will be manufactured and sold through the Company's joint-venture company, KunShan ZOTEK King Lai, established with King Lai Group ('King Lai') in March 2015. T-FIT® Clean will be the first product line produced at the new custom built moulding facility in China and will replace the existing T-TUBES® brand outside North America. T-FIT® Clean is being manufactured to service the

exacting demands of pipe and tube cleanroom insulation requirements in the biotechnology, pharmaceutical and semiconductor industries and will be manufactured from Zotefoams' elastomeric closed-cell foam, ZOTEK® F42HTLS.

David Stirling, Group CEO of Zotefoams, said:

*"I am delighted to announce the launch of the newly branded T-FIT® product range through our joint-venture company, KunShan ZoteK King Lai. This news builds on Zotefoams and King Lai's long-standing relationship in China. King Lai's strong position in products for cleanroom markets continues to make them the ideal partner to accelerate the development of our unique materials."*

Utilising the T-FIT®Clean technical insulation in their fermentation and media & buffer prep suites enabled this major biotechnology sector customer to not only reduce their potential for catastrophic contamination, but also to reduce their overall facility operating costs.



AZOTE®

ZOTEK®

T-FIT®

MUCELL®



## Investment

Zotefoams' core autoclave technology is used in both our AZOTE® and ZOTEK® block foam manufacture. The overall need to increase capacity is currently driven by our demand expectations for AZOTE® polyolefin foams, which account for over 95% of production volumes. Wherever possible, we seek capacity enhancements through measures such as improving efficiency, investing in services to increase cycle times, planning improvements etc. However, in 2014, we decided that the timing was right to begin the next phase of investment in a new high-pressure autoclave and to site this vessel in our facility in Kentucky, USA. Zotefoams Inc, in Kentucky, has operated low-pressure autoclave technology, for the final expansion of intermediate material, since 2001 and demand from the North American market will fill a new vessel capacity almost immediately, releasing capacity from the UK to service demand elsewhere. The investment programme was originally scheduled to commission in the second half of 2016, but will now more likely be the first half of 2017, due to a quality problems identified by the autoclave supplier requiring them to reschedule delivery of the vessel. The other components of the programme are running to schedule: a building extension, extrusion capability including feed systems, extruders and ovens, plant services including heating nitrogen gas to over 250 degrees Centigrade and systems to pressurise an autoclave with this superheated gas at pressures more than 300 times the pressure of a standard car tyre, not to mention sourcing appropriate raw materials, implementing an IT system and hiring and training a technically competent workforce. With this delay we have examined the need for capacity and expect the improvements made in Croydon during 2015, including some additional items to be brought on line during 2016, to be sufficient to meet our demand needs until mid-2017. At our Croydon site we are planning further investment in low-pressure autoclaves and extrusion, specifically designed for ZOTEK® foams, as well as commissioning additional laboratory space for our technical and quality departments.

In Asia, our joint venture with King Lai Group is scheduled to begin production in the first half of 2016 and will initially make product for cleanroom insulation, where the largest market opportunities are China and India. The investment needed is relatively modest, with machines to heat and mould our ZOTEK® foams to the specific shapes needed. In addition to manufacturing we will expand our sales team dedicated to the T-FIT® advanced insulation products and, with the benefit of local manufacture and supply, expect this business to show strong growth over the coming years. In AZOTE® polyolefin foams we currently have a 50:50 sales joint venture agreement with INOAC Corporation in Japan, with the plan to begin local manufacturing for the Asian market when sales volumes reach an appropriate level.

## Strategy and objectives

Zotefoams' strategy is to expand through a combination of profitable organic growth of our Polyolefin and HPP foams businesses, new customers for our MEL technology licensing business, and through partnerships or acquisitions in related technologies, products or markets.

Our stated objectives are:

- Sales growth in our Polyolefin business to exceed twice the average rate of global GDP growth.
- Develop a HPP portfolio and MEL customer base to deliver enhanced margins.
- Improve our operating margins.
- Improve our return on capital employed.

Performance against these objectives was as follows:

- Sales of Polyolefin foams increased by 8%.
- HPP sales grew by 25% and MEL sales grew by 25%.

In both business units we continue to invest further in resources to deliver growth, with a clear understanding of the inherent profit potential being higher than the current Group operating margins. These business units now account for 20% of Total Revenue, up from 18% in 2014.

- Group operating margins before exceptional items increased to 11.6% (2014: 11.4%).
- Pre-tax return on average capital employed, excluding acquired intangible assets and their amortisation costs, decreased to 14.4% (2014: 14.7%). Levels of capital employed will continue to increase with the strategically significant investment in our Kentucky, USA, site, planned to commission in 2017. We expect the return on capital to reflect this until the benefit of this investment can be realised.

**David Stirling**  
**Group CEO**

14 March 2016

## OUR PEOPLE

Here at Zotefoams we believe that our people deserve investment. We expect a lot in terms of energy, effort and ideas, and we give a great deal in return. In 2015 we ran UK business-wide training programmes in management skills and project management. We also launched a share purchase scheme, encouraging engagement and retention and enabling our hard-working people to share in the Company's success. We enjoy low employee turnover rates (9% against a UK average of 15%) and we regard our home-grown talent and the breadth of knowledge and insight they can leverage as they move through the business as one of our best assets.

### TALENT

As a unique business, we need unique people with specialist skills and knowledge.

We place a strong emphasis on attracting, nurturing and developing talent and in 2015 we added senior roles in HR in the UK and USA as well as a Group Talent Manager to support this important business focus. We encourage people in all areas of our organisation to experience different areas of the business as well as to move up to more senior positions. In the UK we offered many progression opportunities, filling approx. 50% of our key roles last year internally. In the USA we employ 29% more staff than a year ago, attracting a dynamic group of highly skilled and knowledgeable people to augment our existing team as we invest significantly in production capacity in Kentucky. There are specific examples of how people have progressed at Zotefoams on our website.



## DIVERSITY

At Zotefoams, we recognise that ensuring equality and diversity within the workforce are essential for attracting and retaining high calibre employees.

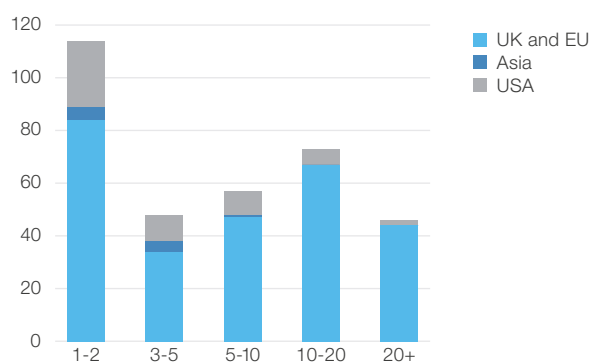
We see the diversity of our staff as one of our key strengths, with the range of knowledge, skills and experience our employees bring to their work.

Respecting and valuing the diversity of our staff contributes to our working environment and helps foster an inclusive place to work. It also improves communication and understanding both internally and with external stakeholders and makes us a stronger organisation.

Almost 30 different nationalities are represented among Zotefoams' staff. A typical employee has between 15-20 years of service and the average age is around 47 years.

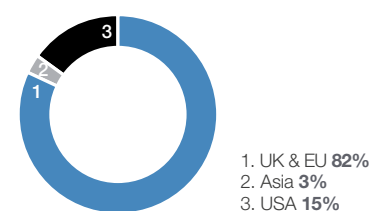


### Employees: Length of Service by Region (Years)



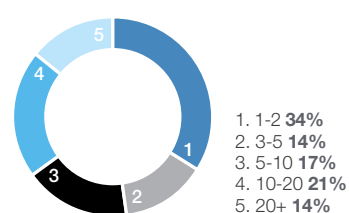
### Employees by Region (%)

- While approximately 80% of our business is currently outside the UK, only 18% of employees are based outside the UK. Our hiring diversity balances this local concentration of employees by employing staff of almost 30 different nationalities.

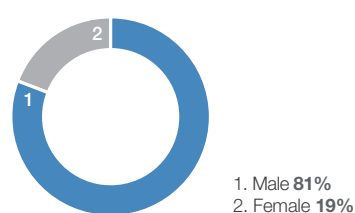


- As Zotefoams' business changes our staff needs change. As well as filling almost 50% of UK-based vacancies with internal candidates we have hired 1/3rd of our current employees within the past two years. Training and development of new employees and role transfers is critical to our talent management for the future.

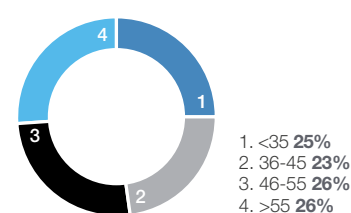
### Length of Service (Years)



### Gender Profile (%)



### Age Profile of Employees (Years)



- Zotefoams has a good balance of length of service within our business, blending experience with fresher external perspectives. Traditionally Zotefoams has employed mainly men, with factory and engineering positions having the highest proportion of male staff. Recently a higher proportion of our new recruits are female, with the changing nature of our business being reflected in a change in Zotefoams' gender balance.

## FINANCE DIRECTOR'S REVIEW



### Income statement

Total Revenue for the year increased by 11% to £54.44m (2014: £49.08m). Total Revenue consolidates all external sales made by Zotefoams and its subsidiaries as well as those from its joint ventures and therefore shows like-for-like sales growth. Group Revenue, being the statutory reported measure, excludes the mark-up on sales made by the Azote Asia Limited joint venture with INOAC. Group Revenue increased by 10% to £53.87m (2014: £48.95m), with growth in all three business units and in all major geographies.

Gross margins increased 1.4% to 27.6% (2014 before exceptional item: 26.2%), with the operational gearing benefit of the higher sales.

In 2014 the Group recorded an impairment charge of £1.27m related to manufacturing curtailment of the microZOTE® extrusion line, which was treated as an exceptional item.

Distribution and administrative expenses of £8.68m (2014: £7.27m) reflect the Group's investment to support future growth expectations and its increasing globalisation, albeit with a continued emphasis on tight cost discipline. These expenses have been reduced by a £0.21m net gain from foreign exchange hedging contracts and foreign exchange translation (2014: net gain of £0.31m).

The business unit results are shown in the Strategic Report. They do not include central plc costs, as they are not considered to be business unit specific. In 2015 central plc costs were £1.46m (2014: £1.34m).

Profit before tax increased 14% to £6.01m (2014 before exceptional item: £5.27m).

The effective tax charge is 20.2% (2014: 16.8%), which is in line with the UK corporation tax rate for the year of 20.3%. 2014 benefited from a favourable prior year adjustment, without which the effective tax charge was 20.6%.



### Exchange rates

Zotefoams transacts significantly in euros and US dollars. The exchange rates used to translate the key flows and balances were:

	2015	2014
Euro – average	1.38	1.25
Euro – year-end spot	1.36	1.29
USD – average	1.53	1.65
USD – year-end spot	1.48	1.56

### Earnings per share and dividend

Group basic earnings per share were 11.1p (2014 pre-exceptional item 10.7p, post exceptional item 8.2p). The Directors are recommending a 0.1p increase in the final dividend to 3.8p per share which, subject to shareholder approval, would be payable on 25 May 2016 to shareholders on the Company register at the close of business on 22 April 2016. This would bring the total dividend for the year to 5.60p per ordinary share (2014: 5.45p).

### Cash flow and funding

Cash generated from operations was £8.41m (2014: £5.98m), mainly due to the improvement in profitability for the year and increased working capital efficiency.

Capital expenditure increased to £9.11m (2014: £7.57m), reflecting continuation of the Group's capacity expansion of the Kentucky, USA site, investment in its factory extension in Croydon and other capital programmes in the UK relating to capacity improvements, efficiency initiatives and operational and safety-related investment.

The costs of the Kentucky investment were part funded in September 2014 via a successful placing of 9.99% of the issued share capital for £8.45m net. In December 2015 Zotefoams Inc signed a 10-year \$8m fixed rate secured loan which, together with the 2014 equity raising and expected operational cash flows, secures funding for the capital programme.

After tax and dividend payments, the Group had net debt of £1.59m (2014: net funds £2.42m) at 31 December 2015. This net debt at the end of the year consists of £5.27m cash and bank overdrafts less £6.86m secured borrowings. At 31 December 2015 the Group had a £4.90m overdraft facility.

In March 2016 Zotefoams refinanced its existing bank facilities, signing a four-year £8m multi-currency revolving credit facility with a further £2m overdraft facility. This bank facility replaces the £4.9m overdraft facility previously in operation and provides the Group with a solid foundation for its stated growth strategy.

### Pensions

The gross IAS19 deficit on the Company's Defined Benefit Pension Scheme (the 'Scheme') reduced by £0.89m to £5.24m as at December 2015 (2014: £6.13m). This is primarily due to a higher discount rate following rises in corporate bond yields over the year and contributions paid by the Company towards reducing the deficit.

The Company has agreed, under the last triennial actuarial valuation of the Scheme as at 5 April 2014, to make annual payments of £0.50m over the period to 5 April 2020 to eliminate a funding shortfall of £2.5m. It has also agreed to pay £0.16m per annum to cover administration expenses and premiums for death in service benefits.

The Company closed the Scheme to new members in October 2001 and ceased the future accrual of benefit for existing members at the end of 2005.

### Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Group CEO's Review on pages 10 to 17 and the section entitled 'Principal Risks and Uncertainties' on pages 22 to 25. This also describes the financial position of the Company, its cash flows and liquidity position. In addition, note 21 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, borrowing facilities, and its exposure to credit risk and liquidity risk. As a consequence of the above the Directors believe that the Company is well placed to manage its business risks and, after making enquiries including a review of forecasts, budgets and banking facilities, the Directors have a reasonable expectation that the

Company has adequate resources to continue in operational existence for the foreseeable future. Therefore they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### Viability statement

In accordance with provision C.2.2 of the revised UK Corporate Governance Code, the Directors have assessed the prospect of the Company over a three-year period. Each year the Directors consider the viability of the business over a one-year period as part of its budgeting process and over a three-year period as part of its review of business strategy. The one-year budgeting period considers certain existing and potential business issues with a greater level of certainty while the three-year period addresses a wider variety of strategic options against a background of less certainty. On the basis of this and other matters considered and reviewed by the Board during the year, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period it has used for the assessment. In doing so it should be recognised that such future assessments are subject to a level of uncertainty which increases with time so that future outcomes cannot be guaranteed or predicted with certainty. This assessment was made recognising in particular that the 'Principal Risks and Uncertainties' noted on pages 22 to 25 of the report could have an impact on the future performance of the Company.

### Financial risk management

The main financial risks of the Group relate to funding and liquidity, credit, interest rate fluctuations and currency exposures. The management of these risks are documented on note 21.

**Gary McGrath**  
Finance Director

14 March 2016



# RISK MANAGEMENT

The Board of Directors believes that the Principal Risks and Uncertainties that the Group currently faces are as stated below. Regular risk reviews are undertaken to ensure that the major risks in the business, that could affect the Group's operations and financial performance, have been identified and that, where possible, mitigating actions and controls are put in place.

Significant risks are reviewed by the Board and the Audit Committee. It is not possible to identify every risk that could affect the Group's business, and the mitigating actions and controls that have been put in place may not provide absolute assurance that the risk will neither occur nor materially affect the Group's operations or financial performance.

## Principal Risks and Uncertainties

### Risk and potential impact

### Description

#### OPERATIONAL

As the Group's operations are currently mainly on one site, a significant operational disruption or Safety, Health and Environmental ('SHE') incident could impact the ability to manufacture and supply products, which could have reputational issues and, in certain defined circumstances, have contractual commercial consequences which may result in customer claims.

#### OPERATIONAL

The Group is extending its operations in Kentucky to cover the full block foam manufacturing process stages. This is a significant capital project, which is reliant on some specialist suppliers, and needs to be managed to time and budget.

#### SUPPLY CHAIN

Certain of the Group's raw materials and engineering components are sourced from single suppliers. Disruption in those supplies, either on a temporary or more permanent basis, could affect production and supply to the Group's customers and in certain defined circumstances have contractual commercial consequences which may result in customer claims.

#### TECHNOLOGY

The Group's processes for the manufacture of its products are substantially unique to the Group. Whilst the principles behind the processes are not confidential, the precise know-how is. A competitor could match or improve upon the properties and economics of the Group's products. Key to the success of the business of MuCell Extrusion LLC ('MEL') is the strength of its intellectual property and, on the back of that, its ability to grant commercial licences. The risks to MEL are that its intellectual property becomes dated or its patents expire or are successfully challenged.

## Change on 2014

-  Unchanged
-  Risk increased
-  Risk decreased

## Mitigation actions

## Risk trend

The Group has extensive SHE policies and procedures in place, which are in line with best practice. In the UK the Company is certified to accredited standards OHSAS 18001 on Health and Safety and ISO 14001, the International Standard for Environment Management Systems.



Regular training is provided on SHE matters to the staff.

Pressure equipment used is operated under the Pressure Systems Safety Regulations 2000 and is subject to systematic internal and frequent external inspections in accordance with the Safety Assessment Federation.

The Group has extensive fire prevention systems in place and also has appropriate contingency plans in place in the event of the failure of certain major pieces of equipment.

Reporting of incidents, including 'near misses' and damage to plant or equipment not resulting in personal injury, is mandatory in order to track issues and to prevent reoccurrences.

Insurance is in place to cover capital restatement and loss of profits in the event of operational disruption caused by certain events.

The Group is investing in its Kentucky, USA, site which, when completed, will give multi-site capability, subject to capacity, on many polyolefin products.

The extension of our facilities in Kentucky will replicate, where appropriate, machinery and processes already in operation in the UK. Existing managerial and engineering support in North America will be supplemented by external project expertise and resource from the Group's Croydon operations. Alternative suppliers were considered. Raw materials will be trialled in the UK first to reduce the commissioning risk.



Wherever possible, supplies are sourced from more than one supplier or location. However, this is not always possible, due to the special nature of the raw materials and machines used.



There are high barriers of entry to the market. Significant capital investment is required for the autoclaves and related infrastructure.



The Group actively maintains its intellectual property. It patents its technology wherever it believes it is appropriate to do so. Where technology is not subject to patent, patents are no longer applicable or the technology is incapable of being patented, the Group guards its know-how.

The Group reduces its technology risk by entering into new markets. For example, the development of High-Performance Products ('HPP') and MEL, where the product offerings are unique and protected by patents and/or process know-how and capability, opens up new markets for the Group with potential significant and lasting differential advantages.

MEL actively maintains and updates its intellectual property portfolio. This is done by undertaking research and development to add new patents to the portfolio, further developing its know-how and obtaining licences of key third-party patents, which are complementary to the existing portfolio.

MEL licences typically include a bundle of patents and know-how and therefore are not completely dependent on any particular patent.

## RISK MANAGEMENT CONTINUED

### Risk and potential impact

### Description

#### PENSION

The Company has a Defined Benefit Pension Scheme ('Scheme') and any inability of the Scheme to meet its liabilities to its members could, ultimately, be the responsibility of the Company.

#### FOREIGN EXCHANGE

The Group's operations are substantially based in the UK and, therefore, most of its manufacturing assets and costs are sterling denominated.

The Group has significant exposure to foreign exchange fluctuations. This is both transactional and on the translation of foreign currency balances and the consolidation of its foreign subsidiaries.

The Group's customers are normally invoiced in their local currencies. In 2015, approximately 80% of the Group's revenue was in currencies other than sterling. The Group, therefore, generates surpluses in US dollars and euros, which are converted into sterling.

#### MACRO ECONOMICS

Most of our markets are exposed to general economic conditions. The Group is operationally geared and a fall in demand for its products could adversely impact the Group.

#### FINANCING

The Group needs to have sufficient cash, or be able to draw on loan facilities, to finance its operations and growth.

#### COMMERCIAL

Loss, poor performance or insolvency of a major customer or joint-venture partner.

#### PEOPLE

The failure to attract, develop or retain the right calibre of staff to deliver growing opportunities by product and geographic reach.

## Mitigation actions

## Risk trend

To minimise the risk to the Company of meeting the obligations under the Scheme, the Company closed the Scheme to new members in 2001 and closed it to future accrual of benefits in 2005. The Company is currently working together with the Trustees to undertake de-risking activities to the Scheme.



The Company has concluded discussions with the Trustees of the Scheme on the triennial actuarial valuation of the Scheme as at 5 April 2014, and the associated recovery plan for the Scheme. The Company has agreed to make a contribution to the Scheme of £41k per month until April 2020 to reduce the deficit.

The Group reduces its foreign exposure for transactional items by making purchases either in euros or US dollars where possible. For example, there are US dollar costs associated with the Group's operations in Kentucky, USA and with MEL. In addition, the majority of the Group's raw materials are purchased in euros.



The Group is currently undertaking a circa \$22m capital investment in North America which will reduce exposure for transactional items on the US dollar significantly.

The Group has a hedging policy, which is approved by the Board. The Group hedges a proportion of its exposure for transactional items to foreign exchange by using forward exchange contracts. The Company, like most public companies, does not hedge for the translation of its foreign subsidiaries' assets or liabilities in the consolidation of its Group accounts.

Some of the Group's markets can be cyclical. However, this risk is spread geographically and across a number of segments which are expected to diversify further with the growth of HPP, MEL and the joint ventures. The Group's experience is that in these circumstances operational labour costs can be reduced, polymer prices generally fall with reduced economic demand giving a cost benefit and cash can be generated from reducing working capital and slowing capital expenditure projects to help offset the effects of a downturn. The Group targets a low financial gearing to give it operational flexibility in a downturn.



The Group has strong cash generation from its operations.



The Group:

- has at 31.12.15 a \$8m loan and £1.5m of a £3.5m loan outstanding; and
- from 1 March 2016 a £8m multi-currency revolving credit facility ('RCF') and a £2m overdraft facility.

The loans and RCF facility are secured against certain Group assets and are subject to covenants as described in note 21 and 27 of the Annual Report.

When considering investment projects the Group has regard to its ability to raise finance for the project and will not commit to a project until acceptable and appropriate finance is in place, or believed to be available.

The Group's largest customers are distributors and converters of foam. The Group has good knowledge of the end-customers of its major customers and, with some additional short-term work, would be able to bring or identify additional converter capacity to service these markets.



The risks associated with implementation of joint ventures in Asia have been mitigated by partnering with the JVs' major customers.

The joint venture agreements contain clauses to address performance and insolvency issues.

The Group keeps under review its skill needs and labour requirements. The Group aims to provide its employees with varied and interesting work and to incentivise them appropriately.



The Group has appointed a Global Talent Manager, whose remit is to ensure senior and emerging talent is appropriate for the Group's current and future needs.

# CORPORATE SOCIAL RESPONSIBILITY REPORT

Zotefoams considers that the management of safety, health, environmental, social and ethical matters forms a key element of effective corporate governance. These areas are covered by the internal control systems and procedures outlined in the Corporate Governance Report on pages 34 to 37.

## Safety, Health and Environment ('SHE')

The Board has in place separate policies relating to Safety, Health and Environment. The Group is certified to accredited standards OHSAS 18001 on Health and Safety and ISO 14001, the International Standard for Environmental Management Systems, and is regularly audited by those bodies to ensure that the Group complies with those standards.

The Board has ultimate responsibility for SHE policy and performance and receives quarterly reports on SHE issues. Annual performance objectives are agreed by the Board and performance against these objectives is monitored as part of its quarterly reporting programme.

The Group CEO is directly responsible to the Board for Safety, Health and Environmental performance. Site Committees on SHE normally meet once a quarter to consider all SHE matters and are overseen by Steering Committees, chaired by the Group CEO (or appropriate responsible person in subsidiary companies). The Steering Committees consider overall performance and the impact of current and impending legislation.

On joining the Group, all employees receive training on SHE matters, including the Group's policies, and refresher training is provided, as appropriate, to ensure that the employees understand SHE matters. All employees are made aware that everyone has a part to play to ensure the safety of themselves and their colleagues at work. Employees are encouraged to report to their managers any unsafe, or potentially unsafe, conditions. Senior managers are responsible for ensuring that SHE policies are implemented in their areas, that their teams are informed of the departmental SHE requirements and that the employees receive training on environmental issues and safe working practices and understand them. Regular audits are conducted to ensure policy and procedure implementation is appropriate.

The Group takes the reporting of all SHE incidents very seriously and requires the employees to report all incidents, including any 'near misses' as well as damage to plant or equipment which has not resulted in personal injury. The Group considers the reporting of 'near misses' to be as equally important as actual incidents, since it raises situations to management that in other circumstances might have caused harm and, therefore, appropriate action can be taken to minimise the risk of reoccurrence. The Group also ensures that appropriate safety practices are included in standard operating procedures to reduce the risk of SHE incidents occurring.

All SHE events are investigated by appropriate levels of management to ascertain the root cause of the event and, wherever possible, working practices and procedures are improved to minimise the risk of reoccurrence. In 2015, there were no prosecutions, fines or enforcement actions taken as a result of non-compliance with safety, health or environmental legislation (2014: none).

## Health and safety performance

Few controlled substances are used in the manufacture of our foams, but where they are, the Group has established procedures, which the relevant employees are trained on, to ensure the storage and handling of such substances are safe and in accordance with regulatory requirements. The manufacturing process involves manual handling and processing of materials. When new or altered equipment or materials are introduced, and at regular periods thereafter, the risks to the processes are assessed and, wherever possible, improvements are made, such as the design of the equipment, to reduce or eliminate the risks identified.

The most strictly controlled parts of the Group's sites are where high-pressure gas is used. The high-pressure operating vessels are subject to the Pressure Systems Safety Regulations 2000 in the UK and OSHA in the USA. Tightly defined procedures and operational controls are in place to manage the safety of these pressure systems. Fail-safe mechanisms known as Pressure Relief Valves and bursting discs (which act like fuses in an electrical system) are included in the design of the pressure systems, which when triggered allow depressurisation of sections of the system preventing any further risks. Operation of these fail-safe mechanisms releases harmless nitrogen gas into the atmosphere.

In 2015, the whole Group had seven reportable lost time injuries. Four of these incidents were sprains or strains whilst manually handling items. One incident was an employee being exposed to gas. Another incident was minor scalding to an employee's arm from trapped steam being released from an extruder when it was being repaired. The final incident was an employee slipping on ice in the car park, and sustaining a broken cheek bone. All incidents were fully investigated and appropriate corrective actions have been put in place.

Year	2015	2014	2013
Reportable lost time injuries	7	1	6

## Environmental performance

The process used by Zotefoams to manufacture foam is one of the most environmentally friendly methods to manufacture cross-linked polymer foams. Nitrogen gas, which is an inert gas and comprises 78% of the earth's atmosphere, is used to expand the foams. The common peroxide cross-linking agent, which improves the foam's properties, is completely utilised during the manufacturing process. Unlike foam manufactured by the Group's competitors, no other chemical additives are used to expand the Group's foam products and, therefore, the basic foam products have no toxic or volatile chemicals (such as solid chemical residues, CFC, HCFC or volatile hydrocarbons).



In 2015 the Group had 6 internally recorded environmental incidents (2014: 8), which were as follows:

Type of Incident	2015	2014
Bursting disc incidents	0	2
Oil and chemical leaks	1	1
Noise complaints	1	1
Equipment failure	1	0
Other	3	4
<b>Total</b>	<b>6</b>	<b>8</b>

In 2015, there were no incidents of release of nitrogen gas into the air from a bursting disc (2014: two). While Zotefoams records these as environmental incidents, principally on the grounds of loss of production and noise, the bursting discs are an essential part of the statutory safety regime for the high-pressure equipment and are evidence that the safety systems of the plant are functioning as intended.

There was one oil leak (2014: one), which was in Kentucky, where there was failure of a seal on a thermal oil pump, which resulted in approximately 30 US gallons of thermal oil leaking. This was contained immediately and had no significant environmental impact.

There was one noise complaint (2014: one). The Croydon site is very close to residential areas and, occasionally, the Group will receive complaints concerning noise. Such complaints are taken seriously and are investigated, and responses given. The Group takes a proactive approach with its neighbours and tries to keep them informed of situations in advance that might be considered to be a disturbance.

In Croydon, there was one equipment failure (2014: nil) which was a bursting disc on the water cooling system of one of the compressors, which resulted in a water spill. Modifications have been made to the compressors to reduce the likelihood of this incident reoccurring.

There were three other incidents (2014: four), all of which were dealt with in accordance with regulations.

The majority of the waste produced by Zotefoams in the UK is either solid or foamed polyolefin. Due to the essential cross-linking step used on the polymers to manufacture the foams, recycling by being melt processed (the process used to recycle most plastics) is complicated and not economically viable.

In 2015, the Group commenced an Operations Excellence Programme focussed on reducing raw material waste. Such initiatives have included improving the dies used on the extruders, reducing the trim on extruded slabs and reviewing the processes used to clean the extruders between different production runs. In 2015, 191 tonnes of waste were sent to landfill from the main site in Croydon (2014: 225 tonnes). With production volumes up 10% and waste tonnage down 15%, this is an improvement of 25%.

In 2015, water consumption at Croydon increased significantly to 66,000m<sup>3</sup> from 43,000m<sup>3</sup> in 2014. The Group has now completed installation of sub-meters of the utilities at its Croydon site. Electricity sub-meters have been operational throughout 2015 and gas and water sub-meters were installed in 2015. The data is now being collected and analysed and will help identify areas of usage and develop strategies to reduce the Group's energy and water consumption.

We measure energy efficiency by taking energy consumption and dividing it by the amount of material (in kg) that passes through high-pressure vessels. In 2015, our energy efficiency slightly improved to 11.45 kwhr/kg (2014: 11.50 kwhr/kg). This improvement was partly due to higher volumes being produced in 2015 (compared to 2014) and, therefore, plant and machinery capacity being better utilised.

In October 2009, the Group in the UK entered into a Climate Change Levy ('CCL') agreement, which involves meeting specific targets to reduce energy consumption. Providing the Group meets the requirements of the CCL agreement it receives a rebate on its electricity bills and is also exempt from the Carbon Reduction Commitment Scheme.

In July 2015 the Group had its first assessment under the Energy Savings Opportunity Scheme ('ESOS'), received the report from that audit in September 2015 and notified the Environmental Agency of its compliance with ESOS. The report has been reviewed and in conjunction with the data from the sub-metering of utilities, the Group is currently determining the projects it will embark upon in 2016 to improve energy and water consumption.

Croydon site: Year	2015	2014	2013
Internally recorded environmental incidents	6	8	2
Waste sent to landfill (tonnes)	191	225	442
Water consumption (000s m <sup>3</sup> )	66	43	39
Energy consumption (kwhr/kg)	11.45	11.50	12.30

Energy efficiency has been very much on the agenda at the Group's facility in Walton, Kentucky, USA. The investment in the full process there includes the implementation of energy efficient LED lighting systems with occupancy sensors in both office and production areas. In addition, process cooling systems will utilise external low energy air coolers during the winter months (where outside temperature can drop to -20°C) and the cooling system for the new high-pressure autoclave will exploit the cooling effect of liquid nitrogen vaporisation. These initiatives are expected to reduce energy consumption by some 317,000kW annually compared to using more traditional technologies.

# CORPORATE SOCIAL RESPONSIBILITY REPORT CONTINUED

## Carbon emissions

The Group's total carbon emissions for all its operations globally were 18,576 metric tonnes for the year ended 31 December 2015 (2014: 17,482 metric tonnes). The breakdown of these figures is as follows:

Description	2015 Emission total (tonnes)	2014 Emission total (tonnes)	2013 Emission total (tonnes)
Emissions arising directly from our operations (including fuel used in our vehicles)	382	255	204
Indirect emissions – use of energy (electricity and gas)	18,194	17,227	16,848
<b>Total</b>	<b>18,576</b>	<b>17,482</b>	<b>17,052</b>
<b>Carbon emissions (kg) per material gassed (kg)</b>	<b>2.4</b>	<b>2.4</b>	<b>2.6</b>

Our principal carbon emissions have been from our energy usage in manufacturing our foam products in both Croydon and Kentucky, USA. The carbon emissions from MuCell Extrusion LLC are minimal.

The methodology that we have used has been in accordance with the guidance published by the Department for Environment, Food and Rural Affairs in June 2013. We have only included emissions that we are directly responsible for. We have not included emissions for activities that we have no direct control over. For example, we have included business mileage on company vehicles, but not other forms of business travel, such as travel made by employees in their own cars or using public transport or aeroplanes.

Whilst there has been an increase in our total carbon emissions for 2015 compared to 2014, this is due to the increase in material produced. Our actual emissions per material gassed (kg) in our high-pressure vessels have remained the same compared to 2014. We use this metric as it covers all the material that we produce, including any material that might be scrapped. We use a similar metric for our CCL agreement.

## Equality and diversity

The Group's people are a key part of the success of the business. The Group operates an equal opportunities policy and we believe diversity (ethnicity, age, gender, language, sexual orientation, gender re-orientation, religion, socio-economic status, personality and ability) of the employees promotes a better working environment which in turn leads to innovation and business success. Applications for employment by disabled persons are always fully considered and, in the event of an employee becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is provided where necessary. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

In November 2015, Zotefoams, Inc. received the annual BAWAC Community Rehabilitation Centre Business Award for its efforts in providing access to employment opportunities and services for people with disabilities.

BAWAC Inc is a non-profit organisation, based in Northern Kentucky, founded in 1973 and whose mission is to maximise the vocational potential and quality of life of adults with disabilities or other barriers to employment, through the flexible integration of counselling, evaluation, life and work skills training, job placement, support services and employment in a therapeutic or community based remunerative work environment.

At 31 December 2015, the Group had 334 employees (2014: 300) and five Non-Executive Directors (2014: five). The breakdown of those employees and Non-Executive Directors is as follows:

	2015 Male	2015 Female	2014 Male	2014 Female
Non-Executive Directors	3	2	3	2
Executive Directors	3	0	2	0
Senior Managers	3	0	3	0
Other Employees	268	60	249	46
<b>Total</b>	<b>277</b>	<b>62</b>	<b>257</b>	<b>48</b>

## Employee development

During 2015, the Group appointed a Global Talent Manager, who reports directly to the Group CEO, and is responsible for talent attraction, development and retention throughout the Group. In Croydon, the Production Skills Development Department was established with a remit to provide training to the production employees to broaden their skillset. This initiative is mutually beneficial as it gives employees greater variety in their work, while giving the Group flexibility in its resource deployment.

## Human rights

The Group does not, at present, have a specific policy on human rights. However, we have several policies that promote the principles of human rights.

In the Group's ethics policy, we state that we will respect the human rights of all our employees, including:

- ensuring our employees have the freedom to join a union, associate or bargain collectively without fear of discrimination against the exercise of such freedoms;
- not using forced labour or child labour; and
- respecting the rights of privacy of our employees and protecting access and use of their personal information.

Supporting our ethics policy, we also have an equal opportunities policy and a dignity at work policy, which promote the right of every employee to be treated with dignity and respect and not to be harassed or bullied on any grounds.

The Group is aware of the requirement under the Modern Slavery Act 2015 to publish its first statement on its website, by 30 June 2017, in relation to the steps it has taken to ensure that slavery and human trafficking are not taking place throughout its business or supply chain. The Group is currently considering the Home Office guidance (published in October 2015) and intends to publish a statement during 2016 on the steps it has taken so far.

## Employee involvement

The Group places considerable value on the involvement of its people and continues to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings. In the UK, the Group operates a Joint Consultative Committee ('JCC'), which comprises an employee representative covering each department. The JCC meets regularly and considers a wide range of matters affecting the employees' current and future interests.

## Business ethics

The Group is committed to high standards of business conduct and seeks to maintain these standards across all of our operations throughout the world. Under the Group's ethics policy, we state that we will:

- operate within the law;
- not tolerate any discrimination or harassment;
- not make any political donations;
- not make or receive bribes;
- avoid situations that might give rise to conflicts of interest;
- not enter into any activity that might be considered to be anti-competitive;
- aim to be a responsible company within our local communities; and
- support and encourage our employees to report, in confidence, any suspicions of wrongdoing.

Supporting our ethics policy, we have policies on anti-bribery and corruption, anti-fraud, employee share trading and whistleblowing. Our policies are included in the employee handbook and employees are made aware of them on joining the Group. In 2015, the Group acquired a licence for online training on anti-bribery and has rolled out the training to relevant employees, such as the sales staff, who work in areas that are considered to carry a greater risk of bribery.

## BOARD OF DIRECTORS



**DAVID STIRLING**  
Group CEO

**Appointed**

September 1997 (Finance Director) and in May 2000 (as the Chief Executive of the Group)

**Skills and experience**

David started his career with KPMG in Scotland where he qualified as a Chartered Accountant. He has worked for Price Waterhouse in USA and Poland and with BICC plc. David is a graduate of Glasgow University and has an MBA from Warwick University and an MSc in Finance from London Business School.

**External appointment**

Non-Executive Director of Bac2 Limited

**NIGEL HOWARD**  
Non-Executive  
Chairman

Chair of the Nominations Committee and member of the Remuneration Committee

**Appointed**

January 2006 (Board) and January 2007 (Chairman)

**Skills and experience**

Nigel was a Director of Morgan Crucible plc (now known as Morgan Advanced Materials plc), where he worked for over 36 years in a number of roles including Interim Chief Executive. Nigel is a graduate of Harvard Business School ISMP Program.

**External appointment**

Non-Executive Director of Alliance One International Inc (NYSE: AOI)

**GARY MCGRATH**  
Finance Director

**Appointed**

December 2015 (Executive Director) and February 2016 (Finance Director)

**Skills and experience**

Gary is a chartered accountant, qualifying with Arthur Andersen. He spent 11 years with RMC Group plc before joining Koch Industries, where he spent several years in various positions, including Global Finance Director of INVISTA Apparel and EMEA Vice President of Finance, Planning and Analysis at Georgia Pacific. Most recently, Gary was CFO of GC Aesthetics Limited. He has worked across public, private and private equity environments in the UK, Belgium, Germany, the USA and the Republic of Ireland.

**ANGELA BROMFIELD**  
Non-Executive  
Director

Member of the Audit, Nominations and Remuneration Committees

**Appointed**

October 2014

**Skills and experience**

Angela was Strategic Marketing & Communications Director at Morgan Sindall plc until 2013 and prior to that she held senior roles at the Tarmac Group, Premier Farnell plc and ICI plc. Angela was a Non-Executive Director for Mondi Paper & Packaging Limited. Angela has a degree in Chemistry from the University of Reading and an MBA from Warwick University.



**MARIE-LOUISE  
CLAYTON**  
Non-Executive  
Director

Chair of the Audit Committee and member of the Nominations and Remuneration Committees

**Appointed**  
July 2011

**Skills and experience**

Marie-Louise was the Group Finance Director of Venture Production plc, a FTSE 250 company in the oil and gas sector before it was acquired by Centrica plc and has held senior positions in Alstom and GEC. She was a Non-Executive Director and Chair of the Audit Committee of Forth Ports plc. Marie-Louise is a Fellow of the Association of Chartered Certified Accountants.

**External appointments**

Non-Executive Director of Geoffrey Osborne Ltd and Independent Oil and Gas plc

**RICHARD CLOWES**  
Senior Independent  
Non-Executive  
Director

Chair of the Remuneration Committee and member of the Audit and Nominations Committees

**Appointed**  
July 2007

**Skills and experience**

Richard has worked for GKN plc and TI Group plc. He was a main Board Director from 2001 to 2005 for GKN plc and has extensive operational and general management experience. At GKN plc, Richard was a Divisional Managing Director for their Powder Metallurgy, Offhighway and Autocomponents Divisions.

**STEVE GOOD**  
Chairman  
Designate and  
Non-Executive  
Director

Member of the Audit, Nominations and Remuneration Committees

**Appointed**  
October 2014

**Skills and experience**

Steve Good is a Chartered Accountant who has spent the last 20 years leading businesses in the Specialty Chemical and the Performance Material industries. Steve joined Low & Bonar plc, a polymer engineering group, in 2004 initially as a Divisional Managing Director and later as Group Chief Executive from 2009 to 2014. Prior to that Steve held various general management positions in BTP plc (now part of Clariant).

**External appointments**

Non-Executive Director of Elementis plc and Anglian Water Services Limited

**CLIFFORD HURST**  
Executive Director

**Appointed**  
October 2000 (Finance Director) and February 2016 (Executive Director)

**Skills and experience**

Clifford trained with Ernst & Young. He then worked for ICI plc and Caradon plc. Before joining Zotefoams plc, Clifford was the Finance Director and then became the Commercial Director of Thermos Limited. Clifford is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Association of Corporate Treasurers.



# DIRECTORS' REPORT

The Directors present their Annual Report and audited consolidated financial statements for the year ended 31 December 2015.

## Results and dividends

Profit attributable to shareholders for the year amounted to £4.82m (2014: £3.34m). An interim dividend of 1.80p (2014: 1.75p) per share was paid on 8 October 2015. The Directors recommend that a final dividend of 3.8p (2014: 3.7p) per share be paid on 25 May 2016 to shareholders who are on the Company's register at the close of business on 22 April 2016. This makes a total dividend of 5.6p per share for the year (2014: 5.45p). For further information on the performance of the entity refer to the Strategic Report.

## Directors

The appointment, replacement and powers of the Directors are governed by the Company's Articles of Association, the UK Corporate Governance Code, the Companies Act 2006, prevailing legislation and resolutions passed at the Annual General Meeting ('AGM') or other general meetings of the Company.

The current Directors named on pages 30 and 31 served throughout the year, with the exception of G C McGrath, who was appointed to the Board on 1 December 2015. The Company's Articles of Association (the 'Articles') give the Directors power to appoint and replace Directors. Under the terms of reference of the Nominations Committee, any appointment must be recommended by the Nominations Committee for approval by the Board of Directors. The Articles also require Directors to retire and, if they so wish, submit themselves for election at the first AGM following their appointment and normally every three years thereafter. As has been the case for the last few AGMs, the Board has decided to follow best practice and all Directors will stand for annual re-election at this year's AGM, notwithstanding that this specific requirement in the UK Corporate Governance Code is for FTSE 350 companies.

D B Stirling, C G Hurst and G C McGrath, the Executive Directors, have service contracts which are terminable on 12 months' written notice. All the other Directors have letters of appointment which are terminable on six months' written notice.

The Company has issued Deeds of Indemnity in favour of all of the Directors. These Deeds were in force throughout the year ended 31 December 2015 (with the exception of the Deed that was put in place on 1 December 2015 for G C McGrath) and remain in force as at the date of this report. These Deeds, as well as the service contracts and the Company's Articles of Association, are available for inspection during normal business hours at the Company's registered office and will be available at the AGM and 15 minutes before the meeting.

## Conflicts of interest

All Directors submit details to the Company Secretary of any new situations, or changes to existing ones, which may give rise to an actual or potential conflict of interest with those of the Company. On an annual basis, the Company Secretary seeks confirmation from the Directors of their interests, which are reviewed by the Nominations Committee and the Board and, where considered appropriate, approved by the Board.

Where an actual, or potential, conflict is approved by the Board, the Board will normally authorise the situation on the condition that the Director concerned abstains from participating in any discussion or decision affected by the conflicted matter. Authorisation of a conflict is only given by Directors who are not interested in the matter.

## Amendment to the Articles of Association

The Company's Articles of Association may only be amended by a special resolution of the shareholders passed in general meeting.

## Corporate Governance

The Corporate Governance Report on pages 34 to 37 should be read as forming part of the Directors' Report.

## Employees

To ensure employee welfare, the Group has documented, and well publicised, policies on occupational health and safety, the environment and training. The Group operates an equal opportunities, single status, employment policy, together with an open management style. The Company operates to a number of recognised industry standards including Quality (ISO 9001), Environmental (ISO 14001) and Occupational Health and Safety (OHSAS 18001) approvals.

Further details of the Group's employment policies, including its policy regarding the employment of disabled people, are set out in the Corporate Social Responsibility Report on pages 26 to 29.

## Substantial shareholdings

As at 14 March 2016, the Company had received notices of the following material interests of 3% or more in the issued ordinary share capital:

	Ordinary share of 5.0p	Percentage of issued share capital
BlackRock Inc.	6,421,090	14.5%
Miton Group plc	6,189,977	13.9%
Schroders plc	6,050,880	13.6%
Sekisui Alveo AG	3,814,762	8.6%
J M Finn & Co Ltd	1,986,843	4.5%
Marc and Claire Downes	1,600,000	3.6%
Nicholas Adrian Beaumont-Dark	1,418,000	3.2%

Directors' shareholdings are shown in the Directors' Remuneration Report on pages 52 to 53.

## Research and development

The amount spent by the Group on R&D in the year was £839,000 (2014: £1,128,000). In the opinion of the Directors none of this expenditure met the requirements for capitalisation in IAS38 and it was consequently all expensed in the Consolidated Income Statement.



### Share capital and reserves

The Company has one class of ordinary shares which has no right to fixed income. Each share carries the right, on a poll, to one vote at general meetings of the Company. There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

At 31 December 2015, the Zotefoams Employees' Benefit Trust ('EBT') held 768,911 shares (approximately 1.73% of the issued share capital) (2014: 340,611 shares, approximately 0.78% of the issued share capital at 31 December 2014) to satisfy share plans as described in the Directors' Remuneration Report. In accordance with best practice, the voting rights on the shares held in the EBT are not exercised and the right to receive dividends has been waived. During the year, the EBT released 204,548 shares in respect of these share plans and 32,848 shares were bought to satisfy future share awards. At the AGM held on 13 May 2015, authority was given to the Directors to allot unissued shares in the Company up to a maximum amount equivalent to approximately two thirds of the issued share capital of the Company. This authority was used on 30 November 2015, when the Company issued 600,000 ordinary shares (1.37% of the issued share capital prior to the share issue) to the EBT at par value.

Also at the AGM held on 13 May 2015, a special resolution was passed that granted authority to the Directors to allot equity securities in the Company for cash, without regard to the preemption provisions of the Companies Act 2006. This authority was used in relation to the above mentioned share issue to the EBT.

Both of the above mentioned authorities expire at the AGM to be held on 18 May 2016 and the Directors seek new authorities for a further year.

At the AGM held on 13 May 2015, the Company was given authority to purchase up to 4,381,444 of its ordinary shares. This authority will expire at the 2016 AGM and, at the date of this Report, had not been used. In accordance with normal practice for listed companies, a special resolution will be proposed at this year's AGM to seek a new authority to make market purchases up to a maximum of 10% of the issued share capital of the Company.

### Subsidiaries and branches

Details of the subsidiaries, branches and joint ventures within the Group are given in note 13 pages 88 to 89 and note 25 on page 103.

### Treasury and financial instruments

Information in respect of the Group's policies on financial risk management objectives, including policies for hedging, as well as an indication of exposure to financial risk, is given on pages 92 to 97 and in note 21 to the financial statements.

### Pension schemes

The Company closed its Defined Benefit Pension Scheme to future accrual of benefit in December 2005. Employees are offered membership of one of a number of Defined Contribution Pension Schemes.

### Disclosure of information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware, and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

### Independent auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as the Company's Auditors will be proposed at the forthcoming AGM.

By order of the Board

**J W Kindell**  
**Company Secretary**  
14 March 2016

# CORPORATE GOVERNANCE

## Dear Shareholder

I am pleased to present the report on Corporate Governance on behalf of the Board.

At Zotefoams, we recognise the importance of being a well managed business, not only for the interests of our shareholders, but for other stakeholders as well. The Board and I are committed to the highest standards of corporate governance and regularly monitor our compliance with the UK Corporate Governance Code. The Code is available from the Financial Reporting Council's website ([www.frc.org.uk](http://www.frc.org.uk)).

## Statement of compliance with the UK Corporate Governance Code (the 'Code')

Under the UK Corporate Governance Code, we are required to state whether we have complied with the Code's provisions. The Board confirms that, throughout the financial year ended 31 December 2015, the Company applied all of the provisions set out in the UK Corporate Governance Code as published in September 2014.

The Board also confirms that the Company has applied the principles set out in the Code, including both the main principles and the supporting principles, by complying with the Code. Further explanation of how the principles and supporting principles have been applied is set out below and in the Directors' Remuneration Report, the Audit Committee Report and Nominations Committee Report.

## Board and Committee composition

In 2015 there have been the following changes to the Board.

Firstly, C G Hurst indicated his wish to retire in 2016. Clifford will step down from the Board and leave Zotefoams on 16 May 2016. The Board and I would like to thank Clifford for the contribution he has made to Zotefoams since he joined in October 2000 and wish him well in his retirement. We took the opportunity to review the Finance Director role and sought to appoint a candidate with significant international experience. We were pleased to appoint G C McGrath to the Board on 1 December 2015 and to the role of Finance Director on 1 February 2016.

Secondly, following a thorough search and selection process, the Board on 30 October 2015, upon the recommendation of the Nominations Committee, agreed to appoint S P Good, who was appointed to the Board on 1 October 2014, as Chairman Designate to become Non-Executive Chairman following my retirement on 31 March 2016. Upon becoming Chairman, Steve will step down as a member of the Audit Committee and will also replace me as the Chair of the Nominations Committee.

The Board has also requested R J Clowes to remain on the Board as Senior Independent Non-Executive Director for a period not to go beyond 30 June 2017, in order to provide continuity in experience and knowledge as the membership of the Board transitions in 2016 and a further independent Non-Executive Director is found. The Board is of the opinion that R J Clowes, notwithstanding he will have been on the Board for nine years in July 2016, remains independent

as he demonstrates being independent in his judgement of discussions and continues to challenge Management on matters. R J Clowes will step down as Chair of the Remuneration Committee after the AGM on 18 May 2016, but will remain a member of the Committee. A C Bromfield will become Chair of the Remuneration Committee on 19 May 2016.

## AGM

We believe that the AGM is an ideal opportunity for the Shareholders to attend and meet both the Executive Directors and the Non-Executive Directors, see the Croydon site and ask questions that they may have. The AGM is scheduled for 18 May 2016 and the Board looks forward to meeting you there.

## N G Howard Chairman

14 March 2016

## The Board and its Committees

The Board's role is to provide the entrepreneurial leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board sets the strategic aims of the Company, ensures that the necessary resources are in place to achieve the Company's objectives and reviews management performance. The Board's role is to act as representative of the shareholders and other stakeholders and focuses on the governance of the Company. Management is delegated to the Executive Directors and the senior executive management of the Group.

All Directors must take decisions objectively in the interests of the Company.

As part of their role as members of a unitary Board, Non-Executive Directors constructively challenge and help develop proposals on strategy. Non-Executive Directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of Executive Directors and have a prime role in appointing, and where necessary removing, Executive Directors, and in succession planning.

The Board has three principal committees which report into it and function within defined terms of reference. These are the Audit Committee, the Remuneration Committee and the Nominations Committee. The terms of reference for these Committees are available on the Company's website, [www.zotefoams.com](http://www.zotefoams.com), and in paper form, on request to the Company Secretary.

The Board has put in place a schedule of matters that are reserved for its determination or which need to be reported to the Board. This schedule is reviewed regularly and was last updated in May 2015.

The Directors' attendance at meetings of the Board and the Committees is as follows:

Attendance at meetings	Board meetings		Audit Committee meetings		Remuneration Committee meetings		Nominations Committee meetings	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
A C Bromfield	9	9	3	3	4	4	3	3
M L Clayton	9	9	3	3	4	4	3	3
R J Clowes	9	9	3	3	4	4	3	3
S P Good	9	9	3	3	4	4	3	3
N G Howard	9	9	n/a	n/a	4	4	3	3
C G Hurst	9	9	n/a	n/a	n/a	n/a	n/a	n/a
G C McGrath	1	1	n/a	n/a	n/a	n/a	n/a	n/a
D B Stirling	9	9	n/a	n/a	n/a	n/a	n/a	n/a

### Chairman and Group CEO

The Chairman is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. The Chairman is also responsible for ensuring that the Directors receive accurate, timely and clear information. The Chairman facilitates the effective contribution of the Non-Executive Directors in particular and ensures constructive relations between Executive and Non-Executive Directors.

The Board considers that N G Howard, who is to retire on 31 March 2016, has had sufficient time to devote to his role as being the Chairman of the Company. Mr Howard only has one other significant commitment, which is being a Non-Executive Director of Alliance One International Inc. (listed on the New York Stock Exchange). The Board also considers that S P Good, who is to become Chairman of the Company on 1 April 2016, will have sufficient time to devote to the role. Mr Good has no executive positions, but is a Non-Executive Director of three other companies (Elementis plc, Cape plc and Anglia Water Services Limited).

The Group CEO is responsible for the running of the Group's business. He is supported by the other Executive Directors and senior management team members in the Group.

### Board balance and independence

The Board currently comprises three Executive Directors, four independent Non-Executive Directors and the Non-Executive Chairman. R J Clowes has acted as the Senior Independent Non-Executive Director throughout 2015. After the retirements of N G Howard and C G Hurst, the composition of the Board will be two Executive Directors, three independent Non-Executive Directors and the Non-Executive Chairman.

The Chairman is also Chair of the Nominations Committee and a member of the Remuneration Committee. Only the respective Committee Chairs and members are entitled to be present at meetings of the Remuneration, Audit and Nominations Committees, but others may attend at the invitation of the Committees. During the year the Chairman met with the Non-Executive Directors several times without the Executive Directors present and the Non-Executive Directors met without the Chairman being present.

### Appointments to the Board and the Nominations Committee

Appointments to the Board are proposed by the Nominations Committee and approved by the Board.

A separate Nominations Committee Report provides details of the role and activities of the Committee and its work in relation to appointments to the Board.

The Board acknowledges the benefits of diversity, including that of gender but, when considering appointments to the Board, appointments are made purely on merit and against objective criteria. No specific policy or quotas have been set on diversity and when search consultants are briefed of the search criteria, they are encouraged to cast their search sufficiently broadly to identify the best candidates. Care is taken to ensure that appointees, as well as the existing Directors, have sufficient time to devote to their roles.

### Information and professional development

Each month all Directors receive management reports and briefing papers in relation to Board matters. New appointments to the Board receive an induction and, if appropriate, training. Training is made available in order to fulfil the requirements of being a Director of a listed company. The Directors have access to the Company Secretary and independent professional advisers, at the Company's expense, if required for the furtherance of their duties.

### Board evaluation

A formal review of the performance of the Board and its Committees is carried out each year. The review of the Chairman's performance is led by the Senior Independent Non-Executive Director together with the other Non-Executive Directors in consultation with the Executive Directors. The other Non-Executive Directors' performance is evaluated by the Chairman in consultation with the Executive Directors. The Executive Team's performance is evaluated by the Remuneration Committee in conjunction with the Group CEO (except in the case of the Group CEO, when the Group CEO is not present in that evaluation).

## CORPORATE GOVERNANCE CONTINUED

The evaluation of the Board takes the form of a questionnaire, prepared by the Chairman, and the results are compiled and discussed, with actions agreed. Each Committee undertakes its own evaluation, led by the relevant Chair. These take the form of a discussion reviewing the work undertaken during the year and actions agreed. Due to the Company's size, the Board feels, at this stage, it is not appropriate to use the services of an external facilitator for its annual evaluation, but will keep the matter under review.

The most recent Board evaluation was undertaken at the end of 2015. The timeliness of issuing some papers to the Board was raised as an area for improvement and Management have already initiated actions to improve this. The Board also concluded that the systems in place on risk management and internal control, and hence, the Board's oversight of them, whilst considered currently fit for purpose, needed to be reviewed in order to ensure that they are adaptable and scalable as the Group grows. Work is already underway in this area.

The Chairman Designate, S P Good, will also be following up with the Board members on the comments raised in the evaluation as he assumes the Chairmanship of the Board.

All the evaluations were completed satisfactorily.

### Re-election

Re-election of Board members is required by the Articles at the first AGM following appointment and normally once every three years thereafter. However the Code requires all directors of FTSE 350 companies to stand for annual re-election. Although the Company is not within the FTSE 350, the majority of Main Market Listed companies have now adopted the practice for all their Directors to stand for annual re-election. The Board has decided, as has been the case for the last few years, that all of the Directors will stand for annual re-election at the 2016 AGM.

### Remuneration Committee and executive remuneration

A report on the activities of the Remuneration Committee is contained within the Directors' Remuneration Report, together with the principles and details of executive remuneration.

### Financial reporting

The Directors' responsibilities for preparing the financial statements are set out in the Statement of Directors' Responsibilities.

### Audit Committee and Auditors

A separate Audit Committee Report provides details of the role and activities of the Committee and its relationship with the External Auditors.

### Relations with shareholders

The Company is always willing, where practicable, to discuss with its shareholders its objectives to promote a mutual understanding. Meetings with institutional shareholders are held twice a year following the announcements of the Group's interim and final results. Other meetings are held at institutional shareholders' request. To ensure that the Board, particularly the Non-Executive Directors, understands the views of the shareholders, the Company's corporate brokers provide summary feedback from the investor

meetings that they arrange, in particular the meetings held following the interim and final results announcements. The Chairman and the Senior Independent Non-Executive Director, as well as the other Non-Executive Directors, are available to meet institutional shareholders if requested.

The Board considers the Annual Report, the AGM and the corporate website [www.zotefoams.com](http://www.zotefoams.com) to be the primary vehicles for communication with private investors. The Chairs of the Audit and Remuneration Committees will normally be present to speak at the AGM. The Chairman, being also the Chair of the Nominations Committee, will normally be present as well.

### Internal control

The Board has applied the Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Group faces. The Board regularly reviews the process, which has been in place from the start of the year to the date of approval of this report and which is in accordance with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with the Code, the Board regularly reviews the effectiveness of the Group's system of internal control as well as how it is reported to the Board. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Board has also performed a specific assessment for the purpose of this Annual Report. This assessment considered all the significant aspects of internal control arising during the period covered by the report. The assessment also included a robust review of the principal risks facing the Group, including those that would threaten the Group's business model, future performance, solvency and liquidity. The Audit Committee assists the Board in discharging its review responsibilities.

During the course of its review of the system of internal control and the principal risks facing the Group, the Board had not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

Key elements of the Group's system of internal controls are as follows:

### Control environment

The Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Group objectives. Overall business objectives are set by the Board and communicated through the organisation. Lines of responsibility and delegations of authority are documented.

### Risk identification

Group management is responsible for the identification and evaluation of key risks applicable to its areas of business. These risks are assessed on a continual basis and may be associated with a variety of internal or external sources.

### Information and communication

Annual budgets are a key part of the planning process and performance against plan is actively monitored at Board level, supported by quarterly forecasts. Statistics and commentary on actual operating performance are made available to all Directors monthly.

Through these mechanisms, the performance of the Group is continually monitored, risks identified in a timely manner, their financial implications assessed, control procedures re-evaluated and corrective actions agreed and implemented.

### Control procedures

The Group has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties, reviews by management, internal audit and external audit to the extent necessary to arrive at their audit opinion.

A process of control self assessment and hierarchical reporting has been established which provides for a documented and auditable trail of accountability. These procedures are relevant across the Group and provide for successive assurances to be given at increasingly higher levels of management and, finally, to the Board. Planned corrective actions are independently monitored for timely completion.

### Monitoring and corrective action

There are clear and consistent procedures in place for monitoring the system of internal financial and non-financial controls. The Audit Committee normally meets three times a year and, within its remit, reviews the effectiveness of the Group's system of internal financial controls. The Committee receives reports from the External Auditors, Internal Auditors and management.

Non-financial controls are reviewed regularly by executive management, who report any issues and corrective actions taken directly to the Board.



# REMUNERATION REPORT

## Dear Shareholder

I am pleased to present the Remuneration Report for the year ended 31 December 2015.

## Introduction

This is my final report as Chair of the Remuneration Committee. A C Bromfield will become chair of the Committee on 19 May 2016, but I shall remain as a member of the Committee until I retire from the Board.

The main focus for the Remuneration Committee in 2015 has been considering the changes on remuneration introduced by the updated UK Corporate Governance Code in September 2014. In particular, the Committee reviewed our policy on the Executive Directors to hold a minimum level of shares (see page 52) and concluded that it remained appropriate. The Committee also decided to introduce Clawback arrangements to the Long Term Incentive Plan ('LTIP') and the annual bonus, in addition to the Malus arrangements introduced in 2014 on the LTIP and the Deferred Bonus Share Plan ('DBSP'). Details of the operation of the Malus arrangements may be found in the Directors' Remuneration Policy on page 44. Details of the operation of the Clawback arrangements may be found on page 49.

In 2015 the Company launched for eligible UK-based employees the Zotefoams Share Incentive Plan ('SIP'). The Committee was consulted throughout the design and launch processes for the SIP and approved the matching ratio of one Matching Share for every four Partnership Shares purchased. The Committee believes the SIP is a favourable benefit to incentivise the employees and share in any future success of the Company. The SIP went live in November 2015, with the first purchase under the plan being made on 10 December 2015.

## Remuneration policy

The Remuneration Committee, with the assistance of Deloitte LLP, the Committee's remuneration consultant, developed the Directors' Remuneration Policy, which was approved at the AGM held on 20 May 2014 and is expected to remain in place until the AGM planned to be held in 2017. There have been no changes to the Policy since then, with the exception of the introduction of the above mentioned Clawback arrangements. The current intention is to submit to the Shareholders for approval an updated Policy at the 2017 AGM. The Policy has been included in the Annual Report for ease of reference (pages 39 to 48).

## Key pay outcomes in respect of 2015 and looking forward to 2016

The base salary of D B Stirling was increased by 4.5% (effective 1 April 2015). We intend to increase his salary by 4.5% (effective 1 April 2016). C G Hurst's salary was increased by 2.5% (effective 1 April 2015) and this was consistent with the increase given in 2015 to the wider workforce in the UK. C G Hurst will not receive a salary increase in 2016 due to him retiring on 16 May 2016. We propose to increase G C McGrath's salary by 2.5% (effective 1 April 2016). The salary reviews of the wider work force for 2016 are still yet to be agreed.

The annual bonus for 2015 was 44.4% of eligible salary for D B Stirling and 29.4% of eligible salary for C G Hurst. There is no bonus in relation to 2015 for G C McGrath due to him only joining the Group on 1 December 2015. For D B Stirling, 25% of his annual bonus will be deferred by making awards under the DBSP. In light of C G Hurst retiring, his entire bonus will be paid in cash. We have set the targets for the 2016 annual bonus, which are a mixture of profit before tax, sales in High Performance Products ('HPP') business and individual objectives (further details may be found on page 48). We believe that the targets for the annual bonus are appropriate for the Executive Directors to deliver on the Group's strategy.

The vesting of the 2013 awards made under the LTIP will be 50.0% of the maximum opportunity and details of the LTIP awards planned to be made in 2016 may be found on page 49.

## Performance in 2015 and conclusion

The Company had a better year in 2015 than in 2014. Profit before tax and exceptional items was £6.01m compared to £5.27m in 2014. As a consequence, there were payouts on the 2015 annual bonus and vesting of 50.0% of the maximum opportunity of the 2013 LTIP awards, which was driven entirely by the significant growth in TSR (total shareholder return) at 22% per annum over the last three years. Unfortunately, the EPS target for the 2013 LTIP was not achieved.

The Committee and I feel that it is important to incentivise the Executive Directors appropriately, to ensure that they deliver on the Group's strategy for profitability and growth in its HPP and international businesses. We feel that our remuneration strategy, as set out in the Directors' Remuneration Policy, remains appropriate and is aligned with the Group's strategy. As always, I will be available at the AGM to answer any questions you may have.

## R J Clowes

### Chair of the Remuneration Committee

14 March 2016

## Introduction

### Directors' Remuneration Report for the year ended 31 December 2015

The Directors' Remuneration Report has been prepared in accordance with the relevant provisions of the Listing Rules, section 421 of Companies Act 2006 and Schedule 8 to the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations').

This report is split into two sections:

- The Directors' Policy Report, which was approved at the AGM held on 20 May 2014, became effective immediately and is intended to last three years (ie until the AGM planned for 2017). There are no changes to the Policy report and, therefore, no shareholder vote is required at the 2016 AGM. It is being included for ease of reference.
- The Annual Report on Remuneration, which provides details on how Directors were paid in 2015 and how we intend to implement the Directors' Remuneration Policy in 2016. This section of the report will be subject to an advisory shareholder vote at the 2016 AGM.

## Policy report

The following section sets out our Directors' Remuneration Policy (the 'Policy') which was approved at the 2014 AGM and applies to remuneration made since 20 May 2014.

The Remuneration Committee reserves the right to make any remuneration payments and 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 Policy set out below where the terms of the payment were agreed (i) before the Policy came into effect or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes the term 'payments' includes (but is not limited to) the 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.

The Remuneration Committee may also make minor amendments to the Policy set out below (for regulatory, exchange control, tax or administrative purposes or to take account of changes in legislation) without obtaining shareholder approval for that amendment.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
<b>Base salary</b>	To help recruit and retain Executive Directors of the calibre required to develop and deliver the business strategy.	<p>The Committee sets base salary taking into consideration:</p> <ul style="list-style-type: none"> <li>• the individual's experience, performance and skills;</li> <li>• the scope of the role;</li> <li>• pay and conditions elsewhere in the Company; and</li> <li>• external market benchmark data in other similar size companies.</li> </ul> <p>Normally reviewed annually, with increases effective from 1 April, however the Committee may review them more frequently where it considers this appropriate.</p> <p>Paid in cash.</p>	<p>While there is no maximum opportunity for base salary, base salary increases for Executive Directors will be considered in the context of increases for other employees in the Company.</p> <p>In specific circumstances, including but not limited to:</p> <ul style="list-style-type: none"> <li>• where the Committee has set the base salary for a newly appointed Executive Director at lower than the market level for such a role to allow for the individual to progress into the role; or</li> <li>• where, in the Committee's opinion, there has been a significant increase in the size or scope of an Executive Director's role or responsibilities the Committee may award increases above this level.</li> </ul>	N/A

## REMUNERATION REPORT CONTINUED

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
<b>Benefits</b>	To provide market competitive benefits for our Executive Directors.	<p>The Committee's policy is to provide Executive Directors with a market competitive level of benefits, taking into consideration benefits offered to other senior managers within the Group, the individual's circumstances and prevailing market practice.</p> <p>Core benefits currently provided to Executive Directors include, but are not limited to, a car allowance, private medical insurance and death in service cover.</p> <p>Participation in all employee share plans on the same terms as all other UK employees, should the Company choose to establish one.</p> <p>Relocation/international assignment benefits – Where an Executive Director is required to relocate from their home country to take up their position, additional benefits may be provided, including, but not limited to: assistance for housing, school fees, travel assistance, relocation costs, insurance cover and assistance with tax advice.</p>	<p>There is no maximum or minimum level of benefits as they are dependent on the individual's circumstances and the cost to the Company.</p> <p>Relocation/international assignment benefits – The level of such benefits would be set at an appropriate level taking into account the circumstances of the individual and typical market practice.</p>	N/A

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
<b>Pension</b>	To provide Executive Directors with competitive post retirement benefits and reward sustained contribution.	<p>D B Stirling and C G Hurst participate in a defined contribution pension plan and are deferred members of the closed defined benefit pension plan.</p> <p>The terms of the contribution to the defined contribution plan were agreed at the time of closure of the Zotefoams defined benefit pension scheme, and therefore include a commitment to current Executive Directors to increase the level of contribution by 3% every five years.</p> <p>The policy for a new Executive Director is either to participate in a defined contribution pension plan or receive a cash allowance in lieu of pension. There will be no contractual commitment to increase the level of contribution every five years.</p> <p>G C McGrath was not eligible for any pension contributions in 2015. In 2016 the maximum contribution by the Company will be 5% to the deferred contribution pension plan.</p>	<p>Currently the level of contribution is as follows: D B Stirling – 12.75% pensionable salary C G Hurst – 13.75% pensionable salary.</p> <p>There is a commitment to increase the level of contribution by 3% of pensionable salary every five years. The next increase will apply from 2016, during the intended effective period of this remuneration policy.</p> <p>Therefore the maximum opportunity for the duration of this policy will be as follows: D B Stirling – 15.75% pensionable salary C G Hurst – 16.75% pensionable salary.</p> <p>The defined benefit pension plan is closed to future accruals, however legacy arrangements will continue to be honoured.</p> <p>Contributions for new Executive Directors will be set at the time of the relevant appointment, taking into account the individual's circumstances and relevant market practice.</p>	N/A

## REMUNERATION REPORT CONTINUED

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
<b>Annual bonus</b>	<p>Incentivise Executive Directors to achieve specific financial and predetermined strategic goals during a one year period.</p> <p>Deferred proportion of annual variable pay, provides a retention element and alignment with shareholders.</p>	<p>Performance normally assessed over one financial year.</p> <p>Performance targets are set annually by the Remuneration Committee to ensure they are appropriately stretching.</p> <p>Bonus out turns are determined by the Committee after the year end, taking into consideration performance against targets and the underlying performance of the business.</p> <p>25% of the earned bonus is normally deferred into restricted shares under the Deferred Bonus Share Plan ('DBSP'). Awards under the DBSP will normally vest after a period set by the Committee, which will normally be three years.</p> <p>Deferred awards are normally awarded in the form of restricted shares, although awards may take other forms if it is considered appropriate.</p> <p>Dividends are paid on the restricted shares, but are reinvested to increase the award accordingly.</p> <p>Restricted shares are subject to Malus provisions (see page 44).</p> <p>The Committee may adjust and amend awards in accordance with the DBSP Rules.</p>	<p>Maximum opportunity is 100% of base salary (before salary sacrifice).</p>	<p>Performance is measured based on an appropriate mix of financial, strategic and personal performance measures.</p> <p>At least 75% of the bonus opportunity will be based on financial performance targets. The split between financial, strategic and personal performance measures will be kept under review by the Committee.</p> <p>Normally no bonus is payable for performance at the trigger point, with 50% of the maximum opportunity payable for target performance. 100% of the maximum bonus is payable for maximum performance.</p>



Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
<b>2007 Long-Term Incentive Plan ('LTIP')</b>	<p>Incentivise Executive Directors to achieve long-term sustainable growth.</p> <p>Align interests of Executive Directors and shareholders.</p> <p>Acts as a retention tool.</p>	<p>Awards subject to a performance period of normally no less than three years. Subject to performance, awards normally vest on the third anniversary of grant.</p> <p>Performance targets are set annually by the Remuneration Committee to ensure they are appropriately stretching.</p> <p>LTIP awards are normally in the form of restricted shares, although the Remuneration Committee may decide to make awards in other forms if considered appropriate.</p> <p>Dividends are paid on the restricted shares, but are reinvested to increase the award accordingly.</p> <p>LTIP awards are subject to Malus provisions. (see page 44).</p> <p>The Committee may adjust and amend awards in accordance with the LTIP Rules.</p>	<p>The normal maximum award permitted under the LTIP Rules is 150% of base salary. Under exceptional circumstances (eg, recruitment or retention), the Committee may award higher than this maximum.</p> <p>Our current intention is that Executive Directors will be granted a maximum annual award of 100% of base salary (before salary sacrifice).</p>	<p>Awards vest based on an appropriate balance of earnings and shareholder return measures.</p> <p>25% of the award vests for performance at the trigger point, increasing to 100% of the maximum for maximum performance.</p>
<b>2008 Approved Share Option Plan ('ASOP')</b>	<p>Align interests of Executive Directors and shareholders.</p> <p>Acts as a retention tool.</p>	<p>Awards subject to a performance period of normally no less than three years. Subject to performance, awards normally vest on the third anniversary of grant.</p> <p>Performance targets are set by the Remuneration Committee when the award is made.</p> <p>The awards are options over shares in the Company and therefore do not receive dividends until the options are exercised.</p> <p>The Committee may adjust and amend awards in accordance with the ASOP Rules.</p>	<p>The maximum award permitted under the ASOP Rules is £30,000 (or such higher amount that might be permitted by legislation) subject to the maximum holding of £30,000 (or such higher amount that might be permitted by legislation).</p> <p>Our current intention is that Executive Directors will be awarded the maximum amount permitted under the ASOP Rules or by legislation.</p>	<p>Awards vest based on an earnings measure.</p> <p>100% of the award vests for performance at the trigger point.</p>

## REMUNERATION REPORT CONTINUED

The deferred share element of the annual bonus plan, the 2007 Long-Term Incentive Plan and 2008 Approved Share Option Plan shall be operated in accordance with the rules of the respective plan.

The Committee retains the right to make payments to Executive Directors which were agreed prior to (and not in contemplation of) the individual becoming an Executive Director and which are therefore considered outside of the Policy outlined in this report.

The Committee retains the right to determine the vesting level of, and satisfy, awards that were granted and payments that were agreed before this Policy came into force, whether or not they are in accordance with this Policy.

Legacy terms and conditions (entered into prior to 27 June 2012) will be honoured, including pension entitlements and any outstanding incentive awards.

### Legacy arrangements

The Company also has an Executive Share Option Scheme ('ESOS'). This was replaced by the 2007 Long-Term Incentive Plan as the principal plan for incentivising the Executive Directors. No awards have been made under the ESOS since 2007 and none now remain in place. Options granted under the ESOS were subject to performance criteria.

### Information supporting the policy table

There have been no changes in the remuneration policy since it was approved at the AGM held on 20 May 2014.

### Performance measures and approach to target setting

#### Annual bonus

Performance measures for the short-term incentive arrangements are selected annually by the Committee to align with Zotefoams' annual business strategy.

Performance targets for the financial element are set to be appropriately stretching, by reference to the Company's internal business plan, and to align with the shareholder experience. Performance targets for the strategic element are determined annually by the Committee and set to incentivise the delivery of key strategic priorities over the course of the year.

### Long-Term Incentive Plan

Performance measures for the long-term incentive arrangements are selected annually by the Committee to align with Zotefoams' long-term business strategy and to reflect the Company's growth ambitions and approach to dividend distribution.

The performance targets for the Long-Term Incentive Plan are reviewed annually and set taking into account market conditions, external market forecasts, internal business forecasts and market practice.

### Malus arrangements for the DBSP and the LTIP

The Remuneration Committee may, in its absolute discretion, determine at any time prior to the vesting of an award under the DBSP or LTIP to:

- reduce the number of shares to which an award relates;
- cancel an award;

- impose further conditions on an award in circumstances where the Remuneration Committee considers such action is appropriate.

Such circumstances include, but are not limited to:

- a material financial downturn in the performance of the Company, a company forming part of the Group or a relevant business area;
- a material misstatement of the Company's audited financial results;
- a material failing in the risk management of the Company, a company forming part of the Group or a relevant business area; or
- serious damage to the reputation of the Company, a company forming part of the Group or a relevant business area due to the participant's misconduct or otherwise.

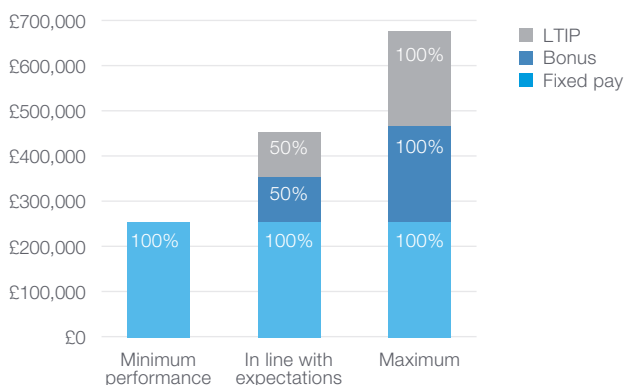
### Remuneration structure for employees below Board

The remuneration for the senior management immediately below the Board is a similar structure to the structure used for the Executive Directors. Middle management participates, at the discretion of the Remuneration Committee, in the Approved Share Option Plan subject to the Plan's rules. There is a general staff discretionary bonus scheme which is based on the performance of the Company and other factors. Other arrangements are also in place for specific areas of the Group.

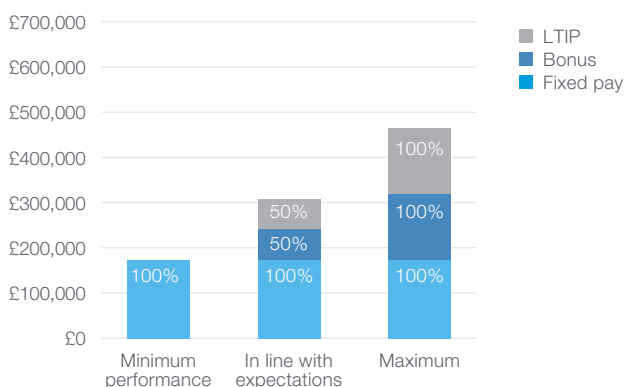
### Illustration of application of remuneration policy

The charts below show how the composition of each of the Executive Directors' remuneration packages varies at different levels of performance achievement:

#### Group CEO



#### Finance Director



The assumptions used in the charts above are as follows:

<b>Minimum performance</b>	<ul style="list-style-type: none"> <li>Base salary, benefits and pension (total fixed pay) <ul style="list-style-type: none"> <li>Base salary – as effective for the 2015 financial year.</li> <li>Benefits – value received for the 2015 financial year.</li> <li>Pension – based on pension provision of 12.75% for D B Stirling and 13.75% for C G Hurst.</li> </ul> </li> <li>No bonus pay out.</li> <li>No vesting under the Long-Term Incentive Plan.</li> </ul>
<b>Performance in line with expectations</b>	<ul style="list-style-type: none"> <li>Total fixed pay as outlined under ‘minimum performance’.</li> <li>50% of maximum bonus opportunity (50% of base salary for both of the Executive Directors).</li> <li>50% of long-term incentive share awards (50% of base salary for both of the Executive Directors)</li> </ul>
<b>Maximum performance</b>	<ul style="list-style-type: none"> <li>Total fixed pay as outlined under ‘minimum performance’.</li> <li>100% of annual bonus opportunity (100% of base salary for both of the Executive Directors).</li> <li>100% of long-term incentive share awards (100% of base salary for both of the Executive Directors).</li> </ul>
<b>Other assumptions</b>	<ul style="list-style-type: none"> <li>A constant share price has been used.</li> <li>Excludes additional shares which may attach to the deferred element of any annual bonus or long-term incentive award at vesting, representing the value of dividends.</li> <li>Awards under the Approved Share Option Scheme have been excluded.</li> </ul>

#### Remuneration policy for Non-Executive Directors

Approach to fees	Operation	Other items
<p>Fees for the Chairman and Non-Executive Directors (‘NEDs’) are set an appropriate level to reflect:</p> <ul style="list-style-type: none"> <li>the time commitment required to fulfil the role;</li> <li>the responsibilities and duties of the positions; and</li> <li>typical practice in other similar companies.</li> </ul> <p>Fees are reviewed at appropriate intervals by the Board.</p> <p>Fees are subject to the aggregate limit in the Company’s Articles of Association for fees paid to NEDs.</p>	<p>Our NED fee policy is to pay:</p> <ul style="list-style-type: none"> <li>a base fee for membership of the Board; and</li> <li>an additional fee for being Chair of a Committee to reflect the additional responsibilities and time commitments of the role.</li> </ul> <p>The Chairman receives an inclusive fee for the role.</p> <p>Additional fees for acting as Senior Independent Director, membership of a committee, or chairmanship or membership of subsidiary boards or other fixed fees may be introduced if considered appropriate.</p>	<p>The Chairman and NEDs are not eligible to participate in the bonus or any long-term incentive arrangements.</p> <p>NEDs do not currently receive any taxable benefits.</p> <p>Additional benefits may be provided in the future if the Board considers this appropriate.</p>

## REMUNERATION REPORT CONTINUED

### Remuneration policy on recruitment

In determining the remuneration package for a new recruit to the Board, (including internal promotions to the Board), the Remuneration Committee takes into consideration:

- the calibre and skills of the individual, local market practice in the individual's home country, appropriate market data, internal relativities and the current remuneration arrangements applicable for other Executive Directors on the Board. The Committee endeavours to align the remuneration arrangements of new recruits with the policy table outlined above. However, where appropriate, the Committee retains the discretion to make decisions outside the above Policy table to facilitate the hiring of candidates of the appropriate calibre, which may include, where applicable, the utilisation of Listing Rule 9.4.2;
- the Committee's desire to recruit an Executive Director of the required calibre to develop and deliver the business strategy, while at the same time ensuring that remuneration arrangements offered are in the best interests of both Zotefoams and its shareholders without paying more than is considered necessary;
- the need to be transparent to shareholders. As such the Committee will make every effort to explain the rationale for the remuneration arrangements for a new recruit in the remuneration report following the recruitment of a new Director; and
- the maximum level of annual variable pay and long-term incentive awards which may be awarded to a new Executive Director, which following recruitment will be in line with the Policy table set out above, excluding any buy out awards. Such variable remuneration may be made in the form of cash or shares, subject to performance conditions as selected by the Committee, and may vest immediately or at a future point in time.

The remuneration package for a new recruit may include any of the elements listed in the above policy table, or any other component which the Committee considers appropriate at the time.

### Buy outs

When appointing a new Executive Director, existing incentive arrangements will be used where possible.

However, to facilitate recruitment, the Remuneration Committee may 'buy out' any remuneration arrangements forfeited by the new Executive Director on leaving their former employment. In doing so, the Committee will consider all relevant factors including the form of the awards (ie cash or equity), performance conditions attached to the awards, the likelihood of such conditions being met and the timeframe of the awards.

Typically, any buy outs will be made on a like-for-like basis.

On recruitment, the Remuneration Committee retains discretion to grant awards under Listing Rule 9.4.2, which allows for the grant of awards specifically to facilitate, in unusual circumstances, the recruitment of an Executive Director without seeking prior shareholder approval.

### Recruitment of Non-Executive Directors

The Remuneration Committee will normally align the remuneration arrangements for new Non-Executive Directors with those outlined in the Policy table on page 45.

### Service contracts and termination policy

When determining leaving arrangements for an Executive Director the Committee takes into account any pre-established contractual agreements including the provisions of any incentive plans, pension entitlements, typical market practice, the performance and conduct of the individual and the commercial justification for any payments.

The following summarises our policy in relation to Executive Director service contracts and payments in the event of loss of office:

<b>Notice period</b>	<ul style="list-style-type: none"> <li>• D B Stirling, Group CEO – 12 months' notice by either party.</li> <li>• C G Hurst, Executive Director – 12 months' notice by either party.</li> <li>• G C McGrath, Finance Director – six months' notice by either party in the first year and 12 months' notice by either party thereafter.</li> <li>• For new recruits, the Committee's policy is that Executive Director contracts will provide up to 12 months' notice by the Company and up to 12 months' notice by the Executive Director. The Committee reserves the right to vary this notice period to 24 months for the initial period of appointment and then to revert to 12 months after the initial 12 months of employment.</li> </ul>
<b>Contract commencement date</b>	<ul style="list-style-type: none"> <li>• D B Stirling, Group CEO – 1 September 1997 (contract updated 31 July 2014).</li> <li>• C G Hurst, Executive Director – 1 October 2000 (contract updated 11 August 2014).</li> <li>• G C McGrath, Finance Director – 1 December 2015.</li> </ul>
<b>Expiry date</b>	<ul style="list-style-type: none"> <li>• The contracts for the Executive Directors are rolling service contracts with no expiry date.</li> </ul>
<b>Termination payments</b>	<ul style="list-style-type: none"> <li>• If the Company terminates an Executive Director's contract without full notice then the Executive Director has the right to a termination payment to reflect the unexpired term of the notice.</li> <li>• A payment in lieu of notice can be made of no more than one year's base salary.</li> <li>• Our policy for new appointments is that termination payments in lieu of notice will be based on base salary.</li> <li>• Termination payments may be subject to mitigation and may be paid in instalments.</li> <li>• Legal fees and outplacement costs may be paid if considered commercially appropriate.</li> <li>• Rights to annual bonus, DBSP awards, LTIP awards, ESOS awards and ASOP awards are governed by the respective plan rules.</li> </ul>
<b>Other information</b>	<p><i>Annual bonus</i></p> <ul style="list-style-type: none"> <li>• Under the annual bonus plan a 'good leaver' is someone that leaves employment because of death, disability, ill health, injury, redundancy or any other circumstance at the discretion of the Remuneration Committee.</li> <li>• A 'bad leaver' is someone that leaves employment for any other reason.</li> <li>• For 'good leavers' rights to any outstanding annual bonus in the year of cessation will be determined at the discretion of the Remuneration Committee, normally taking into account the level of performance achieved during the financial year up to the date of cessation. Outstanding DBSP awards will normally vest at the date of cessation.</li> <li>• For 'bad leavers' rights to annual bonus and DBSP awards will normally be forfeited.</li> </ul> <p><i>2007 Long-Term Incentive Plan</i></p> <ul style="list-style-type: none"> <li>• Under the 2007 Long-Term Incentive Plan a 'good leaver' is someone that leaves employment because of death, disability, ill health, injury, redundancy, the employing company being sold or transferred out of the Group, the employing company ceasing to be a Group member or any other circumstance at the discretion of the Remuneration Committee.</li> <li>• A 'bad leaver' is someone that leaves employment for any other reason.</li> <li>• For 'good leavers', rights to any awards under this plan will normally be prorated for the period from the date of grant to cessation and will vest based on performance to the date of cessation. The Remuneration Committee reserves the right to adjust the final level of vesting of awards in these circumstances.</li> <li>• For 'bad leavers', rights to awards under this plan will normally be forfeited.</li> </ul> <p><i>2008 Approved Share Option Plan</i></p> <ul style="list-style-type: none"> <li>• Under the 2008 Approved Share Option Plan a 'good leaver' is someone that leaves employment because of death, disability, injury, redundancy, retirement, the employing company ceasing to be a Group member or any other circumstance at the discretion of the Committee.</li> <li>• A 'bad leaver' is someone that leaves employment for any other reason.</li> <li>• For 'good leavers', rights to any awards under this plan will normally be prorated for the period from the date of grant to cessation and will vest based on performance to the date of cessation. The Remuneration Committee has the discretion to adjust the final level of vesting of these awards.</li> <li>• For 'bad leavers', rights to awards under this plan will normally be forfeited.</li> </ul>

Copies of the Executive Directors' service contracts and deeds of indemnity in favour of the Directors are available for inspection at the Company's registered office.



# REMUNERATION REPORT CONTINUED

## Non-Executive Directors

Non-Executive Directors and the Chairman have appointment letters setting out their duties and the time commitment expected. Appointment letters are currently for terms of three years. Appointments may be terminated by either party with six months' written notice. Details of the appointment letters are contained in the Annual Report on Remuneration on page 53.

## External appointments

Executive Directors and members of senior management may be invited to become Non-Executive Directors of other companies. These appointments provide an opportunity to gain broader experience outside Zotefoams and therefore benefit the Company. Providing that appointments are not likely to lead to a conflict of interest, Executive Directors may accept non-executive appointments and retain the fees received.

## Considering shareholder views

The Remuneration Committee is committed to engaging in an open dialogue with the Group's shareholders and will seek views and opinions on significant matters relating to the remuneration of the Executive Directors as appropriate. As part of formulating the Remuneration Policy, letters were sent to the Company's main shareholders summarising the main changes to the remuneration strategy and to seek their support for the approval of the Policy at the AGM. Both the Chairman and the Chair of the Remuneration Committee make themselves available at the AGM to answer any questions on remuneration matters. They are also available at other times (requests should be made to the Company Secretary), should a shareholder wish to raise a matter on remuneration.

## Annual Report on Remuneration

### Statement of implementation of the Directors' Remuneration Policy in 2016 (Unaudited)

## Base salary

From the benchmarking work undertaken by Deloitte LLP in early 2014, it was identified that the base salary for the Group CEO, D B Stirling, had fallen significantly behind the market competitive range that the Company uses. A 4.5% increase (effective 1 April 2015) was made to D B Stirling's salary. Whilst this increase reduced the gap, D B Stirling's salary still remains behind the competitive range and, therefore, the Remuneration Committee intends to make an increase of 4.5% (effective 1 April 2016).

The base salary for G C McGrath, the Finance Director, will be increased by 2.5% (effective 1 April 2016).

Budgeted salary increases for the wider employee group are taken into consideration when determining increases for the Executive Directors and senior executives.

A 2.5% base salary increase (effective 1 April 2015) was awarded to the Executive Director C G Hurst in line with the average increase for the wider employee group of 2.5% in the UK. C G Hurst will not be receiving a salary increase (effective 1 April 2016) as he will be retiring on 16 May 2016.

The 2016 salary increase for the wider work force has not yet been agreed and, in the UK, this is subject to negotiation with the unions.

The Remuneration Committee does not consult with employees when formulating the remuneration policy for Executive Directors.

## Benefits

Executive Directors will be provided with a car allowance, private medical insurance, death-in-service cover and, if they participate in the SIP, Matching Shares.

## Retirement benefits

For 2016, contributions to the defined contribution pension plan are as follows:

- D B Stirling – 15.75% pensionable salary (before salary sacrifice).
- G C McGrath – Up to 5.0% pensionable salary (before salary sacrifice) when G C McGrath joins the Defined Contribution Pension Scheme.
- C G Hurst – 16.75% pensionable salary (before salary sacrifice).

As mentioned in the Directors' Remuneration Policy, there was a commitment, which existed before 27 June 2012, to increase the level of pension contribution by 3% of pensionable salary every five years for D B Stirling and C G Hurst. The most recent increase took effect on 1 January 2016 and has been reflected above.

## Annual bonus

For 2016, the maximum opportunity for D B Stirling and G C McGrath in respect of the annual bonus will be 100% of base salary (before salary sacrifice), while the maximum opportunity for C G Hurst will be up to 15% of annual base salary (before salary sacrifice) subject solely to performance against personal objectives.

Awards to the Executive Directors under the annual bonus are subject to a mix of financial, strategic and individual performance measures as follows:

Measure	As a percentage of maximum bonus opportunity	
	D B Stirling	G C McGrath
Profit before tax	50.0%	50.0%
HPP segment sales	30.0%	30.0%
Individual objectives	20.0%	20.0%

The bonus for individual objectives will not be paid if the trigger point for the profit before tax bonus has not been reached.

Due to the competitive nature of our industry, the actual target ranges for these measures have not been disclosed as they are considered by the Board to be commercially sensitive information.

## Approved Share Option Plan ('ASOP')

In 2016, G C McGrath will receive the maximum award permitted under the ASOP (currently £30,000). The award will be calculated using the lower of: (1) the mid-market price of the trading day immediately before the day of award; or (2) the average mid-market price for the three previous trading days before the day of the award.

The award will be subject to the performance target that EPS (earnings per share) must increase over the three year period ending 31 December 2018 by at least 3% pa in excess of the increase of the Retail Price Index in the same period.

D B Stirling and C G Hurst already hold the maximum amount for awards permitted under the ASOP.

### LTIP

For 2016, the Executive Directors (other than C G Hurst) will receive awards of performance shares under the LTIP equal to 100% of base salary (before salary sacrifice).

The 2016 awards will be subject to two equally weighted measures consisting of absolute TSR performance and EPS performance. If performance is below the TSR trigger point then no part of the TSR award will vest. If the performance is below the EPS trigger point then no part of the EPS award will vest. Between the trigger point and the maximum, the award vests on a sliding scale basis.

The table below summarises the performance criteria which will be used for the 2016 award.

	Trigger point		Maximum	
	Performance target	% of award vesting	Performance target	% of award vesting
Absolute TSR goal	3% pa growth	12.5	12% pa growth	50
EPS goal	12.8p	12.5	19.2p	50

### Clawback arrangements

Whilst Malus arrangements were introduced on the LTIP and DBSP in relation to Awards made since 2014, the Remuneration Committee has decided to introduce Clawback arrangements, to complement the existing Malus arrangements, for the annual bonus and LTIP. These Clawback arrangements will be first used in relation to the 2016 awards.

Where an Executive Director has, in the sole opinion of the Remuneration Committee, committed an act of gross misconduct or when there has been a material misstatement of the Company's audited financial results, the Remuneration Committee may, at its absolute discretion, require an Executive Director:

- to repay some or all of the cash element of his or her annual bonus received in the previous two years from the date of the Remuneration Committee's determination; and
- to transfer back or surrender to the Company (or its Employees' Benefit Trust) some or all of the shares that have vested under the LTIP in the previous two years from the date of the Remuneration Committee's determination. If such shares have been sold, either as part of the vesting or subsequently, the proceeds of such sale are to be paid to the Company (or its Employees' Benefit Trust).

### Single total figure of remuneration (Audited)

The following tables set out the single figure for total remuneration for Directors for the 2015 and 2014 financial years.

#### Executive Directors

	Salary (£)	Benefits (£)	Bonus (£)	LTIP <sup>1</sup> (£)	Pension (£)	Total (£)
D B Stirling						
2015	198,117	12,658	95,724	87,119	43,456	437,075
2014	189,599	12,563	90,956	104,787	41,547	439,452
C G Hurst						
2015	132,970	11,780	42,394	60,506	29,818	277,468
2014	130,254	11,729	52,698	72,673	29,073	296,427
G C McGrath <sup>2</sup>						
2015	10,056	880	nil	nil	nil	10,936

1 The LTIP award made in March 2013 is not due to vest until 19 March 2016, but has been included in the table as its performance was measured for the three year period ended 31 December 2015. For the purposes of this table, the award has been valued using the average share price over the three months to 31 December 2015 of £3.443. This compares to a share price of £2.020 at the date of grant. The LTIP award vested on 4 April 2015 and has been recalculated using the actual sales price achieved for the shares when they were sold (£2.959) on 10 April 2015.

2 G C McGrath joined the Group on 1 December 2015 and is not eligible for a bonus in relation to 2015 and has not yet been granted any LTIP awards.

## REMUNERATION REPORT CONTINUED

### Non-Executive Directors

	Fees paid in respect of 2015 (£)	Fees paid in respect of 2014 (£)
N G Howard	58,250	57,125
A C Bromfield <sup>1</sup>	29,238	7,113
M L Clayton	31,250	30,313
R J Clowes	31,250	30,313
S P Good <sup>1</sup>	29,238	7,113

<sup>1</sup> A C Bromfield and S P Good were appointed Non-Executive Directors on 1 October 2014.

### Notes to the table (Audited)

#### Base salary

The Company operates a Defined Contribution ('DC') Pension Plan, where individuals can elect to change their contract of employment under a salary sacrifice arrangement, whereby their salary is reduced and the Company makes a corresponding contribution into their DC Pension Plan. Both D B Stirling and C G Hurst have opted for the salary sacrifice scheme and the amounts shown for base salary are after salary sacrifice. Similarly, the amounts shown for pension include the amounts of salary sacrificed. G C McGrath, as at 31 December 2015, had not yet joined the DC Pension Plan.

#### Benefits

Benefits include a company car allowance, private medical insurance and the value of the Matching Shares (at dates when awarded) acquired during the year under the SIP.

#### Annual bonus 2015

The targets for the annual bonus for 2015 are as set out in the below table. The actual target range for the year has not been disclosed as this is considered by the Board to be commercially sensitive information. No discretion was used by the Committee in determining bonus payouts for the year.

Measure	As a percentage of maximum bonus opportunity	
	D B Stirling	C G Hurst
Profit before tax (before exceptional items)	42.5%	42.5%
HPP segment sales	42.5%	42.5%
Individual objectives	15.0%	15.0%

The annual bonus was based on base salary before salary sacrifice ('Bonusable Salary'). The maximum opportunity for the bonus was 100% of Bonusable Salary. The bonus pay out for D B Stirling was 44.4% and for C G Hurst was 29.4%. For D B Stirling, 25% of the bonus will be deferred by making awards under the Deferred Bonus Share Plan ('DBSP'). C G Hurst, who will be retiring on 16 May 2016, will receive his entire bonus in cash. G C McGrath, who joined on 1 December 2015, was not eligible for a bonus in relation to 2015. Full details of the operation of the DBSP are set out in the Directors' Remuneration Policy (see page 42).

2015	Cash bonus (£)	Deferred bonus (£)	Total bonus (£)
D B Stirling	71,793	23,931	95,724
C G Hurst	42,394	nil	42,394

The Committee is satisfied with the overall payments in light of the level of performance achieved.

### 2014

The annual bonus for 2014 was as follows:

#### D B Stirling

Measure	Performance required		Performance achieved		Payout (%)
	Bonusable Salary	Trigger point £m	Maximum £m	Actual £m	
Profit before tax	50%	5.1	6.9	5.3	37
HPP segment sales	50%	5.5	7.0	6.6	7

## C G Hurst

Measure	Performance required		Performance achieved		Payout (%)
	Bonusable Salary	Trigger point £m	Maximum £m	Actual £m	
Profit before tax	42.5%	5.1	6.9	5.3	32
HPP segment sales	42.5%	5.5	7.0	6.6	6
Individual objectives	15%	n/a	n/a	n/a	0

The maximum opportunity was 100% of Bonusable Salary.

No discretion was used by the Committee in determining bonus payouts for the year.

2014	Cash bonus (£)	Deferred bonus (£)	Total bonus (£)
D B Stirling	68,217	22,739	90,956
C G Hurst	39,524	13,174	52,698

## LTIP

The LTIP awards made are subject to performance and service conditions. 50% of the award is subject to growth in absolute Total Shareholder Return ('TSR') and 50% subject to EPS growth. Performance is measured over a three year period and a proportion of the restricted shares will be released to the participant, to the extent to which TSR and EPS targets over the period have been met, together with additional shares that represent the dividends that would have been paid during the performance period on the restricted shares that have been released.

The total award vesting is the sum of the awards for TSR and EPS. If the performance is below the EPS trigger point then no part of the EPS award vests. If performance is below the TSR trigger point then no part of the TSR award vests. Between the trigger point and the maximum, the award vests on a sliding scale basis.

The table below summarises the performance criteria for the 2013 award, which is due to vest on 19 March 2016.

	Trigger point		Maximum	
	Performance target	% of award vesting	Performance target	% of award vesting
Absolute TSR goal <sup>1</sup>	7.5% pa growth	12.5	20% pa growth	50
EPS goal <sup>2</sup>	12.3p	12.5	17.7p	50

1 The absolute TSR growth is from a share price of 202p, being the average share price of the final quarter of 2012.

2 The trigger point for the EPS target was originally set as 13.5p, where 12.5% of the award would vest, to the maximum of 19.5p, where 50% of the award would vest. The EPS target was adjusted in December 2014 to reflect the dilutive effect that the share placement, that took place on 17 September 2014, had on earnings.

The maximum TSR growth target was fully met (growth being 22.0% pa) and the adjusted EPS target was not met (EPS was 11.1p). Therefore, 50% of the award will vest, which will be increased to reflect the dividends paid during the performance period.

## LTIP awards granted during 2015 (Audited)

The table below sets out details of the LTIP awards made under the LTIP to the Executive Directors during 2015:

Type of award	Date of Grant	Number of shares granted	Face value <sup>1</sup> (£)	Face value (% of salary)	Performance condition	Trigger point for vesting (% of face value)	End of performance period
D B Stirling LTIP (Conditional shares)	30/03/2015	73,880	206,125	100	50% based on TSR growth <sup>2</sup> and 50% EPS target <sup>3</sup>	12.5	31/12/2017
C G Hurst LTIP (Conditional shares)	30/03/2015	50,358	140,499	100	50% based on TSR growth <sup>2</sup> and 50% EPS target <sup>3</sup>	12.5	31/12/2017

1 Face value calculated using the average of the Company's mid-market price for the five trading days preceding the date of grant (£2.79). The share price was £2.85 on 30 March 2015.

2 The trigger point for absolute TSR growth is 7.5% pa growth, where 12.5% of the award will vest, to the maximum of 30% pa growth, where 50% of the award will vest.

3 The trigger point for the EPS target was set as 13.3p, where 12.5% of the award would vest, to the maximum of 23.5p, where 50% of the award would vest.

## REMUNERATION REPORT CONTINUED

### Total pension entitlements (Audited)

The Zotefoams Defined Benefit Pension Scheme (the 'DB Scheme') was closed to future accrual of benefits as from 31 December 2005. At this time, all active members left the DB Scheme and were granted preserved pensions payable from their normal retirement age (or immediately, if the member had reached normal retirement age).

The following serving Directors were members of the DB Scheme during the year.

	Accrued pension per annum at 31 December 2015 (£)	Gross increase in pension (£)	Increase in accrued pension net of CPI inflation (£)	Change in value over the year (£)
D B Stirling	19,176	509	—	—
C G Hurst	9,760	260	—	—

#### Notes

- (1) The pension entitlement shown is that which would be paid annually on retirement at normal retirement age (or immediately upon late retirement where applicable), based on service to 31 December 2005 (the date the DB Scheme was closed to future accrual), including increases to the year end, but excluding any future increases under the Rules of the DB Scheme.
- (2) As required by the Regulations, the pension input amount has been calculated using the method set out in section 229 of the Finance Act 2004(a) where:
  - 'pension input period' is the year ended 31 December 2015; and
  - in the application of section 234 of the Act, the figure 20 is substituted for the figure 16.

The following is additional information relating to the Directors' pensions from the DB Scheme:

- (a) Before the DB Scheme closed, members had the option of paying Additional Voluntary Contributions ('AVCs'). The value of these AVCs has been excluded from the above figures.
- (b) Normal retirement age is 65.
- (c) On death before retirement, a spouse's pension is payable of one half of the member's preserved pension at leaving, revalued from leaving to the date of death. On death in retirement, a spouse's pension is payable of one half of the member's pension at death, without reduction for any part of the member's pension commuted for cash at retirement.
- (d) Members' Guaranteed Minimum Pensions increase at statutory rates. Other pensions increase in payment at 5% per annum, or the increase in the Retail Prices Index if lower.
- (e) From 1 January 2006, active employee members were able to pay contributions to the DC Pension Plan set up by the Company in order to receive retirement benefits. The Company also contributes to this arrangement. Both D B Stirling and C G Hurst pay into the DC Pension Plan using a salary sacrifice scheme. Details of the contributions made into this Plan have been disclosed in the single figure calculation and are not included in the above disclosure.

### Payments made to past Directors (Audited)

No payments were made during 2015.

### Payments for loss of office (Audited)

No payments were made during 2015.

### Statement of Directors' shareholding and share interests (Audited)

In 2014 the Remuneration Committee introduced a policy requiring Executive Directors to hold a shareholding equivalent to 100% of base salary, with a five year period to build up to this holding from introduction of the policy or becoming an Executive Director. Throughout 2015, both D B Stirling and C G Hurst complied with this policy. G C McGrath, who only joined the Company on 1 December 2015, has until 30 November 2020 to build up a shareholding to comply with the policy.

The tables below set out the Directors' interests (including those of their connected persons) in Zotefoams shares as at 31 December 2015.

#### Executive Directors

	Shares owned outright <sup>1</sup>	Interest in share incentive schemes without performance conditions <sup>2</sup>	Interest in share incentive schemes with performance conditions <sup>3</sup>
D B Stirling	354,011	48,968	183,438
C G Hurst	343,750	42,601	126,450
G C McGrath	nil	nil	nil

1 Includes Partnership Shares and vested Matching Shares under the SIP.

2 Comprises: vested ASOP Shares; DBSP Shares; and unvested Matching Shares under the SIP.

3 Comprises: unvested LTIP Shares and unvested ASOP Shares.



## Non-Executive Directors

	Shares owned outright
N G Howard	69,300
A C Bromfield	nil
M L Clayton	29,800
R J Clowes	44,000
S P Good	nil

## Scheme interests (Audited)

The table below provides details of the current position of outstanding awards made to the Executive Directors who served in the year under review.

Scheme	As at 31 December 2014	Date of exercise or release	Granted during the year	Exercised or released	Lapsed or cancelled	As at 31 December 2015	Market price on exercise date	Exercise price	Date from which exercisable	Expiry date
D B Stirling ASOP	28,116	–	–	–	–	28,116	–	£1.067	12.08.2011	11.08.2018
LTIP (2012)	32,912	10.04.2015	–	32,912	–	–	£2.959	–	04.04.2015	n/a
LTIP (2013)	47,519	–	–	–	23,759	23,760	–	–	19.03.2016	n/a
LTIP (2014)	85,798	–	–	–	–	85,798	–	–	07.04.2017	n/a
LTIP (2015)	–	–	73,880	–	–	73,880	–	–	30.03.2018	n/a
DBSP (2012)	20,842	–	–	–	–	20,842	–	–	19.03.2016	n/a
DBSP (2014)	–	–	8,150	–	–	8,150	–	–	30.03.2018	n/a
SIP <sup>1</sup>	–	–	10	–	–	10	–	–	–	n/a
C G Hurst ESOS	115,909	10.04.2015	–	115,909	–	–	£2.959	£0.770	22.12.2008	21.12.2015
ASOP	28,116	–	–	–	–	28,116	–	£1.067	12.08.2011	11.08.2018
LTIP (2012)	22,825	10.04.2015	–	22,825	–	–	£2.959	–	04.04.2015	n/a
LTIP (2013)	33,002	–	–	–	16,501	16,501	–	–	19.03.2016	n/a
LTIP (2014)	59,591	–	–	–	–	59,591	–	–	07.04.2017	n/a
LTIP (2015)	–	–	50,358	–	–	50,358	–	–	30.03.2018	n/a
DBSP (2012)	14,475	–	–	–	–	14,475	–	–	19.03.2016	n/a
DBSP (2014)	–	–	4,722	–	–	4,722	–	–	30.03.2018	n/a
SIP <sup>1</sup>	–	–	10	–	–	10	–	–	–	n/a

<sup>1</sup> Matching Shares under the SIP. Participants buy Partnership Shares monthly under the SIP. The Company provides one Matching Share for every four Partnership Shares purchased. These Matching Shares are first available for vesting three years after being awarded.

Due to G C McGrath only being appointed on 1 December 2015, he does not yet have any awards.

## Details of Directors' service contracts and appointment letters (Unaudited)

The following table sets out the details of the service contracts and appointment letters for the Directors as at 31 December 2015:

Director	Date of current service contract or appointment letter	Unexpired terms at 31 December 2015
A C Bromfield	1 October 2014	1 year and 9 months
M L Clayton	1 July 2014	1 year and 6 months
R J Clowes <sup>1</sup>	23 July 2013	7 months
S P Good <sup>2</sup>	1 October 2014	1 year and 9 months
N G Howard	31 December 2014	1 year
C G Hurst	11 August 2014	–
G C McGrath	28 October 2015	–
D B Stirling	31 July 2014	–

<sup>1</sup> R J Clowes has a new appointment letter, dated 1 February 2016, which becomes effective on 23 July 2016 and expires on 30 June 2017.

<sup>2</sup> S P Good has a new appointment letter, dated 1 February 2016, which becomes effective on 1 April 2016, when he becomes Chairman, and expires on 31 March 2019.

Copies of the Directors' service contracts and appointment letters are available for inspection at the Company's registered office.

## REMUNERATION REPORT CONTINUED

### Change in remuneration of the Group CEO (Unaudited)

The table below illustrates the percentage change in salary and benefits for the Group CEO and the UK work force.

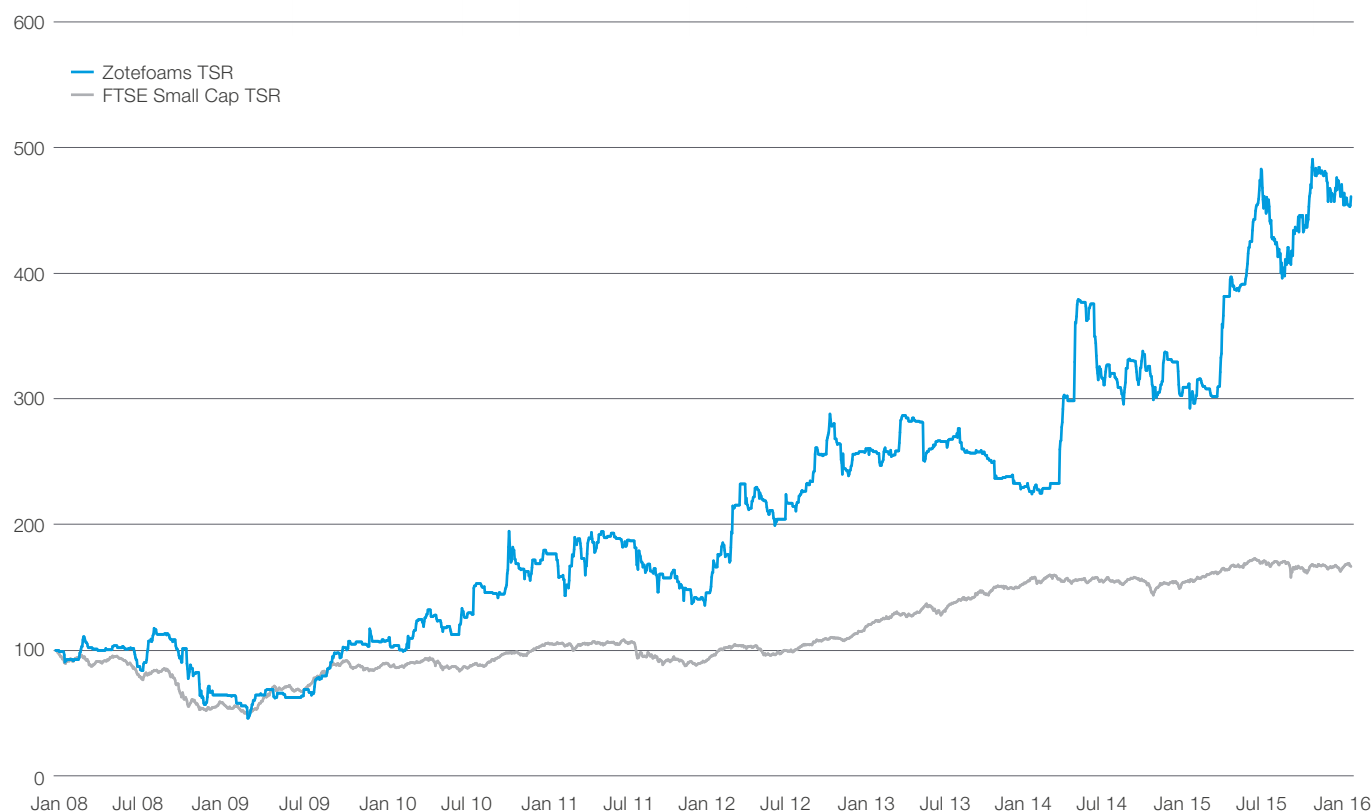
The employee subset consists of an average of the UK work force employees for the period under review. This group has been selected as the Group CEO is based in the UK and this employee representative group is the largest group of employees within the organisation.

	% change in base salary (2015 to 2014)	% change in taxable benefits (2015 to 2014)	% change in annual bonus (2015 to 2014)
Group CEO	4.5	6.6	0.9
Employee subset	2.5	0	150.0

The employees' salary review is negotiated with the unions and a 2.5% increase was agreed in relation to 2015. The Remuneration Committee normally keeps salary increases for the Executive Directors similar to those of the employees when they review the salaries of the Executive Directors in April each year. There was a 6.6% increase in the taxable benefits for the Group CEO, which is due to an increase in the premium for the private medical insurance for the Group CEO. The majority of employees do not receive any taxable benefits.

### Historic TSR performance and Group CEO remuneration outcomes (Unaudited)

The graph below compares the TSR of Zotefoams against the FTSE Small Cap Index. The FTSE Small Cap Index is considered the most appropriate choice of index because of the Company's size.



The table below illustrates the Group CEO's single figure for total remuneration, annual bonus payout, LTIP vesting as a percentage of maximum opportunity, the EPS and the average share price for the final quarter for the same seven year period.

	Group CEO's single figure of remuneration (£)	Annual bonus pay out (% of maximum)	LTIP vesting (% of maximum)	EPS <sup>1</sup> (p)	Average share price for the final quarter (p)
<b>2015</b>	<b>437,075</b>	<b>44.4</b>	<b>50.0</b>	<b>11.1</b>	<b>344.3</b>
2014	439,452	44.0	66.0	10.7	237.8
2013	270,687	0	24.8	8.0	182.4
2012	490,715	62.0	84.0	11.8	202.2
2011	572,969	33.3	88.7	11.8	121.1
2010	367,970	46.2	54.9	10.2	136.7
2009	177,562	29.8	0	6.8	90.4

1 Basic, pre-exceptional items.

#### Relative importance of spend on pay (Unaudited)

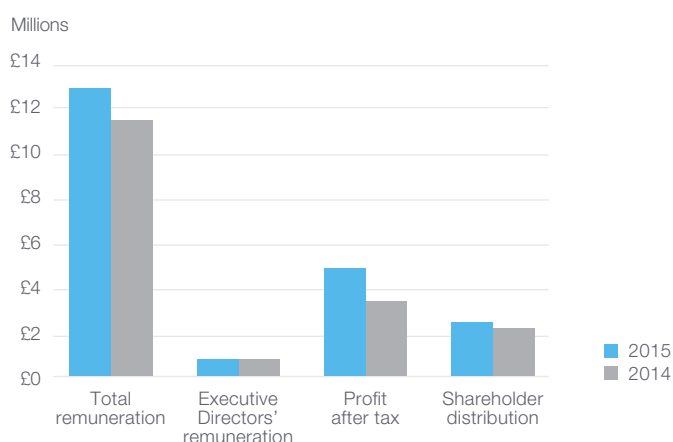
The below table and chart illustrate the year-on-year change in total Executive Directors' remuneration and Executive Directors' remuneration compared to profit after tax and distributions to shareholders for 2015 and 2014.

	2015	2014 <sup>3</sup>
Total remuneration <sup>1</sup> £k	<b>12,841</b>	11,438
Executive Directors' remuneration £k	<b>725</b>	736
Profit after tax £k (including exceptional items)	<b>4,797</b>	3,336
Shareholder distributions <sup>2</sup> £k	<b>2,400</b>	2,112

1 Social security costs paid by the Group have been excluded from this figure.

2 Shareholder distributions refer to the dividends paid during the year.

3 Restated from the 2014 report.



#### Committee roles and advisers (Unaudited)

The Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the UK Corporate Governance Code. A C Bromfield, R J Clowes, M L Clayton, N G Howard and S P Good were members of the Committee throughout 2015 to the date of this report. All the members are independent Non-Executive Directors, with the exception of N G Howard, who was independent on appointment as Chairman of the Company. The Committee was chaired throughout 2015 by R J Clowes. The Committee's terms of reference were last updated in March 2014 and may be found on the Company's website.

None of the Committee members has any personal financial interest (other than fees paid as disclosed on page 50 and as shareholders) in the Company, nor do they have any interests that may conflict with those of the Company, such as cross directorships. None of the Committee members are involved in the day-to-day management of the business. The Committee makes recommendations to the Board on remuneration matters. No Director is involved in any decision about his or her own remuneration.

## REMUNERATION REPORT CONTINUED

The Remuneration Committee met four times in 2015 and, at the invitation of the Committee, the Group CEO attended two of those meetings to give background information on remuneration matters. The Committee was also advised by the Finance Director as regards the level of completion of the performance targets. The secretary to the Committee was the Company Secretary.

In 2015, the Remuneration Committee considered the following matters:

- the Directors' Remuneration Report for 2014 and relevant matters;
- the annual bonuses for the Executive Team and the employees;
- the grant of HMRC Approved Share Options;
- the grant of awards under the Long-Term Incentive Plan and the Deferred Bonus Share Plan and the vesting of awards made in 2012 under the Long-Term Incentive Plan;
- the salary review of the Executive Team and the Company Secretary;
- the remuneration of the Chairman;
- introducing clawback arrangements into the incentive schemes;
- Directors' shareholding policy;
- establishing the Zotefoams Share Incentive Plan (a new all employees' share scheme);
- establishing an incentive plan for MEL employees; and
- evaluating its effectiveness.

In 2015, the Remuneration Committee did not use the services of an independent firm of remuneration consultants. Deloitte LLP, who is a member of the Remuneration Consultants Group and adheres to its Code on executive remuneration consulting in the UK, was used in 2014 to undertake an extensive review of the executive remuneration framework.

Total fees for advice provided to the Committee amounted to the following:

	2015 £	2014 £
Deloitte LLP	nil	17,760
Total:	nil	17,760

### Shareholder voting (Unaudited)

The table below sets out the results of the votes on the 2014 Remuneration Report at the 2015 AGM:

	Annual report on remuneration	%
Votes in favour	26,134,372	99.94
Votes against	5,842	0.02
Discretion	9,541	0.04
Total votes	26,149,755	–
Votes withheld	33,485	–

# AUDIT COMMITTEE REPORT

## Dear Shareholder

I am pleased to present my report on the activities of the Audit Committee for 2015.

During 2015, the Audit Committee paid particular focus to the provision of internal audit services and concluded that it still remained appropriate, due to the Group's size, to have the function performed by an independent audit firm. Having worked with Mazars for seven years, the Committee invited three firms to tender for the internal audit of the UK business and selected Grant Thornton UK LLP. The main scope of the internal audit was a review of the securities of the recently implemented enterprise resource planning system ('ERP') – together with the accounts payable function in Croydon, and a follow up on actions from previous internal audits.

The previous internal audit on the Group's procedures to prevent anti-bribery had highlighted some areas for improvement, such as providing anti-bribery training via an electronic based package. This package has now been implemented and the Audit Committee monitored the progress of the other actions.

During the course of the year the Audit Committee was kept updated on the resolution of accounts payable and stock issues around the recently implemented ERP system and an unrelated change in the software to pay suppliers electronically. The situation is substantially improved and the Group continues to roll out and broaden the use of the ERP system.

With the increasingly global nature of Zotefoams' business the Audit Committee was concerned to ensure that the finance function in the Group was appropriately structured and resourced. New hires have been made to prepare and support global growth.

The Committee also considered the effects of the updated UK Corporate Governance Code and the associated FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, in particular, the viability statement and the Group's risk management and internal control systems. As part of this work, the specialist governance advisers, Independent Audit Limited, were engaged to undertake a review of the Group's risk management framework to ensure that it is meeting the business needs as the Group grows in scale and geographic reach. The report has just been received and its recommendations will form a key part of the Audit Committee's work in 2016.

As a result of the Committee's work during the year and having undertaken a review of its performance, the Audit Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the External Auditors. I will be available at the AGM to answer any questions about the work of the Committee.

**M-L Clayton**  
**Chair of the Audit Committee**

14 March 2016

## Summary of the role of the Audit Committee

The Audit Committee is appointed by the Board from the independent Non-Executive Directors of the Company. The Audit Committee's terms of reference, which are available on the Group's website, include all matters indicated by the Disclosure and Transparency Rule 7.1 and the UK Corporate Governance Code. The terms of reference are reviewed regularly by the Audit Committee to ensure they remain appropriate and reflect best practice and, if amended, are then referred to the Board for approval. The terms of reference were last reviewed in March 2016.

The main responsibilities of the Audit Committee are:

- monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgements contained therein;
- reviewing the External Auditors' management letter and management responses to any findings and recommendations made from the external audit;
- reviewing the Group's internal controls and risk management systems;
- reviewing the arrangements by which staff may, in confidence, raise concerns about possible improprieties ('the whistleblowing policy');
- reviewing the arrangements put in place by the Group to prevent bribery and to receive reports of non-compliance;
- annually assessing the need for an internal audit function, monitoring and reviewing the effectiveness of the application of the internal audit function to the Group, monitoring and reviewing management's responses to any findings and reviewing any recommendations made from internal audit;
- reviewing and monitoring the External Auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements, and their appointment and remuneration;
- developing and implementing a policy on the engagement of the External Auditors to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm; and
- reporting to the Board on how it has discharged its responsibilities, including making recommendations, when necessary, on any actions or improvements required.

## Composition of the Audit Committee

The members of the Audit Committee during 2015 were the independent Non-Executive Directors of the Company: A C Bromfield; M-L Clayton; R J Clowes; and S P Good. The Committee was chaired by M-L Clayton, who is a Fellow of the Association of Chartered Certified Accountants and has, in the opinion of the Board, significant, recent and relevant financial experience to fulfil the requirements of the role. All Audit Committee members are expected to be financially literate and the Company provides further training if required or requested.

The Committee comprises the independent Non-Executive Directors and two members constitute a quorum.



# AUDIT COMMITTEE REPORT CONTINUED

## Meetings

The Audit Committee has a planned calendar linked to events in the Group's financial calendar, causing it to meet three times in the year. Each meeting agenda is predominantly based around these events and is approved by the Audit Committee Chair on behalf of the other members, although other members have the right to require reports on matters of interest in addition to standard agenda items. The Audit Committee met three times in 2015.

The Company Secretary acts as secretary to the Audit Committee. The Company Chairman, Group CEO, Finance Director, Financial Controller and senior representatives of the External and Internal Auditors are invited to attend relevant meetings of the Committee, although the Committee reserves the right to request any of these individuals to withdraw. At each meeting, the External Auditors are given the opportunity to raise matters without the management being present. Other senior management may be invited to present such reports as are required for the Committee to discharge its duties. During the year, on an informal basis, the Audit Committee Chair meets senior representatives of both the External Auditors and Internal Auditors to discuss matters ahead of the formal Committee meetings.

## Overview of the actions taken by the Audit Committee to discharge its duties

Since the beginning of 2015 the Audit Committee has:

- reviewed the financial statements in the 2014 Annual Report and Accounts and the interim report issued in August 2015. As part of this review the Committee received reports from the External Auditors on the audit of the Annual Report and the review of the interim report;
- reviewed the Group's policies on ethics, anti-bribery and corruption, fraud and whistleblowing;
- reviewed the appropriateness of the Group's UK subsidiary companies to rely upon the exemption from audit as permitted by section 479A of the Companies Act 2006;
- considered the output from the Group-wide process used to identify, evaluate and mitigate high-level business risks, including reviewing the Group's high-level business risk matrix;
- reviewed with management and the External Auditors the accounting treatment for the Group's joint ventures in Asia;
- considered the recent changes to the UK Corporate Governance Code and associated guidance published in September 2014, in particular, the viability statement and risk reporting;
- put to tender the internal audit function, selected a provider (Grant Thornton UK LLP), agreed a programme of work for 2015 to be performed by the Internal Auditors, and received the Internal Auditors' reports on the work undertaken and management's responses to the proposals made in the reports;
- reviewed the effectiveness of the Group's internal controls (including, but not limited to, financial controls and measures for detecting fraud) to ensure that they remain appropriate and adequate as the Group grows;
- reviewed and agreed the scope of the audit work to be undertaken by the External Auditors;
- considered the views of both the External Auditors and Internal Auditors on the effectiveness of the Group's internal financial controls;

- agreed the fees to be paid to the External Auditors for their audit and work on the accounts and interim report;
- undertaken an evaluation of the independence, objectivity and effectiveness of the External Auditors, including reviewing the amount of non-audit services provided by the External Auditors; and
- reviewed its own effectiveness.

## Financial reporting and significant financial issues

The Audit Committee assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. The Committee reviews accounting papers prepared by management which provide details on the main financial reporting judgements. The Committee reviews reports by the External Auditors on the full year and half-year results which highlight any issues with respect to the work undertaken on the audit.

During the year, the triennial actuarial valuation of the Company's defined benefit pension scheme, as at 5 April 2014, was agreed with the scheme's trustees together with the associated recovery plan for the scheme. As the liability of the scheme is one of the significant liabilities of the Group, the External Auditors have placed significant focus on it during the audit and kept the Audit Committee fully informed of their review of it.

The External Auditors continue to place focus also on the accounting treatment under IFRS 11 (Joint Arrangements) for the Group's joint ventures in Asia and keep the Audit Committee briefed on them. A position paper was agreed with the External Auditors in the early part of 2015 on the accounting treatment for the joint venture established with King Lai Group, ahead of that venture becoming operational.

## External audit tender

The Audit Committee is aware of the requirement for FTSE 350 companies to put to tender their external audits at least once every ten years (as set out in both the UK Corporate Governance Code and the Competition and Markets Authority's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the 'Order')). The Audit Committee is also aware of the requirement in the Order for audit committees of FTSE 350 companies to state their plans for when they are likely to consider a tender process if the external audit has not been put to tender in the past five years.

A tender process for the external audit for the Group was last undertaken in 2012, following which PricewaterhouseCoopers LLP ('PwC') was selected as the External Auditors. This is PwC's fourth annual audit for the Group and, whilst the Group is not within the FTSE 350 and hence not subject to the above-mentioned requirements, the Audit Committee has no current plans in the medium term to retender the external audit, but will keep the matter under review.

### Senior Statutory Auditor

The External Auditors' Senior Statutory Auditor (S Wootten) is due to retire in 2016 and this is his last external audit for the Group. The Senior Statutory Auditor (M Jones) to replace Mr Wootten has been introduced to the Audit Committee as well as Management. There is a handover process currently underway, which is being assisted by delaying the rotation of a senior member of staff on the external audit to ensure continuity during this period. The Audit Committee would like to take this opportunity to thank Mr Wootten for the contribution that he has made to the Audit Committee, not only at the meetings he has attended, but also during the external audits themselves, and wishes him well for his retirement.

### Effectiveness of the external auditors

The Audit Committee assesses the effectiveness of the external audit process in a number of ways. The External Auditors are invited to and normally attend all the scheduled meetings of the Committee during the year. At least annually, the External Auditors present a report, which includes an assessment and confirmation of their independence, as well as the activities that the External Auditors are undertaking to ensure compliance with best practice and regulation. At the conclusion of the annual audit, the Audit Committee undertakes an assessment of the External Auditors in relation to their fulfilment of the agreed audit plan, the robustness and perceptiveness of the External Auditors in handling key accounting and audit judgements and the thoroughness of the External Auditors' review of internal financial controls. As part of this assessment, Management's opinions on the External Auditors are also considered.

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. In order to ensure that the External Auditors' objectivity and independence are not compromised, the Audit Committee set a policy in 2012 on the provision of non-audit services by the External Auditors, where there is a cap of £30k per annum for non-audit services and approval is required from the Chair of the Audit Committee to exceed that amount. At each meeting of the Audit Committee, the Company Secretary gives a report on the amount of spend by the Group for the year to date on non-audit services.

In 2015, the Group spent £5,250 on non-audit services, which related to advice on corporation and employment tax in connection with the branch in Thailand of Zotefoams Operations Limited and further advice on the patent box tax treatment. The External Auditors were chosen to do this work as they are an international firm with knowledge of the Group's business allowing the matters to be dealt with expediently without compromising the independence of the external audit. Details of the External Auditors' fees may be found in note 3 to the financial statements.

The Audit Committee, having conducted a review of the External Auditors, concluded that the External Auditors have performed satisfactorily and continue to be objective and independent and, therefore, has recommended to the Board that a resolution be put to the shareholders at the 2016 AGM to re-appoint the External Auditors.

### Internal audit function

Each year the Audit Committee reviews the need for an internal audit function and given the size of the Group continues to be of the opinion that the internal audit function is best performed by an external audit firm, which complements the services provided by the External Auditors. In 2015, the Audit Committee put to tender the internal audit function and Grant Thornton UK LLP was successful in that process. Following the tender process, the Audit Committee agreed the scope for the internal audit, reviewed the report received and discussed the proposals made with management. Grant Thornton UK LLP has provided no other work for the Group and, therefore, the Audit Committee has considered them to be independent.

# NOMINATIONS COMMITTEE REPORT

## Dear Shareholder

I am pleased to present my report on the activities of the Nominations Committee for 2015.

2015 has been a particularly busy year for the Nominations Committee. The main activities for the Committee during 2015 have been the search for my successor and for a Finance Director.

I am pleased that S P Good has been appointed as Chairman Designate and G C McGrath as Finance Director. They both have extensive experience in the leadership of international businesses. Further information on the respective search processes are set out in the report.

## N G Howard

### Chair of the Nominations Committee

14 March 2016

## Composition and operation of the Nominations Committee

The Nominations Committee currently comprises the Chairman, N G Howard (who is its Chair), and the four independent Non-Executive Directors. Upon the retirement of N G Howard, S P Good, Chairman Designate, will become Chair of the Committee. The quorum for meetings of the Committee is two independent Non-Executive Directors.

The Nominations Committee operates within a defined set of terms of reference from the Board and is responsible for putting in place succession plans for the Board, reviewing the continuation in office of the Directors, managing the recruitment of new Board members within a specification set by the Board and annually reviewing conflicts of interest authorisations granted to any Board members. The Committee met three times in 2015 to perform its duties as set out in its terms of reference. The terms of reference were last updated in March 2014 and may be found on the Company's website.

## Search for Chairman Designate

The search for the Chairman Designate was led by the Senior Independent Non-Executive Director, R J Clowes, who agreed a role profile with the other members of the Nominations Committee as well as the Executive Directors. Although S P Good had indicated at an early stage his willingness to be considered for the position, it was still agreed to appoint the executive search consultant Odgers Berndtson to undertake a thorough search for the position in order to ensure that the best candidate was appointed. Odgers Berndtson does not have any other connection with the Company. In order to ensure impartiality, S P Good did not participate in any of the discussions nor the search and selection process.

A number of candidates were considered for the position of Chairman Designate. It was agreed on 30 October 2015 to appoint S P Good to the position. S P Good is already an independent Non-Executive Director, who was appointed to the Board on 1 October 2014. S P Good remains independent until he assumes the role of Chairman on 1 April 2016.

## Search for Finance Director

The search for the Finance Director, at the request of the Nominations Committee, was led by D B Stirling, the Group CEO, who agreed with the Nominations Committee a role profile and the search consultant to use. M-L Clayton, Chair of the Audit Committee, due to her financial experience, was also asked by the Committee to assist the Group CEO in the search process, although other members of the Committee and the Board and Management were involved in the process as well. Oryx Executive Search, which does not have any other connection with the Company, was appointed to undertake the search, and has also been used by the Group in the searches for other senior appointments.

## Senior Independent Non-Executive Director

In January 2016, the Nominations Committee considered the continuation in office of the Senior Independent Non-Executive Director R J Clowes, following him reaching nine years on the Board in July 2016. The Nominations Committee recognised that, with the retirements of both N G Howard and C G Hurst, there was a need to have continuity on the Board during this transitional period and made a recommendation to the Board that Mr Clowes, who is still considered by the Committee and the Board to be independent, be invited to remain on the Board for a further period, not to go beyond 30 June 2017.

# STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors consider the Annual Report, taken as a whole, to be fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Each of the Directors, whose names and functions are listed on pages 30 to 31 of the Annual Report, confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and the Strategic Report beginning on page 1 of the Annual Report, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

**G C McGrath**  
Finance Director

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ZOTEFOAMS PLC

### Report on the financial statements

#### Our opinion

In our opinion:

- Zotefoams plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2015 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

#### What we have audited

The financial statements, included within the Annual Report, comprise:

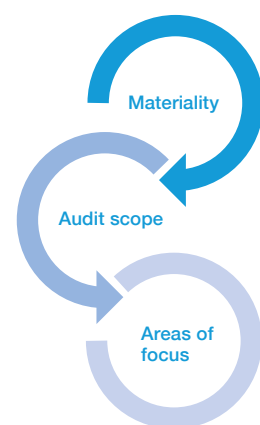
- the Consolidated and Company Statement of Financial Position as at 31 December 2015;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated and Company Statement of Cash Flows for the year then ended;
- the Consolidated and Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

#### Our audit approach

##### Overview



- Overall Group materiality: £300,500 which represents 5% of profit before tax.
- There are five trading companies within the Zotefoams plc consolidated accounts, one based in the UK, two in the US, and two in Asia. All these companies operate internationally.
- We conducted an audit of full year financial information on two trading companies, Zotefoams plc in the UK and Zotefoams Inc. in the US, with specific tests on MuCell Extrusion LLC.
- The trading companies where we performed full audit procedures accounted for 98% of Group revenue and 90% of Group profit before tax.
- Actuarial assumptions of the defined benefit pension scheme.
- Accounting for Joint Venture and subsidiaries.

#### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.



Area of focus	How our audit addressed the area of focus
<p><i>Actuarial assumptions underlying the valuation of the defined benefit pension scheme liabilities</i></p> <p>The Group's closed defined benefit pension scheme represents one of the largest liabilities in the statement of financial position at £5.2m (2014: £6.1m). The valuation of the scheme's liabilities requires the directors to apply their judgement in making a number of key assumptions, being the rates of inflation (Consumer Price Index and Retail Price Index), the discount rate, and the life expectancy of scheme members. There is a risk of material misstatement if there are small changes in the assumptions, as the liability is highly sensitive.</p>	<p>We assessed whether management's actuary had the appropriate skills and expertise to calculate the pension scheme liabilities, through checking and confirming their membership of the Institute of Actuaries.</p> <p>We assessed the appropriateness of the methodology used by management including the key assumptions used to value the pension liabilities.</p> <ul style="list-style-type: none"> <li>• Discount rate: We considered the appropriateness of the 3.8% discount rate assumption used for the UK scheme by reference to our internally developed benchmarks.</li> <li>• Inflation rate: We agreed the rates used by management against our internally developed benchmarks.</li> <li>• Mortality: We considered the appropriateness of the base tables selected for use by management against our internally developed benchmarks.</li> </ul> <p>No material exceptions were identified as part of our testing of the assumptions outlined above and we consider the assumptions used to be in line with recognised market practices.</p> <p>We also compared the methodology used in calculating the assumptions against the methodology used in the prior year, given that there have been no substantive changes to the scheme (notably, as it is closed to new members) and did not identify any changes that would have a material impact on the value of the scheme liabilities.</p>
<p><i>Accounting for Joint Venture and subsidiaries</i></p> <p>The company entered into an agreement with DB Trading Enterprise (HK) Limited (King Lai) in July 2015. As the subsidiary will be incorporated into Zotefoams plc year end accounts for the first time and its operations are similar to those of a Joint Venture, this was an area of focus for the audit team.</p>	<p>We assessed the Directors' analysis of control and the basis for accounting for the new entity.</p> <p>We obtained the signed contract to check that the terms noted in the directors' analysis are an accurate reflection. We then assessed the disclosure in the financial statements in line with the requirements of IFRS 3 Business Combinations.</p> <p>We agreed with the basis used by management in accounting for the new entity is appropriate.</p>

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the group operates. All the work was performed by the Group engagement team.

Of the five trading companies, two of these are considered to be significant components of the Group, Zotefoams plc in the UK and Zotefoams Inc. in the US. We performed full-scope audits on these. Zotefoams plc accounts for 69% and 82% of the Group's revenue and profit before tax respectively, whilst Zotefoams Inc. accounts for a further 29% and 8% respectively. We also performed procedures specifically around revenue within MuCell Extrusion LLC which contributed 7% towards the revenue of the Group.

This together with the procedures that were performed at the Group Level over the Group consolidation process provided us the appropriate evidence.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£300,500 (2014: £263,000).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £15,000 (2014: £13,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ZOTEFOAMS PLC CONTINUED

### Report on the financial statements continued

#### Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 21, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

#### Other required reporting

##### Consistency of other information

##### *Companies Act 2006 opinion*

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

##### *ISAs (UK & Ireland) reporting*

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

<ul style="list-style-type: none"> <li>Information in the Annual Report is: <ul style="list-style-type: none"> <li>materially inconsistent with the information in the audited financial statements; or</li> <li>apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or</li> <li>otherwise misleading.</li> </ul> </li> </ul>	We have no exceptions to report.
<ul style="list-style-type: none"> <li>The statement given by the directors on page 61, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.</li> </ul>	We have no exceptions to report.
<ul style="list-style-type: none"> <li>The section of the Annual Report on page 57 to 59, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.</li> </ul>	We have no exceptions to report.

##### *The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group*

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

<ul style="list-style-type: none"> <li>The directors' confirmation on page 22 to 25 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.</li> </ul>	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> <li>The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.</li> </ul>	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> <li>The directors' explanation on page 61 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.</li> </ul>	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

### Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

#### Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

### Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from these responsibilities.

### Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 61, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

### What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Stephen Wootten (Senior Statutory Auditor) for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors  
Gatwick

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 £000	Pre exceptional items 2014 £000	Exceptional items (see note 4) 2014 £000	Post exceptional items 2014 £000
<b>Total Revenue</b>	2	<b>54,437</b>	49,081	–	49,081
Adjustment for JV sales		<b>(568)</b>	(136)	–	(136)
<b>Group Revenue</b>		<b>53,869</b>	48,945	–	48,945
Cost of sales		<b>(38,863)</b>	(36,103)	(1,265)	(37,368)
<b>Gross profit</b>		<b>15,006</b>	12,842	(1,265)	11,577
Distribution costs		<b>(3,886)</b>	(3,442)	–	(3,442)
Administrative expenses		<b>(4,795)</b>	(3,829)	–	(3,829)
<b>Operating profit</b>		<b>6,325</b>	5,571	(1,265)	4,306
Finance income	6	<b>2</b>	2	–	2
Finance costs	6	<b>(306)</b>	(235)	–	(235)
Share of loss from JVs		<b>(11)</b>	(64)	–	(64)
<b>Profit before taxation</b>		<b>6,010</b>	5,274	(1,265)	4,009
Taxation	7	<b>(1,213)</b>	(926)	253	(673)
<b>Profit for the year</b>		<b>4,797</b>	4,348	(1,012)	3,336
Attributable to:					
Equity holders of the Parent		<b>4,824</b>	4,348	(1,012)	3,336
Non-controlling Interest		<b>(27)</b>	–	–	–
		<b>4,797</b>	4,348	(1,012)	3,336
<b>Earnings per share</b>					
<b>Basic (p)</b>	8	<b>11.1</b>	10.7	–	8.2
<b>Diluted (p)</b>	8	<b>10.9</b>	10.5	–	8.1

All of the activities of the Group are continuing.

The notes on pages 74 to 104 form part of these financial statements.

Company number: 2714645

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 £000	2014 £000
Profit for the year	4,797	3,336
<b>Other comprehensive income/(expense)</b>		
<i>Items that will not be reclassified to profit or loss</i>		
Foreign exchange translation gains on investment in foreign subsidiaries	814	669
Actuarial gains/(losses) on defined benefit schemes	443	(2,334)
Tax relating to items that will not be reclassified	(84)	467
<b>Total items that will not be reclassified to profit or loss</b>	<b>1,173</b>	<b>(1,198)</b>
<i>Items that may be re-classified subsequently to profit or loss</i>		
Effective portion of changes in fair value of cash flow hedges net of recycling	(46)	(394)
Tax relating to items that may be reclassified	6	79
<b>Total items that may be classified subsequently to profit or loss</b>	<b>(40)</b>	<b>(315)</b>
Other comprehensive income/(expense) for the year, net of tax	1,133	(1,513)
<b>Total comprehensive income for the year</b>	<b>5,930</b>	<b>1,823</b>
<b>Attributable to:</b>		
Equity holders of the Parent	5,952	1,823
Non-controlling Interest	(22)	—
<b>Total comprehensive income for the year</b>	<b>5,930</b>	<b>1,823</b>

All of the activities of the Group are continuing.

The notes on pages 74 to 104 form part of these financial statements.



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Note	2015 £000	2014 £000
<b>Non-current assets</b>			
Property, plant and equipment	11	35,372	28,561
Intangible assets	12	6,868	6,851
Investments in joint ventures	10	163	174
Deferred tax assets	19	574	502
<b>Total non-current assets</b>		<b>42,977</b>	<b>36,088</b>
<b>Current assets</b>			
Inventories	14	9,862	9,218
Trade and other receivables	15	17,219	13,437
Cash and cash equivalents	16	6,148	4,628
<b>Total current assets</b>		<b>33,229</b>	<b>27,283</b>
<b>Total assets</b>		<b>76,206</b>	<b>63,371</b>
<b>Current liabilities</b>			
Trade and other payables	17	(10,445)	(6,715)
Taxation payable		(726)	(385)
Interest-bearing loans and borrowings	18	(1,102)	(718)
Bank overdraft	16	(879)	–
<b>Total current liabilities</b>		<b>(13,152)</b>	<b>(7,818)</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	18	(5,758)	(1,489)
Deferred tax liabilities	19	(938)	(698)
Post employment benefits	23	(5,238)	(6,132)
<b>Total non-current liabilities</b>		<b>(11,934)</b>	<b>(8,319)</b>
<b>Total liabilities</b>		<b>(25,086)</b>	<b>(16,137)</b>
<b>Total net assets</b>		<b>51,120</b>	<b>47,234</b>
<b>Equity</b>			
Issued share capital	20	2,221	2,191
Own shares held		(38)	(17)
Share premium		24,340	24,340
Capital redemption reserve		15	15
Translation reserve		1,636	827
Hedging reserve		(195)	(149)
Retained earnings		23,003	20,027
<b>Total equity attributable to the equity holders of the Parent</b>		<b>50,982</b>	<b>47,234</b>
<b>Non-controlling interest</b>		<b>138</b>	<b>–</b>
<b>Total equity</b>		<b>51,120</b>	<b>47,234</b>

The notes on pages 74 to 104 form part of these financial statements.

These financial statements were approved by the Board of Directors on 14 March 2016 and signed on its behalf by:

G C McGrath  
Finance Director  
Company number: 2714645

## COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Note	2015 £000	2014 £000
<b>Non-current assets</b>			
Property, plant and equipment	11	24,971	24,554
Intangible assets	12	1,987	1,920
Investment in subsidiaries	13	13,265	10,172
<b>Total non-current assets</b>		<b>40,223</b>	<b>36,646</b>
<b>Current assets</b>			
Inventories	14	7,879	7,416
Trade and other receivables	15	16,121	10,543
Cash and cash equivalents	16	–	3,476
<b>Total current assets</b>		<b>24,000</b>	<b>21,435</b>
<b>Total assets</b>		<b>64,223</b>	<b>58,081</b>
<b>Current liabilities</b>			
Trade and other payables	17	(8,568)	(5,687)
Taxation payable		(727)	(385)
Interest-bearing loans and borrowings	18	(700)	(718)
Bank overdraft	16	(879)	–
<b>Total current liabilities</b>		<b>(10,874)</b>	<b>(6,790)</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	18	(790)	(1,489)
Deferred tax liabilities	19	(938)	(698)
Post employment benefits	23	(5,238)	(6,132)
<b>Total non-current liabilities</b>		<b>(6,966)</b>	<b>(8,319)</b>
<b>Total liabilities</b>		<b>(17,840)</b>	<b>(15,109)</b>
<b>Total net assets</b>		<b>46,383</b>	<b>42,972</b>
<b>Equity</b>			
Issued share capital	20	2,221	2,191
Own shares held		(38)	(17)
Share premium		24,340	24,340
Capital redemption reserve		15	15
Hedging reserve		(195)	(149)
Retained earnings		20,040	16,592
<b>Total equity attributable to the equity holders of the Company</b>		<b>46,383</b>	<b>42,972</b>

The notes on pages 74 to 104 form part of these financial statements.

These financial statements were approved by the Board of Directors on 14 March 2016 and signed on its behalf by:

G C McGrath

Finance Director

Company number: 2714645

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 £000	2014 £000
<b>Cash flows from operating activities</b>			
Profit for the year		4,797	3,336
Adjustments for:			
Depreciation, amortisation and impairment		3,476	4,669
Finance income		(2)	(2)
Finance costs		306	235
Share of loss from joint ventures		11	64
Equity-settled share-based payments		223	138
Taxation		1,213	673
<b>Operating profit before changes in working capital and provisions</b>		<b>10,024</b>	<b>9,113</b>
Increase in trade and other receivables		(3,546)	(2,398)
Increase in inventories		(471)	(1,249)
Increase in trade and other payables		3,065	1,171
Employee benefit contributions		(660)	(660)
<b>Cash generated from operations</b>		<b>8,412</b>	<b>5,977</b>
Interest paid		(97)	(55)
Tax paid		(782)	(868)
<b>Net cash from operating activities</b>		<b>7,533</b>	<b>5,054</b>
Interest received		2	2
Investment in joint-ventures		–	(238)
Purchases of intangibles		(422)	(1,606)
Purchases of property, plant and equipment		(8,683)	(5,967)
<b>Net cash used in investing activities</b>		<b>(9,103)</b>	<b>(7,809)</b>
Proceeds from issue of share capital		126	8,453
Repurchase of own shares		(127)	(19)
Repayment of borrowings		(741)	(865)
Proceeds from borrowings		5,356	–
Investment in subsidiary by non-controlling interest		160	–
Dividends paid		(2,400)	(2,112)
<b>Net cash generated in financing activities</b>		<b>2,374</b>	<b>5,457</b>
Net increase in cash and cash equivalents		804	2,702
<b>Cash and cash equivalents at 1 January</b>		<b>4,628</b>	<b>1,957</b>
Exchange losses on cash and cash equivalents		(163)	(31)
<b>Cash and cash equivalents at 31 December</b>	16	<b>5,269</b>	<b>4,628</b>

Cash and cash equivalents comprise cash at bank, short-term highly liquid investments with a maturity date of less than three months and bank overdraft.

The notes on pages 74 to 104 form part of these financial statements.

## COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 £000	2014 £000
<b>Cash flows from operating activities</b>			
Profit for the year		5,297	3,359
Adjustments for:			
Depreciation, amortisation and impairment		2,654	3,888
Finance income		(2)	(2)
Finance costs		306	235
Equity-settled share-based payments		223	138
Taxation		1,260	655
<b>Operating profit before changes in working capital and provisions</b>		9,738	8,273
(Increase)/decrease in trade and other receivables		(5,620)	555
Increase in inventories		(463)	(1,075)
Increase in trade and other payables		2,907	750
Employee benefit contributions		(660)	(660)
<b>Cash generated from operations</b>		5,902	7,843
Interest paid		(96)	(55)
Tax paid		(758)	(825)
<b>Net cash flow from operating activities</b>		5,048	6,963
Interest received		2	2
Investment in subsidiaries		(3,117)	(3,820)
Purchases of intangibles		(413)	(1,578)
Purchases of property, plant and equipment		(2,725)	(4,877)
<b>Net cash used in investing activities</b>		(6,253)	(10,273)
Proceeds from issue of share capital		126	8,453
Repurchase of own shares		(127)	(19)
Repayment of borrowings		(718)	(865)
Dividends paid		(2,400)	(2,112)
<b>Net cash (used)/generated in financing activities</b>		(3,119)	5,457
Net (decrease)/increase in cash and cash equivalents		(4,324)	2,147
<b>Cash and cash equivalents at 1 January</b>		3,476	1,362
Exchange losses on cash and cash equivalents		(31)	(33)
<b>Cash and cash equivalents at 31 December</b>	16	(879)	3,476

The notes on pages 74 to 104 form part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Share capital £000	Own shares held £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Hedging reserve £000	Retained earnings £000	Non controlling interest £000	Total equity £000
Balance 1 January 2014		1,992	(21)	16,090	15	158	245	20,535	-	39,014
Foreign exchange translation gains on investment in subsidiaries		-	-	-	-	669	-	-	-	669
Effective portion of changes in fair value of cash flow hedges net of recycling		-	-	-	-	-	(394)	-	-	(394)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		-	-	-	-	-	-	79	-	79
Actuarial losses on defined benefit scheme		-	-	-	-	-	-	(2,334)	-	(2,334)
Tax relating to actuarial losses on defined benefit scheme		-	-	-	-	-	-	467	-	467
Profit for the year		-	-	-	-	-	-	3,336	-	3,336
Total comprehensive income/ (expenditure) for the year		-	-	-	-	669	(394)	1,548	-	1,823
Transactions with owners of the Parent:										
Shares issued		199	4	8,250	-	-	-	-	-	8,453
Shares acquired		-	-	-	-	-	-	(19)	-	(19)
Equity-settled share-based payments net of tax		-	-	-	-	-	-	75	-	75
Dividends paid	8	-	-	-	-	-	-	(2,112)	-	(2,112)
Total transactions with owners of the Parent		199	4	8,250	-	-	-	(2,056)	-	6,397
<b>Balance at 31 December 2014 and 1 January 2015</b>		<b>2,191</b>	<b>(17)</b>	<b>24,340</b>	<b>15</b>	<b>827</b>	<b>(149)</b>	<b>20,027</b>	<b>-</b>	<b>47,234</b>
Foreign exchange translation gains on investment in subsidiaries		-	-	-	-	809	-	-	5	814
Effective portion of changes in fair value of cash flow hedges net of recycling		-	-	-	-	-	(46)	-	-	(46)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		-	-	-	-	-	-	6	-	6
Actuarial gain on defined benefit scheme		-	-	-	-	-	-	443	-	443
Tax relating to actuarial gain on defined benefit scheme		-	-	-	-	-	-	(84)	-	(84)
Profit for the year		-	-	-	-	-	-	4,824	(27)	4,797
<b>Total comprehensive income/ (expenditure) for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>809</b>	<b>(46)</b>	<b>5,189</b>	<b>(22)</b>	<b>5,930</b>
<b>Transactions with owners of the Parent:</b>										
Shares issued		30	10	-	-	-	-	86	-	126
Shares acquired		-	(31)	-	-	-	-	(96)	-	(127)
Equity-settled share-based payments net of tax		-	-	-	-	-	-	197	-	197
Dividends paid	8	-	-	-	-	-	-	(2,400)	-	(2,400)
<b>Total transactions with owners of the Parent</b>		<b>30</b>	<b>(21)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,213)</b>	<b>-</b>	<b>(2,204)</b>
Non-controlling interest on acquisition		-	-	-	-	-	-	-	160	160
<b>Balance at 31 December 2015</b>		<b>2,221</b>	<b>(38)</b>	<b>24,340</b>	<b>15</b>	<b>1,636</b>	<b>(195)</b>	<b>23,003</b>	<b>138</b>	<b>51,120</b>

The aggregate current and deferred tax relating to items that are credited to equity is £79,000 (2014: a debit of £515,000).



## COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Share capital £000	Own shares held £000	Share premium £000	Capital redemption reserve £000	Hedging reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2014		1,992	(21)	16,090	15	245	17,074	35,395
Effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	(394)	–	(394)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	–	79	79
Actuarial losses on defined benefit scheme		–	–	–	–	–	(2,334)	(2,334)
Tax relating to actuarial losses on defined benefit scheme		–	–	–	–	–	467	467
Profit for the year		–	–	–	–	–	3,359	3,359
Total comprehensive (expenditure)/income for the year		–	–	–	–	(394)	1,571	1,177
Transactions with owners of the Parent:								
Shares issued		199	4	8,250	–	–	–	8,453
Shares acquired		–	–	–	–	–	(19)	(19)
Equity-settled share-based payments net of tax		–	–	–	–	–	78	78
Dividends paid	8	–	–	–	–	–	(2,112)	(2,112)
Total transactions with owners of the Parent		199	4	8,250	–	–	(2,053)	6,400
<b>Balance at 31 December 2014 and 1 January 2015</b>		<b>2,191</b>	<b>(17)</b>	<b>24,340</b>	<b>15</b>	<b>(149)</b>	<b>16,592</b>	<b>42,972</b>
Effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	(46)	–	(46)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	–	6	6
Actuarial gain on defined benefit scheme		–	–	–	–	–	443	443
Tax relating to actuarial gain on defined benefit scheme		–	–	–	–	–	(84)	(84)
Profit for the year		–	–	–	–	–	5,297	5,297
<b>Total comprehensive (expenditure)/income for the year</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(46)</b>	<b>5,662</b>	<b>5,616</b>
Transactions with owners of the Parent:								
Shares issued		30	10	–	–	–	86	126
Shares acquired		–	(31)	–	–	–	(96)	(127)
Equity-settled share-based payments net of tax		–	–	–	–	–	197	197
Dividends paid	8	–	–	–	–	–	(2,400)	(2,400)
<b>Total transactions with owners of the Parent</b>		<b>30</b>	<b>(21)</b>	<b>–</b>	<b>–</b>	<b>(46)</b>	<b>(2,213)</b>	<b>(2,204)</b>
<b>Balance at 31 December 2015</b>		<b>2,221</b>	<b>(38)</b>	<b>24,340</b>	<b>15</b>	<b>(195)</b>	<b>20,040</b>	<b>46,383</b>

The aggregate current and deferred tax relating to items that are credited to equity is £79,000 (2014: a debit of £515,000).

## NOTES

### 1. Accounting policies

Zotefoams plc (the 'Company') is a company incorporated in Great Britain.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

The consolidated financial statements of Zotefoams plc have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and IFRS Interpretations Committee ('IFRS IC') interpretations applicable to companies reporting under IFRS, in accordance with the Companies Act 2006. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 26.

On publishing the Parent Company financial statements here together with the Group financial statements the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual Income Statement or Statement of Comprehensive Income and related notes that form part of these approved financial statements.

These financial statements were approved by the Board on 14 March 2016.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Group CEO's Review on pages 10 to 17. This also describes the financial position of the Company, its cash flows and liquidity position. In addition, note 21 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, borrowing facilities, and its exposure to credit risk and liquidity risk. As a consequence, the Directors believe that the Company is well placed to manage its business risks.

The Directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The principal accounting policies adopted in the preparation of the Group's consolidated financial statements and the Company's individual financial statements are set out below. The policies have been consistently applied to all of the statements presented.

#### a) Measurement convention

The consolidated financial statements are prepared on the historical cost basis with the following exception:

- derivative financial instruments are stated at their fair value.

#### b) Basis of consolidation

##### i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

##### ii) Transactions eliminated on consolidation

Intra-group balances and transactions, including any unrealised gains and losses or income and expenses arising from such transactions, are eliminated in preparing the financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

##### iii) Accounting for business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value re-measured at acquisition date of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree employees (acquiree awards) and relate to past services, then all or a portion of the amount of the acquirer replacement awards are included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree awards and the extent to which the replacement awards relate to past and/or future service.

#### iv) Acquisitions and disposals of non-controlling interests

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the Parent.

Prior to the adoption of IAS27 *Consolidated and Separate Financial Statements* (2008), goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

#### c) Foreign currency

##### i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate prevailing at the time of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

##### ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including fair value adjustments arising on consolidation, are translated to sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to sterling at the average rate of exchange ruling during the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from the translation of foreign operations since 1 January 2004 are taken directly to translation reserve through Other Comprehensive Income. They are released into the Income Statement upon disposal.

#### d) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement is recognised immediately in the Income Statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy (e)).

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

## NOTES CONTINUED

### 1. Accounting policies continued

#### e) Cash flow hedging

When a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or of a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in Other Comprehensive Income. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains or losses that were recognised directly in Other Comprehensive Income are reclassified into the Income Statement in the same period or periods during which the asset acquired or liability assumed affects the Income Statement.

The ineffective part of any gain or loss is recognised immediately in the Income Statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Income Statement.

#### f) Investments in subsidiaries

Investments in subsidiaries are stated at cost less provision for impairment.

#### g) Property, plant and equipment

##### i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses (see accounting policy (l)).

When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

The cost of assets under construction includes the cost of materials and direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

##### ii) Leased assets

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Lease payments are accounted for as described in accounting policy (s).

##### iii) Depreciation

Depreciation is charged to the Income Statement on a straight-line basis over the estimated useful lives of each part of the item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Buildings	20 years
Plant and equipment	5–15 years
Fixtures and fittings	3–5 years

Assets under construction are not depreciated until after the end of the quarter that the asset is in the location and condition necessary for its intended use.

#### h) Intangible assets

##### i) Research and development

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the Income Statement as an expense as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. No development expenditure has been capitalised to date.

##### ii) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's interest in the identifiable assets, liabilities and contingent liabilities acquired in a business combination. Goodwill is stated at the amount recognised on acquisition date less any accumulated impairment losses. Goodwill is tested annually for impairment or more frequently if there are indications that goodwill may be impaired.

### iii) Software

The cost of a purchased intangible asset is the purchase price plus any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

### iv) Other intangible assets

Intangible assets acquired from a business combination are capitalised at fair value as at the date of acquisition and amortised over their estimated useful economic life. Their carrying value is the fair value at acquisition less cumulative amortisation and any impairment. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. The estimated useful lives of the intangible assets are as follows:

Marketing related	5–15 years
Customer related	2–10 years
Technology related	5–20 years
Software related	3–10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Other intangible assets including patents that are purchased by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. The cost is the purchase price of the asset. Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful lives of the assets. Expenditure on internally generated goodwill and brands is recognised in the Income Statement as an expense as incurred.

### i) Trade and other receivables

Trade and other receivables are stated at their nominal amounts less impairment losses (see accounting policy (l)).

### j) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods manufactured by the Group, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

### k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the Statement of Cash Flows.

### l) Impairment

The carrying amounts of the Group's assets, other than inventories (see accounting policy (j)), employee benefits (see accounting policy (p)) and deferred tax assets (see accounting policy (t)), are reviewed at each balance sheet date where there is an indication that the asset may be impaired. If any such indication exists, the asset's recoverable amount is estimated (see below).

For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ('CGU') exceeds its estimated recoverable amount.

### i) Calculation of recoverable amount

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

## NOTES CONTINUED

### 1. Accounting policies continued

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

#### ii) Impairment losses

Impairment losses are recognised in the Income Statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

#### iii) Reversals of impairment

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### m) Joint ventures

Interests in joint ventures are accounted for using the equity method (see below), after initially being recognised at cost in the consolidated balance sheet.

#### i) Equity Method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint-ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note (l).

#### n) Dividends

Final dividends are recognised as a liability in the period in which they are approved. Interim dividends are recognised when they are paid.

#### o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any differences between cost and redemption values being recognised in the Income Statement over the period of the borrowings on an effective interest basis where material.

#### p) Employee benefits

##### i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income Statement as incurred.

##### ii) Defined benefits plans

The Group's net obligation in respect of defined benefit post employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that the employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The Group recognises all actuarial gains and losses that arise through the Comprehensive Income.



### iii) Share-based payment transactions

The share option programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the options. The fair value of the options granted before 2006 were measured using a Monte Carlo simulation method. Options granted since 1 January 2006 are valued using a Black-Scholes model. Fair value measurements take into account the terms and conditions upon which the options were granted.

### iv) Own shares held by Employee Benefit Trust (EBT)

Transactions of the Company-sponsored EBT are treated as being those of the Company and are therefore reflected in the Parent Company and Group financial statements. In particular, the EBT's purchases and sales of shares in the Company are debited and credited directly to equity.

### q) Trade and other payables

Trade and other payables are stated at cost.

### r) Revenue

Revenue from the sale of goods is recognised in the Income Statement at the point of despatch when significant risks and rewards of ownership are deemed to have been transferred to the buyer. MuCell Extrusion LLC recognises licence revenue upon transfer of the MuCell® technology provided that no significant Company obligations remain, the licence amount is determinable, and the collection of the related receivable is probable. Royalty income is based on the terms of the licence agreements and is recorded when amounts are determinable and collection of the related receivable is probable. Revenue from equipment sales is recognised upon either shipment or delivery as specified in the contract terms. Revenue from consulting services is recognised either as the services are performed or upon the achievement of a specific milestone. Payments received under these arrangements prior to the completion of the related work are recorded as deferred income.

### s) Expenses

#### i) Operating lease payments

Payments made under operating leases are recognised in the Income Statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Income Statement as an integral part of the total lease expenses.

#### ii) Finance lease payments

The finance charge, where material, is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### t) Taxation

Taxation in the Income Statement for the periods presented comprises current and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in Other Comprehensive Income, in which case it is recognised in Other Comprehensive Income.

Current tax is the expected tax payable on the taxable income for the year and any adjustments to the tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional tax that arises from the distribution of dividends is recognised at the same time as the liability to pay the related dividend.

## NOTES CONTINUED

### 1. Accounting policies continued

#### u) Exceptional items

Items which are significant by virtue of their size or nature which are considered non-recurring and which are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 4) are classified as exceptional items. In 2014 this included the impairment of property, plant and equipment and inventory associated with the microZOTE® line, the operation of which was curtailed during that year.

#### v) New standards and interpretations not yet adopted

The IASB and IFRS Interpretations Committee have issued the following standards and interpretations with an effective date of implementation for accounting periods beginning after the date on which the Group's financial statements for the current year commenced. The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application:

Effective after 31 December 2015	Effective for accounting periods beginning on or after	Endorsed by the EU
<b>New standards</b>		
IFRS 9, 'Financial instruments'	1 January 2018	No
IFRS 15 'Revenue from contracts with customers'	1 January 2018	No
<b>Amendments</b>		
IAS 1 Presentation of financial statements	1 January 2016	No
IAS 16 Property plant & equipment (PPE) and IAS 38 Intangible assets	1 January 2016	1 January 2016
IFRS 11 Joint arrangements	1 January 2016	1 January 2016
IAS 27 Separate financial statements	1 January 2016	No
Investment entities: applying the consolidation exemption	1 January 2016	No
Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016	No
IFRS 14 Regulatory Deferral Accounts	1 January 2016	No

### 2. Segment reporting

The Group's operating segments are reported in a manner consistent with the internal reporting provided to and regularly reviewed by the Group Chief Executive Officer, David Stirling, who is considered to be the 'chief operating decision maker' for the purpose of evaluating segment performance and allocating resources.

The Group manufactures and sells high-performance foams and licenses related technology for specialist markets worldwide. Zotefoams' activities are categorised as follows:

- Polyolefins: these foams are made from olefinic homopolymer and copolymer resin. The most common resin used is polyethylene. Included in this segment were microZOTE® foams made using polyolefin resins, an activity curtailed in 2014.
- High-Performance Products ('HPP'): these foams exhibit high-performance on certain key properties, such as improved chemical, flammability or temperature performance, due to the resins on which they are based. Turnover in the segment is currently mainly derived from our ZOTEK® F foams and T-FIT® insulation, both made from PVDF fluoropolymer. Other products either commercially launched or being assessed in development include foams made from polyamide (nylon) and PEBA.
- MuCell Extrusion LLC ('MEL'): licenses microcellular foam technology and sells related machinery.

	Polyolefins		HPP		MEL		Eliminations		Consolidated	
	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000
Total Revenue	43,608	40,440	8,274	6,614	2,621	2,088	(66)	(61)	54,437	49,081
Adjustment for JV sales	(568)	(136)	–	–	–	–	–	–	(568)	(136)
Group Revenue	43,040	40,304	8,274	6,614	2,621	2,088	(66)	(61)	53,869	48,945
Segment profit/(loss) pre-amortisation	7,601	6,008	816	1,022	(497)	(103)	–	–	7,920	6,927
Amortisation of acquired intangible assets	(47)	(21)	–	–	(304)	(304)	–	–	(351)	(325)
Segment profit/(loss)	7,553	5,987	816	1,022	(801)	(407)	–	–	7,568	6,602
Foreign exchange gains	–	–	–	–	–	–	–	–	213	310
Unallocated central costs	–	–	–	–	–	–	–	–	(1,456)	(1,341)
Operating profit	–	–	–	–	–	–	–	–	6,325	5,571
Net financing costs	–	–	–	–	–	–	–	–	(304)	(233)
Share of loss from joint-ventures	–	–	–	–	–	–	–	–	(11)	(64)
Taxation	–	–	–	–	–	–	–	–	(1,213)	(926)
Profit for the year (pre-exceptional items)									4,797	4,348
Segment Assets	59,423	48,214	8,989	7,955	7,057	6,526	–	–	75,469	62,695
Unallocated assets	–	–	–	–	–	–	–	–	737	676
Total assets									76,206	63,371
Segment liabilities	(20,318)	(14,257)	(2,420)	(210)	(684)	(587)	–	–	(23,422)	(15,054)
Unallocated liabilities	–	–	–	–	–	–	–	–	(1,664)	(1,083)
Total liabilities									(25,086)	(16,137)
Depreciation and impairment	2,606	4,155	178	151	43	38	–	–	2,827	4,344
Amortisation	345	21	–	–	304	304	–	–	649	325
Capital expenditure:										
Tangible fixed assets	8,800	5,488	456	129	12	94	–	–	9,268	5,711
Intangible fixed assets	413	1,577	–	–	9	29	–	–	422	1,606

Unallocated assets and liabilities are made up of corporation tax and deferred tax assets and liabilities and investments in joint ventures.

### Geographical segments

Polyolefins, HPP and MEL are managed on a worldwide basis but operate from UK and US locations. In presenting information on the basis of geographical segments, segmental revenue is based on the geographical location of customers. Segment assets are based on the geographical location of assets.

## NOTES CONTINUED

### 2. Segment reporting continued

	United Kingdom & Eire £000	Continental Europe £000	North America £000	Rest of the world £000	Total £000
For the year ended 31 December 2015					
Total Revenue	11,372	21,568	15,975	5,522	54,437
Group Revenue from external customers	11,372	21,568	15,975	4,954	53,869
Non-current assets	27,157	–	14,882	201	42,240
Capital expenditure	2,725	–	6,342	201	9,268
For the year ended 31 December 2014					
Total Revenue	10,465	20,381	14,277	3,958	49,081
Group Revenue from external customers	10,465	20,381	14,277	3,822	48,945
Non-current assets	26,473	–	8,939	–	35,412
Capital expenditure	4,625	–	1,086	–	5,711

Non-current assets do not include financial instruments, deferred tax assets or investments in joint ventures.

#### Major customer

Revenues from one customer of the Group represent approximately £4.90m (2014: £5.13m) of the Group's Total Revenue.

### 3. Expenses and auditors' remuneration

	2015 £000	2014 £000
Included in profit for the year are:		
Operating lease charges	139	122
Amortisation	649	325
Depreciation and impairment	2,827	4,344
Research and development costs expensed	839	1,128
Net exchange (gains)	(213)	(310)
External auditors' remuneration:		
Group – Fees payable to the Company's external auditors and its associates for the audit of the Parent Company and consolidated financial statements	78	75
Fees payable to the external auditors and its associates in respect of other services:		
– audit related assurance services	17	15
– audit work relating to subsidiaries	10	10
– tax advice	5	16
	110	116

### 4. Exceptional item

On 27 June 2014 the Company made the decision to curtail manufacturing activity on its microZOTE® extrusion line within its Polyolefin business segment. This resulted in a non-cash impairment charge as follows:

	2015 £000	2014 £000
Fixed asset impairment	–	1,175
Inventory impairment	–	90
	–	1,265

## 5. Staff numbers and expenses

The average number of people employed by the Group and Company (including Executive Directors) during the year, analysed by category, was as follows:

	Number of employees			
	Group		Company	
	2015	2014	2015	2014
Production	143	135	131	124
Maintenance	20	17	15	15
Distribution and marketing	60	48	42	38
Administration and technical	112	100	82	82
	334	300	270	259

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	2015	2014	2015	2014
	£000	£000	£000	£000
Wages and salaries	11,871	10,472	9,667	8,938
Social security costs	1,197	1,099	1,049	985
Share options granted to Directors and employees	223	138	223	138
Other pension costs	747	828	695	774
	14,038	12,537	11,634	10,835

Details of individual Directors' emoluments, pension costs and share options are dealt with in the Remuneration Report on pages 38 to 56.

## 6. Finance income and costs

### Finance income

	2015	2014
	£000	£000
Interest on bank deposits	2	2

### Finance costs

	2015	2014
	£000	£000
On bank loans and overdrafts	97	57
Interest on defined benefit pension obligation	209	178
	306	235

## 7. Taxation

	Note	2015	2014
		£000	£000
UK corporation tax		989	859
Overseas taxation		124	44
Adjustment to prior year UK tax charge		10	(154)
Current taxation		1,123	749
Deferred taxation	19	90	(76)
Total tax charge		1,213	673

## NOTES CONTINUED

### 7. Taxation continued

#### Factors affecting the tax charge

The tax charge for the year is equal to (2014: lower than) the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%). The differences are explained below:

	2015 £000	2014 £000
Tax reconciliation		
Profit before tax	6,010	4,009
Tax at 20.25% (2014: 21.5%)	1,217	862
Effects of:		
Research and development tax credits and other allowances less expenses not deductible for tax purposes	(114)	(61)
Overseas earnings and effect of US tax losses	135	26
Re-measurement of deferred tax	(35)	–
Adjustments to prior year UK corporation tax charge	10	(154)
Total tax charge	1,213	673

### 8. Dividends and earnings per share

	2015 £000	2014 £000
Final dividend prior year of 3.70p (2013: 3.60p) net per 5.0p ordinary share	1,615	1,421
Interim dividend of 1.80p (2014: 1.75p) net per 5.0p ordinary share	785	691
Dividends paid during the year	2,400	2,112

The proposed final dividend for the year ended 31 December 2015 of 3.80p per share (2014: 3.70p) is subject to approval by shareholders at the AGM and has not been recognised as a liability in these financial statements. The proposed dividend would amount to £1,688,000 if paid to all the shares in issue.

#### Earnings per ordinary share

Earnings per ordinary share is calculated by dividing consolidated profit after tax attributable to equity holders of the Parent Company of £4.82m (2014: £3.34m) by the weighted average number of shares in issue during the year, excluding own shares held by employee trusts which are administered by independent trustees. The number of shares held in the trust at 31 December 2015 was 768,911 (2014: 340,611). Distribution of shares from the trust is at the discretion of the trustees. Diluted earnings per ordinary share adjusts for the potential dilutive effect of share option schemes in accordance with IAS33 *Earnings*.

	2015	2014
Average number of ordinary shares issued	43,595,921	40,664,440
Deemed issued for no consideration	599,401	599,430
Diluted number of ordinary shares issued	44,195,323	41,263,870

### 9. Profit for the financial year

The Group financial statements do not include a separate Income Statement for Zotefoams plc (the Parent undertaking) as permitted by Section 408 of the Companies Act 2006. The Parent Company profit after tax for the financial year is £5.30m (2014: £3.36m).

### 10. Investments in joint ventures

During 2013 the Group entered into joint-venture arrangements with INOAC Corporation. As a result the Group has a 50% interest in Azote Asia Limited (incorporated in Hong Kong) and Inoac Zotefoams Korea Limited (incorporated in South Korea). Azote Asia Limited commenced trading in 2014. Inoac Zotefoams Korea Limited remains non-trading.



## 11. Property, plant and equipment – Group

	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Under construction £000	Total £000
<b>Cost</b>					
Balance at 1 January 2014	15,052	50,145	3,767	5,510	74,474
Additions	–	857	242	4,612	5,711
Disposals	–	(232)	–	–	(232)
Reclassifications from under construction	(177)	1,798	238	(1,859)	–
Reclassifications to intangible assets	–	–	–	(363)	(363)
Effect of movement in foreign exchange	267	277	23	54	621
Balance at 31 December 2014	15,142	52,845	4,270	7,954	80,211
Balance at 1 January 2015	15,142	52,845	4,270	7,954	80,211
Additions	2,267	–	512	6,489	9,268
Reclassifications from under construction	–	99	1,820	(1,919)	–
Effect of movement in foreign exchange	301	401	24	–	726
<b>Balance at 31 December 2015</b>	<b>17,710</b>	<b>53,345</b>	<b>6,626</b>	<b>12,524</b>	<b>90,205</b>
<b>Depreciation and impairment</b>					
Balance at 1 January 2014	8,386	35,921	2,834	–	47,141
Depreciation charge for the year	578	2,135	456	–	3,169
Disposals	–	(232)	–	–	(232)
Impairment	–	1,175	–	–	1,175
Effect of movement in foreign exchange	140	233	24	–	397
Balance at 31 December 2014	9,104	39,232	3,314	–	51,650
Balance at 1 January 2015	9,104	39,232	3,314	–	51,650
Depreciation charge for the year	573	1,998	256	–	2,827
Effect of movement in foreign exchange	124	211	21	–	356
<b>Balance at 31 December 2015</b>	<b>9,801</b>	<b>41,441</b>	<b>3,591</b>	<b>–</b>	<b>54,833</b>
<b>Net book value</b>					
At 1 January 2014	6,666	14,224	933	5,510	27,333
At 31 December 2014 and 1 January 2015	6,038	13,613	956	7,954	28,561
<b>At 31 December 2015</b>	<b>7,909</b>	<b>11,904</b>	<b>3,035</b>	<b>12,524</b>	<b>35,372</b>

The Group has commenced a number of programmes to construct and refurbish plant and equipment and fixtures and fittings. Costs incurred in the year up to the balance sheet date totalled £6.49m (2014: £4.61m) for the Group.

## NOTES CONTINUED

### 11. Property, plant and equipment – Group continued Property, plant and equipment – Company

	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Under construction £000	Total £000
<b>Cost</b>					
Balance at 1 January 2014	10,767	45,649	3,409	5,508	65,333
Additions	–	805	199	3,614	4,618
Reclassifications from under construction	(177)	1,798	239	(1,860)	–
Reclassifications to intangible assets	–	–	–	(363)	(363)
Balance at 31 December 2014	10,590	48,252	3,847	6,899	69,588
Balance at 1 January 2015	10,590	48,252	3,847	6,899	69,588
Additions	–	–	501	2,223	2,724
Reclassifications from under construction	–	99	1,820	(1,919)	–
<b>Balance at 31 December 2015</b>	<b>10,590</b>	<b>48,351</b>	<b>6,168</b>	<b>7,203</b>	<b>72,312</b>
<b>Depreciation and impairment</b>					
Balance at 1 January 2014	6,296	32,332	2,539	–	41,167
Depreciation charge for the year	395	1,891	406	–	2,692
Impairment	–	1,175	–	–	1,175
Balance at 31 December 2014	6,691	35,398	2,945	–	45,034
Balance at 1 January 2015	6,691	35,398	2,945	–	45,034
Depreciation charge for the year	374	1,713	220	–	2,307
<b>Balance at 31 December 2015</b>	<b>7,065</b>	<b>37,111</b>	<b>3,165</b>	<b>–</b>	<b>47,341</b>
<b>Net book value</b>					
At 1 January 2014	4,471	13,317	870	5,508	24,166
At 31 December 2014 and 1 January 2015	3,899	12,854	902	6,899	24,554
<b>At 31 December 2015</b>	<b>3,525</b>	<b>11,240</b>	<b>3,003</b>	<b>7,203</b>	<b>24,971</b>

Included in plant and machinery for both the Group and the Company are assets with a net book value of £5.22m (2014: £5.91m) pledged as security for bank loans.

## 12. Intangible assets – Group

	Marketing related £000	Customer related £000	Technology related £000	Software related £000	Goodwill £000	Total intangibles £000
<b>Cost</b>						
Balance at 1 January 2014	192	151	3,714	–	1,835	5,892
Additions	–	121	28	1,457	–	1,606
Reclassifications from property, plant and equipment	–	–	–	363	–	363
Effect of movement in foreign exchange	12	9	234	–	114	369
Balance at 31 December 2014	204	281	3,976	1,820	1,949	8,230
Balance at 1 January 2015	204	281	3,976	1,820	1,949	8,230
Additions	–	–	9	413	–	422
Effect of movement in foreign exchange	11	8	205	–	100	323
<b>Balance at 31 December 2015</b>	<b>215</b>	<b>289</b>	<b>4,190</b>	<b>2,233</b>	<b>2,049</b>	<b>8,975</b>
<b>Accumulated amortisation</b>						
Balance at 1 January 2014	67	89	820	–	–	976
Charge for the year	19	46	260	–	–	325
Effect of movement in foreign exchange	5	7	66	–	–	78
Balance at 31 December 2014	91	142	1,146	–	–	1,379
Balance at 1 January 2015	91	142	1,146	–	–	1,379
Charge for the year	20	86	245	298	–	649
Effect of movement in foreign exchange	3	2	50	–	24	79
<b>Balance at 31 December 2015</b>	<b>114</b>	<b>230</b>	<b>1,441</b>	<b>298</b>	<b>24</b>	<b>2,107</b>
<b>Net book value</b>						
At 1 January 2014	125	62	2,894	–	1,835	4,916
At 31 December 2014 and 1 January 2015	113	139	2,830	1,820	1,949	6,851
<b>At 31 December 2015</b>	<b>101</b>	<b>59</b>	<b>2,749</b>	<b>1,935</b>	<b>2,028</b>	<b>6,868</b>

The Group tests annually for impairment or more frequently if there are indications that goodwill may be impaired.

Goodwill arising on acquisition is allocated to the cash generating unit ('CGU') that is expected to benefit, being MEL. The recoverable amount of the MEL CGU is determined using value-in-use calculations which use cash flow projections based on financial budgets and forecasts approved by management over the next five years. For periods beyond this, cash flows are extrapolated using long-term growth rates.

Other assumptions such as market growth and margins are based on past experience and management's expectations.

## NOTES CONTINUED

### 12. Intangible assets – Group continued

#### Key assumptions:

##### Long-term growth rate 2.5%

This growth rate is based on a prudent assessment of past experience and future estimations of market expectations.

##### Discount rate 14%

The pre-tax discount rate applied to the cash flow forecasts for the MEL CGU are derived from the pre-tax weighted average cost of capital for the Group adjusted for local economic and political risks.

The goodwill of £2 million is measured against the discounted future cash flow projections of MEL.

#### Sensitivity to changes in assumptions

There is sufficient headroom for the MEL CGU so that management believe that no reasonable change in any of the above assumptions would cause the carrying value of MEL goodwill to exceed its recoverable amount.

### Intangible assets – Company

	Customer related £000	Software related £000	Total intangibles £000
<b>Cost</b>			
Balance at 1 January 2014	–	–	–
Additions	121	1,820	1,941
Balance at 31 December 2014	121	1,820	1,941
Balance at 1 January 2015	121	1,820	1,941
Additions	–	413	413
<b>Balance at 31 December 2015</b>	<b>121</b>	<b>2,233</b>	<b>2,354</b>
<b>Accumulated amortisation</b>			
Balance at 1 January 2014	–	–	–
Charge for the year	21	–	21
Balance at 31 December 2014	21	–	21
Balance at 1 January 2015	21	–	21
Charge for the year	48	298	346
<b>Balance at 31 December 2015</b>	<b>69</b>	<b>298</b>	<b>367</b>
<b>Net book value</b>			
At 31 December 2014 and 1 January 2015	100	1,820	1,920
<b>At 31 December 2015</b>	<b>52</b>	<b>1,935</b>	<b>1,987</b>

### 13. Investment in subsidiaries

#### Company

	2015 £000	2014 £000
Shares in Group undertakings – at cost	16,559	13,466
Provision against the value of investment in subsidiary	(3,294)	(3,294)
	<b>13,265</b>	10,172

During the year the Company increased its investment in Zotefoams International Limited by £3.1m.

The following is a complete list of the subsidiary undertakings of the Company:

	Ownership	Incorporated in:
Zotefoams International Limited	100%	Great Britain
Zotefoams Pension Trustees Limited	100%	Great Britain
Zotefoams Inc. (indirectly owned)	100%	USA
MuCell Extrusion LLC (indirectly owned)	100%	USA
Zotefoams Operations Limited (indirectly owned)	100%	Great Britain
Zotefoams Technology Limited (indirectly owned)	100%	Great Britain
KZ Trading and Investment Limited (indirectly owned)	51%	Hong Kong

The principal activities of the subsidiary undertakings are as follows: Zotefoams Inc. purchases, manufactures and distributes cross-linked block foams. Zotefoams International Limited is a holding company. MuCell Extrusion LLC holds and develops microcellular foam technology which it licenses to customers. Zotefoams Pension Trustees Limited and Zotefoams Technology Limited are currently inactive. Zotefoams Operations Limited is a trading company and has a branch in Thailand. KZ Trading and Investment Limited is a holding and trading company for the joint venture with the King Lai Group. In the opinion of the Directors the investments in the Company's subsidiary undertakings are worth at least the amount at which they are stated in the balance sheet.

Zotefoams International Limited, Zotefoams Technology Limited and Zotefoams Operations Limited are relying upon the exemption from audit of individual financial statements as permitted by section 479A of the Companies Act 2006. All outstanding liabilities as at 31 December 2015 of these companies have been guaranteed by the Company and no liability is expected to arise under this guarantee.

The Company has a representative office in China and a branch in Germany.

#### 14. Inventories

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Raw materials and consumables	4,152	2,966	4,032	2,932
Work in progress	2,791	3,731	2,205	2,596
Finished goods	2,919	2,521	1,642	1,888
	9,862	9,218	7,879	7,416

The carrying amount of inventories subject to retention of title clauses is £2,687,000 (2014: £1,019,000).

In 2015 the value of inventory recognised by the Group as an expense in cost of goods sold was £37,272,000 (2014: £33,698,000).

#### 15. Trade and other receivables

		Group		Company	
	Note	2015 £000	2014 £000	2015 £000	2014 £000
Amounts falling due within one year:					
Trade receivables	21	16,163	12,752	10,295	8,348
Fair value derivatives	21	—	43	—	43
Amounts owed by Group undertakings	25	—	—	4,872	1,604
Other receivables		876	334	793	334
Prepayments and accrued income		180	308	161	214
		17,219	13,437	16,121	10,543
Trade receivables are shown net of:					
Impairment losses		255	232	203	192

## NOTES CONTINUED

### 16. Cash and cash equivalents/bank overdraft

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Cash and cash equivalents per balance sheet	6,148	4,628	–	3,476
Bank overdraft	(879)	–	(879)	–
Cash and equivalents per cash flow statements	5,269	4,628	(879)	3,476

### 17. Trade and other payables

	Note	Group		Company	
		2015 £000	2014 £000	2015 £000	2014 £000
Trade payables		4,787	2,892	3,755	2,521
Other creditors including taxation and social security:					
Other taxation and social security		275	283	255	274
Fair value derivatives	21	195	192	195	192
Amounts owed to Group undertakings	25	–	–	67	–
Other payables		1,975	858	1,152	591
Accruals and deferred income		3,213	2,490	3,144	2,109
		10,445	6,715	8,568	5,687

### 18. Interest-bearing loans and borrowings

	Note	Group		Company	
		2015 £000	2014 £000	2015 £000	2014 £000
Bank loans		1,102	718	700	718
Amounts falling due within one year		1,102	718	700	718
Bank loans		5,758	1,489	790	1,489
Amounts falling due in more than one year		5,758	1,489	790	1,489
	21	6,860	2,207	1,490	2,207

### 19. Deferred tax assets and liabilities

#### Recognised deferred tax assets and liabilities – Group

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000
Property, plant and equipment	–	–	1,460	1,407	1,460	1,407
Rolled-over gain	–	–	613	645	613	645
Inventories	(226)	(143)	–	–	(226)	(143)
Financial instruments	–	–	38	30	38	30
Defined benefit pension scheme and share option charges	(1,173)	(1,384)	–	–	(1,173)	(1,384)
Tax value of recognised losses carried forward	(348)	(359)	–	–	(348)	(359)
Tax (assets)/liabilities	(1,746)	(1,886)	2,111	2,082	364	196
Set off tax	1,173	1,384	(1,173)	(1,384)	–	–
Net tax (assets)/liabilities	(574)	(502)	938	698	364	196

#### Unrecognised deferred tax assets

The Group has approximately \$2.6m (2014: \$3.3m) of tax losses carried forward in the USA, which expire between 2022 and 2026 under current tax legislation. At year-end exchange rates these tax losses have a value of £1.8m (2014: £2.1m). The Group has only recognised £1.0m (2014: £1.0m) of these tax losses as a deferred tax asset representing what the Board considers to be a reasonable estimate of the expected US tax utilisation in the near future based on discounted projections. During the year losses of £0.5m were used and no additional losses were recognised. At a 35% tax rate these tax losses are £0.6m (2014: £0.7m) of which £0.3m has been recognised (2014: £0.4m).



### Movement in deferred tax during the year

	Balance 1 January 2015 £000	Recognised in income £000	Recognised in equity £000	Balance 31 December 2015 £000
Property, plant and equipment	1,407	53	–	<b>1,460</b>
Rolled-over gain	645	(32)	–	<b>613</b>
Inventories	(143)	(83)	–	<b>(226)</b>
Financial instruments	30	–	8	<b>38</b>
Defined benefit pension scheme and share option charges	(1,384)	140	71	<b>(1,173)</b>
Tax value of recognised losses carried forward	(359)	11	–	<b>(348)</b>
	196	90	79	<b>364</b>

### Movement in deferred tax during the prior year

	Balance 1 January 2014 £000	Recognised in income £000	Recognised in equity £000	Balance 31 December 2014 £000
Property, plant and equipment	1,552	(145)	–	1,407
Rolled-over gain	645	–	–	645
Inventories	(122)	(21)	–	(143)
Financial instruments	49	–	(19)	30
Defined benefit pension scheme and share option charges	(982)	94	(496)	(1,384)
Tax value of recognised losses carried forward	(355)	(4)	–	(359)
	787	(76)	(515)	196

### Deferred tax assets and liabilities – Company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000
Property, plant and equipment	–	–	<b>1,460</b>	1,407	<b>1,460</b>	1,407
Rolled-over gain	–	–	<b>613</b>	645	<b>613</b>	645
Financial instruments	–	–	<b>38</b>	30	<b>38</b>	30
Defined benefit pension scheme and share option charges	<b>(1,173)</b>	(1,384)	–	–	<b>(1,173)</b>	(1,384)
Tax (assets)/liabilities	<b>(1,173)</b>	(1,384)	<b>2,111</b>	2,082	<b>938</b>	698
Set off tax	<b>1,173</b>	1,384	<b>(1,173)</b>	(1,384)	–	–
Net tax liabilities	–	–	<b>938</b>	698	<b>938</b>	698

### Movement in deferred tax during the year

	Balance 1 January 2015 £000	Recognised in income £000	Recognised in equity £000	Balance 31 December 2015 £000
Property, plant and equipment	1,407	53	–	<b>1,460</b>
Rolled-over gain	645	(32)	–	<b>613</b>
Financial instruments	30	–	8	<b>38</b>
Defined benefit pension scheme and share option charges	(1,384)	140	71	<b>(1,173)</b>
	698	161	79	<b>938</b>

## NOTES CONTINUED

### 19. Deferred tax assets and liabilities continued Movement in deferred tax during the prior year

	Balance 1 January 2014 £000	Recognised in income £000	Recognised in equity £000	Balance 31 December 2014 £000
Property, plant and equipment	1,552	(145)	–	1,407
Rolled-over gain	645	–	–	645
Financial instruments	49	–	(19)	30
Defined benefit pension scheme and share option charges	(982)	94	(496)	(1,384)
	1,264	(51)	(515)	698

### 20. Share capital

	2015 £	2014 £
Allotted, called up and fully paid At 31 December		
Equity: 44,414,442 (2014: 43,814,442) ordinary shares of 5.0p each	2,220,722	2,190,722

Details of share options are provided in note 24 to the financial statements on pages 101 to 102.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled, on a poll, to one vote per share at meetings of the Company.

### 21. Financial instruments and financial risk management Policy

The Group's and Company's principal financial instruments include bank loans, cash and short-term deposits the main purpose of which is to provide finance for the Group's and Company's operations. Foreign exchange derivatives are used to help manage the Group's and Company's currency exposure. It is, and has been throughout the year under review, the Group's and Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's and Company's financial instruments are credit risk, interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained fundamentally unchanged throughout the year.

#### Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group and Company do not require collateral in respect of financial assets.

In 2015 and 2014, the Group and Company had credit insurance to mitigate this risk. However, the uninsured exposure as at 31 December 2015 for the Group was £4.73m (2014: £3.39m) and for the Company was £2.76m (2014: £2.06m), so elements of risk remain.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Trade receivables can be analysed as follows:

	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Amounts neither past due nor impaired	10,046	9,885	5,120	6,037
Amounts past due but not impaired:				
Less than 60 days	2,273	1,890	1,279	1,334
More than 60 days	1,163	–	1,163	–
Total past due but not impaired	3,436	1,890	2,442	1,334
Amounts impaired	2,936	1,209	2,936	1,169
Impairment allowance	(255)	(232)	(203)	(192)
Carrying amount of impaired receivables	2,681	977	2,733	977
Trade receivables net of allowances	16,163	12,752	10,295	8,348

The normal terms of trade are in the range 30–90 days from the end of the month of invoice.

The Group and the Company make provisions against trade and other receivables, such provisions being based on the previous credit history of the debtor and if the debtor is in receivership or liquidation.

The credit quality of trade receivables that are neither past due nor impaired is assessed on an individual basis, based on credit ratings and experience. Management believes adequate provision has been made for trade receivables.

#### Interest rate risk

The Group and the Company finance their operations through a mixture of retained profits and bank borrowings. The interest rate profile of the Group's and Company's borrowings at 31 December was:

	2015				2014			
	Effective interest rate %	Fixed rates £000	Variable rates £000	Total £000	Effective interest rate %	Fixed rates £000	Variable rates £000	Total £000
Dollar – mortgage	3.95	5,370	–	5,370	–	–	–	–
Sterling – mortgage	3.50	1,474	–	1,474	3.50	2,173	–	2,173
Total		6,844	–	6,844	–	2,173	–	2,173

The interest rate payable on the bank overdraft is determined by LIBOR plus a bank margin.

## NOTES CONTINUED

### 21. Financial instruments and financial risk management continued

#### Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated payments and excluding the effect of netting agreements:

Group	2015					2014				
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 10 years £000	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000
<b>Non-derivative financial liabilities</b>										
Secured bank loans	6,860	6,860	1,102	1,392	4,366	2,207	2,207	718	737	752
Trade and other payables	6,762	6,762	6,762	–	–	3,750	3,750	3,750	–	–

Company	2015					2014				
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 10 years £000	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000
<b>Non-derivative financial liabilities</b>										
Secured bank loans	1,490	1,490	700	790	–	2,207	2,207	718	737	752
Trade and other payables	4,907	4,907	4,907	–	–	3,112	3,112	3,112	–	–

The Group's and Company's objective is to maintain a balance of continuity of funding and flexibility through the use of overdrafts, loans and other financing facilities as applicable. The maturity profile of the Group's and Company's borrowings is shown above.

The Group and the Company have a short-term multi-currency bank overdraft facility of £4.9m, which is freely transferable. This facility is repayable on demand and is utilised by the Group and the Company under a cross-guarantee structure.

In December 2012 the Company took out a £3.5m mortgage, repayable over five years in equal quarterly instalments. This facility is secured over specific plant assets. At 31 December 2015 £1.5m of this mortgage was outstanding and £2m had been repaid. This loan has no major financial operating covenants. In December 2015 the Group took out an \$8m mortgage, repayable over ten years in equal monthly instalments. This facility is secured over assets of Zotefoams Inc. Subsequent to year end a Revolving Credit Facility has been taken out and the bank overdraft facility reduced to £2m. Please refer to note 27 for further details.

Cash flow forecasts are produced to monitor the expected cash flow requirements of the Group and the Company against the available facilities.

#### Foreign currency risk

The Group and the Company are exposed to foreign currency risk on sales, purchases, assets and liabilities which are denominated in a currency other than sterling. The currencies giving rise to this risk are primarily the euro and the US dollar.

The euro and US dollar rates used in preparing the financial statements are as follows:

	2015		2014	
	Average	Closing	Average	Closing
Euro/sterling	1.38	1.36	1.25	1.29
US dollar/sterling	1.53	1.48	1.65	1.56

The Group and the Company hedge a proportion of their estimated cash exposure in respect of trade and other receivables, trade and other payables and forecast sales receipts and purchase payments. The Group and the Company use forward exchange contracts to hedge their foreign currency risk. As at 31 December 2015 these forward currency contracts covered approximately two thirds of the estimated net cash foreign exchange exposure for the euro for the next nine months and for the US dollar approximately two thirds of the estimated income statement exposure for the next twelve months.

In respect of other monetary assets and liabilities held in currencies other than the euro and the US dollar, the Group and the Company ensure that the net exposure is kept to a manageable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Where possible the Group tries to hold the majority of its cash and cash equivalent balances in the local currency of the respective entity or, for borrowings, in a currency which provides an offset, albeit often partial, against monetary working capital net assets in that currency.

The table below shows financial instruments not in the domestic currency of the individual company they are held by:

	Euro £000	US dollar £000	Other £000	Total £000
<b>Group – 2015</b>				
Cash and cash equivalents	240	(557)	9	(308)
Trade receivables	3,703	8,030	1,359	13,093
Trade payables	(2,536)	(1,237)	(97)	(3,870)
<b>Group – 2014</b>				
Cash and cash equivalents	(44)	(112)	(14)	(170)
Trade receivables	3,323	1,571	455	5,349
Trade payables	(1,461)	–	(3)	(1,464)
<b>Company – 2015</b>				
Cash and cash equivalents	240	(557)	9	(308)
Trade receivables	3,698	8,030	1,359	13,087
Trade payables	(2,535)	(1,237)	–	(3,772)
<b>Company – 2014</b>				
Cash and cash equivalents	(44)	(112)	(14)	(170)
Trade receivables	3,298	1,571	455	5,324
Trade payables	(1,461)	–	(3)	(1,464)

### Forecast transactions

The Group and the Company classify their forward exchange contracts used as hedges of forecast transactions as cash flow hedges and state them at fair value. The net fair value of forward exchange contracts used as hedges of forecast transactions at 31 December 2015 was a net liability of £195,000 (2014: net liability of £149,000) comprising assets of £nil (2014: £43,000) and liabilities of £195,000 (2014: £192,000).

### Recognised assets and liabilities

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the Income Statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of administrative expenses (see note 3).

The maturity profile of the forward contracts as at 31 December is as follows:

	2015				2014			
	Foreign currency '000	Contract value £000	Transaction fair value £000	Contract fair value £000	Foreign currency '000	Contract value £000	Transaction fair value £000	Contract fair value £000
<b>Group and Company:</b>								
Sell EUR	€4,100	2,941	3,035	(94)	€3,800	3,013	2,971	42
Sell USD	\$16,225	10,842	10,943	(101)	\$3,800	2,247	2,438	(191)

## NOTES CONTINUED

### 21. Financial instruments and financial risk management continued

#### Sensitivity analysis

In managing currency risks the Group and the Company aim to reduce the impact of short-term fluctuations on their earnings. Over the longer-term, however, changes in foreign exchange and interest rates would have an impact on earnings.

Short-term fluctuations in interest rates are not hedged as the Group and the Company, at present, do not consider them material. At 31 December 2015 it is estimated that a general increase of one percentage point in interest rates would decrease the Group's and the Company's profit before tax by approximately £9,000 (2014: £ nil). At 31 December 2015 it is estimated that an increase of one percentage point in the value of sterling against the euro and US dollar would decrease the Group's and the Company's profit before tax by approximately £73,000 (2014: £44,000) before forward exchange contracts and £42,000 (2014: £15,000) after forward exchange contracts are included for the euro and £116,000 (2014: £117,000) for the US dollar before forward exchange contracts and £7,000 (2014: £91,000) after forward exchange contracts are included.

The Group and the Company have significant undertakings in the USA, Asia and elsewhere where revenue and expenses are denominated in US dollars. They also make a significant proportion of their sales to customers in continental Europe and these revenues are predominantly in euros, together with many of the raw materials purchased by the Company. It was the Group's and the Company's policy in 2015 to hedge the profit and loss of foreign currency cash flows of invoiced sales net of expected foreign currency expenditure. Hedging is achieved by the use of foreign currency contracts expiring in the month of expected cash flow.

#### Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	2015		2014	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
<b>Group</b>				
Trade and other receivables	17,039	17,039	13,086	13,086
Cash and cash equivalents	5,269	5,269	4,628	4,628
Forward exchange contracts – assets	–	–	43	43
– liabilities	(195)	(195)	(192)	(192)
Secured bank loans	(6,860)	(6,860)	(2,207)	(2,207)
Trade and other payables	(6,762)	(6,762)	(3,750)	(3,750)
	2015		2014	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
<b>Company</b>				
Trade and other receivables	15,960	15,960	10,286	10,286
Cash and cash equivalents	(879)	(879)	3,476	3,476
Forward exchange contracts – assets	–	–	43	43
– liabilities	(195)	(195)	(192)	(192)
Secured bank loans	(1,490)	(1,490)	(2,207)	(2,207)
Trade and other payables	(4,974)	(4,974)	(3,112)	(3,112)



**Estimation of fair values**

The following summarises the major methods and assumptions used in estimating fair values of financial instruments reflected in the table above. They are classified according to the following fair value hierarchy:

- Level 1: quoted process (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted process included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Group's and Company's financial instruments that are measured at fair value at 31 December 2015.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Liabilities</b>				
Forward exchange contracts	–	(195)	–	–
<b>Total liabilities</b>	–	(195)	–	–

The following table presents the Group's and Company's financial instruments that are measured at fair value at 31 December 2014.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Assets</b>				
Forward exchange contracts	–	43	–	43
<b>Total assets</b>	–	43	–	43
<b>Liabilities</b>				
Forward exchange contracts	–	(192)	–	(192)
<b>Total liabilities</b>	–	(192)	–	(192)

The forward exchange contracts have been fair valued using forward exchange rates that are quoted in an active market.

Derivatives are valued at fair value using Barclays mid-market rate at the balance sheet date.

Trade and other receivables are valued at fair value which is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Cash and cash equivalents are valued at fair value which is estimated as its carrying value where cash is repayable on demand.

Interest-bearing borrowings are valued at fair value which is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

**Capital management**

The Group and the Company define the capital that they manage as the Group's and the Company's total equity. The Group's and the Company's policy for managing capital is to maintain a strong balance sheet with the objective of maintaining customer, supplier and investor confidence in the business and to ensure that the Group and the Company have sufficient resources to be able to invest in future development and growth of the business. The Board of Directors monitors the return on capital which the Group and the Company define as profit before tax excluding exceptional items, divided by average net assets. Goodwill, intangible assets and any associated amortisation are excluded from this calculation. The Board of Directors also monitors the level of dividends paid to ordinary shareholders. The Group and the Company are primarily financed by ordinary shares, borrowings and retained profits.

## NOTES CONTINUED

### 22. Commitments

	2015 £000	2014 £000
(i) Capital contracts at the end of the financial year for which no provision has been made	7,413	2,863
(ii) The Group has non-cancellable operating lease rentals, which are payable as follows:		
– within one year	70	80
– between two and five years	–	70

During the year ended 31 December 2015 £139,000 was recognised as an expense in the Income Statement in respect of operating leases (2014: £122,000).

The above amounts apply to both the Group and the Company.

### 23. Post employment benefits

#### Defined benefit pension plans

The Company operates a UK registered trust-based pension scheme that provides defined benefits. Pension benefits are linked to the members' final pensionable salaries and service at their retirement (or date of leaving if earlier). The Trustees are responsible for running the Scheme in accordance with the Scheme's Trust Deed and Rules, which sets out their powers. The Trustees of the Scheme are required to act in the best interests of the beneficiaries of the Scheme. There is a requirement that one-third of the Trustees are nominated by the members of the Scheme.

There are two categories of pension scheme members:

- Deferred members: former and current employees of the Company
- Pensioner members: in receipt of pension.

The defined benefit obligation is valued by projecting the best estimate of future benefit outgo (allowing for revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the balance sheet date. The majority of benefits receive increases linked to inflation (subject to a cap of no more than 5% per annum). The valuation method is known as the Projected Unit Method. The approximate overall duration of the Scheme's defined benefit obligation as at 31 December 2015 was 20 years.

Since 1 October 2001 the Scheme has been closed to new members and from 31 December 2005 future accrual of benefits for existing members of the Scheme ceased.

#### Future funding obligation

The Trustees are required to carry out an actuarial valuation every three years. The last actuarial valuation of the Scheme was performed by the Scheme Actuary for the Trustees as at 5 April 2014. This valuation revealed a funding shortfall of £2,500,000. In respect of the deficit in the Scheme as at 5 April 2014, the Company has agreed to pay £492,000 per annum until 5 April 2020. In addition, the Company will pay £168,000 per annum to cover administration expenses and premiums for death in service benefits. The Company therefore expects to pay £660,000 to the Scheme during the accounting year beginning 1 January 2016.

#### Risks

Through the Scheme, the Company is exposed to a number of risks:

- Asset volatility: the Scheme's defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields, however the Scheme invests significantly in equities and other growth assets. These assets are expected to outperform corporate bonds in the long term, but provide volatility and risk in the short term.
- Changes in bond yields: a decrease in corporate bond yields would increase the Scheme's defined benefit obligation, however this would be partially offset by an increase in the value of the Scheme's bond holdings.
- Inflation risk: a significant proportion of the Scheme's defined benefit obligation is linked to inflation, therefore higher inflation will result in a higher defined benefit obligation (subject to the appropriate caps in place). The majority of the Scheme's assets are either unaffected by inflation, or only loosely correlated with inflation, therefore an increase in inflation would also increase the deficit.
- Life expectancy: if Scheme members live longer than expected, the Scheme's benefits will need to be paid for longer, increasing the Scheme's defined benefit obligation.

The Trustees and Company manage risks in the Scheme through the following strategies:

- Diversification: investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.
- Investment strategy: the Trustees are required to review their investment strategy on a regular basis.
- Annuities: the Scheme holds insurance contracts to pay some members' AVC benefits and spouses' pensions. This removes investment, inflation and longevity risk for those members.

The Company has recognised all actuarial gains and losses immediately in Other Comprehensive Income. The initial results calculated as part of the formal actuarial valuation as at 5 April 2014 have been updated to 31 December 2015 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	As at 31 December 2015	As at 31 December 2014
Discount rate	3.8%	3.6%
RPI inflation (before retirement)	2.7%	2.9%
CPI inflation (before retirement)	1.7%	1.9%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

	2015	2014
For an individual aged 65 in 2015		
– Male	22.4	22.3
– Female	24.4	24.3
At age 65 for an individual aged 45 in 2015		
– Male	24.1	24.0
– Female	26.3	26.2

The table below outlines where the Group's post-employment amounts and activity are included in the financial statements.

	2015 £000	2014 £000
Balance sheet obligations for:		
– Defined pension benefits	5,238	6,132
Income statement charge included in operating profit for:		
– Defined pension benefits	209	178
Actuarial gains/(losses) recognised in Other Comprehensive Income:		
– Defined pension benefits	443	(2,334)

The amounts recognised in the balance sheet are determined as follows:

	2015 £000	2014 £000
Market value of assets	22,989	22,819
Present value of defined benefit obligation	(28,227)	(28,951)
Funded status	(5,238)	(6,132)
Liability in the balance sheet	(5,238)	(6,132)

## NOTES CONTINUED

### 23. Post employment benefits continued

The movement in the defined benefit obligation over the year is as follows:

	2015 £000	2014 £000
Value of defined benefit obligation at start of year	28,951	25,826
Interest cost	1,023	1,138
Benefits paid	(1,078)	(1,100)
Actuarial gains: experience differing from that assumed	(186)	(56)
Actuarial gains: changes in demographic assumptions	–	381
Actuarial (gains)/losses: changes in financial assumptions	(483)	2,762
Value of defined benefit obligation at end of year	28,227	28,951

The movement in the value of the Scheme's assets over the year is as follows:

	2015 £000	2014 £000
Market value of assets at start of year	22,819	21,546
Interest income	814	960
Actual (loss)/gain	(226)	753
Employer contributions	660	660
Benefits paid	(1,078)	(1,100)
Market value of assets at end of year	22,989	22,819

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Change in assumption	Change in defined benefit obligation
Discount rate	+/-0.5% pa	-8%/+9%
RPI inflation	+0.5% pa/-0.5% pa	+7%/-6%
Assumed life expectancy	+1 year	+3%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the other assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position. The assets of the Scheme are invested as follows:

Asset class	Year ended 31 December 2015		Year ended 31 December 2014	
	Market value £'000	% of total Scheme assets	Market value £'000	% of total Scheme assets
Equities	15,120	66%	15,512	68%
Corporate Bonds	3,967	17%	3,487	15%
Gilts	2,597	11%	2,633	12%
Cash	873	4%	752	3%
Insured pensioners	432	2%	435	2%
Total	22,989	100%	22,819	100%
Actual return on assets over the year:	588		1,713	

**Other pension schemes**

On 1 January 2006 a separate stakeholder scheme was set up for those employees who were originally in the closed defined benefit pension scheme. The contributions paid by the Company in 2015 were £390,000 (2014: £431,000).

In addition to this scheme, the Company operates a stakeholder scheme which is open to employees who joined after 1 October 2001. The contributions paid by the Company in 2015 were £228,000 (2014: £276,000).

The Company also operates another stakeholder scheme which is open to employees who joined after 1 March 2014. The contributions paid by the Company in 2015 were £76,000 (2014: £65,000).

For certain non UK based employees of the Company, the Company makes contributions into individual schemes. The contributions paid by the Company in 2015 were £1,000 (2015: £2,000).

For USA based employees, Zotefoams Inc. operates a 401(k) plan. The contributions paid by Zotefoams Inc. in 2015 were £52,000 (2014: £54,000).

**24. Share-based payments**

The Company has share option schemes that entitle senior management personnel to purchase shares in the Company. Options are exercisable at a price equal to the average quoted closing market price of the Company's shares on the day before or on the three dealing days before the option is granted. The vesting period is three years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Depending on the circumstances options are normally forfeited if the employee leaves the Group before the options vest.

In 2007 the Company introduced a LTIP scheme for senior management personnel. Shares are awarded in the Company and vest after three years to the extent performance conditions are met. Dependant on the circumstances awards are normally forfeited if the employee leaves the Group before the award vests.

In 2007 the Company introduced a Deferred Bonus Plan. Originally under the Plan executive bonuses over 40% of bonusable salary were held as deferred shares for three years. The awards made in March 2013 are still outstanding under this arrangement. In 2014 the Remuneration Committee amended the Deferred Bonus Plan for bonuses awarded since 2014, where 25% of executive bonuses are held as deferred shares for three years. Depending on the circumstances awards are normally forfeited if the employee leaves the Group before the award vests.

Details of the vesting conditions for the share, share option and LTIP awards are given in the Remuneration Report on pages 48 to 51.

**Details of the options outstanding during the year are as follows:**

	2015		2014	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the year	291,360	128.4	300,533	126.2
Exercised during the year	(118,809)	80.7	—	—
Forfeited during the year	(69,950)	190.6	(49,666)	201.3
Granted during the year	75,348	292.2	40,493	234.6
Outstanding at the end of the year	177,949	205.2	291,360	128.4
Exercisable at the end of the year	70,290	106.7	186,199	88.2

The options outstanding at 31 December 2015 have an exercise price of between 106.7p and 301.7p (2014: 77.0p and 245.7p) and a weighted contractual life of 9 years (2014: 7 years).

The fair value received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of fair value of the services received measured is based on a Black-Scholes model. The contractual life of the option (10 years) is used as an input into this model. No allowance is made for early leavers.

## NOTES CONTINUED

### 24. Share-based payments continued

Details of the LTIP awards outstanding during the year are as follows:

	2015		2014	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the year	426,503	–	322,532	–
Exercised during the year	(76,430)	–	(44,270)	–
Granted during the year	174,181	–	223,046	–
Forfeited during the year	(95,101)	–	(74,805)	–
Outstanding at the end of the year	429,153	–	426,503	–
Exercisable at the end of the year	–	–	–	–

Details of the Deferred Bonus Plan awards outstanding during the year are as follows:

	2015		2014	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the year	44,568	–	80,868	–
Exercised in the year	–	–	(36,300)	–
Granted during the year	16,891	–	–	–
Outstanding at the end of the year	61,459	–	44,568	–
Exercisable at the end of the year	–	–	–	–

### Fair value of share options and assumptions

The expected volatility is based on historic volatility for a three year period prior to the award.

	19 March 2013	16 April 2013	12 August 2013	7 April 2014	7 April 2014	21 August 2014	30 March 2015	30 March 2015	17 August 2015
Share price (p)	202.0	220.5	200.0	229.8	229.8	245.7	285.0	285.0	310.0
Exercise price (p)	nil	220.5	200.0	229.8	nil	245.7	285.0	nil	301.7
Expected volatility	35%	35%	35%	35%	35%	35%	35%	35%	35%
Option life	Five years	Five years	Five years	Five years	Five years	Five years	Five years	Five years	Five years
Expected dividends (p) (assumed to be increasing at 2.5% pa)	5.2	5.2	5.2	5.4	5.4	5.4	5.5	5.5	5.5
Risk free interest rate (based on national government bonds)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Fair value at grant date (p)	202.0	55.0	50.0	61.0	229.8	66.0	80.0	260.0	90.0

The share option awards are granted under a service condition and a performance condition. There are no market conditions associated with the share options. The LTIP awards are granted under a service condition and a performance condition, part of which is a market condition. The Deferred Bonus Plan awards are granted under a service condition.

The amounts recognised in the Income Statement for equity-settled share-based payments are as follows:

	Group and Company	
	2015 £000	2014 £000
Within administrative expenses – share-based payment charge	223	138
– related National Insurance	64	38
Element of the above relating to Directors of Zotefoams plc	140	78



## 25. Related parties

### Directors

The Directors of the Company as at 31 December 2015 and their immediate relatives control approximately 1.9% of the voting shares of the Company. Details of Directors' pay and remuneration are given in the Remuneration Report on pages 48 to 55. The Executive Directors are considered to be the only key management personnel.

### Transactions with key management personnel:

The compensation of key management personnel is as follows:

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Key management emoluments	505	488	505	488
Company contributions to money purchase pension plan	73	71	73	71
Share related awards	140	78	140	78
	718	637	718	637

### Subsidiaries

Details of the subsidiaries of the Company are set out in note 13. These companies are considered to be related parties.

In addition the Company has a 50% interest in associate companies Azote Asia Limited (incorporated in Hong Kong) and Inoac Zotefoams Korea Limited (incorporated in South Korea).

Common control exists between the Company and Zotefoams Employee Benefit Trust (EBT) and Zotefoams EBT has therefore been consolidated as described in note 1b.

Zotefoams Inc. owns 100% of the ownership units of MuCell Extrusion LLC, which is incorporated in the USA.

Balances between the Company and its active subsidiaries and associates are as follows:

	Receivables owed by/(to)		Investment in	
	2015 £000	2014 £000	2015 £000	2014 £000
Zotefoams Inc	4,747	1,604	–	–
KZ Trading and Investment Ltd	125	–	–	–
Azote Asia Limited	1,817	995	–	–
MuCell Extrusion LLC	(67)	–	–	–
Zotefoams International Limited	–	–	13,265	10,172

In addition there is a net payable balance of £2,166,000 owed by MuCell Extrusion LLC to Zotefoams Inc.

## 26. Accounting estimates and judgements

In the application of the Group's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities which are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other facts that are considered relevant. Actual amounts may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## NOTES CONTINUED

### 26. Accounting estimates and judgements continued

#### Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

#### i) Property, plant and equipment

In relation to the Group's property, plant and equipment, useful economic lives and residual values of assets have been established using historical experiences and an assessment of the nature of the assets involved. Assets are assessed on an ongoing basis to determine whether circumstances exist that could lead to a potential impairment of the carrying value of such assets. No circumstances have been identified to suggest that this is the case.

#### ii) Intangible assets

The determination of goodwill and intangible assets requires judgements made by the Directors. Goodwill is reviewed annually to assess the requirement for impairment. Other intangible assets are assessed on an ongoing basis to determine whether circumstances exist that could lead to the conclusion that the carrying value of such assets is not supportable. Such calculations require judgement relating to the appropriate discount factors and long-term growth prevalent in particular markets as well as short-term business performance. The Directors also draw upon experience in making these judgements.

#### iii) Pensions assumptions

The valuation of pension scheme liabilities is calculated in accordance with Group policy. The valuation is prepared by an independent qualified actuary but significant judgements are required in relation to the assumptions for pension increases, inflation, the discount rate applied, investment returns and member longevity which underpin the valuations. Note 23 contains information about the assumptions relating to retirement benefit obligations.

#### Key judgements

#### i) Development costs

Under IAS 38 development costs must be capitalised when specified criteria have been met. Following a review of the Company's research and development expenditure, because of the uncertainties which still exist on the development of new products, it was concluded that no material development costs met the IAS 38 criteria require for capitalisation and therefore all development costs have been expensed.

#### ii) Joint ventures

Under IFRS 11 Joint Arrangements, management is required to assess the contractual terms of joint-venture agreements to determine the Group's and Company's rights and obligations under such agreements, to make a judgement on the type of arrangement such agreements constitute, and to apply the provisions of the accounting standard accordingly. It was concluded that the contracts entered into for a sales and a manufacturing joint-venture with INOAC Corporation constituted joint-venture agreements, and therefore these investments have been accounted for under the equity method.

### 27. Post balance sheet event

On 1 March 2016 the Group and Company reduced its overdraft facility from £4.9m to £2.0m and took out a four year multi-currency Revolving Credit facility ('RCF') for £8m secured on the property and book debts of the Company. This facility has financial covenants on net debt/EBITDA and EBIT/gross financing costs ratios.

## NOTICE OF THE 2016 ANNUAL GENERAL MEETING

### THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the action you should take, you are recommended to seek your own personal advice from your stockbroker, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all of your ordinary shares in Zotefoams plc, you should forward this document and other documents enclosed (except the personalised form of proxy) as soon as possible to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Notice is hereby given that the Annual General Meeting (the 'AGM') of Zotefoams plc (the 'Company') will be held at the registered office of the Company, 675 Mitcham Road, Croydon CR9 3AL on 18 May 2016 at 10.00 am for the following purposes:

#### Ordinary business

To consider and, if thought fit, pass resolutions numbered 1 to 11 below as ordinary resolutions:

1. To receive the Annual Report of the Company for the year ended 31 December 2015.
2. To approve the Annual Statement by the Chair of the Remuneration Committee and the Annual Report on Remuneration for the year ended 31 December 2015 set out on pages 38 and 39 to 56 (inclusive) in the Annual Report.
3. To declare a final dividend for the year ended 31 December 2015 of 3.8 pence per ordinary share, such dividend to be payable on 25 May 2016 to shareholders who are on the register of members of the Company at the close of business on 22 April 2016.
4. To elect G C McGrath as a Director who was appointed since the last Annual General Meeting.
5. To re-elect A C Bromfield as a Director who retires by rotation.
6. To re-elect M-L Clayton as a Director who retires by rotation.
7. To re-elect R J Clowes as a Director who retires by rotation.
8. To re-elect S P Good as a Director who retires by rotation.
9. To re-elect D B Stirling as a Director who retires by rotation.
10. That PricewaterhouseCoopers LLP be and is hereby re-appointed as Auditors of the Company to hold office from the conclusion of the AGM until the conclusion of the next general meeting at which accounts are laid before the Company.
11. To authorise the Audit Committee to determine the Auditors' remuneration.

#### Special business

To consider and, if thought fit, to pass the following resolutions of which resolution 12 will be proposed as an ordinary resolution and resolutions 13, 14 and 15 will be proposed as special resolutions:

12. That, in substitution for any equivalent authorities and powers granted to the Directors prior to the passing of this resolution, the Directors be and they are generally and unconditionally authorised pursuant to Section 551 of the Companies Act 2006 (the 'Act'):
  - (a) to exercise all powers of the Company to allot shares in the Company, and grant rights to subscribe for or to convert any security into shares of the Company (such shares, and rights to subscribe for or to convert any security into shares of the Company being 'relevant securities') up to an aggregate nominal amount of £740,240 (such amount to be reduced by the nominal amount of any allotments or grants made under paragraph (b) below in excess of £740,240); and further
  - (b) to allot equity securities (as defined in Section 560 of the Act) up to an aggregate nominal amount of £1,480,481 (such amount to be reduced by the nominal amount of any allotments or grants made under paragraph (a) above) in connection with an offer by way of rights issue:
    - (i) in favour of holders of ordinary shares in the capital of the Company, where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as practicable) to the respective number of ordinary shares in the capital of the Company held by them; and
    - (ii) to holders of any other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with treasury shares, fractional entitlements or legal, regulatory or practical problems arising under the laws or requirements of any overseas territory or by virtue of shares being represented by depository receipts or the requirements of any regulatory body or stock exchange or any other matter whatsoever;
- (c) provided that, unless previously revoked, varied or extended, this authority shall expire on the earlier of 30 June 2017 and the conclusion of the next Annual General Meeting of the Company, except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if this authority had not expired.

## NOTICE OF THE 2016 ANNUAL GENERAL MEETING CONTINUED

13. That the Directors be and they are empowered pursuant to Section 570(1) of the Act to allot equity securities (as defined in Section 560(1) of the Act) of the Company wholly for cash pursuant to the authority of the Directors under Section 551 of the Act conferred by resolution 12 above, and/or by way of a sale of treasury shares for cash (by virtue of Section 573 of the Act), in each case as if Section 561(1) of the Act did not apply to such allotment provided that:

(a) the power conferred by this resolution shall be limited to:

(i) the allotment of equity securities and sale of treasury shares for cash in connection with an offer of, or invitation to apply for, equity securities (but in the case of the authority granted under paragraph (b) of resolution 12, by way of a rights issue only):

(A) in favour of holders of ordinary shares in the capital of the Company, where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as practicable) to the respective number of ordinary shares in the capital of the Company held by them; and

(B) to holders of any other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with treasury shares, fractional entitlements or legal, regulatory or practical problems arising under the laws or requirements of any overseas territory or by virtue of shares being represented by depository receipts or the requirements of any regulatory body or stock exchange or any other matter whatsoever; and

(ii) in the case of the authority granted under paragraph (a) of resolution 12 and/or in the case of any sale of treasury shares for cash, the allotment, otherwise than pursuant to sub-paragraph (i) above, of equity securities or sale of treasury shares up to an aggregate nominal value equal to £222,072; and

(b) unless previously revoked, varied or extended, this power shall expire on the earlier of 30 June 2017 and the conclusion of the next Annual General Meeting of the Company except that the Company may before the expiry of this power make an offer or agreement which would or might require equity securities to be allotted (and treasury shares to be sold) after such expiry and the Directors may allot equity securities (and sell treasury shares) in pursuance of such an offer or agreement as if this power had not expired.

14. That the Company be and is hereby unconditionally and generally authorised for the purposes of Section 701 of the Act to make market purchases (within the meaning of Section 693(4) of the Act) of its ordinary shares of 5 pence each ('ordinary shares') provided that:

(a) the maximum number of ordinary shares authorised to be purchased is 4,441,444;

(b) the minimum price which may be paid for any such ordinary share is 5 pence;

(c) the maximum price which may be paid for an ordinary share shall be an amount equal to 105% of the average middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; and

(d) this authority shall, unless previously renewed, revoked or varied, expire on the earlier of 30 June 2017 at the conclusion of the next Annual General Meeting, but the Company may enter into a contract for the purchase of ordinary shares before the expiry of this authority which would or might be completed (wholly or partly) after its expiry.

15. That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

Dated: 5 April 2016

By order of the Board

**Registered Office:**

675 Mitcham Road  
Croydon  
CR9 3AL

## Notes

- (i) Pursuant to Part 13 of the Companies Act 2006 and to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only those members registered in the register of members of the Company at the close of business on 16 May 2016 (or if the AGM is adjourned, 48 hours before the time fixed for the adjourned AGM) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time. In each case, changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the AGM.
- (ii) If you wish to attend the AGM in person please bring the accompanying attendance card and present this to the Company's reception desk on arrival.
- (iii) A member who is entitled to attend, speak and vote at the AGM may appoint a proxy to attend, speak and vote instead of him. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A proxy need not be a member of the Company but must attend the AGM in order to represent you. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. Appointing a proxy will not prevent a member from attending in person and voting at the AGM (although voting in person at the AGM will terminate the proxy appointment). A proxy form is enclosed or has been sent to you separately. The notes to the proxy form include instructions on how to appoint the Chairman of the AGM or another person as a proxy. You can only appoint a proxy using the procedures set out in these notes and in the notes to the proxy form.
- (iv) To be valid, a proxy form, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, should reach the Company's registrars, Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, by no later than 10.00 am on 16 May 2016.
- (v) The proxy form includes details on how to vote electronically. The notes to the proxy form also include instructions on how to appoint a proxy by using the CREST proxy appointment service. You may not use any electronic address provided either in this notice of AGM or in any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.
- (vi) In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.
- (vii) The following information is available at [www.zotefoams.com](http://www.zotefoams.com): (1) the matters set out in this notice of AGM; (2) the total numbers of shares in the Company, and shares in each class, in respect of which members are entitled to exercise voting rights at the AGM; (3) the totals of the voting rights that members are entitled to exercise at the AGM, in respect of the shares of each class; and (4) members' statements, members' resolutions and members' matters of business received by the Company after the first date on which notice of the AGM was given.
- (viii) If you are a person who has been nominated by a member to enjoy information rights in accordance with Section 146 of the Companies Act 2006, notes (iii) to (v) above do not apply to you (as the rights described in these notes can only be exercised by members of the Company) but you may have a right under an agreement between you and the member by whom you were nominated to be appointed or to have someone else appointed, as a proxy for the meeting. If you have no such right or do not wish to exercise it, you may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
- (ix) A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways: either by the appointment of a proxy (described in notes (iii) to (v) above) or of a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the Company's Articles of Association and the relevant provision of the Companies Act 2006.
- (x) Members attending the AGM have the right to ask, and, subject to the provisions of the Companies Act 2006, the Company must cause to be answered, any questions relating to the business being dealt with at the AGM.
- (xi) As at the close of business on 5 April 2016, the Company's issued share capital comprised 44,414,442 ordinary shares of 5 pence each. Each ordinary share carries the right to one vote at a general meeting of the Company. No ordinary shares were held in treasury and accordingly the total number of voting rights in the Company as at the close of business on 5 April 2016 is 44,414,442.
- (xii) Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with the auditors of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's Auditors not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.
- (xiii) Copies of the Executive Directors' service contracts with the Company and any of its subsidiary undertakings, deeds of indemnity in favour of the Directors and letters of appointment of the Non-Executive Directors are available for inspection at the registered office of the Company during the usual business hours on any weekday (Saturday, Sunday or public holidays excluded) from the date of this notice until the conclusion of the AGM.

## Explanatory notes to the resolutions

### Ordinary business

#### Resolution 1 – Receiving the Annual Report and Accounts

Shareholders will be asked to receive the Company's Annual Report for the financial year ended 31 December 2015, as required by law.

#### Resolution 2 – Remuneration Report

Resolution 2 seeks Shareholder approval of the Remuneration Report for the year ended 31 December 2015 which can be found on pages 38, and 39 to 56 (inclusive) of the Annual Report.

The Company's Auditors, PricewaterhouseCoopers LLP, have audited those parts of the Directors' Remuneration Report that are required to be audited and their report may be found on pages 62 to 65 of the Annual Report.

The Shareholders approved the Remuneration Policy at the AGM held on 20 May 2015 and it became effective immediately. As there have been no changes to the Directors' Remuneration Policy, there is no need to seek further approval of it at this year's AGM. The current intention is to submit the Remuneration Policy for Shareholder approval at the AGM scheduled for 2017, unless, in the interim, there are specific changes that require Shareholder approval. The Remuneration Policy, for ease of reference, has been included in the Annual Report on pages 38 to 56 (inclusive).

#### Resolution 3 – Declaration of dividend

This resolution concerns the Company's final dividend payment. The Directors are recommending a final dividend of 3.8 pence per ordinary share in respect of the year ended 31 December 2015 which, if approved, will be payable on 25 May 2016 to the shareholders on the register of members on 22 April 2016.

## NOTICE OF THE 2016 ANNUAL GENERAL MEETING CONTINUED

### Resolutions 4 to 9 – Election and Re-election of Directors

Resolution 4 concerns the election of G C McGrath, who was appointed to the Board since the last AGM was held on 13 May 2015.

The UK Corporate Governance Code requires all directors of FTSE 350 companies to stand for annual re-election. Whilst the Company is not within the FTSE 350, emerging best practice for listed companies is to follow this requirement and, therefore, the Board has decided for this year that all the Directors will stand for annual re-election. Resolutions 5 to 9 concern the re-election of A C Bromfield, M-L Clayton, R J Clowes, S P Good and D B Stirling.

Biographies for the Directors are set out on pages 30 and 31 of the report and accounts for the year ended 31 December 2015. The Chairman having undertaken performance reviews of the Directors and the Non-Executive Directors of the Chairman, the Board is satisfied that each Director continues to be effective and demonstrates commitment to the role and recommends that each Director should be elected or re-elected as the case may be.

### Resolutions 10 and 11 – Re-appointment of Auditors and their remuneration

Resolution 10 concerns the re-appointment of PricewaterhouseCoopers LLP as the Company's Auditors, to hold office until the conclusion of the Company's next general meeting where accounts are laid.

Resolution 11 authorises the Audit Committee to determine the Auditors' remuneration.

### Special Business

#### Resolution 12 – Power to allot shares

This resolution grants the Directors authority to allot shares in the capital of the Company and other relevant securities up to an aggregate nominal value of £740,240, representing approximately one-third (33.33%) of the nominal value of the issued ordinary share capital of the Company as at 29 March 2016, being the latest practicable date before publication of this notice. In addition, in accordance with the latest institutional guidelines issued by the Investment Management Association ('IMA'), paragraph (b) of resolution 12 grants the Directors authority to allot further equity securities up to an aggregate nominal value of £1,480,481, representing approximately two-thirds (66.67%) of the nominal value of the issued ordinary share capital of the Company as at 5 April 2016, being the latest practicable date before publication of this notice. This additional authority may be only applied to fully pre-emptive rights issues.

The intention of the authority granted pursuant to paragraph (b) of resolution 12 is to preserve maximum flexibility and if the Directors do exercise this authority, they intend to follow best practice as regards its use.

The Company does not currently hold any shares as treasury shares within the meaning of Section 724 of the Companies Act 2006 ('Treasury Shares').

The Directors do not have any present intention of exercising the authorities conferred by resolution 12 but they consider it desirable that the specified amount of authorised but unissued share capital is available for issue so that they can more readily take advantage of possible opportunities.

Unless revoked, varied or extended, this authority will expire at the conclusion of the next AGM of the Company or 30 June 2017, whichever is the earlier.

#### Resolution 13 – Authority to allot shares disregarding pre-emption rights

This resolution authorises the Directors in certain circumstances to allot equity securities for cash other than in accordance with the statutory pre-emption rights (which require a company to offer all allotments for cash first to existing shareholders in proportion to their holdings). The relevant circumstances are either where the allotment takes place in connection with a rights issue or the allotment is limited to a maximum nominal amount of £222,072, representing approximately 10% of the nominal value of the issued ordinary share capital of the Company as at 5 April 2016 being the latest practicable date before publication of this notice. Unless revoked, varied or extended, this authority will expire at the conclusion of the next AGM of the Company or 30 June 2017, whichever is the earlier.

The Board confirms that it will only allot shares representing more than 5% of the issued ordinary share capital of the Company for cash, where that allotment is in connection with an acquisition or specified capital investment (within the meaning given in the Pre-Emption Group's Statement of Principles) which is announced contemporaneously with the allotment, or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

The Directors consider that the power proposed to be granted by this resolution is necessary to retain flexibility, although they do not have any intention at the present time of exercising such power.

#### Resolution 14 – Authority to purchase shares (market purchases)

This resolution authorises the Board to make market purchases of up to 4,441,444 ordinary shares (representing approximately 10% of the Company's issued ordinary shares as at 5 April 2016, being the latest practicable date before publication of this notice). Shares so purchased may be cancelled or held as Treasury Shares. The authority will expire at the end of the next AGM of the Company or 30 June 2017, whichever is the earlier. The Directors intend to seek renewal of this authority at subsequent AGMs.

The minimum price that can be paid for an ordinary share is 5 pence being the nominal value of an ordinary share. The maximum price that can be paid is 5% over the average of the middle market prices for an ordinary share, derived from the Daily Official List of the London Stock Exchange, for the five business days immediately before the day on which the share is contracted to be purchased.

The Directors intend to exercise this right only when, in light of the market conditions prevailing at the time and taking into account all relevant factors (for example, the effect on earnings per share), they believe that such purchases are in the best interests of the Company and shareholders generally. The overall position of the Company will be taken into account before deciding upon this course of action. The decision as to whether any such shares bought back will be cancelled or held in treasury will be made by the Directors on the same basis at the time of the purchase.

As at 5 April 2016, being the latest practicable date before publication of this notice, there were outstanding awards under the Company's long-term incentive schemes in respect of 549,428 ordinary shares in the capital of the Company representing 1.24% of the Company's issued ordinary share capital. If the authority to purchase the Company's ordinary shares were exercised in full, such options would represent 1.37% of the Company's issued ordinary share capital.



#### Resolution 15 – Notice period for general meetings

Under the Companies Act 2006, a listed company must give at least 21 days' notice of its general meetings. However, this Act enables general meetings (other than AGMs) to be held on shorter notice of not less than 14 days provided the shareholders have given their consent at the previous AGM or a general meeting held since the last AGM. Resolution 15 seeks such approval similar to the resolution that was passed last year. The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed. The Directors will always endeavour to give as much notice as possible of general meetings, but would like to have the flexibility to call a general meeting on the shorter permitted notice period for time sensitive matters that are clearly in the shareholders' interests. If the authority is used, the Company will offer the ability, as required by the Companies Act 2006, to vote electronically.

#### Recommendation

**The Directors consider that the proposals being put to the shareholders at the AGM are in the best interests of the Company and of the shareholders as a whole. Accordingly, the Directors recommend that you vote in favour of the resolutions set out in the Notice of the AGM, as they intend to do in respect of their own beneficial holdings of ordinary shares.**

## FIVE-YEAR TRADING SUMMARY

	2015 £m	2014 £m	2013 £m	2012 restated £m	2011 £m
Total Revenue	<b>54.4</b>	49.1	44.6	47.2	44.2
Group Revenue	<b>53.9</b>	48.9	44.6	47.2	44.2
Operating profit (excluding exceptional items)	<b>6.3</b>	5.6	4.2	6.0	5.6
Profit before tax (excluding exceptional items)	<b>6.0</b>	5.3	3.9	5.8	5.5
Profit before tax (including exceptional items)	<b>6.0</b>	4.0	3.9	5.8	5.5
Profit after tax (including exceptional items)	<b>4.8</b>	3.3	3.2	4.6	4.6
Capital expenditure (including intangibles)	<b>9.1</b>	7.6	4.2	3.7	3.1
Cash generated from the operations	<b>8.4</b>	6.0	6.6	6.3	6.1
Basic earnings per share excluding exceptional items (p)	<b>11.1</b>	10.7	8.0	11.8	11.8
Basic earnings per share including exceptional items (p)	<b>11.1</b>	8.2	8.0	11.8	11.8
Dividends per ordinary share (p)	<b>5.60</b>	5.45	5.30	5.20	4.90

## ADVISERS

### Registered Office

675 Mitcham Road  
Croydon CR9 3AL

### Registered Number

2714645

### Financial Adviser and Broker

Investec Bank plc  
2 Gresham Street  
London EC2V 7QP

### Auditors

PricewaterhouseCoopers LLP  
Portland House  
High Street  
Crawley  
Sussex RH10 1BG

### Bankers

Barclays Bank plc  
1 Churchill Place  
London E14 5HP

### Solicitors

Osborne Clarke  
One London Wall  
London EC2Y 5EB

Collyer Bristow LLP  
4 Bedford Row  
London WC1R 4TF

### Registrars

Computershare Investor Services plc  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ  
[www.computershare.com](http://www.computershare.com)

## FINANCIAL CALENDAR

AGM	18 May 2016
Payment of final dividend	25 May 2016 to shareholders on the register at the close of business on 22 April 2016
Announcement of 2016 interim results	August 2016
Payment of interim dividend	October 2016
Announcement of 2017 results	March 2017

### Registrars

Enquiries concerning the holding of ordinary shares in the Company should be addressed to the registrars who should also be notified of any changes in a holder's address.

The registrars are: Computershare Investor Services Plc,  
The Pavilions, Bridgwater Road, Bristol BS99 6ZZ.  
Telephone: 0870 707 1424  
[www.investorcentre.co.uk/contactus](http://www.investorcentre.co.uk/contactus)

### Website

The Company has a website ([www.zotefoams.com](http://www.zotefoams.com)) which provides information on the business and products.

ZOTEK®, AZOTE®, T-FIT®, PLASTAZOTE® and microZOTE® are registered trademarks of Zotefoams plc.

T-TUBES® is a registered trademark of UFP Technologies Inc.  
MuCell® is a registered trademark of Trexel Inc.

## NOTES





**ZOTEFOAMS**

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