ZOTEFOAMS

A world of applications

Zotefoams plc
Annual Report 2017

Group revenue

£70.15m

Growth **+22%**

2016 **£57.38m**

Gross margin

36.3%

Growth **+89 basis points**

2016 **35.4%**

Profit before tax and exceptional item

£8.81m

Growth **+22%**

2016 **£7.23m**

Profit before tax

£7.55m

Growth **+8%**

2016 **£6.99m**

Basic earnings per share before exceptional item

16.04p

Growth **+17%**

2016 **13.69p**

Basic earnings per share

13.70p

Growth **+3%**

2016 **13.25p**

Final dividend

4.02p

Growth **+3.1%**

2016 **3.90p**

Return on capital employed

15.5%

Growth **+157 basis points**

2016 **14.0%**

Lift here to find out what makes us different...

Our proposition

The Zotefoams difference

Decades of trusted service...

For almost 100 years our customers have trusted us to deliver innovative products that help them become more competitive, profitable and sustainable.

Delivering innovative solutions...

Our foams are superior because they are manufactured using a unique process. By investing in technology we create better solutions for our clients, differentiate ourselves from our competitors and create barriers to entry.

See page 2 for more

AZOTE®
Premium durable foams

ZOTEK®
Lightweight technical foams

T-FIT®
Technical insulation for industry

MuCell®
Innovative and accessible technology for greener, lower cost plastic products

For a world of everyday applications...

Our products are used daily around the world in a diverse range of applications, from sports midsoles to window seals in commercial airlines. Our sector and geographic diversification exposes us to growth trends and helps insulate us from downturns.

- Air Conditioning and Ducting
- Automotive
- Aviation and Aerospace
- Biotechnology
- Building and Construction
- Composites
- Conservation
- Creativity
- Defence
- Electronics
- Food and Beverage
- Footwear
- Healthcare and Cosmetics
- Marine
- Mass Transit
- Packaging
- Personal Protection
- Pharmaceutical
- Semiconductor
- Sport and Leisure

See page 4 for more

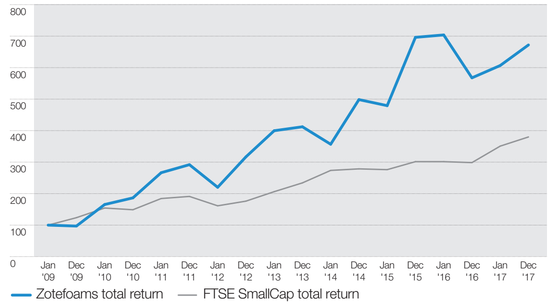
That help solve the issues of tomorrow...

Developments around environmental protection, shifting demographics and increased regulatory pressure will continue to create many exciting opportunities for us to generate substantial future growth.

See page 12 for more

And drive returns for our shareholders.

Our aim is to deliver returns for shareholders across the business cycle.



Growth in Group revenue

22%

Growth in profit before tax and exceptional item

22%

Growth in earnings per share before exceptional item

17%

Zotefoams designs and manufactures specialised foam products for a world of everyday applications.

For nearly 100 years we have created innovative solutions for our customers, enabling them to become more competitive, profitable and sustainable. Our leadership position today is based on our wide portfolio of differentiated products, our technological excellence and our exceptional people.

Looking forward, our products will continue to provide solutions in a resource-constrained world that is getting older, healthier and wealthier, by helping to save energy, reduce waste, improve safety standards and keep people active.

Contents

Group at a glance

Four strong, distinctive brands

ZOTEFOAMS

Zotefoams produces a wide range of innovative products that are a critical component in a world of everyday applications.

Demand for these products is influenced by three global megatrends:

1. Environment

Doing more with less in a resource-constrained environment

2. Demographics

Shifting demands of an older, wealthier and healthier population

3. Regulation

Increasing pressure to drive higher standards

These trends inform and dictate our product development and marketing strategy, as well as the allocation of our resources.

Read more Our external context p12

POLYOLEFINS

AZOTE®

Premium durable foams

Uniformly dense foam sheets with a consistent cell structure. These foam sheets and blocks are manufactured from common polymers using our unique nitrogen-expansion process.

Key markets served

- Automotive
- Aviation
- Construction
- Industrial
- Marine
- Military
- Packaging
- Sport and leisure

Key market drivers

1. Light weighting
2. Durability
3. Fire safety
4. Reduced toxicity

Producing best in class solutions for an Italian defence contractor

See page 16 for more

AUTOCLAVE TECHNOLOGY

HPP

ZOTEK®

Lightweight technical foams
Ultra durable, highly heat and impact resistant foam. ZOTEK® foams are manufactured from engineering polymers using our unique nitrogen-expansion process.

Key markets served
- Automotive
- Aviation
- Athletic footwear
- Construction
- Packaging

Key market drivers
1. Light weighting
2. Personal safety
3. High-technology insulation
4. Durability
5. Fire safety
6. Health and leisure

T-FIT®

Technical insulation for industry
A range of bacteria resistant insulation products manufactured from high-grade polymers using our unique nitrogen-expansion process. T-FIT® products are purpose designed to perform in demanding environments.

Key markets served
- Food and personal care manufacturing
- High-temperature processing environments
- Pharmaceutical, biotech and semiconductor cleanrooms

Key market drivers
1. Aging population
2. Demographic changes
3. Reduced toxicity

EXTRUSION TECHNOLOGY

MEL

MuCell®

Innovative and accessible technology for greener, lower cost plastic products
This pioneering technology injects gas into plastics during the manufacturing process to create micro-bubbles licensed to customers manufacturing plastic parts. The end product uses 15 – 20% less material.

Key markets served
- Automotive
- Consumer packaging

Key market drivers
1. Environmental benefit
2. Lower cost

Making the future of electric cars a reality

See page 17 for more

Complying to unprecedented levels of aseptic, microscopic, pollutant-free, assembly

See page 18 for more

Driving benefits throughout production and distribution

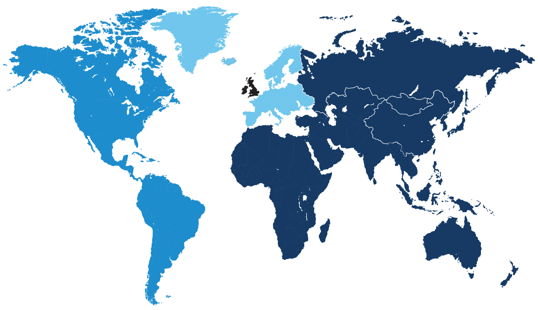
See page 19 for more

Product and geographic diversity

A world of applications

Zotefoams produces high-technology foams for a range of everyday applications around the world.

By constantly talking to our customers and investing in innovation, we provide solutions that help to save energy, reduce waste, improve safety standards and keep people active. From automotive insulation to yoghurt pot manufacture, and thousands of products in between, our broad range of products helps solve the issues of tomorrow.



North America

30%

of Group revenue

Local manufacturing presence in Kentucky for Polyolefin foams, small cutting operation in Oklahoma to service the construction market, and headquarters of MuCell Extrusion LLC (MEL), based in Massachusetts, licensing technology globally.

United Kingdom & Eire

18%

of Group revenue

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

Europe

37%

of Group revenue

Largest market for Polyolefin foams.

Rest of the world

15%

of Group revenue

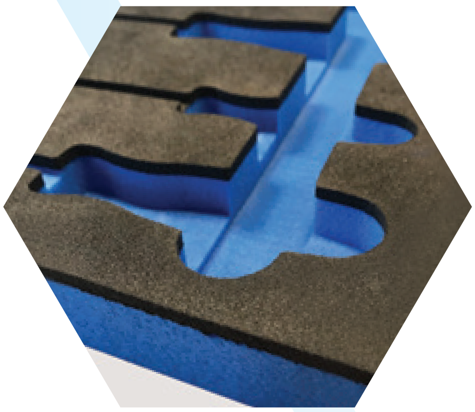
T-FIT® technical insulation venture in China for manufacture and sales of insulation products globally. Local representation of HPP. Joint venture with INOAC Corporation for Polyolefin foams sales in Asia.

Transportation

Lightweight foams in both aviation and automotive provide seals and gaskets against noise, vibration and moisture. Consistent performance with minimal weight improves fuel efficiency. Increasingly, ZOTEK® foams are being used in engineered components.

Packaging

Zotefoams' foams are used in packaging where purity, ease of processing or tear strength are needed, typically in long-term packaging or speciality storage. MuCell® technology is used to reduce the plastic usage in common disposable packaging items.



Building & Construction

T-FIT® provides insulation for pipes in technical applications. AZOTE® foams are used globally in a wide variety of construction products, including window seals in Asia and bridge joints in North America. Zotefoams Midwest LLC cuts foams used for roof seals in agricultural and light-industrial buildings.

Industrial

Marine hoses benefit from AZOTE® foams' best in class strength-to-weight ratio. Softer foams offer unique sealing properties in many applications such as white goods or other very demanding environments. ZOTEK® foams are used in oil-resistant seals. Moisture resistance, strength and ease of transformation are often determining factors in the choice of foams for a wide variety of industrial applications.

Sport & Leisure

Our foams are used for energy conservation in footwear, energy diffusion in impact protection pads, comfort in knee-pads, buoyancy in swimming aids and life-vests for extreme sports. Lightweight is often a factor in these applications.

Medical

Unsurprisingly, purity is often the critical factor in medical applications. The range of AZOTE® polyolefin foams also offers a wide variety of other properties such as rigidity at lightweight, conformability and comfort, as well as ease of processing.

Other

The ingenuity of our customers, breadth and flexibility of our products and variety of processing techniques mean that there is an amazing diversity of uses for our foams. Often these applications require a combination of attributes not found in competitor foams, such as colour vibrancy, ease of processing and extreme lightweight, strength or cell structure.

An introduction from our Chairman

A very successful year

> We have a strong portfolio of differentiated products and growth opportunities and we will continue to invest in capacity to enable these to be delivered.

Earnings per share before exceptional item

16.04p

+17%

2016 **13.69p**

Total dividend

5.93p

+3.1%

2016 **5.75p**

I am pleased to report a very successful year of strong sales and earnings growth and significant progress in the development of our business, with the commissioning of our largest ever capital investment project and the creation of an important strategic partnership with Nike.

2017 performance

Group sales grew 22% to £70.15m (2016: £57.38m) and profit before tax and exceptional item also grew 22% to £8.81m (2016: £7.23m). Earnings per share before exceptional item rose 17% from 13.69p to 16.04p. Profit before tax increased by 8% to £7.55m (2016: £6.99m) and earnings per share was up 3% to 13.70p (2016: 13.25p).

All business segments reported strong sales growth and our pipeline of commercial opportunities developed positively throughout the year. We have continued to invest in product and market development as well as the governance structure to support an increasingly international, high-growth business.

Investments

The first phase of investment, HP1, at our site in Kentucky, USA has now been successfully commissioned, increasing Group high-pressure autoclave capacity by over 20%. Further capacity investment, this time in low-pressure autoclaves and infrastructure, at a cost of £12m, was approved during 2017 for our Croydon, UK site, primarily for expansion of our ZOTEK® range of HPP foams.

The Board has also assessed a number of additional capacity options. It has decided, as a first step, to proceed with the installation of a second high-pressure autoclave (HP2) at our site in Kentucky at a cost of some $9m, which also includes a supporting extrusion line. The investment should deliver similar incremental capacity to HP1 and is expected to be commissioned in late 2019.

This is an exciting time for Zotefoams. We have a strong portfolio of differentiated products and growth opportunities and we will continue to invest in capacity to enable these to be delivered.

Dividend

The Board is proposing a final dividend of 4.02p per ordinary share (2016: 3.90p) which, if approved by shareholders, would make a total of 5.93p per ordinary share for the year (2016: 5.75p), an increase of 3.1%. This reflects the Board's continued confidence in the Group's future and is in line with the targeted policy of paying a progressive dividend. If approved, the final dividend will be paid on 24 May 2018 to shareholders on the register on 20 April 2018.

Board changes and governance

In August 2017 the Board appointed Doug Robertson as a Non-Executive Director and Chair of the Audit Committee. Doug succeeded Marie-Louise Clayton, who retired from the Board on 30 September 2017 and, on behalf of the Board, I would like to thank her for her contribution both as Non-Executive Director and Audit Committee Chair during the six years that she served on the Board. After 10 years on the Board Richard Clowes will be retiring at the AGM on 16 May 2018 and, to prepare for this, on 2 January 2018 Jonathan Carling joined the Board as a Non-Executive Director. I would like to express my thanks to Richard for his guidance and significant contribution to the Board throughout his tenure. We are pleased to announce that Doug Robertson will be replacing Richard as the Senior Independent Director upon his departure. We have a refreshed Board with a good balance of experience to challenge, guide and support the Executives in the delivery of our strategy.

The Board considers that it has fully applied all of the principles and provisions of the UK Corporate Governance Code during 2017. More information is provided in the Corporate Governance report.

People

Zotefoams relies on the skills, effort and dedication of our people and ensuring that we have the right people and talent for the future needs of our business is critical. I would like to welcome those who have joined during the past twelve months and extend my thanks to each and every one of our hard-working employees who have made 2017 a very successful year.

Steve Good
Chairman

6 April 2018

Group CEO's strategic review

Delivering organic growth

"With record sales and profits in 2017, Zotefoams is becoming more international, more diversified and has a strong portfolio of opportunities to deliver further organic growth in line with our stated strategic intent.

2017	United Kingdom & Eire	Continental Europe	North America	Rest of the World	Total
Change %	**27%**	**20%**	**6%**	**83%**	**22%**
Group revenue (000's)	**£12,679**	**£26,201**	**£21,104**	**£10,162**	**£70,146**
% of Group revenue	**18%**	**37%**	**30%**	**15%**	**100%**
2016					
Group revenue (000's)	£10,008	£21,864	£19,940	£5,564	£57,376
% of Group revenue	17%	38%	35%	10%	100%

Another year of progress

Zotefoams has performed strongly, delivering organic revenue growth of 22% to £70.15m (2016: 57.38m) and profit before tax growth, before exceptional item, of 22% to £8.81m (2016: £7.23m). Our strategy is to utilise our unique, cellular materials technology to manufacture value-added foam products and license related intellectual property. The markets in which we operate are driven by global trends – demographic, environmental and regulatory – which we believe offer potential for high rates of market growth as well as opportunity for our disruptive technology solutions.

We measure strategic progress on four metrics, all before exceptional items:

1. Our HPP and MEL business units, which offer these unique, disruptive products and solutions, grew 32% and 56% respectively and together now account for 25% of Group revenues.
2. Sales of our highly differentiated AZOTE® polyolefin foam products grew by 18%, well above our target rate of twice global GDP growth.
3. Group operating margins were 13.4% (2016: 13.3%), as underlying operating profit, measured as the sum of segment margins, increased to 17.2% (2016: 16.8%).
4. Group return on capital, which excludes large asset investments not yet commissioned, increased to 15.5% from 14.0%.

With record sales and profits in 2017, Zotefoams is becoming more international, more diversified and has a strong portfolio of opportunities to deliver further organic growth in line with our stated strategic intent.

Human resources and embedding our culture to deliver

To deliver its potential Zotefoams needs talented people. We need to recruit, retain and motivate them as individuals and to work together in teams, often across geographic and cultural boundaries. As our business grows this is an increasing challenge. In 2017 82% of revenues were outside the UK, the number of non-UK based employees increased by 14% and we invested 69% of capital outside the UK. Developing the right Group culture is important to complement the governance structures needed in a diverse, high-growth business. Zotefoams' culture is based around brand values and further development as a learning organisation, where lessons from failure may be the first step forward, where employees understand how we all contribute to the business and where we celebrate success and value the contribution of others. Within this structure, business units and brand leaders have significant autonomy to operate in a dynamic environment.

We recognise that matching our global talent base to our growth challenges is key to our success.

Key investments

Zotefoams' core autoclave technology is asset intensive with high barriers to entry on cost, lead-time and know-how. We took the decision in late 2014 to invest significantly in our site in Kentucky, USA and the $33m investment included infrastructure, extrusion and two high-pressure autoclaves, the first of which, HP1, has now been successfully commissioned. Recently, the Board of Zotefoams approved the commissioning of the second high-pressure autoclave (HP2) and

Group CEO's strategic review Continued

associated extrusion equipment at an additional cost of $9m. This positions Kentucky as a significant, stand-alone contributor to Group capacity, initially focused on AZOTE® polyolefin foams, with the site large enough for further investment if needed. During 2017 we also approved a £12m investment for infrastructure and two low-pressure autoclaves for our Croydon, UK site, primarily for expansion of our ZOTEK® range of HPP foams. This recent acceleration of capacity investment is all growth related, with expectations of increased revenues driven by our portfolio of differentiated products and market opportunities. In total, we have committed to increasing our capacity by approximately 45% over 2017 production run rates.

The HP1 investment cost more and took longer than initially anticipated. While this is disappointing, we have learnt significant lessons from this, including improved clarity on certain costs, management of the risks associated with long-lead-time, specialist, equipment and the potential opportunity loss from lack of capacity. We therefore emerge as a better-informed organisation, more capable of managing similar investments in the future, whilst recognising that risks to execution remain on large and complex capital projects.

Zotefoams' organic growth strategy requires that we invest in product and market development as well as in the governance structure to support an increasingly international business. We have therefore seen a large increase in our administration and distribution costs, including technical and market development, linked to both current and expected future states of the Zotefoams business. Cost investment currently exceeds revenue in three major product groups, MuCell Extrusion, T-FIT® insulation and ZOTEK® N foams, which, together, represent £7.1m of Group revenues (2016: £4.56m) and, we believe, are well positioned for long-term profitable growth.

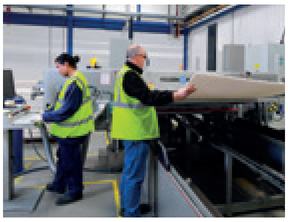
Current trading and outlook

The year has started positively, with first quarter order volumes 8% higher than 2017 and an increased proportion of higher-value HPP sales. Our investment in capacity in Kentucky, USA has now been commissioned and we made the first sales in February. We have also broken ground on our investment in Croydon, which increases low-pressure capacity for our HPP businesses by a factor of six. The Board has now approved the commissioning of our second high-pressure autoclave in the USA, with a view to having this operational during 2019.

We believe that investment in product and market development over the past years, together with investment in capacity to meet expected future levels of demand, leave us well placed to support future growth and, while being mindful of the risks posed by the macroeconomic environment and a strengthening in the value of sterling, the Board remains confident about the future prospects for our business.

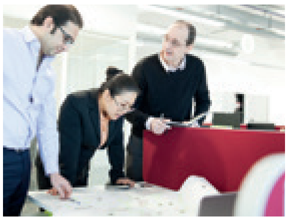
Our Kentucky plant begins production

Following the decision late 2014 to invest significantly in our Kentucky, USA plant, production of commercial AZOTE® foam commenced in February 2018. The plant is now a fully integrated production facility, adding extrusion and high-pressure autoclave capability to the already existing low-pressure foaming capability in place since 2001.



Development of a more broadly based HPP business

Sales in the HPP business unit grew 32%, with strong growth in ZOTEK® PEBA foams used in footwear as well as in the T-FIT® Clean range of products, which provide advanced insulation solutions to the biotech and pharmaceutical markets.



Investing in people

Talent attraction and employer branding are areas we have paid particular attention to in recent years, and in 2017 we have again seen the benefits of this investment through the highly skilled and qualified people we have hired.

Polyolefin foams

AZOTE®

Group revenue

£52.82m

Growth **+18%**

2016[2] **£44.73m**

Segment profit pre amortisation[1]

£10.29m

Growth **+29%**

2016[2] **£8.00m**

Segment profit margin[1]

19%

2016[2] **18%**

Sales in Polyolefin foams increased by 18% to £52.82m (2016: £44.73m), with segment profit increasing by 29% to £10.29m (2016: £7.96m).

AZOTE® polyolefin foams are manufactured using our unique, high-pressure nitrogen gas, autoclave process. This segment represented 75% of Group revenues and is the original and most diversified part of the Zotefoams business. AZOTE® foams are more consistent, lighter weight and possess higher purity than foams manufactured using chemical technology. These attributes make our foams ideal for multiple use or "permanent" storage packaging, lightweight parts in aircraft, cars and trains, construction applications and medical equipment.

During 2017 we operated the Croydon facility at its effective capacity, increasing sales volumes globally by around 7%. Price increases and a better mix of sales, both by product and market, contributed 6% to revenue growth while more favourable exchange rates, mainly compared to the first six months of 2016, benefitted revenues by 5%. In continental Europe much of the mix impact was realised in Germany, where direct supply into a larger number of customers benefitted both pricing and business development. In North America the major impact was from our foam cutting operation in Tulsa, Oklahoma, which was operational for the full 12 months, increasing selling prices with their value-added processing of our materials. In the United Kingdom & Eire and Asia, revenues increased by 7% and 25% respectively.

The operational leverage impact of higher sales, while operating at capacity, meant that profits increased significantly in an environment of modest labour cost increases and stable prices for LDPE, our main raw material, despite a more difficult inflationary environment in some other materials and energy.

Increasingly our sales resource is spent specifying our product at end users, often in collaboration with channel members. As additional capacity comes on line we believe this is the right approach to enhance the quality of our business, along with product range enhancement and selected value-added services.

1 Excludes amortisation of acquired intangible items.

2 Excludes exceptional items.

High-Performance Products

ZOTEK® T-FIT®

Group revenue	Segment profit pre amortisation
£13.15m	**£3.16m**
Growth **+32%**	Growth **+27%**
2016 **£9.99m**	2016 **£2.48m**

Segment profit margin

24%

2016 **25%**

MEL

MuCell®

Group revenue	Segment loss pre amortisation
£4.25m	**£(1.03)m**
Growth **+56%**	Growth **(158)%**
2016 **£2.73m**	2016 **£(0.40)m**

HPP comprises ZOTEK® technical foams and T-FIT® insulation products. Sales increased by 32% to £13.15m (2016: £9.99m) and segment profit increased by 27% to £3.16m (2016: £2.48m).

HPP is a portfolio of products, where our unique autoclave technology is applied to a variety of high-performance plastics to create foams with specific attributes. These attributes, such as excellent fire resistance, high-temperature performance, energy management, etc., are designed to meet the exacting needs of industries such as aviation, automotive, biotech and pharmaceutical and sports equipment. We see excellent opportunities to continue the growth experienced to date and we allocate resource and development priority accordingly.

2017 saw very strong growth in ZOTEK® PEBA foams used in footwear. In December 2017 we announced a significant strategic partnership with Nike, focused on this market segment, which is now receiving a substantially larger allocation of resource and investment aligned to its continued growth potential. ZOTEK® F fluoropolymer foams are mainly sold for aviation applications and, although remaining the largest element of HPP, the 2017 performance was below expectations, and against trend, with sales declining year-on-year due mainly to destocking in the downstream supply chain to Boeing. ZOTEK® Nylon foam sales have developed as expected, with a growing portfolio of opportunities in transportation markets, but are currently a small part of this portfolio. Sales of T-FIT® advanced insulation grew strongly within the biotech and pharmaceutical markets and, in late 2017, we launched product line extensions, using a lower-cost manufacturing process, targeted at food, dairy and general process industries.

During 2017 we continued the development of complex three-dimensional foams. The solid parts are made by injection moulding, rather than extrusion, which offers the possibility of creating bespoke parts that retain their shape when foamed in Zotefoams' autoclave process, enabling Zotefoams to provide parts which are close to the final dimensions required by some end-users. The development is proceeding well and we expect a trial launch late in 2018. The development is initially focused on our ZOTEK® foams, where material yield is particularly important due to the higher cost of the polymers used.

MuCell Extrusion LLC ('MEL') licenses microcellular foam technology and sells related machinery. Sales increased by 56% to £4.25m (2016: £2.73m) and segment loss, before amortisation, increased to £(1.03)m (2016: £(0.40)m).

MEL's business model is to develop and license intellectual property ("IP"). MuCell® technology offers the potential to reduce the plastic content of an article by around 15%, by injecting inert gas to displace plastic with microcellular bubbles. MuCell® technology can be used with most common plastics and reduces material consumption with no negative impact on recycling. Initially, MEL will sell equipment to augment an existing extrusion line and, when the licensee is in production and saving money, MEL will collect a share of those savings as a licence fee and/or royalty payment.

In 2017 equipment revenue grew 72% to £3.24m (2016: £1.88m), with one large contract accounting for approximately 39% of equipment sales, while licence fees and royalty revenue increased 19% to £1.01m (2016: £0.85m). Our potential base of royalty-generating machines grew 18%, with 131 MuCell® units installed at MEL licensees (2016: 111). As there is often a time-lag for end-user adoption, a key metric is the number of machines actually in production, which increased by 46% to 83 machines (2016: 57), many of which are not yet operating at full potential. Segment loss increased as expected due to investment in people, including a dedicated IP manager, as well as non-recurring costs of £0.29m related primarily to write-downs of inventory, mostly costs of machinery developments which have been superseded. As most of the value created by MEL is royalty fees from contracts, often over terms exceeding 10 years, management is also measured on the expected present value of contracts. This key performance indicator increased significantly over the 12 months to 31 December 2017. Management believes that increases in this metric, growing licence and royalty income, as well as creation of value through new IP, where we made good progress in 2017 and have some potentially significant developments to patent in 2018, continue to indicate a positive future for MEL.

David Stirling
Group CEO

6 April 2018

Our business model

How our business works

Zotefoams is a diversified value-added polymer processor, utilising unique cellular materials technology in a variety of markets globally.

What we do

Zotefoams is a diversified value-added polymer processor, utilising unique cellular materials technology in a variety of markets globally. Zotefoams manufactures block foams using high-pressure nitrogen gas technology, processes its own foams for specific markets, licenses intellectual property ('IP'), and also sells related machinery.

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.

Routes to market

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 sport and leisure. Zotefoams also sells T-FIT® technical insulation, manufactured from ZOTEK® foams, for pharmaceutical, semiconductor and biotech facilities. Our block foams are typically sold through channel members, known as foam converters. These converters cut and shape foams into specific parts for end users and, therefore, Zotefoams' success is built on a strong relationship with the foam converters and on having products which meet the specific needs of those end users. Our ZOTEK® foams are often sold with high levels of end-user engagement, which reflects the more technical nature of these products, while our AZOTE® foams traditionally have grown with the engagement and support of foam converters.

Local and global market positions

Typically the benefits of AZOTE® polyolefin foams allow Zotefoams to command a stronger market position closer to our factories, as distribution costs are relatively high for these types of foams. Distribution costs also act as a barrier to imports from other regions. The main markets for AZOTE® foams are, therefore, the UK, continental Europe and North America. Our ZOTEK® foams are more technical, command higher selling prices and distribution costs are not normally a major factor in selling these materials. These businesses are more global in nature and we have strong management alignment to the product range and certain key markets.

Our licensing business

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 MuCell® 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 the plastic content at source. Most customers are in the FMCG or food packaging industries, where value is created from making a small saving in plastic content which is multiplied across many millions of parts annually. MEL shares in the customers' benefits by receiving a licence fee for IP and/or royalty on parts made.

A portfolio approach

Zotefoams works on a portfolio of opportunities which, over time, we expect will deliver our growth targets. Predominantly, our AZOTE® and ZOTEK® foams are value-added materials used in conjunction with other materials to meet an end-user requirement. We are often working in conjunction with a channel partner and/or on applications where other solutions may be successful. MEL faces some similar challenges in working mainly with packaging converters who need to convince their end-user customers of the benefits provided. It is, therefore, important that we invest in developing the portfolio of potential opportunities and the Group Executive team manages the allocation of these resources to optimise our return and risk over time.

Revenue by market

Market	Share
Packaging	34%
Transportation	21%
Building & Construction	13%
Sport & Leisure	12%
Industrial	10%
Medical	6%
Other	4%

How we invest, create and deliver

Fundamental to our business model is our ability to invest for the long term in people, products and processes. This enables us to create defensible technology, a unique portfolio of products and a strong market position. Our business can then deliver, value for our stakeholders, a sustainable margin and accelerated growth.

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 Directors' 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 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 equipment and business processes to maintain and improve safety standards, improve operating efficiencies, increase capacity to meet future demands and reduce operating costs.

Create

Defensible technology leadership
By investing in technology, often as an extension of our existing knowledge, we differentiate ourselves from our competitors. We view our technology leadership as a considerable barrier to entry.

Unique attributes
Our market position is based around the uniqueness of our technology. We use this technology to create a portfolio of products with unique attributes which bring advantages 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

Stakeholder value
Delivering stakeholder value is core to our business. Our technology benefits people across the world by delivering lightweight, protective, regulatory-compliant, resource-efficient products, which are used in leading-edge solutions globally and which are manufactured in a safe environment.

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.

Our external context

Alignment to three global megatrends

We have built a clear long-term strategy for growth based around three long-term global megatrends that are driving demand for our products.

Understanding these market trends informs our strategy and product development, as well as the allocation of our resources. Given the diversity of applications for foam it is not possible to track every use for our materials, and a new idea or application may come from a foam converter, an end-user or from within Zotefoams. We therefore actively monitor these and maintain flexibility to react to a wide variety of possibilities.

Environment

Saving scarce resources has become a universal driver. Lightweight is the key to reducing fuel usage and controlling emissions for the aviation and automotive industries. High-quality insulation conserves thermal energy.

MuCell® technology uses less material to make everyday items as well as saves costs. It also aids recycling and makes commonly used plastics float in water, thus aiding collection of any waste. Much of our AZOTE® foam is used in permanent packaging or packaging that is designed to be reused, while foams used in transportation, which accounts for 21% of sales, are normally specified to the lightest weight for the required physical performance. Zotefoams' products typically use less plastic than competitive solutions due to the cell structure of foam made in our autoclave process, giving us both a cost and environmental advantage.

Demographics

Better healthcare has created a population boom, especially in the older age groups, while globally, discretionary spending power is rising rapidly. Demand for healthcare products is accelerating. Wealthier and more discerning consumers are driving growth rates in other industries such as food and drink, packaging, sports equipment and transportation.

Transport, medical, and sport and leisure applications account for around 39% of sales directly, while our T-FIT® insulation products, demand for which is currently linked to semiconductor, pharmaceutical and biotech manufacturing, account for a further 4% of sales.

Regulation

Regulatory pressures, primarily to safeguard consumers, are driving up standards worldwide. These standards in turn create demand for both safer products and protective equipment.

Zotefoams' products are used to meet some of the most demanding fire standards for our type of materials. Zotefoams has, for example, developed AZOTE® foams which meet EN 45545, the latest EU railway standard for fire protection, and ZOTEK® F fluoropolymer foams meet exacting aircraft and insurance standards for fire performance. We sell AZOTE® grades for automotive, medical, and packaging designed to minimise emissions and/or meet specific purity requirements. Over one-third of Zotefoams' revenue in 2017 came from foam products with specific properties tested to customer requirements, although not all of this was demonstrably for regulation compliance.

Product and sales development journey

Specific Zotefoams' actions linked to our strategy and megatrends

Over the years Zotefoams has developed a portfolio of material and technology considering two principles: is there potential for significant opportunity; and are there barriers to entry, ideally based around our core technology?

Zotefoams is often positioned second or third tier in any supply chain and, therefore, the definition of markets, potential opportunities and risk can be uncertain.

Our solution to this is to look for common attributes across multiple opportunities and develop materials with those attributes.

Using this approach we have developed: ZOTEK® F fluoropolymer foams, with excellent insulation and fire performance; ZOTEK® PEBA foams, to optimise kinetic energy management, which have opened up opportunities within the footwear segment; ZOTEK® N nylon foams, which are being evaluated as thermoplastic composite cores in aviation and automotive as well as being used in applications where higher temperature stability is needed; as well as multiple variants of AZOTE® polymer foams with application or market-specific characteristics.

Following a development path there is often a long, and sometimes expensive, period of business development and testing for specific applications. A challenge of selling unique, technical materials is that awareness and understanding can be low.

Change in this industry can be slow and developing reference points for a specific application can often reduce the sales and adoption cycle for additional customers.

However, when applications are developed it is often possible to accelerate adoption across multiple customers or platforms. This is particularly true of MuCell® technology, where our main target market is consumer packaging, producing millions of units per annum.

Our ambition and strategic objectives

Our four-part plan to deliver growing returns

Zotefoams intends to be the world leader in cellular materials technology in our chosen markets. We deliver stakeholder value by using unique technology to create a portfolio of differentiated products. We focus resources primarily on markets where we are, or have the potential to be, a market leader. We intend to develop our business through sustained high levels of organic growth and, where appropriate, through partnerships or acquisitions.

We measure progress against four strategic objectives:

1. Grow

sales in our AZOTE® Polyolefin foams business in excess of twice the rate of GDP global growth.

Demand for improved resource efficiency, regulation and global demographics underpins our growth potential. In 2017 we grew AZOTE® sales by 18%, with 7% volume growth augmented by a stronger product and customer mix, some price increases and a 5% increase due to the benefit of favourable foreign exchange rates.

2. Develop

a HPP portfolio and MEL customer base to deliver enhanced margins.

HPP and MEL offer higher growth rates and the potential for higher margins than AZOTE® foams. In 2017 sales in these segments increased by 37% and accounted for 25% of Group revenue (£17.4m), up from 22% of Group revenue in 2016.

3. Increase

our operating margins, pre exceptional items.

In aggregate, segment margins before central costs increased to 17.3% from 16.8%. After central costs, which includes corporate, finance and IT as well as foreign exchange losses of £0.32m (2016 loss: £0.03m), which mainly relate to the corporate governance of an increasingly complex organisation, Group operating margin remained stable at 13.4% (2016: 13.3%).

4. Improve

our return on capital (over our investment cycle).

In 2017 the return on capital increased to 15.5% (2016 restated: 14.0%). As Zotefoams' business grows we have made, and further committed to, large capital programmes which change the shape of our statement of financial position. In order for return on capital to provide meaningful measurement, management has, therefore, altered the definition to recognise the changing financial structure of our business, where a) revolving credit facilities are treated as long-term debt, and b) major capacity and infrastructure investments, such as in Walton, KY, which are expected to require considerable capital over a number of years before being commissioned as production assets, are excluded from these calculations until the point of commissioning. If the US investment expansion is included, the return on capital increased to 12.07% from 11.94%.

Developing barriers to entry

We recognise that capacity investment takes a long time to execute and Zotefoams' autoclave manufacturing process is capital intensive. Both these factors, as well as the particular know-how, market position and, in some cases, patents, provide barriers to entry in our block foams business. We therefore continue to monitor our medium-term capacity utilisation, based on anticipated and known opportunities in our chosen markets, to assess the optimal timing for further investment commitments to support our medium-term growth.

Matching market trends

Our products are designed to match market trends. Continued organic growth comes from the creation of a portfolio of opportunities based on these trends and products, followed by successful conversion into sales. We have good products and a strong portfolio of opportunities. Our assessment of the potential conversion outcomes is such that we have already committed to significant capacity increases and we see the potential for further growth beyond this in the medium term. However, as with any portfolio, it is difficult to judge exactly which outcomes will occur and, therefore, we consider the possibilities, probabilities, risks and rewards on a frequent basis.

Capacity investment

Central to the long-term success of our organic growth strategy is maintenance of a strong portfolio of opportunities and investment in capacity to support planned growth. Over the past three years we have developed our existing site in Walton, KY, USA with buildings, infrastructure, a large, high-pressure autoclave and extrusion capability. Manufacturing is being transferred from the UK to the USA, freeing capacity in our UK site. Recently we have announced a further tranche of expansion in Walton, which will double its capacity in these processes. Furthermore, if needed, we have space for further expansion. In the UK, we have approved investment in low-pressure autoclave capacity for foam expansion. This foaming capacity will be fed from assets currently used to manufacture materials for the North American market. In total, we have committed to increasing our capacity by approximately 45% over 2017 production run rates.

Truly disruptive businesses

Our MEL and T-FIT® insulation businesses have significantly lower capital costs than the block foams business. However, these businesses are truly disruptive and, therefore, the development cycle for sufficient scale for profitability can be long. Both businesses are based on proprietary IP and our assessment is that the T-FIT® business could be set for a step-change in size over the medium term, while the value from MEL will come from a combination of rolling out the existing business model and IP enhancement over a similar time scale.

As well as investment in capacity and product development we are developing the talent pool and culture to support a larger organisation. This is covered in "Our people" on page 30 of this Strategic Report.

Our brand performance

We offer what our customers want

AZOTE® polyolefin foams

AZOTE® polyolefin foams are manufactured using our unique, high-pressure, nitrogen gas process. This physical expansion process differentiates Zotefoams from competitors manufacturing similar foams with low-density polyethylene ('LDPE'), which is our main raw material.

Zotefoams produces foams that are more consistent, lighter weight and possess higher purity compared to foams manufactured using chemical technology. These superior attributes are valued globally in many uses with examples as diverse as aerospace, sports equipment and medical packaging. Underlying growth of many of these segments is driven by global trends in demographics, regulation and the environment, including resource efficiency.

The main geographical markets for our AZOTE® foams are the UK, other European countries and North America as, beyond this, distribution costs limit the market opportunity. We do sell outside these areas, mainly in Japan and China, into more niche, technical applications and further development of these geographies remains a longer-term goal.

Producing best-in-class solutions

AZOTE® foams have been selected by an Italian defence contractor for use in a series of ultra-hi-tech unmanned crafts. The rigorous operating conditions mandate that the sophisticated internal components need to be protected and, therefore, our lightweight AZOTE® LD24FR foam, which exceeds both UL and FAA standards, was selected to insulate components, fill gaps, and dampen vibration. It is vital these aviation regulatory standards are met to ensure safety and performance.

The chosen AZOTE® material is considered to represent the best-in-class solution for the desired range of characteristics, with its exceptional thermal conductivity values helping to ensure a steady environment for sensitive components, in desert heats to sub-zero temperatures, as well as at altitudes of 20,000-30,000 feet, for extended periods.

AZOTE® foams have a closed-cell structure, ideal to minimise moisture retention and condensation, and have been tested to withstand the effects of contraction and expansion, UV, and atmospheric conditioning. The chosen materials deliver industry-leading fire resistance, lightweight and consistent quality, all made possible using Zotefoams' nitrogen-based autoclave technology.

This new application complements an already strong portfolio of classic and speciality foams for both aerospace and military sectors.

ZOTEK® foams

ZOTEK® products use Zotefoams' unique autoclave technology applied to high-end polymers such as PVDF fluoropolymer, nylon or polyether block amide ('PEBA'). Combining the original polymer properties with our foaming process creates truly unique materials.

ZOTEK® F fluoropolymer foams, which account for around half of HPP sales, are inherently fire and chemical resistant and are mainly used in aerospace applications. ZOTEK® N nylon foams are designed to operate at very high temperatures and are finding uses in a wide variety of mainly industrial applications. There is a considerable level of interest currently in ZOTEK® N as a lightweight thermoplastic composite material for transportation, designed to reduce weight and meet environmental targets for fuel economy. ZOTEK® PEBA foams, which were the fastest growing product in HPP for the second year in a row, have excellent kinetic-energy management properties and are being sold primarily in sport and leisure applications. Historically, sales of ZOTEK® foams have grown due to more stringent regulation in the aviation markets, while recent growth is being led by the changing demographics of the footwear market.

Making the future of electric cars a reality

The automotive industry is embracing electric cars. Automobile manufacturers have ambitious plans to produce more than a hundred new electric and battery powered models in the next couple of years. Future models are expected to develop rapidly to help tackle environmental challenges and enable more sustainable use of resources.

Lightweight components, such as foams, address one of the key limitations of electric vehicles: they help reduce the weight of the vehicle, making it more efficient and thus extending the range the vehicle is able to travel on a single journey.

Electric car models need to meet the automotive regulatory standards worldwide, as there is now a higher demand for both safer products and equipment use across the automotive industry. One of the major challenges in meeting these standards is specific to the battery and supporting materials. The materials that encase the battery must stand up to demanding environmental, mechanical, and chemical requirements, while emphasising safety and weight reduction. Within the Zotefoams product range we have materials which can meet the industry requirements of temperature, impact resistance and the flame-retardant standards UL 94 V-0, HF1.

ZOTEK® N nylon foams can withstand the higher operating temperatures generated from conventional engine and battery packs, which are typically used on hybrid vehicles. AZOTE® materials have been used by automotive OEMs for their thermal insulation and vibration-dampening capabilities. Both types of material are lightweight and moisture resistant, ideal for demanding automotive applications.

Our brand performance Continued

T-FIT® advanced insulation

The T-FIT® insulation story began with end-users looking for a solution to insulate pipes in pharmaceutical and biotechnology cleanrooms. T-FIT® Clean was developed as a unique thermal insulation system designed for these demanding, highly controlled production environments.

Based on the unique technology owned by Zotefoams and following the success of T-FIT® Clean insulation, Zotefoams is expanding the T-FIT® range to include products targeted at the food, dairy, personal care and general process industries. These are products that are inherently pure and free of chemical residues, while satisfying leading fire certification standards. Demonstrably resistant to growth of mould and bacteria, the full range of T-FIT® insulation products manufactured by Zotefoams is durable, moisture resistant and easy to install and clean.

T-FIT® Hygiene is designed for large-scale, aseptic, food processing. Production areas are built to exacting standards, where the specification is for a pure, pollutant and fibre-free thermal insulation with capability to withstand the steam purging process requirements inherent in this sector. T-FIT® Hygiene can ensure air conditioning, air filtration and other process equipment continue to operate at required levels of performance.

Unique in both its material (Nylon PA6) and its foam insulation class, T-FIT® Process is the high temperature addition to the T-FIT® range and can operate at temperatures of up to 200°C. Aimed at the utility and general processing industries around the world, T-FIT® Process will be found assisting project and process engineers in their quest for evermore durable and heat-resistant insulation solutions.

Complying to unprecedented levels of aseptic, microscopic, pollutant-free, assembly

Global regulation and the ever-increasing requirement for the minimisation of risk is driving manufacturers to produce safer and purer products. The challenge faced by the vaccine, insulin, silicon chip and monoclonal antibodies (mAbs) manufacturers is to create production areas that comply to unprecedented levels of aseptic and microscopic pollutant-free assembly. This challenge has never been more acute and is where Zotefoams' T-FIT® Clean product has distinct advantages over competitors.

T-FIT® Clean is a unique thermal insulation system, purpose designed for demanding, highly-controlled production environments, and has been adopted by market leading biotechnology and pharmaceutical companies. In 2017 it was utilised by major multi-nationals worldwide, most notably by Bristol-Myers Squib (BMS) at their new US$1B Biologics facility in Cruiserath Ireland, where BMS will be manufacturing their range of immuno-oncology medicines, entrusting the security of their extensive cleanroom network to Zotefoams by choosing T-FIT® Clean as their primary cleanroom insulation product.

MuCell Extrusion LLC (MEL)

MEL licenses microcellular foam technology and sells related machinery. 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

MEL technology offers the potential to reduce the plastic content of an article by around 15%, by injecting inert gas to displace plastic with microcellular bubbles. MEL technology can be used with most common plastics and reduces material consumption with no negative impact on recycling. The primary target market for MEL is consumer packaging, where production volumes are large and developments are scalable across geographic and product markets.

MEL continues to evolve its product offering and intellectual property (IP). As the business begins to achieve commercial scale our staff becomes more specialist and our knowledge deepens. MEL staff integrates with the customers in product design, to make the best use of our technological capability, and with this depth of knowledge comes improved customer satisfaction and also more opportunity for further IP.

In the future we expect to see most growth coming from the existing and new customer base for packaging, especially flat sheet such as that used in the manufacture of yoghurt pots and ready meal containers. However, MEL is also active outside of packaging, with developments for aviation, thin films for bags and agricultural films as well as pipes and tubes.

Driving benefits throughout production and distribution

MEL's value proposition is to bring significant material savings and cost benefits into plastic production lines through its patented MuCell® microcellular foaming technology. The innovative technology operates by injecting high-pressure gas into the different products. An example currently in use is at Plastilene, an established producer of flexible films and thermoformed packaging with five manufacturing plants in South America. MEL has worked with them since 2014, initially to understand the impact and implications of the MuCell® technology, before integrating it into Plastilene's production lines in Colombia and Guatemala.

Today, Plastilene is a leader in microcellular foaming technology in Latin America, with four units producing film for many market applications. The MuCell® technology is in production for coextruded laminated structures for flexible packaging films for sectors like grains, pellets, food in general, industrial packaging and agricultural applications, as well as rigid sheets for the thermoforming of food trays. In development are applications to capitalise on trends driven by demographic shifts, including food, dairy and cosmetic packaging and agricultural films.

Saving limited resources has become a global driver. By using MuCell®'s technology, the process delivers Plastilene a reduction of 15% in raw materials at a minimum, while still maintaining the thickness and mechanical properties for their multiple uses. An additional cost benefit to the technology is the reduced weight, which allows the production machinery to run faster, increasing its output in volume of product by 15-20%. Reduced raw material usage results in a reduction in unit weight, which usually brings cost and environmental benefits throughout production and distribution.

Group CFO's review

Facilitating organic growth

Group sales

£70.15m

+22%

2016 **£57.38m**

Profit before tax and exceptional item

£8.81m

+22%

2016 **£7.23m**

Overview

Zotefoams has delivered a strong year of progress in 2017. Growth rates in excess of 20% were achieved in both sales and operating profit before exceptional items.

Group revenue was up 22% to a record £70.15m, with strong sales performance across all business units. In constant currency, underlying net sales increased 17%. Operating profit before exceptional item was up 23% (up 10% after exceptional item), as the Group grew strongly in its European Polyolefin business and developed a more broadly based HPP business, whilst continuing with its investments in operating infrastructure as the Group pursues its expansion strategy. In constant currency, underlying operating profit before exceptional item was up 18%. During the year, following legal advice received by the pension trustees and a calculation by the actuaries, the Company provided £1.24m for potential additional liabilities in its Defined Benefit Pension Scheme (the "DB Scheme"), related to closure of the scheme in 2005.

Capital investment, to increase capacity for organic growth opportunities, was again high, falling just short of the record high of 2016. Zotefoams' products are created in a unique, capital intensive manufacturing process and the Group's three-year, $33m investment in Kentucky, USA adds at least 20% to global capacity. This capital investment, together with expansion-related working capital growth, has increased net debt by £5.4m to £18.0m in 2017, supported by an increase in facilities of £9.5m from the Group's existing banking partnerships. With the Group's high cash generation, gearing remained well within banking covenants at 1.5 times. Driven by its exciting growth opportunities and strong margins, Zotefoams intends to continue to invest in necessary capacity whilst maintaining a strong financial position with manageable debt levels. Reflecting this, the Group recently announced an investment in HPP capacity in the UK as well as the commissioning of its second high-pressure autoclave in the USA. To support these investments, it secured a further £10m of financing in early March 2018.

Group revenue

Group revenue for the year increased 22% to £70.15m (2016: £57.38m). Volume growth, at 7%, (2016: 4%) was significant and took the Group close to capacity throughout the year. The switch in approach from a distribution model to direct engagement with

> The Group is actively investing in, and reprioritising where needed, technical, sales-focused and administration resources to create, execute and manage this growth.

customers in Germany was the major contributor to 26% sales growth in the European polyolefin foams business and a full year of Zotefoams Midwest LLChelped increase sales by 15% in the USA Polyolefin business. HPP sales were up 32%, with footwear and technical insulation leading the way. MEL recorded an increase of 56% in sales, driven by the shipment of a full extrusion line to a customer in Japan, representing MEL's largest individual equipment order and providing further evidence of market confidence in the technology and its prospects.

Gross margin

Gross margin progressed to 36.3% (2016 restated: 35.4%). The restatement of 2016 gross margin arose following the reclassification of £0.2m of distribution costs to reflect more appropriately the manufacturing activities at MEL. Polyolefin price increases, sales mix, some foreign currency benefits and operations efficiencies pushed margins up. Energy cost increases, together with, for the most part, non-recurring inventory adjustments in HPP and MEL, held back some of this margin gain.

Distribution and administrative costs

The Group continues to pursue its expansion strategy, founded on proprietary cellular-materials technology with an increasing portfolio of differentiated products. Organic growth with unique and highly differentiated products requires the Group to invest actively in, and reprioritise where needed, technical, sales-focused and administration resources to create, execute and manage this growth. Included within distribution and administrative expenses in the Group's consolidated income statement are sales and marketing, technical development, finance, information systems and administration costs as well as the impact of foreign exchange hedges maturing in the period and non-cash foreign exchange translation expenses. These costs increased by 27% to £16.11m in 2017 (2016 restated: £12.69m). The Group expects this investment to continue, not least with the commissioning of its US investment in February 2018. These costs also include a net loss from foreign exchange hedging contracts and foreign exchange translation of £0.32m (2016 net loss: £0.03m).

The business unit results are shown on pages 8-9 in this Strategic Report. They do not include central plc costs, which are not considered to be segment specific. In 2017 central plc costs were £2.40m (2016: £1.94m), including the full year impact of an increase in the executive management team.

Finance costs

The total interest charge for the year was £0.51m (2016: £0.39m) and includes £0.19m (2016: £0.19m) of interest on the Company's defined benefit pension obligation.

Profit before tax

Profit before tax and exceptional item increased by 22% to £8.81m (2016: £7.23m). Profit before tax increased by 8% to £7.55m (2016: £6.99m).

Currency impact on business segments in 2017

Group revenue £m

	2017 Reported	2017 Adjusted*	2016 Reported	Net change% Reported	Net change% Adjusted
Polyolefin foams	**52.82**	**50.51**	44.73	18%	**13%**
HPP	**13.15**	**12.77**	9.99	32%	**28%**
MEL	**4.25**	**4.08**	2.73	56%	**49%**
Eliminations	**(0.07)**	**(0.07)**	(0.07)	–	**–**
Group	**70.15**	**67.29**	57.38	22%	**17%**

* Constant currency

Exchange rates

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

	2017	2016
GBP to Euro – average	**0.88**	0.82
GBP to Euro – year-end spot	**0.89**	0.85
GBP to USD – average	**0.78**	0.75
GBP to USD – year-end spot	**0.74**	0.82

Exceptional item

During the year, following legal advice received by the pension trustees and a calculation by the actuaries, the Company provided £1.27m for potential additional liabilities in its Defined Benefit Pension Scheme (the "DB Scheme"). This is based on the legal opinion that, while the DB Scheme was properly closed to future accrual of service in 2005, the linkage with future increases in salary had not been broken. The Company is now taking steps to break this link, and £0.03m of the exceptional item relates to this action.

Currency review

Zotefoams is a predominantly UK-based exporter. In 2017 approximately 82% of sales were denominated in US dollars and euros. Most costs are incurred in sterling, other than the main raw materials for polyolefin foams, which are euro-denominated, and subsidiaries staff, operational costs and some HPP raw materials, which are US dollar-denominated. Movements in foreign exchange rates can have a significant impact on results. The Group therefore uses forward exchange rates to hedge its foreign currency transaction risk. Zotefoams' policy is to use forward currency contracts to cover approximately two-thirds of the estimated net cash foreign exchange exposure for the euro for the next nine months and approximately two-thirds of the estimated income statement exposure for the US dollar for the next twelve months. The Group does not hedge for the translation of its foreign subsidiaries assets or liabilities. This policy is kept under frequent review and formally approved by the Board on an annual basis.

During the year the Group generated a net gain on forward contracts of £0.19m (2016 loss: £2.01m.) This was offset by a translation loss, primarily on the Company's US dollar receivables, of £0.51m (2016 gain: £1.98m).

It is estimated that, for every one percent move in the USD/£ rate, profit moves by £0.06m hedged and £0.17m unhedged. In the year it is assumed that the euro is naturally hedged, with sales revenues offset by costs, primarily related to raw material purchases and certain further processing costs. With future growth coming mainly from outside the UK and a pricing approach predominantly based on local currency, the Group's gross exposure to currency is expected to increase. The investment in US capacity, which increases the local manufacturing cost base, helps to mitigate some of this exposure, and future capital and financing decisions will also consider this risk.

Tax and earnings per share

The effective tax rate for the year is 20.40%, which is higher than the UK corporate tax rate for the year of 19.25%. This is mainly due to the change in expected future US corporate tax rates from 35% to 21%, which has reduced the tax values of recognised US tax losses carried forward and other deductible temporary differences. This is partly offset by the change in the expected UK corporate tax rate from 19% to 17%, which has reduced the tax value of UK deferred tax assets and liabilities. The Group's effective tax rate would be 19.93% without these changes. Taxation paid during the year was £0.94m (2016: £1.00m).

Basic earnings per share before exceptional item was 16.04p (2016: 13.69p), an increase of 17%. Basic earnings per share was 13.70p (2016: 13.25), an increase of 3%.

Dividend

The Directors are proposing a final dividend of 4.02p (2016: 3.90p), which would be payable on 24 May 2018 to shareholders on the Company register at the close of business on 20 April 2018. Taken with the interim dividend of 1.91p (2016: 1.85p) this would bring the total dividend for the year to 5.93p per ordinary share (2016: 5.75p), an increase of 3.1%, in line with the Group's targeted policy of paying a progressive dividend. It would also represent a dividend cover of 2.3 times (2016: 2.2 times).

Investments

Zotefoams' strategy is focused primarily on organic growth. Over the last three years Zotefoams has invested £32.4m in property, plant and equipment, the majority of which has been to increase capacity in its unique technology. In December 2017 and March 2018 Zotefoams announced further capacity investments, which amount to approximately £20m over the next 12-18 months and are in excess of the normal level of capital investment required in our organisation. Given the capital intensive nature of the Zotefoams business, long lead-times for key equipment and the importance of operational gearing, investment decisions require significant planning and are made with a clear assessment of strategic fit, risk and risk appetite. Confidence in the Group's developing portfolio of HPP opportunities is a significant consideration in determining the timing of certain investments, while the strategic importance of maintaining growth in the profitable AZOTE® business, the Group's largest volume product range, informs the decision to increase total Group capacity versus rely solely on mix enrichment.

Investment decisions target improvements in the Group's return on capital over the investment cycle, while recognising the short-term impact on this return during construction and operating initially at lower utilisation levels. Zotefoams defines its return on capital as operating profit before exceptional items divided by the average sum of its equity, net debt and other non-current liabilities. This measure excludes acquired intangible assets and their amortisation costs. Zotefoams also excludes significant capacity investments under construction until they enter production. In 2017 the return on capital increased to 15.5% (2016 restated: 14.0%). If the significant capacity investments were included, the return on capital increased to 12.07% from 11.94%.

In previous years the Group has defined its return on capital as profit before tax excluding exceptional items, divided by average net assets, with goodwill, acquired intangible assets and associated amortisation excluded from the calculation. As Zotefoams' business grows it has made, and further committed to, large capital programmes which change the shape of the statement of financial position. As the Group takes on debt to support its growth plans the revised definition is considered more appropriate to measure capital employed.

Group CFO's review Continued

The Board performs post investment appraisals within an appropriate timeframe following start up.

Cash flow and funding

Net cash inflow from operations for the year increased to £9.98m (2016: £6.36m), resulting from an increase in operating profit, before working capital and provisions, of £2.03m and an improvement in working capital outflow by £1.52m to £2.70m (2016: £4.22m), following improved collection of receivables and the timing of key supplier payments. This working capital movement includes an increase in inventory of £2.80m (2016: £2.12m), mostly related to growth in the higher-value HPP products.

Zotefoams continued to invest significantly in its property, plant and equipment during the year, with a net cash outflow of £11.39m in 2017 following a cash outflow of £12.14m in 2016. The Group's largest project has been the extension of its existing facility in Kentucky, USA, to deliver at least 20% additional capacity for block foams. During 2017 the Group invested £7.04m (2016: £6.90m) in the US expansion project, bringing the total investment at 31 December 2017 to £22.00m. It also continued to invest in its Croydon, UK facility, increasing capacity, capability and continuing to ensure a safe working environment.

After dividends paid in the year amounting to £2.55m (2016: £2.47m), closing net debt was £17.96m (2016: £12.56m). In March 2017, Zotefoams extended the Multi-Currency Revolving Credit Facility with Barclays Bank from £8m to £10m, with all terms and conditions remaining the same. In August 2017, it secured further funding by way of a five-year, Croydon plant and machinery-backed, £7.5m variable rate loan facility with Lombard North Central, with whom the Group has a longstanding relationship.

Subsequent to the reporting period, in March 2018, the Group secured a further funding facility from Barclays Bank plc in the form of a £10m, 18-month term loan. This will allow the Group to proceed with its capital expenditure strategy, including the installation of the second high-pressure vessel in Kentucky, USA.

At the year end the Group remains comfortably within its covenants, with interest cover of 29 (2016: 37), versus a covenant minimum of 4 and net borrowings to EBITDA of 1.4 (2016: 1.2), against a maximum of 2.5.

Pensions

In 2001 the Company closed the DB Scheme to new members. In 2005 the DB Scheme was closed to future accrual of benefits and all active members at that time transferred to a defined contribution scheme, substantially de-risking the Company's financial and accounting exposure to the DB Scheme's obligations. In common with many companies at the time, the Company took advice on the closure process. Following recent legal cases challenging the validity of previous benefit scheme closures, the Company recommended that the Trustees take further legal advice regarding the closure of the DB Scheme in 2005. The outcome of this advice to the Trustees indicates that the DB Scheme was properly closed to future accrual of service, however the linkage with future increases in salary had not been broken. As the sponsoring employer, the Company may, therefore, have an additional liability for pension costs. The Company is taking its own legal advice, but feels it is appropriate at this stage to provide for the possible increase in liability.

The DB Scheme's actuaries estimate an additional potential liability of £1.24m. The Directors are in the process of considering options available to mitigate this potential liability and seek redress where appropriate. The exceptional charge represents 4% of the DB Scheme obligation as at 31 December 2017 and would represent an increase in cash outflows over the remaining average service lives of the affected employees. This is not considered by the Directors to have a material impact on the Group's financial condition or future prospects.

A full actuarial valuation of the DB Scheme is scheduled as at 5 April 2017, in line with the requirement to have a triennial valuation. As at the date of this report, the final outcome is still pending. The previous triennial actuarial valuation, on a Statutory Funding Objective basis, calculated a deficit for the Pension Scheme of £2.50m. As a result, the Company agreed with the Trustees to make contributions to the DB Scheme of £41,000 per month until April 2020 to eliminate this deficit. In addition, the Company pays the ongoing DB Scheme expenses of £10,600 per month.

The net IAS19 deficit on the Company's Defined Benefit Pension Scheme (the "Scheme") decreased by £1.27m to £6.17m as at December 2017 (2016: £7.44m). The main factors contributing to the improvement are the actual investment return achieved on the assets being higher than that required to match the expected increase in defined benefit obligation over the year, and the contributions paid during the year by the Company towards reducing the deficit.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 7 to 19 and the section entitled 'Risk management and principal risks' on pages 23 to 29. This also describes the financial position of the Group, its cash flows and liquidity position. In addition, note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, borrowing facilities, and its exposure to credit risk and liquidity risk.

The Directors believe that the Group is well placed to manage its business risks and, after making enquiries including a review of forecasts, budgets and banking facilities, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Annual Report.

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 is documented in note 21.

Gary McGrath
Group CFO
6 April 2018

> Zotefoams invested significantly in property, plant and equipment during the year.

Risk management and principal risks

Managing our risks to achieve our strategic objectives

Zotefoams' risk management process is designed to improve the likelihood of achieving its strategic objectives, keep its employees safe, protect the interests of its shareholders and key stakeholders, and enhance the quality of its decision-making. The Group is committed to conducting business in line with all applicable laws and regulations and in a manner consistent with its values.

Risk management framework

BOARD
- Ensures that risk is managed across the business
- Defines the Group's appetite for risk
- Assesses the Group's principal risks and opportunities

EXECUTIVE COMMITTEE
- Inputs into Board's process for setting risk appetite
- Implements strategy in line with the Group's risk appetite
- Manages opportunities and the resulting risks arising
- Leads operational management's approach to risk
- Inputs its assessment of risk and opportunities into the Internal Controls Committee

AUDIT COMMITTEE
- Monitors and reviews the effectiveness of the Group's risk management framework

INTERNAL CONTROLS COMMITTEE
- Reviews and assesses the effective functioning of the Group's risk management framework
- Collates outputs of functional steering committees' risk management exercises
- Reviews, updates and submits the Group's principal risks and uncertainties schedule to the Board
- Affirms to the Board the Group's compliance with the UK Corporate Governance Code in relation to risk

FUNCTIONAL CONTROL COMMITTEES
- chaired by, and including, Executive Committee members
- provide a regular forum for active review of key business risks, the controls and activities in place to mitigate them, key actions required and their timings
- report bi-annually to the Internal Control Committee on significant risks and opportunities and any failures in the effectiveness of existing processes

Health and Safety Steering Committee	IT Steering Committee	Planning and Capacity Committee
Environmental Steering Committee	Foreign Exchange Committee	Capital Planning Committee
HR and Training Steering Committee	Quality Steering Committee	Zotefoams Inc Internal Control Committee
Key Supplier Review Committee	Product Development Committee	MEL Internal Control Committee
Contract Review Committee	Marketing Committee	
	Credit Control Review Committee	

OPERATIONAL MANAGEMENT
- Members of functional steering committees
- Create an environment where risk management is embraced and the responsibility for risk management is accepted by all employees
- Implement and maintain risk management processes

EMPLOYEES
- Active in the day-to-day management of risk

Risk appetite

Zotefoams has financial targets in place and is focused on growing the business. It is willing to accept higher levels of risk where it deems the likelihood of success to be achievable and the level of reward commensurate, but within clear boundaries as recommended by the Executive team and approved by the Board. As a manufacturing company the health and safety of our employees is paramount and we have an extremely low tolerance for risk in this area.

Developments during the year

- During the year Zotefoams began working on improvements to its risk management processes as well as the tools and guidelines to achieve this goal. At the end of the year it began training the leaders of its functional control committees on risk map generation in line with these processes. The new framework and processes have gone live from the beginning of 2018.
- Zotefoams also held risk brainstorming workshops at the Executive team and Senior Management levels to review and enhance its risk understanding, which it presented to the Board, and which provide a further source of review for its Group principal risks and uncertainties map.
- The Board and Executive team were heavily involved in risk assessment of the Group's three-year strategic plan, as well as risk management associated with execution of these plans, including significant capital investments and people, culture and control system developments.
- Each year, the Group reviews its key policies, such as anti-bribery and corruption, competition, ethics, whistleblowing and share dealing, to make sure they remain relevant and operate effectively. The Group recently introduced a new policy on preventing facilitation of tax evasion to comply with the Criminal Finances Act 2017. It also began preparations for the General Data Protection Regulation (GDPR) and expects to be prepared in time for the May 2018 implementation.
- During 2017 Zotefoams transitioned to the new version of the international standard for Quality, ISO9001:2015. This was certified in the last audit in December 2017 by the British Standards Institute. The new emphasis within the standard is the management of risks and opportunities, determining the context in which Zotefoams operates and leads. Several key customers audit Zotefoams regularly and there were no significant non-conformities raised in 2017. Other bodies conduct product audits at Zotefoams and, following such audits in 2017, all our product accreditations remain.
- The Group uses an external advisor to perform its financial internal audit services. During the year an audit, based on the Group's internal risk assessments, was performed by Grant Thornton, the Group's internal auditor, on inventory management at its Croydon site, with outcomes presented to the Audit Committee.

Risk management and principal risks Continued

Viability statement

In accordance with provision C2.2 of the UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a five-year period to December 2022. This is firstly based on the period covered by the Group's Board-approved strategic plan of three years. However, this period has, this year, been augmented, reviewed and approved by the Board, by two further years as it became apparent that a longer period is more appropriate given the capital investment profile needed to support the Group's anticipated rate of growth. The strategic plan, which is updated annually, includes analysis of growth and profit performance by business segment, impact and timing of new business opportunities and Group-level cash flow requirements, including investment programmes and returns to shareholders. Going forward, the strategic plan will cover a five-year period.

The Directors consider the timeline of five years to be appropriate, being the period upon which the Group actively focuses, and has reasonable visibility over, its opportunity portfolio and given the inherent uncertainties in considering the consequences of this portfolio over a longer period than five years.

In making their assessment, the Directors have taken account of the Group's market positioning and alignment with global trends, its financial position and its level of cash generation. They have also undertaken a sensitivity analysis over the key trading assumptions and considered the potential financial and operational impacts of the principal risks and uncertainties set out on pages 25 to 29.

On the basis of this and other matters considered and reviewed by the Directors during the year, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period.

Principal risks and uncertainties

We have identified 12 principal risks and uncertainties under nine key headings: operational, people, technology, supply chain, global market environment, financing, foreign exchange, commercial and pension. A principal risk is one that has the potential to affect significantly our strategic objectives, financial position or future performance. It includes both internal and external factors. Zotefoams monitors movements in likelihood and impact such that risks are appropriately mitigated, to the extent possible, in line with the Group's risk appetite.

The risk profile in 2017 includes three added and one removed risk. With the Group's investment in HP1 and infrastructure at its Kentucky, USA plant now complete and commercial product in the market, the level of this risk has been assessed to fall below the tier one materiality level for reporting and has therefore been removed. While the initial investment in Kentucky has increased capacity, the need to add further capacity at the right time and in the right place has been defined as a new risk, one which is becoming increasingly significant as Zotefoams pursues its growth expectations and one reflected by the commencement of investments in low-pressure capacity in Croydon, UK, and in the commissioning of the second high-pressure autoclave (HP2) in Kentucky, USA. The Group has benefited greatly from the experiences of its recent US capital investment programme, and improved capacity planning processes tied with increasing optimism in HPP growth rates have raised the risk profile of capacity as a result. The second risk added, also related to its pursuit of growth, is the impact on span of control as the Group further expands operations overseas. Ensuring it has effective systems, communication methods, recruiting and training will be important mitigating factors. Finally, the risk of cyber attacks has been added, with high-profile examples during the year elevating the Group's assessment of this risk and the importance of remaining vigilant and constantly considering the strength of its protective measures.

Key to Links to the Strategy:

1. Grow
sales in the Polyolefin business

2. Develop
a HPP portfolio and MEL customer base to deliver enhanced margins

3. Increase
operating margins pre exceptional items

4. Improve
return on capital employed

See page 14 for more

Operational: Single site dependence

Strategy
1. 2. 3. 4.

Risk trend

Risk
As the majority of the Group's operations are on one site, a significant operational disruption or Safety, Health and Environmental ('SHE') incident could impact the Group's ability to manufacture and supply products. This could have sizeable financial and commercial consequences including, in certain defined circumstances, customer claims. It could also lead to reputational damage.

Mitigating actions
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.

The Group 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 has invested in its Kentucky, USA site, which provides multi-site capability, subject to capacity, on many polyolefin products. With experience, it will also become possible to manufacture some of the more challenging higher performance foams.

Controls
- Regular internal and external audits and inspections are undertaken on the Group's operations, policies and procedures.
- Reports are made to the Board, on a quarterly basis, on SHE issues.
- The Group has various committees in place that monitor and review the risks.

Control Committees
- Executive Committee
- Planning and Capacity Committee
- Occupational Health and Safety Steering Committee
- Environment Steering Committee
- North American Safety and Environment Committee

Operational: Execution

Strategy
1. 2. 3. 4.

Risk trend

Risk
The business's unique technology is highly capital intensive, with long lead times and complex equipment and engineering requirements. As customer demand grows, the ability to grow capacity requires effective and timely planning, sufficient resource and financing, and excellent execution.

Mitigating actions
The experiences gained through the recent investment in the Kentucky, USA site have provided a significant increase in know-how, spread across more personnel, which reduces uncertainty of future execution.

Expected growth in HPP products is driving accelerated investment decisions.

Controls
- The Group holds regular capacity planning reviews at Board and operational level.
- The Board meets bi-annually to review its three-year plan, moving to a five-year plan in 2018, and consider capacity needs in light of medium-term growth expectations.

Control Committees
- Board and Executive Committee
- Planning and Capacity Committee
- Capital Committee

Risk management and principal risks Continued

Key to Links to the Strategy:

1. Grow
sales in the Polyolefin business

2. Develop
a HPP portfolio and MEL customer base to deliver enhanced margins

3. Increase
operating margins pre exceptional items

4. Improve
return on capital employed

Technology

Strategy
1. 2. 3. 4.

Risk trend

Risk
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.

Mitigating actions
There are high barriers of entry to the manufacturing of the Group's foams. Significant capital investment and know-how would be required to invest in 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.

A MEL licence typically includes a bundle of patents and know-how and, therefore, is not completely dependent on any particular patent.

Controls
- The Group keeps a watching brief on competitor activity and maintains close contact with its customers and end-users of its products to understand market activity.
- All MEL's licences are reviewed by senior personnel to ensure terms are appropriate. The intellectual property portfolio is managed by MEL's Executive Committee.

Control Committees
- Executive Committee
- Marketing Committee
- Product Development Committee
- North America Review
- MEL Executive Committee
- MEL Contract Review Committee

People

Strategy
1. 2. 3.

Risk trend

Risk
The failure to attract, develop or retain the right calibre of staff will impact the Group's ability to deliver growing opportunities by product and geographic reach.

The impact of Brexit might impact the Group's ability to retain mainland EU nationals.

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

The Group is following the developments of the UK's EU exit negotiations closely and addressing its consequences on people. In the meantime, such action has already included providing mainland EU employees with residency advice and support.

Controls
- Ongoing discussions at the Board and Executive Committee meetings.

Control Committees
- Board
- Audit Committee (in relation to Finance)
- Executive Committee
- HR Steering Committee
- Nominations Committee (in relation to the Board and Executive Committee)

Operational: Span of Control

Strategy
1. 2. 3.

Risk trend

Risk
Until recently most of Zotefoams' revenue was shipped from the UK. Following its investments in the USA and Asia, the Group now employs more people, holds more assets and generates a higher proportion of revenues outside the UK. While scaling up operations internationally, it becomes increasingly important to manage the span of control risk through embedding effective systems across the Group and maintaining an effective financial control and corporate governance environment, while delivering on the Group's strategic objectives.

Mitigating actions
The Board and Executive Committee continually review the Group's corporate culture, its communication and embedding of controls across the organisation.

Key leaders travel frequently to overseas locations to ensure the right people are in the right roles and behaviours are aligned with those at the corporate centre.

The Group has been investing significantly in human resource over the past three years as it builds global functions and hires leaders with international and cross-cultural experience.

The Group has upgraded IT systems to standardise information and improve communication and visibility.

Controls
- Ongoing discussions at the Board and Executive Committee meetings.

Control Committees
- Board
- Executive Committee
- HR Steering Committee
- IT Steering Committee

Supply Chain

Strategy
1. 2. 3. 4.

Risk trend

Risk
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.

Mitigating actions
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 machinery used.

The Group continually monitors suppliers and is investing significantly in the search for, testing and approval of, alternative suppliers of critical materials.

Controls
- Key Supplier Review Committee, an internal committee, meets at least twice a year to review the ability of the Group to source its key raw materials and engineering components. A dedicated raw materials manager leads this review.
- Audits of key suppliers are carried out.

Control Committees
- Executive Committee
- Key Supplier Review Committee

Foreign Exchange

Strategy
1. 3. 4.

Risk trend

Risk
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.

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

The Group's customers are normally invoiced in their local currencies. In 2017, 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.

Mitigating actions
The Group reduces its foreign exposure for transactional items by making its purchases either in euros or US dollars. 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 recently completed its significant capital investment in North America, which will reduce exposure for transactional items on the US dollar by increasing the cost base in the USA. Raw materials are now purchased locally and a larger workforce supports full process production.

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 Group, like most public companies, does not hedge for the translation of its foreign subsidiaries' assets or liabilities in the consolidation of its Group accounts. It is, however, increasingly focused on hedging its statement of financial position through matching, where possible, its overseas assets with overseas liabilities, such as foreign currency debt financing.

Controls
- Monthly review by the Foreign Exchange Committee.
- Hedging policy reviewed by the Board annually.

Control Committees
- Executive Committee
- Foreign Exchange Committee
- North America Executive Committee

Risk management and principal risks Continued

Key to Links to the Strategy:

1. Grow
sales in the Polyolefin business

2. Develop
a HPP portfolio and MEL customer base to deliver enhanced margins

3. Increase
operating margins pre exceptional items

4. Improve
return on capital employed

Macro-economics

Strategy
1. 2. 3. 4.

Risk trend

Risk
Our markets are exposed to general economic and political changes, which may impact the Group's performance and ability to meet its strategic objectives.

An unfavourable outcome to the Brexit negotiations may impact the Group's ability to import raw materials and export finished foam product in a timely manner. Tariffs may increase input costs and export prices. Labour regulations may affect the Group's ability to attract EU talent.

Mitigating actions
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 and MEL. The Group is operationally geared and its experience is that, in challenging 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 both reducing working capital as well as slowing capital expenditure projects to help offset the effects of a downturn. The Group targets an appropriate financial structure to give it flexibility in a downturn.

The Group will monitor Brexit developments and take appropriate commercial action, which ultimately impacts capital investment decisions, as the political and economic situation becomes clearer.

Controls
- Monthly review by the Executive Committee.
- Board review at times of more fundamental changes, such as the Brexit decision.
- North America Review.
- MEL Review.

Control Committees
- Executive Committee
- Marketing Committee
- North America Executive Committee
- MEL Executive Committee

Financing

Strategy
1. 2. 3. 4.

Risk trend

Risk
The Group needs to have sufficient cash, or be able to draw on loan facilities or access capital markets, to finance its operations and its increasing growth expectations.

The Zotefoams business is growth led and capital intensive. An expectation of growth creates the need for investment in fixed assets and working capital to service this growth, which increases debt levels ahead of the expected future cash inflows.

Mitigating actions
The Group has strong cash generation from its operations. In Q1 2018 the Group completed HP1, which cost a total of $33m. It has since announced a £12m investment in low-pressure capacity in Croydon to support HPP growth and a $9m investment to commission the second high-pressure autoclave (HP2) in the USA. The Group continues to assess additional significant investment opportunities and working capital needs to enable it to meet its increasing growth opportunities. Accelerated growth leads to a shorter investment cycle and the need for a more frequent assessment of the Group's financing structure.

The Group has debt facilities, at 31 December 2017, amounting to:
- a 10-year, $8m fixed rate loan
- a five-year £7.5m variable rate loan facility; and
- a four-year £10m RCF facility and a £2m overdraft facility.

In March 2018 the Group secured an additional £10m facility with an 18-month term. The loans and RCF facility are secured against certain Group assets and are subject to covenants.

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

Controls
- The Executive Committee monitors its funding position closely.
- Financial plans and projections are regularly reviewed by the Board.

Control Committees
- Board
- Executive Committee
- Capital Planning Committee

Commercial

Strategy

1. 2. 3. 4.

Risk trend

→

Risk

Group revenues and profits could be impacted by the loss, insolvency or divergence of interest with a major customer.

Mitigating actions

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

As the Group successfully converts projects out of its HPP portfolio into commercial opportunities, the customers it sells its ZOTEK® PEBA, F and N foams to will mostly be significantly larger than the average AZOTE® customer. These relationships, with balanced commercial contracts, are by their nature longer term, providing a unique technical solution and competitive advantage to the ZOTEK® foams customers. Continued investment in the portfolio could yield further successes that spread the risk of any single loss, while the T-FIT® insulation business provides further balancing with its more broadly spread customer base.

The Group will continually review its customer spread and balance, particularly as the HPP business segment takes on more importance.

Controls

- Review at Sales meetings and by the Marketing Committee.
- Review of HPP opportunities and commitments by the Executive Team and, subject to materiality, the Board.

Control Committees

- Board
- Executive Committee
- Marketing Committee

Pension

Strategy

4.

Risk trend

→

Risk

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.

There have in recent times been a number of legal cases challenging the validity of previously closed defined benefit schemes, but as yet no clear case law.

Mitigating actions

To minimise the risk to the Company of meeting the obligations under the Scheme, the Company took action to close the Scheme to new members in 2001 and closed it to future accrual of benefits in 2005.

The Company obtained legal advice in 2017 which opined that, while the Scheme was effectively closed to future accrual of benefits in 2005, it was not effectively closed to future accrual of salary. The impact of this, estimated to be £1.27m, has been booked as an exceptional item in the financial statements. A process is currently under way to close the scheme to future accrual of salary, while the Company also considers its options for recourse to its advisors at the time.

The Company will continuously work together with the Trustees to undertake de-risking activities to the Scheme, where feasible.

The last triennial actuarial valuation of the Scheme is as at 5 April 2017 and the outcome of this is still being considered. As a recovery plan for the Scheme for the previous valuation (5 April 2014), the Company agreed to make a contribution to the Scheme of £41,000 per month until April 2020 to reduce the deficit, together with expenses of £10,600 per month.

Controls

- Triennial actuarial reviews of the Pension Scheme are undertaken and balanced revisions to the funding of any deficit are agreed between the Trustees and the Company.

Control Committees

- The Board has oversight of the Company's liability to the Defined Benefit Pension Scheme.

Operational: Cyber threats

Strategy

1. 2. 3. 4.

Risk trend

↑

Risk

2017 was an unprecedented year for global cyber-threats in terms of scale, impact and speed of infection. Increasingly, additional measures are needed to combat and mitigate this growing risk

Mitigating actions

The IT department stays on top of all developments and regularly reviews the quality and status of its systems in the face of a potential attack. As an example, during 2017 the department:

- Commenced deployment of enhanced malicious code protection to all laptops globally
- Upgraded servers and desktops that had old operating systems
- Underwent an independent security audit to highlight any risks

The department also increased the level of communication on cyber-related risks with Group personnel.

The Group is committed to certification against the UK Government backed and industry supported Cyber Essentials Plus scheme. This will introduce many new technological solutions, policies and vulnerability management and will be independently audited in order to pass the scheme criteria.

Controls

- Reviewed quarterly by IT Steering Committee.

Control Committees

- IT Steering Committee
- Executive Committee
- North America Executive Committee

Our people

Securing the right people for future growth

We intend to be the world leader in cellular materials technology in our chosen markets. As we strive towards our business goals, it's important to have a strong culture through which we anchor ourselves to a common guiding philosophy.

Culture and engagement

Our brand values: Trustworthy; Reliable; Responsive and Pioneering, define how we expect to work together and with our stakeholders. We have made these values intrinsic to progression and recruitment for the last three years to drive these behaviours gradually through the organisation.

In 2017 we ran projects in culture and talent to support us further in the execution of these plans. We derived six guiding culture pillars, firmly tied to the nature and priorities of our business, to sit alongside our brand values and underpin our commercial efforts. Aligning our business and Brand Values is therefore the first pillar in our Company Culture. We accept that growth means continuing change and our second culture pillar is "We understand how we contribute to Zotefoams' success" in recognition of the need to maintain clarity and purpose through changing times.

"We hold ourselves accountable" is our third culture pillar, reflecting the evolution of our organisation into more defined profit-accountable business units, as new technologies grow into more tangible businesses. However, being technology leaders in our space, our people also need the scope and permission to experiment, learn and grow. This means tolerating a level of failure which we do gladly within agreed levels of risk and encouraging a "failing forward" approach to learning. This is our fourth culture pillar: "We are a learning organisation".

Our Brand Values

Our Culture Pillars

We live the Brand Values

We hold ourselves accountable

We understand how we contribute to Zotefoams' success

We are a learning organisation

We constructively challenge ourselves and others

We value people and recognise our successes

Getting the right balance between learning and accountability is difficult and requires an open culture that is receptive to questioning and improvement and this is our fifth culture pillar: "We constructively challenge ourselves and others". Last, but not least, our ambitious growth plan relies on our ability to take people with us. To support us with this in 2017 we contracted a third party global engagement survey, for which we achieved a very credible 77% response. This survey measured employee engagement and provided benchmarks on key priorities, including our safety culture and the roll out of our brand values. We received many constructive practical suggestions from this survey but the overarching message on culture from our employees is to improve the level of recognition they receive. This leads to our sixth culture pillar: "We value people and recognise our successes". While everyone is very busy at Zotefoams these days we nevertheless recognise the importance of this and intend to take the time to make this an integral part of our growth journey during 2018 and beyond.

Talent management

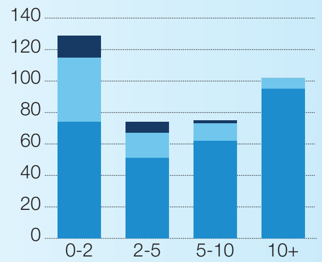
Like most organisations, Zotefoams has its own peculiar challenges with talent and in 2017 we set up a talent framework to tackle them. Our talent pool is focused on people with key business knowledge or experience together with transferable behaviours and skills. This group of people will begin a development programme in 2018, designed to increase their mobility by broadening their exposure across the business. The group is mobile in respect to function and, in many cases, geography and we are preparing them for key roles in new business units as well as for a wider range of opportunities within the core business. Alongside this mobile talent pool, we have developed talent feeder paths to hire and develop people towards the roles we find hardest to fill. Neither route particularly compromises people on an upward trajectory within their specialities and we believe we have structured a talent solution that focuses on resolving business needs without blocking career paths across the broader business.

Building capability

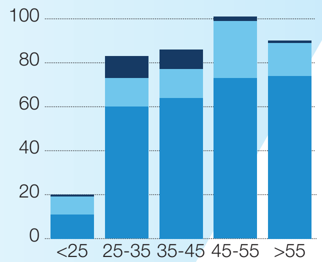
In 2016 we conducted an extensive talent gap review. Through 2017 we addressed many areas that this review highlighted, including workflow gaps, training and hiring. We also defined the key skills and expertise needed to support growth over the next 3-5 years, identifying the two key areas where we need to strengthen the pipeline of critical skills.

The first is in expertise across our technology and operations departments and we focused on entry-level solutions in 2017, launching a graduate scheme to sit alongside our placements and internships. Our graduates, together with our mobile talent pool, are undertaking development programmes this year. Our aim for this group is to learn alongside some of our longer-serving employees, where much of our expertise lies (see fig 1, years of service and age), so we transfer knowledge and capabilities and start building bench strength for future business demands.

Fig 1. **Years of service**



Age



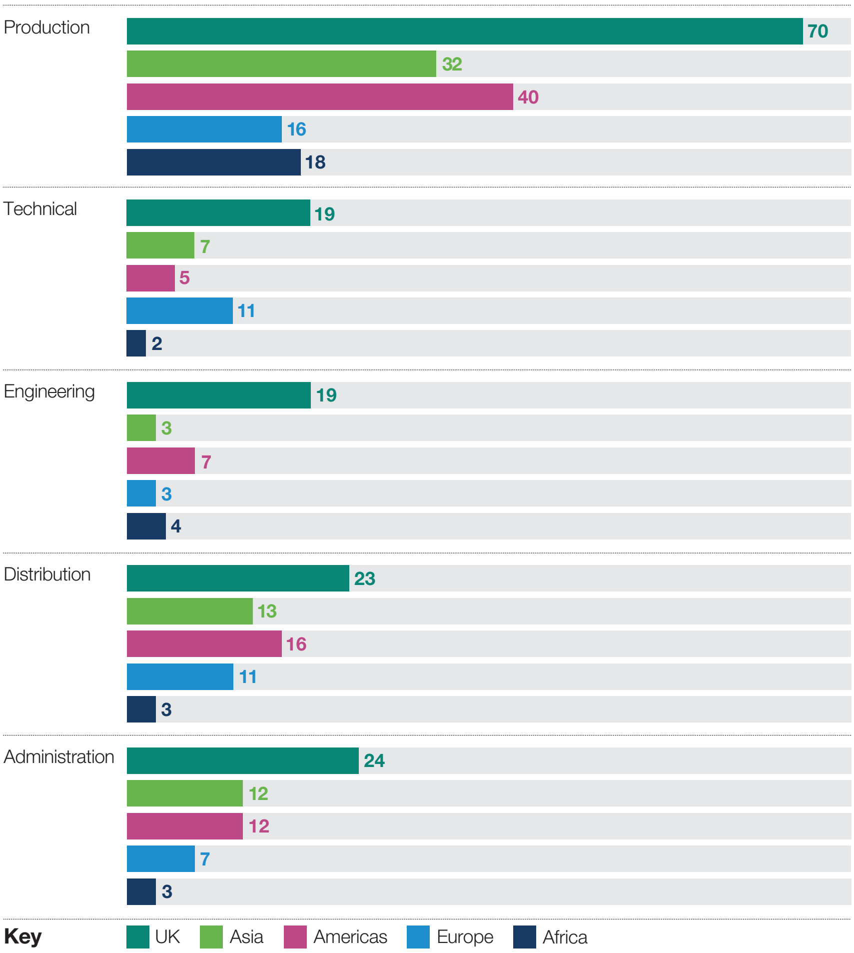
Key Europe USA Asia

Left to right, top to bottom:
IT Systems Support, Fabrication, Graduate Engineers, Technical

> We have derived six guiding culture pillars, firmly tied to the nature and priorities of our business, to sit alongside our brand values and underpin our commercial efforts.

> Our brand values, Trustworthy, Reliable, Responsive and Pioneering, define how we expect to work together and with our stakeholders.

Fig 2. **Cultural diversity**



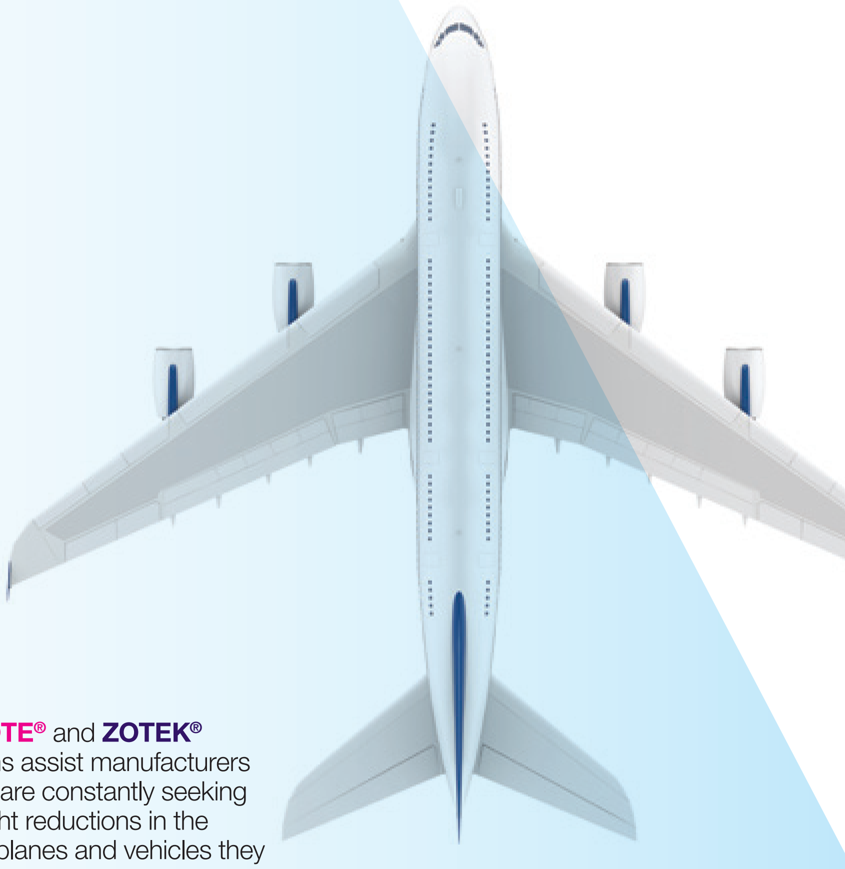
Our second area of focus for talent acquisition is the ability to serve an increasingly global organisation. In our UK-based staff we already have a demonstrably diverse workforce, as illustrated by fig 2, cultural diversity, and we have augmented our international capabilities through a combination of key hires and an opportunistic approach to junior talent. More widely, gender diversity of employees is also important, with women accounting for around 30% of key hires over the past two years, something also true of our graduate hires in 2017, despite operating in a highly male-dominated field. (see fig 3). We have completed a comprehensive analysis of basic salaries in respect to gender pay and have submitted our report as at 5 April 2017.

In 2018 we plan to extend this review to benefits to ensure we are operating fairly in all aspects of reward.

Talent attraction and employer branding are areas we have paid particular attention to in recent years, and in 2017 we have again seen the benefits of this investment through the highly skilled and qualified people we have hired. 2017 marked the beginning of a more targeted approach through forming relationships with the key local universities in materials engineering. We will augment this in 2018 through sponsorship and building more links and we plan to extend our acquisition efforts to apprenticeships.

Fig 3. **Role by gender as at 31 Dec 17**	Female	Male
Non-Executive Director	1	3
Director	–	2
Senior management	–	4
Other staff	89	285
Total	**90**	**294**

Sustainability
Doing the right thing



Zotefoams considers that the management of safety, health, environmental, social and ethical matters forms a key element of effective corporate governance.

Zotefoams' products

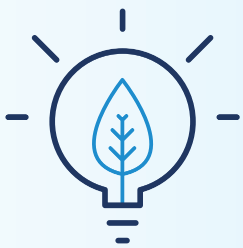
Zotefoams' products are known for their lightweight and durability as well as consistency. Zotefoams' products are frequently part of the sustainability agenda of our customers and/or end users, such as in the aviation and automotive industries, where manufacturers seek weight reduction to deliver fuel savings. A significant proportion of Zotefoams' foams used in packaging are for permanent protection, such as tool cases, or multiple-use applications such as internal transportation of parts in automotive, semi-conductor or other industries.

The MuCell® technology, developed by MuCell Extrusion LLC, offers licensees the opportunity to manufacture extruded plastic parts using less raw materials than with conventional extrusion methods. A 15-20% saving on raw materials at source offers significant environmental benefits, as well as cost reduction, and often requires little compromise in product design, as the end parts are typically indistinguishable from their solid counterparts.

Zotefoams is making advances in both the types of foams that we offer and their uses for existing materials. The global trends of using fewer materials, and using less fuel through weight reduction and increased use of better insulation, all offer opportunities to use foams. The unique process currently used by Zotefoams to manufacture our block foam products is based on nitrogen gas, which is inert and comprises 78% of the earth's atmosphere, to expand the foams, while MuCell® processes use either nitrogen or already-existing carbon dioxide as the foaming agent. The common peroxide cross-linking agent, which improves the foam's properties, is completely expended during the manufacturing process.

Foam products and technologies offer many environmental benefits, and Zotefoams intends to develop further products and solutions to deliver global needs in a sustainable manner.

AZOTE® and **ZOTEK®** foams assist manufacturers who are constantly seeking weight reductions in the aeroplanes and vehicles they build – which leads to the consumption of less fuel per mile travelled.



Unlike foam manufactured by the Group's competitors, no other chemical additives or fillers are used in our process.

MuCell® technology enables manufacturers to use 15–20% less raw material than with conventional extrusion methods.

Safety, Health and Environment ('SHE')

The Board has in place separate policies relating to Safety, Health and Environment. The Company 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 Company complies with those standards. The Company is working towards implementing ISO 14001/2015 and expects to achieve compliance in 2018.

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.

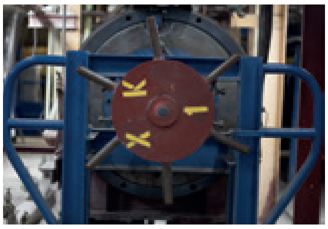
The Group CEO is directly responsible to the Board for Safety, Health and Environmental performance. Site Committees on SHE normally meet once a quarter to consider all SHE matters and are overseen by Steering Committees, chaired by the Group CEO (or appropriate responsible person in subsidiary companies). 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 could cause, or might have caused, harm and, therefore, appropriate corrective action can be taken to eliminate or minimise the risk. The Group also ensures that appropriate safety practices are included in standard operating procedures to reduce the risk of SHE incidents occurring.

All SHE incidents are investigated by appropriate levels of management to ascertain the root cause of the incident and, wherever possible, working practices and procedures are improved to minimise the risk of reoccurrence. In 2017 there were no prosecutions, fines or enforcement actions taken as a result of non-compliance with safety, health or environmental legislation (2016: none). In December 2017 the Division of OSH Compliance from the Kentucky Labor Cabinet visited the Group's Kentucky site before the start-up of the new plant. The results of the visit were positive and provide a firm foundation for this important operation as it grows in significance to the Group.

Year	**2017**	2016	2015	2014	2013
Reportable lost time injuries	**6**	13	7	1	6



Health and safety performance

Few controlled substances are used in the manufacture of our foams, but where they are, the Group has established procedures, upon which the relevant employees are trained, 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 to 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 autoclaves are subject to the Pressure Systems Safety Regulations 2000 in the UK and OSHA (Occupational Safety and Health Administration) 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 and prevent any further risks. Operation of these fail-safe mechanisms releases harmless nitrogen gas into the atmosphere.

In 2017, there has been a significant focus on health and safety. Management is committed to undertaking safety walks through all plant locations. In Croydon, a programme was developed to pair up executives and managers from different parts of the business each month to undertake inspections of the plant. The Executive team and managers received training on Safe and Unsafe Acts (SUSA) auditing to improve the effectiveness of inspections and discussions with the employees on safety matters.

In 2017, the Group had six reportable lost time injuries. All incidents were fully investigated and appropriate corrective actions have been put in place. The nature of these incidents varied, but they all related to incorrect manual handling or slips and falls.

Environmental performance

There were no significant environmental incidents during the year (2016: none). In 2017 the Group had 7 internally recorded environmental incidents (2016: 11), the majority of which were noise and light complaints.

All incidents are taken seriously, investigated, and responses given, appropriate to their level of impact or potential impact.

Sustainability Continued

Croydon site: Year	2017	2016	2015	2014	2013
Internally recorded environmental incidents	**7**	11	6	8	2
Waste sent to landfill (tonnes)	**589**	237	191	225	442
Water consumption (000 m^3)	**74**	60	66	43	39
Energy consumption (kWhr/kg)	**11.05**	11.76	11.75	11.63	12.30

Carbon emissions (CO_2 tonnes)	2017	2016	2015	2014	2013
Emissions arising directly from our operations (including fuel used in our vehicles)	**134**	136	382	255	204
Indirect emissions – use of energy (electricity and gas)	**16,291**	16,006	18,194	17,227	16,848
Total	**16,425**	16,142	18,576	17,482	17,052
Carbon emissions (kg) per material gassed (kg)	**2.1**	2.3	2.4	2.4	2.6

The majority of the waste produced by Zotefoams in the UK is either solid or foamed polyolefin. Our goal is to minimise waste through improving manufacturing yields. We aim to find an alternative use for any non-prime material, although it is sometimes necessary to have such material recycled by third parties or, as a last resort, disposed of in landfill. The overall yield for the prime material produced in Croydon reduced by 0.7% in 2017.

Since 2013 the amount of waste material being sent to landfill has reduced, despite increases in the volume of activity within the business. However, in 2017, the amount of waste sent to landfill increased as China declared a ban on importing waste plastic for recycling, which altered the market dynamics considerably, and the Croydon site was cleared to prepare for construction of a new building to accommodate the investment of two large high-temperature low-pressure autoclaves.

Water usage on the Croydon site in 2017 was 74,000m^3, which was higher than 2016 (60,000m^3). We identified two leaks in the system during the year, which have now been rectified, and we continue to investigate our water systems for areas of high consumption.

We measure energy efficiency by taking energy consumption and dividing it by the amount of material (in kg) that passes through high-pressure autoclaves. In 2017, our energy efficiency improved significantly to 11.05 kWhr/kg (2016: 11.76 kWhr/kg). This improvement is a combination of a number of initiatives such as introducing LED lighting around the Croydon site, replacing older service equipment and commencing use of vaporising technology in Croydon at the end of 2016. This vaporising technology has reduced demand on the older, energy-intensive, nitrogen compressors used to pressurise autoclaves.

In October 2009, the Company entered into a Climate Change Levy ('CCL') agreement, which involves meeting specific targets to reduce energy consumption. Providing the Company 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 2015 the Group had its first assessment under the Energy Savings Opportunity Scheme ('ESOS'). The next assessment for ESOS will be for the four-year period ending 31 December 2018.

Carbon emissions

The Group's total carbon emissions for all its operations globally were 16,425 metric tonnes for the year ended 31 December 2017 (2016: 16,142 metric tonnes). The breakdown of these figures is shown in the table above.

Our principal carbon emissions have been from energy usage in the manufacture of our foam products in both Croydon and Kentucky. The carbon emissions from MuCell Extrusion LLC and Zotefoams Midwest LLC are minimal.

The methodology 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 for which we are directly responsible. We have not included emissions for activities over which we have no direct control. For example, we have included business mileage on Company vehicles and mileage claimed by employees in the UK, but not other forms of business travel, such as travel made by employees elsewhere in the Group or travel using public transport or aeroplanes.

Whilst there has been an increase in our carbon emission for 2017 compared to 2016, this is due to more material being produced. Our actual carbon emissions (kg) per material gassed (kg) have reduced from 2.3 to 2.1. It should also be noted that another driver for the lower carbon emissions in 2017 and 2016, compared to the earlier years, is that lower conversion factors have been used for electricity and gas consumed in the UK to calculate their carbon emissions. The Department for Business, Energy and Industrial Strategy last updated the conversion factors in August 2017.

“ Our actual carbon emissions (kg) per material gassed (kg) have reduced from 2.3 to 2.1.

Board of Directors

The right skills to take us forward

1.

3.

2.

4.

1. David Stirling
Group CEO

Appointed
September 1997 (Finance Director) and May 2000 (Group CEO)

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 the 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 appointments
None.

2. Steve Good
Non-Executive Chairman

Chair of the Nominations Committee and member of the Remuneration Committee

Appointed
October 2014 (Board) and April 2016 (Chairman)

Skills and experience
Steve was Chief Executive of Low & Bonar plc between September 2009 and September 2014. Prior to that role, he was Managing Director of its technical textiles division between 2006 and 2009, Director of new business between 2005 and 2006, and Managing Director of its plastics division between 2004 and 2005. Prior to joining Low & Bonar he spent 10 years with BTP plc (now part of Clariant) in a variety of leadership positions managing international speciality chemicals businesses. He is a Chartered Accountant.

External appointments
Non-Executive Director and Chair of the Remuneration Committee of Elementis plc.

Non-Executive Director of Anglian Water Services Limited.

3. Gary McGrath
Group CFO

Appointed
December 2015 (Executive Director) and February 2016 (Group CFO)

Skills and experience
Gary is a Chartered Accountant, qualifying with Arthur Andersen. He spent 11 years with RMC Group plc before joining Koch Industries Inc, 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. Before joining Zotefoams, 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.

External appointments
None.

4. Angela Bromfield
Non-Executive Director

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

External appointments
Non-Executive Director and Chair of the Remuneration Committee of Churchill China plc.

5.


6.


7.


5. Douglas Robertson
Non-Executive Director

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

Appointed
August 2017

Skills and experience
Doug was Group Finance Director of SIG plc until his retirement in January 2017. Prior to joining SIG, Doug had been Group Finance Director of Umeco plc and Seton House Group Limited, having spent his early career with Williams plc in a variety of senior financial and business roles.

External appointments
Non-Executive Director and Chair of the Audit Committee of HSS Hire Group plc.

6. Richard Clowes
Senior Independent Non-Executive Director

Member of the Audit, Nominations and Remuneration 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, Off highway and Auto Components Divisions.

External appointments
None.

7. Jonathan Carling
Non-Executive Director

Member of the Audit, Nominations and Remuneration Committees

Appointed
January 2018

Skills and experience
Jonathan is the CEO of Tokamak Energy, a technology business developing a faster route to fusion power. Jonathan was previously COO, Civil Large Engines at Rolls Royce plc, COO at Aston Martin Lagonda Limited, and Chief Engineer with Jaguar Landrover Limited. Jonathan has extensive engineering, operational and business experience. He was also a Non-Executive Director of Aga Rangemaster Group plc between 2011 and 2015.

External appointments
CEO of Tokamak Energy Ltd.

Corporate governance introduction

Committed to the highest standards of 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).

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 2017, the Group applied all of the provisions set out in the UK Corporate Governance Code as published in April 2016.

The Board also confirms that the Group 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 the Nominations Committee report.

Proposed revision of the UK Corporate Governance Code

The Board is aware of the proposed revision to the UK Corporate Governance Code, which was published in December 2017, and the consultation period, which closed on 28 February 2018. The Board is monitoring the developments of the Code and will consider how to implement the changes once the finalised version of the Code is published.

Board and Committee composition

M-L Clayton retired from the Board on 30 September 2017. D G Robertson was appointed to the Board on 8 August 2017 and as Chair of the Audit Committee and member of the Nominations and Remuneration Committees. J D Carling was appointed to the Board on 2 January 2018, as well as to the Audit, Nominations and Remuneration Committees. After being on the Board for ten years, R J Clowes will be retiring at the AGM scheduled for 16 May 2018. D G Robertson will replace R J Clowes as Senior Independent Director on 16 May 2018.

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 16 May 2018 and the Board looks forward to meeting you there.

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 Board is aware of the proposed revision to the UK Corporate Governance Code, which was published in December 2017, and the consultation period, which closed on 28 February 2018.

Steve Good
Chairman

6 April 2018

The Board and its Committees

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

All Directors take decisions objectively in the interests of the Group.

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 Group's website, 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 January 2018.

Chairman and Group CEO

The Chairman is responsible for the 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 S P Good has sufficient time to devote to his role as being the Chairman of the Group. Mr Good has no executive positions, but is currently a Non-Executive Director of two other companies (Elementis plc and Anglia Water Services Limited).

The Group CEO is responsible for the running of the Group's business. He is supported by the Group CFO and the Group's senior management team.

Board balance and independence

The Board currently comprises two 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 2017. The Board considers R J Clowes to be independent, notwithstanding he has served on the Board since 2007, as he continues to demonstrate independence in his judgement and contribution to the Board.

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.

> "The Board's role is to provide the entrepreneurial leadership of the Group within a framework of prudent and effective controls which enable risk to be assessed and managed.

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

	Board meetings		Audit Committee meetings		Remuneration Committee meetings		Nominations Committee Meetings	
Attendance at meetings	**Eligible**	**Attended**	**Eligible**	**Attended**	**Eligible**	**Attended**	**Eligible**	**Attended**
A C Bromfield	13	13	4	4	8	8	8	8
J D Carling	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M-L Clayton	9	8	2	2	6	6	5	4
R J Clowes	13	11	4	4	8	8	8	7
S P Good	13	13	n/a	n/a	8	8	8	8
G C McGrath	13	13	n/a	n/a	n/a	n/a	n/a	n/a
D G Robertson	4	4	2	2	2	2	3	3
D B Stirling	13	13	n/a	n/a	n/a	n/a	n/a	n/a

The Board and its Committees Continued

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 Group'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).

The evaluation of the Board normally takes the form of a questionnaire, prepared by the Chairman and the Company Secretary, and the results are compiled and discussed, with actions agreed. Each Committee undertakes its own evaluation, led by the relevant Chair. These might include a questionnaire to identify specific topics, but there is always a discussion at one of the meetings each year to consider the activities of the Committee during the year and areas for improvement. Due to the Group'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 in the second quarter of 2017. After the Directors had each completed a questionnaire, the Chairman held individual meetings with each Director and then prepared a discussion document, which reviewed progress against the actions identified from the 2016 Board evaluation and set out recommended actions for the following year. These included improving the succession plans of both the Board and the Group's senior management, redesigning the risk management process and utilising more 'in flight' reviews to enhance the effectiveness of the Board.

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. The current Code requires all directors of FTSE 350 companies to stand for annual re-election, although one of the proposed changes to the Code that was published in December 2017 is that this requirement apply to all listed companies. Whilst the Group is not within the FTSE 350, the Board has decided since 2012 to follow best practice for Main Market Listed companies and has adopted the practice of annual re-election of all Directors.

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 in respect of the annual report.

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 Group is always willing, where practicable, to discuss with its shareholders its objectives in order 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 Group'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 to be the primary vehicles for communication with private investors. The Chairs of the Audit and Remuneration Committees will normally be available at the AGM to answer questions. 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.

“The Group is always willing, where practicable, to discuss with its shareholders its objectives in order to promote a mutual understanding.

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 it 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 the Board reviews the performance against the budgets and the quarterly forecasts. In addition, the Board receives monthly management reports, which highlight financial results, performance against key performance indicators and significant activities and matters of note during the month of review. In 2017, the Group's Finance Department has focused on improving the quality of these reports.

Through these mechanisms, the performance of the Group is regularly 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.

Audit Committee report

New Audit Committee Chair appointed

Dear Shareholder

I am pleased to present my first report, as Chair of the Audit Committee, on the activities of the Committee for 2017.

As part of my induction to the Board, I spent time with M-L Clayton, the previous Chair of the Audit Committee, M Jones, Audit Partner at PricewaterhouseCoopers LLP ('PwC'), the Group CFO and the Company Secretary to gain a full understanding of the financial reporting of the Group, its risk management framework and the operations of the Audit Committee.

The internal audit in 2017, performed by the Group's selected advisor, Grant Thornton UK LLP, was a review of the Group's inventory management policies, procedures and controls in Croydon. Findings were presented to the Audit Committee by senior representatives of Grant Thornton and timely management actions and commitment dates discussed and approved. The Group adopts a risk-based approach to internal audit. In 2016 the audit review was on fixed assets at the UK and US sites, while in the previous year it covered accounts payable procedures at the head office in Croydon.

The Committee considered the issues arising from the potential increased liability on the Group's Defined Benefit Pension Scheme in the UK. The Committee also considered the impairment of the goodwill arising on the acquisition of MuCell Extrusion LLC ('MEL') in 2011 and the inventory adjustment at MEL.

With the significant capital investments being made by the Group in Croydon and Kentucky, USA, the Committee was kept informed on the Group's financing facilities and net debt forecast, to ensure that the Group had sufficient finance to undertake these investments and to continue its other operations.

The Committee was kept informed on the continuing work to develop and implement a new risk management framework for the Group.

As a result of its work during the year, 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.

D G Robertson
Chair of the Audit Committee

6 April 2018

Summary of the role of the Audit Committee

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 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 the External Auditors' management letter and management responses to any findings and recommendations made from the external 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.

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 and updated in December 2016 and reflect the changes brought in by the UK Corporate Governance Code published in April 2016.

Composition of the Audit Committee

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

The members of the Audit Committee during 2017 were the independent Non-Executive Directors of the Company. A C Bromfield and R J Clowes were members for the whole year. M-L Clayton chaired the Committee until 8 August 2017 and retired from the Committee on 30 September 2017. D G Robertson was appointed as Chair of the Committee on 8 August 2017. J D Carling was appointed as a member of the Committee on 2 January 2018.

M-L Clayton is a Fellow of the Association of Chartered Certified Accountants and D G Robertson is a Fellow of the Institute of Chartered Accountants of England and Wales. In the opinion of the Board, they both have significant, recent and relevant financial experience, in the case of D G Robertson, to fulfil the requirements of the role and, in the case of M-L Clayton, to have performed the role. All Audit Committee members are expected to be financially literate and further training is provided if required or requested.

The Audit Committee's membership, as a whole, has competence relevant to the sector in which the Group operates. Whilst D G Robertson is the only current member of the Committee with a financial qualification, the other members are financially literate: A C Bromfield has an MBA; R J Clowes is a Chartered Engineer; and J D Carling has extensive engineering and business experience. In addition, all four current members have held, or currently hold, positions, both executive or non-executive, in industries (engineering, manufacturing and construction) that all have a strong focus on engineering and construction projects, health and safety and customer supply and delivery.

Meetings

The Audit Committee has a planned calendar linked to events in the Group's financial calendar, causing it to meet at least 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 four times in 2017.

The Company Secretary acts as secretary to the Audit Committee. The Company Chairman, Group CEO, Group CFO, Group 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 2017 the Audit Committee has:

- reviewed the financial statements in the 2016 Annual Report, including the going concern and viability statements and the stress testing of the viability statement, and received the External Auditors' report on the audit of the 2016 Annual Report;
- reviewed the interim report issued in August 2017 and received the report from the External Auditors on their review of the interim report;
- received an initial report on the Group's preparation for compliance with the General Data Protection Regulation;
- reviewed an initial draft on the Group's statement on Modern Slavery;
- considered the Group's first cut of the data for gender pay gap reporting;
- considered the inventory adjustment at MEL;
- received a paper on the complications under the Companies Act 2006 for the payments of interim dividends;
- received a paper on the new corporate offence for failure to prevent the facilitation of tax evasion;
- 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;
- agreed a programme of work for 2017 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 Annual Report 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.

> "The Audit Committee membership, as a whole, has competence relevant to the sector in which the Group operates."

Audit Committee report Continued

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 or review.

An area of significant focus by the Audit Committee has been the provision raised during 2017 of £1.27m in relation to the potential increase on the liability of the Group's Defined Benefit Pension Scheme in the UK, for which the Group carries ultimate liability as sponsoring employer of the Scheme. This potential liability arose following legal advice obtained by the Scheme's Trustees on the closure of the Scheme in 2005. Whilst the legal advice indicated that the Scheme was properly closed to future accrual of service in 2005, the linkage to future increases in salary had not been broken.

Another area of significant focus considered by the Audit Committee was whether the £2.3m of goodwill on the consolidated statement of financial position, which arose on the acquisition of MEL in 2011, remained appropriate in view of past year losses and management's expectations of future cash flows.

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 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) and for audit committees 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 sixth annual audit for the Group and the second annual audit led by Michael Jones. Whilst the Group is not within the FTSE 350 and hence not subject to the above-mentioned requirement, the Audit Committee has no current plans in the medium term to retender the external audit, but will keep the matter under review.

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.

In December 2016 the Audit Committee approved a new policy, which took effect from 1 January 2017, in relation to the provision of non-audit services provided by the External Auditors. The new policy requires that no non-audit services will be provided by the External Auditors without the prior approval of the Audit Committee. The External Auditors have not provided any non-audit services in 2017.

The Audit Committee, having conducted a review of the External Auditors, concluded that the External Auditors have performed in a satisfactory manner and continue to be objective and independent and, therefore, has recommended to the Board that a resolution be put to the shareholders at the 2018 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. Following a tender process in 2015, Grant Thornton UK LLP has been used to provide internal audit services in 2017. 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

Two new Independent Non-Executive Directors appointed

Dear Shareholder

I am pleased to present my report on the activities of the Nominations Committee for 2017.

2017 was a busy year for the Nominations Committee. The Committee considered succession planning, including the skills and needs, of both the Board and the senior management team. The Committee and I led the search for the two new Independent Non-Executive Directors and I am pleased that the Committee was able to recommend to the Board the appointments of D G Robertson and J D Carling. Further information on the search process is contained in my report.

The focus in 2018 will be on the succession planning of both the Board and the senior management team.

S P Good
Chair of the Nominations Committee

6 April 2018

Composition and operation of the Nominations Committee

The Nominations Committee currently comprises the Chairman, S P Good (who is its Chair), and the four independent Non-Executive Directors. 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 and managing the recruitment of new Board members within a specification set by the Board. The Committee met on eight occasions in 2017 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.

Appointments of the two new independent Non-Executive Directors

In 2017, two searches were made for the two recent appointments of independent Non-Executive Directors to the Board. The process started with role profiles for the positions being drafted by the Chairman, setting out the desired skills and experience required for each position. These profiles were then circulated to the other members of the Nominations Committee and the Executive Directors for comment. Once the role profiles were agreed, either a non-executive director recruitment consultant was briefed to undertake the search or a specialist online senior executive and non-executive recruitment platform was used to advertise the position. Initial interviews of the shortlisted candidates were undertaken by the Chairman and the second round of interviews were undertaken by two other members of the Nominations Committee followed by a meeting with the Group CEO. Before the candidate was invited to join the Board, all other members of the Board were given the opportunity to meet or speak on the telephone with the candidate.

In relation to the appointment of D G Robertson, Chair of the Audit Committee, it was agreed that the candidate should have public company experience as a CFO of a larger listed public company, should not currently be a full-time executive and, ideally, should already have gained experience of being a non-executive director, preferably, as chair of an audit committee. A recruitment consultant was briefed to undertake the search as it was believed that such a consultant would have a wider pool of candidates that met the role profile than other channels.

In relation to the appointment of J D Carling, as he would be replacing R J Clowes as a Non-Executive Director, it was agreed that the candidate should have an engineering or science-based background and extensive operational experience in manufacturing businesses. A good short list was developed, using an on-line recruitment platform, from which J D Carling was selected.

Senior Independent Non-Executive Director

The Nominations Committee has recommended to the Board that D G Robertson replace R J Clowes as the Senior Independent Director at the conclusion of the 2018 AGM scheduled for 16 May 2018.

Remuneration report

New Directors' Remuneration Policy approved at the 2017 AGM, following a thorough process and shareholder consultation

Dear Shareholder

I am pleased to present the remuneration report for the year ended 31 December 2017.

Introduction

2017 was another busy year for the Remuneration Committee. The Committee completed its in-depth review of the Company's approach to executive remuneration, which involved consulting with a number of shareholders in the first part of the year and culminated with the approval of the new Directors' Remuneration Policy at the Company's AGM held on 17 May 2017.

There have been a few changes in the membership of the Remuneration Committee, reflecting the changes in the Board. M-L Clayton stepped down from the Remuneration Committee on 30 September 2017. D G Robertson joined the Committee on 8 August 2017 and J D Carling also became a member on 2 January 2018.

Directors' Remuneration Policy

We received good support at the 2017 AGM on the resolution to approve the Directors' Remuneration Policy (91.85% in favour), but we recognise that some votes were cast against the resolution. We consulted with our major shareholders on the Policy and we did amend our original proposals to ensure, as far as possible, that the Policy struck the right balance between our long-term strategic ambitions and the wider interests of the shareholders and was appropriate in the current climate towards executive remuneration.

In addition to shaping the remuneration for the Executives on the Board, the Policy sets the tone for the remuneration of the entire senior team. While the business continues to grow we need to be able to recruit, incentivise and retain Executives of a high calibre.

We will continue to engage with shareholders as necessary and will consider the feedback that has been and will be provided.

Activities of the Remuneration Committee during 2017

On page 56 of the remuneration report we have set out the main activities of the Remuneration Committee in 2017. In addition to these the Committee did look at the bonus arrangements offered to the wider workforce in the UK. This will be considered further in 2018.

Base salaries reviewed to represent a more balanced approach going forward

I noted in my Annual Statement last year that we propose to increase on 1 April 2018 the base salaries of the Group CEO by 6% to £253,000 and of the Group CFO by 9% to £170,500, subject to continued strong performance by the Group and the Executives. The Remuneration Committee has considered whether these proposed increases are warranted and the Committee believes, in light of the Group's strong performance in 2017 and the Executives' own performance, that they are warranted. The increases will have already been implemented by the time of the AGM on 16 May 2018.

Group performance for 2017 and annual bonus

The Group's profit before tax and exceptional item was £8.81m, compared to £7.23m in 2016. This is a strong set of results, which is ahead of market expectations. There will be a full pay out for this element of the annual bonus for the Executive Directors. HPP segment sales for 2017 were £12.62m, under a separate definition of such sales by the Remuneration Committee, which resulted in only 4.42% of the maximum opportunity of 15% for this element of the annual bonus being achieved. The Executive Directors have also made good progress in building operational capability, in delivering the strategy and on their individual objectives. As a consequence, there were pay outs on the 2017 annual bonus of 84.4% of the maximum opportunity for the Group CEO and 85.4% of the maximum opportunity for the Group CFO. Vesting of the 2015 LTIP awards will be 57.95% of the maximum opportunity of the 2015 LTIP awards. Whilst basic earnings per share before exceptional item (EPS) for 2017 was 16.04p, the Remuneration Committee decided to eliminate the impact on deferred tax (the US net operating losses which are carried forward) due to the change in expected future US corporate tax rates, which resulted in an EPS of 16.59p being used for calculating the satisfaction of the EPS target for the vesting of the 2015 LTIP awards. Further details on the annual bonus and the LTIP awards are given on pages 50 and 51.

Outlook for 2018

The Committee has considered the proposed metrics for the 2018 annual bonus and 2018 LTIP awards. The metrics are set out on pages 48 and 49 of the Remuneration report.

The maximum annual bonus for 2018 will continue to be 75% of base salary (before salary sacrifice). The incentive will be based on an appropriate balance of financial and non-financial performance targets that support delivery of the strategy. For a number of years the Committee has set a target for HPP segment sales. As this business is now established, the Committee decided that it is no longer appropriate to have a sales performance metric for HPP as part of the bonus. In 2018 the targets will include profit before tax, development of the MEL business, a metric for the development of the T-FIT® segment and individual objectives. The latter will include a focus on health and safety.

The Committee will be granting LTIP awards in April 2018 of 150% of base salary (before salary sacrifice). These awards will be based on the increased salaries that become effective on 1 April 2018. The Committee decided to use the same performance metrics that were used for the LTIP awards granted in 2017, as the Committee continues to believe that EPS (representing 70% of the award) and relative TSR (representing 30% of the award) are the most appropriate measures to ensure that management is focused on the delivery of profitable growth, which will ultimately deliver long-term returns for the shareholders.

Zotefoams plc Approved Share Option Plan 2018

The current approved share option plan was approved in 2008 and expires on 8 May 2018. The Committee has decided to continue issuing share options to senior employees in the UK as a way of incentivising and retaining them. It should be noted that the Executive Directors are no longer entitled to receive awards of approved share options under the current Directors' Remuneration Policy. There is a resolution at this year's AGM to approve the replacement plan (the Zotefoams Approved Share Option Plan 2018). Further information on the operation of the plan and a summary of the rules may be found in the notes and appendix to the notice of the AGM on pages 114 to 116.

Conclusion

The Committee will be considering the proposed revisions to the UK Corporate Governance Code in relation to remuneration matters, as well as other developments of best practice in remuneration.

The Committee and I hope you will be able to support the resolutions in respect of the Annual Remuneration Report and the Zotefoams plc Approved Share Option Plan 2018 at the AGM.

I will be available at the AGM to answer any questions you may have.

A C Bromfield
Chair of the Remuneration Committee

6 April 2018

Introduction

Directors' remuneration report for the year ended 31 December 2017

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 current Directors' Remuneration Policy (the 'Remuneration Policy') was approved at the 2017 AGM (17 May 2017) and is intended to remain in place until the AGM that will be held in 2020. The Remuneration Policy has not been included in this Annual Report, but may be found on pages 41 to 52 of the 2016 Annual Report. A copy of the 2016 Annual Report may be found by following this link: **http://bit.ly/2HdcbDC**

The Annual Report on Remuneration provides details on how Directors were paid in 2017 and how the Remuneration Committee intends to implement the Remuneration Policy in 2018. This section of the report will be subject to an advisory shareholder vote at the 2018 AGM.

Remuneration report Continued

Annual report on remuneration

Statement of implementation of the Directors' Remuneration Policy in 2018 (unaudited)

Base salary and annual bonus

Due to the previous Directors' Remuneration Policy providing a base remuneration below the market for the Executive Directors, upon approval of the new Directors' Remuneration Policy at the 2017 AGM, the Executive Directors' base salaries were increased, effective 1 April 2017, by 6% to £238,500 per annum for the Group CEO, D B Stirling and by 9% to £156,500 for the Group CFO, G C McGrath.

It was stated in the Annual Statement by the Chair of the Remuneration Committee in the 2016 Annual Report that the Executive Directors' base salaries would be increased in 2018 (effective 1 April) by 6% to £253,000 per annum for D B Stirling and by 9% to £170,500 for G C McGrath, subject to continued strong performance by the Executive Directors and the Group. The Remuneration Committee has considered the performance of the Group and the Executive Directors and is satisfied that the salary increases are warranted.

Budgeted salary increases for the wider employee group are taken into consideration when determining increases for the Executive Directors and senior executives, but the Remuneration Committee does not consult with employees when formulating the Remuneration Policy for the Executive Directors.

The 2018 salary increase for the wider workforce has not yet been agreed and, in the UK, is subject to negotiation with the unions.

For 2018, the maximum opportunity for D B Stirling and G C McGrath in respect of the annual bonus will be 75% of base salary (before salary sacrifice).

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

	As a percentage of maximum bonus opportunity	
Measure	**D B Stirling**	**G C McGrath**
Profit before tax	60%	60%
T-FIT® segment sales	10%	5%
Development of MEL business	10%	–
Group financing	–	15%
Individual objectives	20%	20%
Total	**100%**	**100%**

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.

To ensure that bonuses are more closely aligned with business and management performance, the Remuneration Committee will use the budgeted foreign exchange rates for the translation of foreign exchange balances when determining bonus awards for the profit before tax element of the annual bonus in 2018. Transactional exposures are managed by management within the Group's hedging policy and, therefore, are assessed at actual rates, net of hedging.

The individual objectives are specific and measurable and are linked to the Company's strategic priorities. They include targets for health and safety performance, key investment projects, organisation development and specific strategic targets.

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 2018, contributions to the defined contribution pension plan (or cash alternative payments) are as follows:

- **D B Stirling** – 15.75% pensionable salary.
- **G C McGrath** – 5.0% pensionable salary (before salary sacrifice).

LTIP

In April 2018, the Executive Directors will receive awards for the conditional right to acquire shares under the LTIP equal to 150% of base salary (before salary sacrifice).

The 2018 awards will be subject to two performance measures: (i) relative TSR performance measured against the FTSE SmallCap Index (excluding investment trusts), which will represent 30% of the award; and (ii) EPS performance, which will represent 70% of the award vesting. TSR will be measured over the three-year performance period with a three-month average at the start and end of the performance period. 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.

LTIP Performance criteria

Relative TSR performance target

Trigger point performance:	Median performance against FTSE SmallCap Index (excluding investment trusts)	% of award vesting: 6%
Maximum performance:	Upper quartile performance against FTSE SmallCap Index (excluding investment trusts)	% of award vesting: 30%

Annualised EPS growth target

Trigger point performance:	5%	% of award vesting: 14%
Maximum performance:	22%	% of award vesting: 70%

Single total figure of remuneration (audited)

The following tables set out the single figure for total remuneration for Directors for the 2017 and 2016 financial years.

Executive Directors

	Salary (£)	Benefits (£)	Bonus (£)	LTIP[1] (£)	Pension (£)	Total (£)
D B Stirling						
2017	**235,125**	**13,251**	**151,004**	**175,963**	**36,116**	**611,459**
2016	213,864	13,173	123,750	102,675	44,083	497,545
G C McGrath						
2017	**145,581**	**11,782**	**100,261**	**nil**	**16,314**	**273,938**
2016	136,660	11,559	80,360	nil	12,752	241,331

1 The LTIP award made in March 2015 is not due to vest until 30 March 2018, but has been included in the table as its performance was measured for the three-year period ended 31 December 2017. For the purposes of this table, the award has been valued using the average share price over the three months to 31 December 2017 of £3.892. This compares to a share price of £2.850 at the date of grant. The LTIP award made in April 2014 vested on 7 April 2017 and has been recalculated using the actual sales price achieved for the shares when they were sold (£3.00) on 10 April 2017.

Non-Executive Directors

	Fees paid in respect of 2017 (£)	Fees paid in respect of 2016 (£)
A C Bromfield	**40,000**	36,958
J D Carling[1]	**nil**	nil
M-L Clayton	**30,000**	37,875
R J Clowes	**40,000**	37,875
S P Good	**80,000**	67,375
D G Robertson	**16,095**	nil

1 J D Carling was appointed to the Board on 2 January 2018.

The Non-Executive Directors (including the Chairman) will receive a fee increase, effective 1 April 2018, which will be in line with the general salary increase that will be given to the Company's staff in the UK. This general salary increase has not yet been determined.

Remuneration report Continued

Notes to the table (audited)

Base salary and pension contributions

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. G C McGrath opted for the salary sacrifice scheme and the amounts shown for his base salary are after salary sacrifice. Similarly, the amounts shown for pension include the amounts of salary sacrificed. At 31 December 2017, the base salary (before salary sacrifice) for G C McGrath was £156,500 pa (£143,500 as at 31 December 2016).

As D B Stirling has approached his lifetime pension limit, since September 2016 both he and the Company ceased contributing to his DC Pension Plan. Instead, D B Stirling receives a cash contribution in lieu of contributions to his DC Pension Plan. Before September 2016, D B Stirling made contributions to his DC Pension Plan via a salary sacrifice scheme as described above. The salary sacrifice arrangement ceased as from September 2016. At 31 December 2017, the base salary for D B Stirling was £238,500 pa (£225,000 pa as at 31 December 2016).

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 2017

The targets for the annual bonus for 2017 for D B Stirling and G C McGrath are as set out in the below table.

	Maximum bonus opportunity	Performance required		Performance achieved	Calculated pay out	
		Trigger point £m	Maximum £m	Actual £m	D B Stirling	G C McGrath
Profit before tax	50%	7.6	8.80	8.81	50.00%	50.00%
HPP segment sales	15%	12.3	14.35	12.62	4.42%	4.42%
Development of MEL business	15%	n/a	n/a	n/a	15.00%	12.50%
Individual objectives	20%	n/a	n/a	n/a	15.00%	18.50%
Total	**100%**	**n/a**	**n/a**	**n/a**	**84.42%**	**85.42%**

The below table sets out the targets for the Executive Directors for development of the MEL Business and their individual objectives. The table gives an assessment of the Executive Directors' completion of the targets using a colour coding for ease of reference:

- Achieved in full or predominantly achieved
- Partially achieved
- Not achieved

D B Stirling

Measure	Objective	Performance	Scoring
Development of MEL business	Grow the number of machines in use in 2017 by 20% and increase the net present value of the current licences in 2017 by at least 20%.	All these targets were met.	
Organisation	Establish and develop the new Executive team and embed a new Business Unit reporting structure.	A new Executive team was established, overall capability enhanced, and team working developed positively, supported by a number of planned events. A Group-wide talent initiative was established and a new reporting and management structure was implemented.	
Strategy and delivery	Improve the strategy process and outputs from it, including establishing a robust half-yearly process to review progress against strategic objectives with the Board and producing a range of deliverable financial outcomes.	A much improved process was established, with all desired outputs delivered, and a specific Board meeting was held to review the strategy in June 2017.	
Significant capital project delivery	To complete the capital investment in Kentucky, USA on revised timeline and within revised investment budget.	The project was not completed on time.	

G C McGrath

Measure	Objective	Performance	Scoring
Development of MEL business	Improve the accounting, financial control and inventory management processes at MEL.	A new Financial Manager at MEL was recruited and new processes implemented, with significant oversight by the Group Financial Controller and the Group CFO.	
Product costing	Review the product costings in Croydon and ensure the product costing methodology used in Kentucky, USA is consistent with the methodology used in Croydon.	Good progress has been made, but additional work is required to complete this objective.	
Management reporting, risk management and control structure	Improve management reporting, risk management and control structure to cover all Business Units.	Monthly management reports have been significantly improved. Risk management framework has been reviewed and updated.	

Common individual objectives for D B Stirling and G C McGrath

Measure	Objective	Performance	Scoring
Health and Safety	Achieve a 50% reduction in reportable lost time accidents.	The number of reportable lost time accidents had reduced from 13 in 2016 to 6 in 2017.	

The annual bonus was based on base salary before salary sacrifice ('bonusable salary'). The maximum opportunity for the bonus was 75% of bonusable salary. 25% of the bonus will be deferred by making awards under the Deferred Bonus Share Plan ('DBSP'). Full details of the operation of the DBSP are set out in the Directors' Remuneration Policy.

2017	Cash bonus (£)	Deferred bonus (£)	Total bonus (£)
D B Stirling	113,253	37,751	151,004
G C McGrath	75,195	25,066	100,261

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

LTIP

The LTIP awards made under the Zotefoams plc 2007 Long-Term Incentive Plan 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 that 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 2015 award, which is due to vest on 30 March 2018.

	Trigger point		Maximum	
	Performance target	% of award vesting	Performance target	% of award vesting
Absolute TSR goal[1]	7.5% pa growth	12.5	30% pa growth	50
EPS goal	13.3p	12.5	23.5p	50

1 The absolute TSR growth is from a share price of 237.8p, being the average share price of the final quarter of 2014.

The targets for absolute TSR growth and EPS were both partially met. Absolute TSR growth was 20.0% pa and EPS was 16.59p (please refer to the paragraph headed "Group performance for 2017 and annual bonus" in the Statement of the Chair of the Remuneration Committee on page 46). Therefore, 57.95% of the award will vest, which will be increased to reflect the dividends paid during the performance period.

Remuneration report Continued

LTIP awards granted during 2017 (audited)

Following the approval at the 2017 AGM of the rules of the Zotefoams plc Long-Term Incentive Plan 2017, LTIP awards were made under the new plan. The table below sets out details of the LTIP awards made to the Executive Directors during 2017:

	Type of award	Date of grant	Number of shares granted	Face value[1] (£)	Face value (% of salary)	Performance condition	Trigger point for vesting (% of face value)	End of performance period
D B Stirling	LTIP (Conditional shares)	01.06.2017	115,842	357,750	150	30% based on Relative TSR growth[2] and 70% Annualised EPS growth[3]	6% for Relative TSR growth and 14% for Annualised EPS growth	31.12.2019
G C McGrath	LTIP (Conditional shares)	01.06.2017	76,014	234,750	150	30% based on Relative TSR growth[2] and 70% Annualised EPS growth[3]	6% for Relative TSR growth and 14% for Annualised EPS growth	31.12.2019

1 Face value calculated using the average of the Company's mid-market price for the five trading days preceding the date of grant (£3.088). The share price was £3.04 on 1 June 2017.

2 Relative TSR growth is for the three-year period ending 31 December 2019. The trigger point for Relative TSR growth is median performance against the FTSE SmallCap Index (excluding investment trusts), where 6% of the award will vest, to the maximum of upper quartile performance against the FTSE SmallCap Index (excluding investment trusts), where 30% of the award will vest.

3 Annualised EPS growth is from the EPS for 2016. The trigger point is 5% annualised growth, where 14% of the award will vest, to the maximum of 22% annualised growth, where 70% of the award will vest.

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 Director was a member of the DB Scheme during the year.

	Accrued pension pa at 31 December 2017 (£)	Gross increase in pension (£)	Increase in accrued pension net of CPI inflation (£)	Change in value over the year (£)
D B Stirling	19,336	189	–	–

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. This also does not take into account the legal advice obtained in 2017, that the linkage with future increases in salary had not been broken when the DB Scheme closed to future accrual. Please refer to the Group CFO's review on page 22 for further information.

(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 2017; 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 Director's pension 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% pa, 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. 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)

The only payments made to past Directors were in relation to the vesting of C G Hurst's LTIP awards. C G Hurst left the Company on 16 May 2016 and his outstanding LTIP awards, which were granted in 2014 and 2015, were pro-rated to reflect him leaving part the way through their respective performance periods. The LTIP awards vest at their normal times subject to the performance conditions being met. The 2014 LTIP award vested on 7 April 2017 and C G Hurst's shares were sold on 10 April 2017 for £56,412. This is considered to be remuneration in respect of 2016. The 2015 LTIP award is due to vest on 30 March 2018 and has been valued at £54,935, by using the average share price over the three months to 31 December 2017 (£3.892), and is considered to be remuneration in respect of 2017.

Payments for loss of office (audited)

No payments were made during 2017.

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. This policy was updated in 2017 (adopted at the 2017 AGM) and now requires Executive Directors to hold a shareholding equivalent of 200% of base salary, with a five-year period to build up this holding from: (1) appointment to the Board, or (2) the date of the 2017 AGM (17 May 2017) for the current Executive Directors. The new policy also requires the shares to be held for one year following cessation of employment with the Group. Throughout 2017, D B Stirling complied with both the old and new policies. G C McGrath, who only joined the Group on 1 December 2015, has until 17 May 2022 to build up a shareholding to comply with the new policy.

The tables below set out the Directors' interests (including those of their connected persons) in Zotefoams shares as at 31 December 2017, or on leaving the Board, if earlier.

Executive Directors

	Shares owned outright[1]	**Interest in share incentive schemes without performance conditions[2]**	**Interest in share incentive schemes with performance conditions[3]**
D B Stirling	398,487	69,615	190,349
G C McGrath	1,083	6,798	134,784

1 Includes Partnership Shares, Dividend Shares and vested Matching Shares under the SIP.
2 Comprises: vested ASOP awards; DBSP shares; unvested Matching Shares under the SIP; and the unvested 2015 LTIP award that is due to vest on 30 March 2018..
3 Comprises: unvested LTIP shares and unvested ASOP awards.

Non-Executive Directors

	Shares Owned Outright
A C Bromfield	3,259
J D Carling[1]	nil
M-L Clayton[2]	29,800
R J Clowes	44,000
S P Good	15,000
D G Robertson	5,416

1 Joined the Board on 2 January 2018.
2 Left the Board on 30 September 2017.

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 2016	Date of exercise or release	Granted during the year	Exercised or released	Lapsed or cancelled	**As at 31 December 2017**	Market price on exercise date	Exercise price	Date from which exercisable	Expiry date
D B Stirling	ASOP	28,116	20.12.2017	–	28,116	–	**–**	£4.550	£1.067	12.08.2011	11.08.2018
	LTIP (2014)	32,346	10.04.2017	–	32,346	–	**–**	£3.000	–	07.04.2017	n/a
	LTIP (2015)	73,880	–	–	–	31,067	**42,813**	–	–	30.03.2018	n/a
	LTIP (2016)	74,507	–	–	–	–	**74,507**	–	–	05.04.2019	n/a
	LTIP (2017)	–	–	115,842	–	–	**115,842**	–	–	01.06.2020	n/a
	DBSP (2014)	8,150	–	–	–	–	**8,150**	–	–	30.03.2018	n/a
	DBSP (2015)	8,278	–	–	–	–	**8,278**	–	–	05.04.2019	n/a
	DBSP (2016)	–	–	10,061	–	–	**10,061**	–	–	27.03.2020	n/a
	SIP[1]	173	–	140	–	–	**313**	–	–	–	n/a
G C McGrath	ASOP	10,344	–	–	–	–	**10,344**	–	£2.900	05.04.2019	n/a
	LTIP (2016)	48,426	–	–	–	–	**48,426**	–	–	05.04.2019	n/a
	LTIP (2017)	–	–	76,014	–	–	**76,014**	–	–	01.06.2020	n/a
	DBSP (2016)	–	–	6,533	–	–	**6,533**	–	–	27.03.2020	n/a
	SIP[1]	125	–	140	–	–	**265**	–	–	–	n/a

1 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 or on leaving if the person is considered to be a 'good leaver'.

Remuneration report Continued

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 2017:

Director	Date of current service contract or appointment letter	Unexpired terms at 31 December 2017
A C Bromfield	21 June 2017	2 years and 9 months
J D Carling[1]	20 December 2017	3 years
R J Clowes	21 June 2017	6 months
S P Good	1 February 2016	1 year and 3 months
G C McGrath	28 October 2015	–
D G Robertson	7 August 2017	2 years and 8 months
D B Stirling	31 July 2014	–

1 J D Carling's appointment to the Board was effective as from 2 January 2018.

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

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 workforce.

The employee subset consists of an average of the UK workforce 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 (2017 to 2016)	% change in taxable benefits (2017 to 2016)	% change in annual bonus (2017 to 2016)
Group CEO	6.0	0.6	15.1
Employee subset	2.5	–	33.3

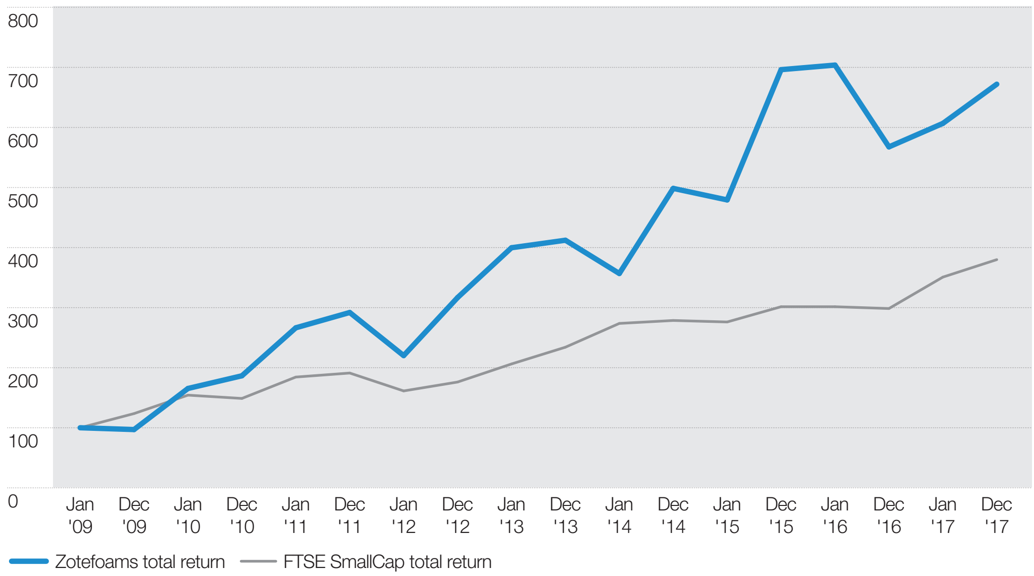
The employees' salary review is negotiated with the unions and a 2.5% increase was agreed in relation to 2017. The 2018 salary review for the employees has not yet been agreed.

There was a 0.6% 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.

The maximum opportunity for the Group CEO's annual bonus in 2016 was 100% of base salary, whereas in 2017 it was 75% of base salary. The change of 15.1% has been calculated on the basis that the pay out for the 2017 annual bonus is equivalent to 63.3% of base salary, compared to the pay out of 55.0% of base salary in 2016. The staff bonus in the UK was 3.75% of base salary, in relation to 2016, and 5.00% of base salary for 2017.

Historic TSR performance and Group CEO remuneration outcomes (unaudited)

The graph below compares the TSR of Zotefoams against the FTSE SmallCap Index. The FTSE SmallCap Index is considered the most appropriate choice of index due to the Group's size and it being a member of the FTSE SmallCap Index.



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

	Group CEO's single figure of remuneration (£)	Annual bonus pay out (% of maximum)	LTIP vesting (% of maximum)	EPS[1] (p)	Average share price for the final quarter (p)
2017	**611,459**	**84.4**	**57.95**	**16.59**	**389.2**
2016	497,545	55.0	37.7	13.69	252.5
2015	418,568	44.4	50.0	11.1	344.3
2014	439,452	44.0	66.0	10.7	237.8
2013	270,687	–	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	–	6.8	90.4

1 Basic, pre exceptional items.

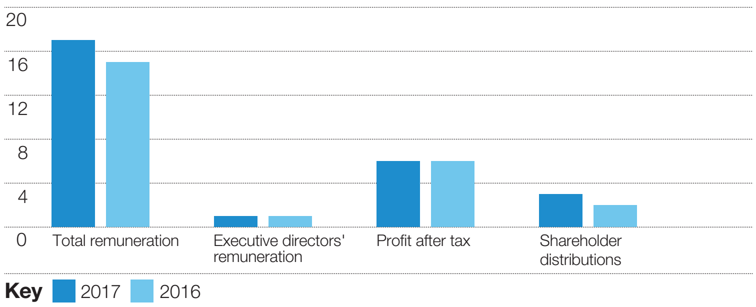
Relative importance of spend on pay (unaudited)

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 2017 and 2016.

	2017	2016
Total remuneration[1] £000	**16,562**	14,903
Executive Directors' remuneration[2] £000	**885**	885
Profit after tax £000 (including exceptional items)	**6,008**	5,696
Shareholder distributions[3] £000	**2,547**	2,474

1 Social security costs paid by the Group have been excluded from this figure.
2 For 2016, includes remuneration for C G Hurst.
3 Shareholder distributions refer to the dividends paid during the year.

Relative importance of spend on pay (unaudited) (£m)



Remuneration report Continued

Committee role and advisers (unaudited)

The Group 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, and S P Good were members of the Committee throughout 2017 to the date of this report. M-L Clayton was also a member until she retired on 30 September 2017. D G Robertson was appointed a member on 8 August 2017 and J D Carling on 2 January 2018. All the members are independent Non-Executive Directors, with the exception of S P Good, who was independent on appointment as Chairman of the Group. The Committee was chaired by A C Bromfield throughout the year. The Committee's Terms of Reference were last updated in March 2014 and may be found on the Group's website.

None of the Committee members have any personal financial interest (other than fees paid as disclosed on page 49 and as shareholders) in the Company, nor do they have any interests that may conflict with those of the Group, 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 concerning his or her own remuneration.

The Remuneration Committee met eight times in 2017 and, at the invitation of the Committee, the Group CEO attended on four occasions to give background information on remuneration matters. The Committee was also advised by the Group CFO as regards the level of completion of the performance targets. The secretary to the Committee is the Company Secretary.

In 2017, the Remuneration Committee considered the following matters:

- completing a wholesale review of the remuneration strategy for the Executive Team and finalising the creation of the new Directors' Remuneration Policy, which included consulting with a number of the Group's largest shareholders;
- the Directors' remuneration report for 2016 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 2014 under the Long-Term Incentive Plan;
- the salary review of the Executive Team and the Company Secretary;
- evaluating its effectiveness, in particular in formulating the new Directors' Remuneration Policy and the services provided by the remuneration consultant;
- bonus arrangements for the UK workforce;
- considering new rules for the Long-Term Incentive Plan, the Deferred Bonus Share Plan and the Annual Bonus Plan;
- reviewing pension matters for the UK workforce; and
- performance targets to be used for the 2018 Directors' annual bonus and Long-Term Incentive Plan awards.

Deloitte LLP was engaged in 2016 to assist and provide advice to the Remuneration Committee in creating the new Directors' Remuneration Policy, which was approved at the 2017 AGM. Deloitte LLP's engagement continued into 2017 to finalise the Directors' Remuneration Policy. Deloitte LLP is a member of the Remuneration Consultants Group and adheres to its Code on executive remuneration consulting in the UK.

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

	2017 £	2016 £
Deloitte LLP	**10,650**	28,550
Total	**10,650**	28,550

Shareholder voting (unaudited)

The table below sets out the results of the votes on the Directors' Remuneration Policy and 2016 Remuneration Report at the 2017 AGM:

	Directors' Remuneration Policy	**%**	**Annual report on remuneration**	**%**
Votes in favour	**27,048,390**	**91.85**	**26,847,905**	**91.17**
Votes against	**2,388,780**	**8.11**	**2,585,885**	**8.78**
Discretion	**11,731**	**0.04**	**14,731**	**0.05**
Total votes	**29,448,901**	**–**	**29,448,521**	**–**
Votes withheld	**5,000**	**–**	**6,451**	**–**

Directors' report

The Directors present their Annual Report and audited consolidated financial statements for the year ended 31 December 2017

Results and dividends

Profit attributable to shareholders for the year amounted to £6.01m (2016: £5.80m). An interim dividend of 1.91p (2016: 1.85p) per share was paid on 12 October 2017. The Directors recommend that a final dividend of 4.02p (2016: 3.90p) per share be paid on 24 May 2018 to shareholders who are on the Company's register at the close of business on 20 April 2018. This makes a total dividend of 5.93p per share for the year (2016: 5.75p). 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 'Articles'), 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 36 and 37 served throughout the year, with the exception of D G Robertson, who was appointed on 8 August 2017, and J D Carling, who was appointed on 2 January 2018. M-L Clayton retired on 30 September 2017. 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 currently only applies to FTSE 350 companies.

D B Stirling 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 2017 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 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 38 to 60 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).

Zotefoams 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 Zotefoams continues and that appropriate training is provided where necessary. Zotefoams' policy is that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

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

Directors' report Continued

In order to encourage employees to share in the successes of Zotefoams, an all-employee share incentive plan was established in 2015 in the UK, where employees can purchase shares each month through the plan. For every four shares bought, the employee is awarded one further share, which normally vests on the third anniversary of it being awarded.

Human rights

Whilst Zotefoams does not, at present, have a specific policy on human rights, it recognises and respects all human rights as defined in international conventions. We conduct every aspect of our business with honesty, integrity and openness, respecting human rights and the interests of our employees, customers and third parties, according to the principles set out in our Ethics Policy, where 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 exercising 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 be harassed or bullied on any grounds. We aim to ensure that goods and services are from sources that do not jeopardise human rights, safety or the environment, and expect our suppliers to observe business principles consistent with our own. Zotefoams published on its website on 16 May 2017 its first statement on the steps it has taken to ensure that its supply chains are free of modern slavery. This may be found at the following address: **http://bit.ly/2q8VvXR**

Business ethics

Zotefoams is committed to high standards of business conduct and seeks to maintain these standards across all of our operations throughout the world. Under our 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 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, anti-competitive behaviour, employee share trading and whistleblowing.

Substantial shareholdings

In accordance with the Disclosure and Transparency Rules DTR 5, the Company, as at 3 April 2018, 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**
Miton Group plc	6,289,977	14.2%
Schroders plc	5,727,986	12.9%
BlackRock Inc.	4,583,171	10.3%
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 page 53.

Research and development

The amount spent by the Group on R&D in the year was £1,363,000 (2015: £1,001,000). In the opinion of the Directors £156,000 (2016: £198,000) of this expenditure met the requirements for capitalisation under IAS 38, while £1,207,000 (2016: £803,000) did not and was consequently 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 2017, the Zotefoams Employees' Benefit Trust ('EBT') held 521,351 shares (approximately 1.17% of the issued share capital) (2016: 628,979 shares, approximately 1.42% of the issued share capital at 31 December 2016) to satisfy share plans as described in the Directors' remuneration report. During the year, the EBT released 107,628 shares in respect of these share plans and no shares were bought by the EBT during the year. 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. However, due to a clerical error on the part of the EBT in failing to release in time 22,930 shares to two beneficiaries before the record date (21 April 2017) for the 2016 final dividend paid on 25 May 2017, the trustee of the EBT did not waive its right to receive a dividend over 22,930 shares in order that it could pass on the dividends received on these shares to the two beneficiaries.

At the AGM held on 17 May 2017, 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. Authority was also given to the Directors to allot equity securities in the Company for cash without regard to the pre-emption provisions of the Companies Act 2006. At the date of this Report neither authority has been used and they both expire at the AGM to be held on 16 May 2018. The Directors seek new authorities for a further year.

The Company was given authority at the 2017 AGM to purchase up to 4,441,444 of its ordinary shares. This authority will also expire on 16 May 2018 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 joint ventures, subsidiaries and branches within the Group are given in notes 10 and 13 of the financial statements.

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 in note 21 to the financial statements.

Future developments

Information on future developments for the Group has been set out in the Introduction from our Chairman and Group CEO's strategic review.

Greenhouse gas emissions

Information on the Group's greenhouse gas emissions may be found in the Sustainability report on pages 32 to 34.

Pension schemes

The Company closed its defined benefit pension scheme to future accrual of benefit in December 2005 although, as mentioned in the Group CFO's review and having taken recent legal advice regarding the closure of the scheme, it has transpired that, whilst the scheme was properly closed to future accrual of benefit, the linkage with future increases in salary had not been broken. An exercise is currently underway to obtain consent of the deferred members who are still in service with the Company to break this linkage.

Employees are offered membership of one of a number of defined contribution pension schemes.

Finance costs capitalised

Refer to note 11 of the financial statements for details of borrowing costs capitalised by the Group.

Disclosure of information to Auditors

The Directors who held office at the date of approval of this Directors' report confirm that, in 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

6 April 2018

Statement of directors' responsibilities in respect of the annual report

The Directors consider the Annual Report, taken as a whole, to be fair, balanced and understandable

The Directors are responsible for preparing the Annual Report, 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 Consolidated and 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 Group 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 Group'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' Remuneration Report comply with the Companies Act 2006 and, as regards the Consolidated 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 Group'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 36 and 37 of the Annual Report, confirms that, to the best of their knowledge:

- the Consolidated 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 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
Group CFO

6 April 2018

Independent auditors' report to the members of Zotefoams plc

Report on the audit of the financial statements

Opinion

In our opinion, Zotefoams plc's Consolidated 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 2017 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Consolidated financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated and Company statements of financial position as at 31 December 2017; the Consolidated income statement and statement of comprehensive income, the Consolidated and Company statements of cash flows, and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

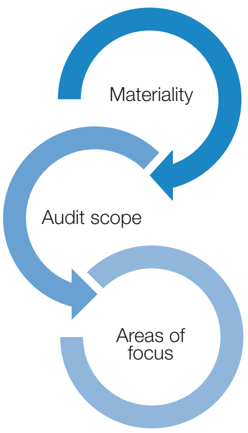
Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We have provided no non-audit services to the Group or the Company in the period from 1 January 2017 to 31 December 2017.

Our audit approach



Overview

- Overall Group materiality: £400,000 (2016: £350,000), based on 4.5% of profit before tax and exceptional item.
- Overall Company materiality: £350,000 (2016: £290,000), based on 4% of profit before tax and exceptional item.

- There are eight trading companies (including joint ventures) within the Zotefoams plc consolidated financial statements, two based in the UK, three in the USA and three in Asia.
- We conducted an audit of full year financial information on three trading companies, Zotefoams plc in the UK and Zotefoams Inc. and MuCell Extrusion LLC in the USA. We visited these trading companies as part of our audit procedures.
- The trading companies where we performed full audit procedures accounted for 95% of the Group's profit before tax and exceptional item.

- Impairment of intangible assets of MuCell Extrusion LLC (Group).
- Defined benefit pension scheme assumptions (Group and Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed 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.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and Company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, Pensions legislation, UK tax legislation and equivalent local laws and regulations applicable to the significant components. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with legal advisors and enquiries of management. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

Independent auditors' report to the members of Zotefoams plc Continued

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Impairment of intangible assets of MuCell Extrusion LLC The Group's consolidated statement of financial position as at 31 December 2017 includes goodwill of £2.3m, which arose on the acquisition of MuCell Extrusion LLC ('MuCell') in a previous accounting period, and other intangible assets of £2.5m. The carrying value of goodwill and other intangible assets is contingent on future cash flows. There is a risk that, if these cash flows do not meet the Group's expectations, these intangible assets will be impaired. It is noted at this time that MuCell continues to be loss making. The impairment reviews performed by the Group contain a number of significant judgements and estimates including revenue growth, profit margins, and long-term growth and discount rates. Changes in these assumptions can have a significant impact on the headroom available in the impairment calculations. The above factors represent a risk that the balance of goodwill and other intangible assets relating to MuCell could be misstated.	We obtained the Group's impairment analyses and tested the reasonableness of key assumptions, including profit and cash flow growth or decline, terminal values and the discount rate. We also involved our valuations experts to benchmark the discount rate used by management in the impairment analyses. We challenged management to substantiate its assumptions, including a 'look-back' analysis to compare management's assumptions per prior year budgets with the current year's actuals. We also verified the underlying forecasts to Board-approved budgets and assessed how these budgets were compiled. We verified the integrity and mathematical accuracy of supporting calculations. We obtained and evaluated management's sensitivity analyses to ascertain the impact of changes in key assumptions and we performed our own independent sensitivity calculations to quantify the downside changes to management's models required to result in impairment. As a result of our work, we determined that the carrying values of goodwill and intangible assets are appropriate in the context of the Consolidated financial statements taken as a whole. We reviewed the disclosures made in the financial statements, including sensitivity analysis and the reasonably possible downsides. We are satisfied that these disclosures are appropriate.
Defined benefit pension scheme assumptions The Company's closed defined benefit pension scheme represents one of the largest liabilities on the statement of financial position as at 31 December 2017 with a net liability of £6.2m. The valuation of the scheme's liabilities requires management 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. In addition, judgement is required when determining the impact of the apparent failure to break the linkage between accrued benefits and final pensionable salary on closure of the scheme. There is a risk of material misstatement if there are small changes in the assumptions, as the liability is highly sensitive.	We involved our pensions experts to evaluate and benchmark the key assumptions applied by management in the determining the scheme's liabilities. We noted that while certain assumptions used by management were more optimistic than those used in the prior year, in particular the pre-retirement Retail Price Index ('RPI') inflation rate, overall the assumptions applied are considered reasonable. We also reviewed the calculations for the additional liability arising from the failure to break the linkage between accrued benefits and final pensionable salary on closure of the scheme and consider the amounts recognised to be reasonable. Based on the procedures performed, we did not identify any material misstatements in the defined benefit pension obligation at the year-end. We reviewed the disclosures made in the financial statements and are satisfied that these disclosures are appropriate.

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 structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

All the work was performed by the Group engagement team.

Of the eight trading companies (including joint ventures), three of these are considered to be significant components of the Group, Zotefoams plc in the UK, Zotefoams Inc. and MuCell Extrusion LLC in the USA, on which we have performed full-scope audits, all of which are 100%-owned subsidiaries of the Group.

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 in aggregate on the financial statements as a whole.

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

	Consolidated financial statements	Company financial statements
Overall materiality	£400,000 (2016: £350,000).	£350,000 (2016: £290,000).
How we determined it	4.5% of profit before tax and exceptional item.	4% of profit before tax and exceptional item.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, profit before tax and exceptional item is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark. The exceptional item is considered one-off in nature and as such has been excluded from the benchmark amount.	Based on the benchmarks used in the annual report, profit before tax and exceptional item is the primary measure used by the shareholders in assessing the performance of the Company, and is a generally accepted auditing benchmark. The exceptional item is considered one-off in nature and as such has been excluded from the benchmark amount.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £200,000 and £350,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £20,000 (Group audit) (2016: £18,000) and £20,000 (Company audit) (2016: £18,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Independent auditors' report to the members of Zotefoams plc Continued

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report. (CA06)

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

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 41 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 24 of the Annual Report 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.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and 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 UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 60, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the 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 obtained in the course of performing our audit.
- The section of the Annual Report on pages 42 to 44 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration
In our opinion, the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit
Responsibilities of the Directors for the financial statements
As explained more fully in the Statement of directors' responsibilities in respect of the annual report set out on page 60, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
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.

Other required reporting
Companies Act 2006 exception reporting

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
- certain disclosures of Directors' remuneration specified by law are not made; 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.

Appointment
Following the recommendation of the audit committee, we were appointed by the Directors on 26 July 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 December 2012 to 31 December 2017.

Michael Jones (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick

6 April 2018

Consolidated income statement

For the year ended 31 December 2017

	Note	2017 £'000	2016* £'000
Group revenue	3	**70,146**	57,376
Cost of sales		**(44,659)**	(37,041)
Gross profit		**25,487**	20,335
Distribution costs		**(5,754)**	(5,081)
Administrative expenses before exceptional item		**(10,359)**	(7,607)
Exceptional item	4	**(1,265)**	(242)
Total administrative expenses	5	**(11,624)**	(7,849)
Operating profit		**8,109**	7,404
Operating profit before exceptional item		**9,374**	7,646
Finance costs	7	**(508)**	(393)
Share of loss from joint venture	10	**(53)**	(21)
Profit before income tax		**7,548**	6,990
Profit before income tax and exceptional item		**8,813**	7,232
Income tax expense	8	**(1,540)**	(1,294)
Profit for the year		**6,008**	5,696
Profit for the year before exceptional item		**7,033**	5,890
Attributable to:			
Equity holders of the Company		**6,008**	5,795
Non-controlling interest		**–**	(99)
		6,008	5,696
Earnings per share:			
Basic (p)	9	**13.70**	13.25
Diluted (p)	9	**13.52**	13.07

All activities of the Group are continuing.

* In preparing the annual report the Directors have considered the classification of certain costs within the consolidated income statement and, based upon this review, have reallocated certain costs between cost of sales, distribution and administrative expenses, further details of which can be found in note 3.

The notes on pages 74 to 108 form an integral part of these financial statements.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the Company profit and loss account.

Company number: 2714645

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Profit for the year		**6,008**	5,696
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss			
Foreign exchange translation (losses)/gains on investment in foreign subsidiaries		**(3,336)**	4,319
Actuarial gains/(losses) on defined benefit schemes	23	**2,080**	(2,707)
Tax relating to items that will not be reclassified		**(502)**	514
Total items that will not be reclassified to profit or loss		**(1,758)**	2,126
Items that may be reclassified subsequently to profit or loss			
Effective portion of changes in fair value of cash flow hedges	21	**508**	(159)
Tax relating to items that may be reclassified		**(93)**	29
Total items that may be reclassified subsequently to profit or loss		**415**	(130)
Other comprehensive (expense)/ income for the year, net of tax		**(1,343)**	1,996
Total comprehensive income for the year		**4,665**	7,692
Attributable to:			
Equity holders of the Company		**4,665**	7,783
Non-controlling interest		**–**	(91)
Total comprehensive income for the year		**4,665**	7,692

The notes on pages 74 to 108 form an integral part of these financial statements.

Consolidated statement of financial position

As at 31 December 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Property, plant and equipment	11	**54,116**	47,500
Intangible assets	12	**6,681**	7,547
Investments in joint venture	10	**89**	142
Deferred tax assets	19	**362**	709
Total non-current assets		**61,248**	55,898
Current assets			
Inventories	14	**14,710**	12,307
Trade and other receivables	15	**19,733**	20,366
Derivative financial instruments	21	**213**	38
Cash and cash equivalents	16	**4,360**	2,868
Total current assets		**39,016**	35,579
Total assets		**100,264**	91,477
Current liabilities			
Trade and other payables	17	**(10,429)**	(10,195)
Derivative financial instruments	21	**(59)**	(392)
Current tax liability		**(1,662)**	(1,035)
Interest-bearing loans and borrowings	18	**(11,316)**	(9,156)
Bank overdraft	16	**(2,550)**	(805)
Total current liabilities		**(26,016)**	(21,583)
Non-current liabilities			
Interest-bearing loans and borrowings	18	**(8,450)**	(5,464)
Deferred tax liabilities	19	**(540)**	(608)
Post-employment benefits	23	**(6,168)**	(7,439)
Total non-current liabilities		**(15,158)**	(13,511)
Total liabilities		**(41,174)**	(35,094)
Total net assets		**59,090**	56,383
Equity			
Issued share capital	20	**2,221**	2,221
Share premium		**24,340**	24,340
Own shares held		**(26)**	(31)
Capital redemption reserve		**15**	15
Translation reserve		**2,611**	5,947
Hedging reserve		**96**	(319)
Retained earnings		**29,833**	24,210
Total equity		**59,090**	56,383

The notes on pages 74 to 108 form an integral part of these financial statements.

These consolidated financial statements on pages 66 to 73 were authorised for issue by the board of directors on 6 April 2018 and were signed on its behalf by:

G C McGrath
Group CFO

Company number: 2714645

Company statement of financial position

As at 31 December 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Property, plant and equipment	11	**28,198**	26,477
Intangible assets	12	**1,905**	2,026
Investment in subsidiaries	13	**23,546**	13,460
Total non-current assets		**53,649**	41,963
Current assets			
Inventories	14	**11,400**	9,281
Trade and other receivables	15	**19,971**	22,498
Derivative financial instruments	21	**213**	38
Cash and cash equivalents	16	**2,956**	–
Total current assets		**34,540**	31,817
Total assets		**88,189**	73,780
Current liabilities			
Trade and other payables	17	**(7,890)**	(6,572)
Derivative financial instruments	21	**(59)**	(392)
Current tax liability		**(1,561)**	(1,075)
Interest-bearing loans and borrowings	18	**(10,786)**	(8,594)
Bank overdraft	16	**(2,550)**	(805)
Total current liabilities		**(22,846)**	(17,438)
Non-current liabilities			
Interest-bearing loans and borrowings	18	**(4,030)**	–
Deferred tax liabilities	19	**(540)**	(608)
Post-employment benefits	23	**(6,168)**	(7,439)
Total non-current liabilities		**(10,738)**	(8,047)
Total liabilities		**(33,584)**	(25,485)
Total net assets		**54,605**	48,295
Equity			
Issued share capital	20	**2,221**	2,221
Share premium		**24,340**	24,340
Own shares held		**(26)**	(31)
Capital redemption reserve		**15**	15
Hedging reserve		**96**	(319)
Retained earnings			
At 1 January		**22,069**	20,034
Profit for the year attributable to the owners		**6,275**	6,493
Other changes in retained earnings		**(385)**	(4,458)
		27,959	22,069
Total equity attributable to the equity holders of the Company		**54,605**	48,295

The notes on pages 74 to 108 form an integral part of these financial statements.

These consolidated financial statements on pages 66 to 73 were authorised for issue by the board of directors on 6 April 2018 and were signed on its behalf by:

G C McGrath
Group CFO

Company number: 2714645

Consolidated statement of cash flows

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Profit for the year		**6,008**	5,696
Adjustments for:			
Depreciation and amortisation	11/12	**3,496**	3,595
Finance costs	7	**508**	393
Share of loss from joint venture	10	**53**	21
Employee defined benefit service charges	4	**1,235**	–
Equity-settled share-based payments		**459**	269
Taxation	8	**1,540**	1,294
Cash generated from operations before changes in working capital and provisions		**13,299**	11,268
Increase in trade and other receivables		**(99)**	(1,686)
Increase in inventories		**(2,795)**	(2,121)
Increase/(decrease) in trade and other payables		**190**	(412)
Employee defined benefit contributions	23	**(619)**	(692)
Cash generated from operations		**9,976**	6,357
Interest paid		**(301)**	(187)
Income tax paid, net of refunds		**(943)**	(1,000)
Net cash generated from operating activities		**8,732**	5,170
Cash flows from investing activities			
Investment in non-controlling interest		**–**	(195)
Purchases of intangibles	12	**(360)**	(443)
Proceeds from disposal of property, plant and equipment	11	**4**	–
Purchases of property, plant and equipment	11	**(11,385)**	(12,140)
Net cash used in investing activities		**(11,741)**	(12,778)
Cash flows from financing activities			
Proceeds from options exercised and issue of share capital		**30**	30
Repayment of borrowings		**(1,309)**	(1,319)
Proceeds from borrowings		**6,605**	7,894
Dividends paid to equity holders of the Company	9	**(2,547)**	(2,474)
Net cash generated from financing activities		**2,779**	4,131
Net decrease in cash and cash equivalents		**(230)**	(3,477)
Cash and cash equivalents at 1 January		**2,063**	5,269
Exchange (losses)/gains on cash and cash equivalents		**(23)**	271
Cash and cash equivalents at 31 December	16	**1,810**	2,063

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

Refer to note 18 for a reconciliation of liabilities arising from financing activities.

The notes on pages 74 to 108 form an integral part of these financial statements.

Company statement of cash flows

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Profit for the year		**6,275**	6,493
Adjustments for:			
Depreciation and amortisation	11/12	**2,745**	2,599
Finance costs		**508**	393
Employee defined benefit service charges	4	**1,235**	–
Equity-settled share-based payments		**459**	245
Taxation		**1,074**	1,429
Cash generated from operations before changes in working capital and provisions		**12,296**	11,159
Increase in trade and other receivables		**(7,254)**	(6,415)
Increase in inventories		**(2,119)**	(1,403)
Increase/(decrease) in trade and other payables		**1,297**	(1,806)
Employer defined benefit contributions	23	**(619)**	(692)
Cash generated from operations		**3,601**	843
Interest paid		**(283)**	(179)
Income tax paid, net of refunds		**(970)**	(1,000)
Net cash generated/ (used in) from operating activities		**2,348**	(336)
Cash flows from investing activities			
Investment in subsidiaries		**(305)**	(195)
Purchases of intangibles	12	**(253)**	(428)
Proceeds from disposal of property, plant and equipment	11	**4**	–
Purchases of property, plant and equipment	11	**(3,660)**	(3,506)
Net cash used in investing activities		**(4,214)**	(4,129)
Cash flows from financing activities			
Proceeds from options exercised and issue of share capital		**30**	30
Repayment of borrowings		**(822)**	(724)
Proceeds from borrowings		**6,605**	7,894
Dividends paid to equity holders of the Company	9	**(2,547)**	(2,474)
Net cash generated from financing activities		**3,266**	4,726
Net increase in cash and cash equivalents		**1,400**	261
Cash and cash equivalents at 1 January		**(805)**	(879)
Exchange losses on cash and cash equivalents		**(189)**	(187)
Cash and cash equivalents at 31 December	16	**406**	(805)

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

Refer to note 18 for a reconciliation of liabilities arising from financing activities.

The notes on pages 74 to 108 form an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2017

	Note	Share capital £'000	Share premium £'000	Own shares held £'000	Capital redemption reserve £'000	Translation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Non-controlling interest £'000	Total equity £'000
Balance as at 1 January 2016		2,221	24,340	(38)	15	1,636	(189)	22,997	138	51,120
Foreign exchange translation gains on investment in subsidiaries		–	–	–	–	4,311	–	–	8	4,319
Effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	–	(159)	–	–	(159)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	–	29	–	–	29
Actuarial loss on defined benefit pension scheme		–	–	–	–	–	–	(2,707)	–	(2,707)
Tax relating to actuarial loss on defined benefit pension scheme	23	–	–	–	–	–	–	514	–	514
Profit/(loss) for the year		–	–	–	–	–	–	5,795	(99)	5,696
Total comprehensive income/(expense) for the year		–	–	–	–	4,311	(130)	3,602	(91)	7,692
Transactions with owners of the Company:										
Options exercised		–	–	7	–	–	–	23	–	30
Purchase of non-controlling interest		–	–	–	–	–	–	(148)	(47)	(195)
Equity-settled share-based payments net of tax		–	–	–	–	–	–	210	–	210
Dividends paid	9	–	–	–	–	–	–	(2,474)	–	(2,474)
Total transactions with owners of the Company		–	–	7	–	–	–	(2,389)	(47)	(2,429)
Balance as at 31 December 2016		2,221	24,340	(31)	15	5,947	(319)	24,210	–	56,383
Balance as at 31 December 2016 and 1 January 2017		**2,221**	**24,340**	**(31)**	**15**	**5,947**	**(319)**	**24,210**	**–**	**56,383**
Foreign exchange translation gains on investment in subsidiaries		**–**	**–**	**–**	**–**	**(3,336)**	**–**	**–**	**–**	**(3,336)**
Effective portion of changes in fair value of cash flow hedges net of recycling		**–**	**–**	**–**	**–**	**–**	**508**	**–**	**–**	**508**
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		**–**	**–**	**–**	**–**	**–**	**(93)**	**–**	**–**	**(93)**
Actuarial gain on defined benefit pension scheme	23	**–**	**–**	**–**	**–**	**–**	**–**	**2,080**	**–**	**2,080**
Tax relating to actuarial gain on defined benefit pension scheme		**–**	**–**	**–**	**–**	**–**	**–**	**(502)**	**–**	**(502)**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**6,008**	**–**	**6,008**
Total comprehensive income/(expense) for the year		**–**	**–**	**–**	**–**	**(3,336)**	**415**	**7,586**	**–**	**4,665**
Transactions with owners of the Company:										
Options exercised		**–**	**–**	**5**	**–**	**–**	**–**	**25**	**–**	**30**
Equity-settled share-based payments net of tax		**–**	**–**	**–**	**–**	**–**	**–**	**559**	**–**	**559**
Dividends paid	9	**–**	**–**	**–**	**–**	**–**	**–**	**(2,547)**	**–**	**(2,547)**
Total transactions with owners of the Company		**–**	**–**	**5**	**–**	**–**	**–**	**(1,963)**	**–**	**(1,958)**
Balance as at 31 December 2017		**2,221**	**24,340**	**(26)**	**15**	**2,611**	**96**	**29,833**	**–**	**59,090**

The aggregate current and deferred tax relating to items that are credited to equity is £309k (2016: a debit of £426k).

The notes on pages 74 to 108 form an integral part of these financial statements.

Company statement of changes in equity

For the year ended 31 December 2017

	Note	Share Capital £'000	Share premium £'000	Own shares held £'000	Capital redemption reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total Equity £'000
Balance as at 1 January 2016		2,221	24,340	(38)	15	(189)	20,034	46,383
Effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	(159)	–	(159)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	29	–	29
Actuarial loss on defined benefit pension scheme		–	–	–	–	–	(2,707)	(2,707)
Tax relating to actuarial loss on defined benefit pension scheme		–	–	–	–	–	514	514
Profit for the year		–	–	–	–	–	6,493	6,493
Total comprehensive (expenditure)/income for the year		–	–	–	–	(130)	4,300	4,170
Transactions with owners of the Company								
Options exercised		–	–	7	–	–	23	30
Equity-settled share-based payments net of tax		–	–	–	–	–	186	186
Dividends paid	9	–	–	–	–	–	(2,474)	(2,474)
Total transactions with owners of the Company		–	–	7	–	–	(2,265)	(2,258)
Balance as at 31 December 2016		2,221	24,340	(31)	15	(319)	22,069	48,295
Balance as at 31 December 2016 and 1 January 2017		**2,221**	**24,340**	**(31)**	**15**	**(319)**	**22,069**	**48,295**
Effective portion of changes in fair value of cash flow hedges net of recycling		**–**	**–**	**–**	**–**	**508**	**–**	**508**
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		**–**	**–**	**–**	**–**	**(93)**	**–**	**(93)**
Actuarial gain on defined benefit pension scheme	23	**–**	**–**	**–**	**–**	**–**	**2,080**	**2,080**
Tax relating to actuarial loss on defined benefit pension scheme		**–**	**–**	**–**	**–**	**–**	**(502)**	**(502)**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**6,275**	**6,275**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**415**	**7,853**	**8,268**
Transactions with owners of the Company:								
Options exercised		**–**	**–**	**5**	**–**	**–**	**25**	**30**
Equity-settled share-based payments net of tax		**–**	**–**	**–**	**–**	**–**	**559**	**559**
Tax relating to equity-settled share-based payments		**–**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends paid	9	**–**	**–**	**–**	**–**	**–**	**(2,547)**	**(2,547)**
Total transactions with owners of the Company		**–**	**–**	**5**	**–**	**–**	**(1,963)**	**(1,958)**
Balance as at 31 December 2017		**2,221**	**24,340**	**(26)**	**15**	**96**	**27,959**	**54,605**

The aggregate current and deferred tax relating to items that are credited to equity is £309k (2016: a debit of £426k).

The notes on pages 74 to 108 form an integral part of these financial statements.

Notes

1. General information

Zotefoams plc (the 'Company') is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the UK. The registered office of the Company is 675 Mitcham Road, Croydon CR9 3AL.

The Company, its subsidiaries and joint venture (together referred to as the 'Group') is engaged in the manufacturing and sale of high-performance foams and licensing of related technology for specialist markets worldwide.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of Zotefoams plc have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted by the European Union and with the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention except for derivative financial instruments, which are measured at fair value through profit or loss.

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 financial statements, are disclosed in note 26.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Group CEO's strategic review on pages 7 to 9. The Group CFO's review on pages 20 to 22 also describes the financial position of the Group, its cash flows and liquidity position. In addition, note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, borrowing facilities, and its exposure to credit risk and liquidity risk. As a consequence, the Directors believe that the Group is well placed to manage its business risks.

i) Going concern

The Group meets its day-to-day working capital requirements through its banking facilities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. Having assessed the principal risks and the other matters discussed in connection with the viability statement, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further information on the Group's borrowings is given in note 18.

2.2 Basis of consolidation

i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which 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 consolidated 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. Where necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

iii) 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 Company.

iv) Joint arrangements

The Group applies IFRS 11 to its joint arrangement. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangement and determined it to be a joint venture.

Interest in the joint venture is accounted for using the equity method, after initially being recognised at cost.

Equity method

Under the equity method of accounting, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the change in net assets of the investee after the date of acquisition.

If the ownership interest in the joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised with a corresponding adjustment to the carrying amount of the investment. Where the Group's share of losses in the joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture. Distributions received from the joint venture reduce the carrying amount of the investment.

2. Significant accounting policies (continued)

The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and it recognises the amount adjacent to 'share of profit/(loss) of joint venture' in the income statement.

Gains and losses resulting from upstream and downstream transactions between the Group and the joint venture are recognised in the Group's financial statements only to the extent of an unrelated investor's interests in the joint venture. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint venture have been aligned where necessary to ensure consistency with the policies adopted by the Group.

v) 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 the 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 equally interest in the acquiree; less
- The net recognised amount (generally in 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 expenses 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 acquire 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 services.

2.3 Foreign currency

i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates ('the functional currency'). The consolidated financial statements are presented in sterling, which is the Group's presentation currency.

The Company's financial statements are prepared and presented in sterling, which is its functional currency.

ii) Transaction and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation (where items are remeasured). Foreign exchange gains and losses resulting from the settlement of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. All foreign exchange gains and losses are presented in the income statement within administrative expenses.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

iii) Group companies

The results and financial position of all of the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of each transaction); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity, and they are translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

Notes Continued

2. Significant accounting policies (continued)

2.4 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.

Derivatives are initially recognised at fair value on the date when a derivative contract is entered into, and they are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates all derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 21. Movements on the hedging reserve in other comprehensive income are shown in note 21. The full fair value of a hedging derivative is classified as a non-current asset or liability where the remaining hedged item is more than 12 months, and as a current asset or liability where the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

The fair value of forward exchange contracts is their quoted market price at the statement of financial position date, being the present value of the quoted forward price.

i) Cash flow hedging

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within administrative expenses.

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 occur the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within administrative expenses.

2.5 Investments in subsidiaries and joint arrangements

The Company's investments in subsidiaries and joint arrangements are stated at cost less provision for impairment.

2.6 Property, plant and equipment

i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and any impairment losses.

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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

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) Depreciation

Land is not depreciated. 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. 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 depreciated from the beginning of the next quarter once the asset is ready for its intended use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2. Significant accounting policies (continued)

2.7 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.

Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the Group are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the asset so that it will be available for use;
- management intends to complete the asset and use or sell it;
- there is an ability to use or sell the asset;
- it can be demonstrated how the asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the asset are available; and
- the expenditure attributable to the asset during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the asset include the product development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

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

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

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.

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.

v) Amortisation

The estimated useful lives of the Group's 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
Capitalised development	3–10 years, from the date the patent is granted

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

Notes Continued

2. Significant accounting policies (continued)

2.8 Financial assets

i) Classifications

The Group classifies its financial assets in the following categories: a) financial assets at fair value through profit or loss; and b) loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading, unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current assets.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

ii) Recognition and measurement

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred, and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the 'effective interest' rate method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within administrative expenses in the period in which they arise.

iii) Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events, and it must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

iv) Impairment of financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event'), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment might include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

2.9 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2. Significant accounting policies (continued)

2.10 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. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. 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.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term highly liquid investments 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.

2.12 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each statement of financial position 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, property, plant and equipment 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.

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 (or group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (or 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.

2.13 Dividends

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

2.14 Interest-bearing loans and 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.

Notes Continued

2. Significant accounting policies (continued)

2.15 Employee benefits

i) Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

ii) Defined benefits plans

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using AA credit rate bonds that have terms to maturity approximating to the terms of the related pension obligation.

The current service cost of the defined benefit plan, recognised in 'staff expenses' in the income statement, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from service in the current year, benefit changes, curtailments and settlements.

Past service costs are recognised immediately in the income statement.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in finance costs in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

2.16 Share-based payment transactions

The Company operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (share awards) of the Company. The fair value of the employee services received in exchange for the grant of the share awards is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share awards granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets, and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or hold shares for a specific period of time).

Share awards granted since 1 January 2006 are valued using a Black-Scholes model.

At the end of each reporting period, the Company revises its estimates of the number of share awards that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances, employees might provide services in advance of the grant date, and so the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement and grant date.

When the share awards vest or are exercised, the Employee Benefit Trust (EBT) will normally release the shares to the participant. This may involve selling all, or a portion of, the shares. The proceeds received from the sale, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

The grant by the Company of share awards over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

Any social security contributions payable in connection with the grant of the share awards are considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

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 financial statements. In particular, the EBT's purchase and sale of shares in the Company are debited and credited directly to equity.

2. Significant accounting policies (continued)

2.17 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities. Trade and other payables are stated at cost.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

2.19 Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when: the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

i) Sale of foam

Revenue from the sale of foam is recognised in the income statement, as per international commercial terms, at the point of despatch, when significant risks and rewards of ownership are deemed to have been transferred to the buyer.

ii) Licence and royalty income

The Group recognises licence revenue upon transfer of the technology, provided that no significant obligations remain, the licence amount is determinable, and the collection of the related amount 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 amount is probable.

iii) Sale of equipment

Revenue from equipment sales is recognised upon either shipment or delivery as specified in the contract terms. Revenue received in advanced is recognised as deferred income in the statement of financial position until the terms of sale have been fully satisfied.

2.20 Leases

i) Operating lease payments

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

ii) Finance lease payments

The Group leases certain property, plant and equipment. Leases of property, plant and equipment, where the Group has substantially all of the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised, at the lease's commencement, at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.21 Current and deferred tax

Tax expense for the period 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 or directly in equity, in which case it is recognised in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted at the statement of financial position date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Notes Continued

2. Significant accounting policies (continued)

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and joint arrangements, except for any deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and joint arrangements only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities and there is an intention to settle the balances on a net basis.

2.22 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income tax) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.23 Exceptional items

Exceptional items are disclosed separately in the financial statements, where it is necessary to do so to provide further understanding of the financial performance of the Group. They are items that are material, either because of their size or their nature, or that are non-recurring, and are presented within the line items to which they best relate.

2.24 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.

Effective after 31 December 2017	Effective for accounting periods beginning on or after	Endorsed by the EU
New standards		
IFRS 9 'Financial instruments'	1 January 2018	Yes
IFRS 15 'Revenue from contracts with customers'	1 January 2018	Yes
IFRS 16 'Leases'	1 January 2019	Yes

	Effective for accounting periods beginning on or after	Endorsed by the EU
Amendments		
IAS 12 'Income taxes'	1 January 2017	Yes
IAS 7 'Statement of Cash Flows'	1 January 2017	Yes
IFRS 2 'Share-based payments'	1 January 2018	No
IFRIC 22 'Foreign currency transactions and advance consideration'	1 January 2018	No
IFRS 3 'Business combinations' and IFRS 11 'Joint arrangements'	1 January 2019	No
IAS 28 'Investments in associates and joint ventures'	1 January 2019	No

IFRS 15 provides enhanced detail on the principle of recognising revenue to reflect the transfer of goods and services to customers at a value which the Group expects to be entitled to receive. The standard also updates revenue disclosure requirements. The Group will retrospectively apply the standard from 1 January 2018 recognising the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings. The standard will not have a material impact on the Group's revenue streams from the supply of goods and services. The timing of the recognition of revenue under IAS 18 are consistent with those to be adopted under IFRS 15.

IFRS 9 replaces the majority of IAS 39 and covers the classification, measurement and de-recognition of financial assets and financial liabilities, introduces a new impairment model for financial assets based on expected losses rather than incurred losses and provides a new hedge accounting model. IFRS 9 has been implemented by the Group from 1 January 2018. The new Standard is not expected to have a material impact on reported results.

IFRS 16 will be implemented by the Group from 1 January 2019. The Standard will replace IAS 17 'Leases' and will require lease liabilities and 'right of use' assets to be recognised on the balance sheet for almost all leases. The Group is assessing the potential impact of IFRS 16.

3. 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:

- Polyolefin foams: these foams are made from olefinic homopolymer and copolymer resin. The most common resin used is polyethylene.
- High-Performance Products ('HPP'): these foams exhibit high performance on certain key properties, such as improved chemical, flammability, temperature or energy management performance. Turnover in the segment is currently mainly derived from products manufactured from three main polymer types: PVDF fluoropolymer, polyamide (nylon) and polyether block amide (PEBA). Foams are sold under the brand name ZOTEK®, while technical insulation products manufactured from certain materials are branded as T-FIT®.
- MuCell Extrusion LLC ('MEL'): licenses microcellular foam technology and sells related machinery.

	Polyolefin foams		HPP		MEL		Eliminations		Consolidated	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Group revenue	**52,821**	44,729	**13,148**	9,988	**4,254**	2,733	**(77)**	(74)	**70,146**	57,376
Segment profit/(loss) pre-amortisation	**10,291**	8,003	**3,157**	2,483	**(1,031)**	(396)	**–**	–	**12,417**	10,090
Amortisation of acquired intangible assets	**–**	(48)	**–**	–	**(327)**	(419)	**–**	–	**(327)**	(467)
Segment profit/(loss)	**10,291**	7,955	**3,157**	2,483	**(1,358)**	(815)	**–**	–	**12,090**	9,623
Foreign exchange losses	**–**	–	**–**	–	**–**	–	**–**	–	**(319)**	(33)
Unallocated central costs	**–**	–	**–**	–	**–**	–	**–**	–	**(2,397)**	(1,944)
Operating profit before exceptional items							**–**	–	**9,374**	7,646
Financing costs	**–**	–	**–**	–	**–**	–	**–**	–	**(508)**	(393)
Share of loss from joint venture	**(53)**	(21)	**–**	–	**–**	–	**–**	–	**(53)**	(21)
Taxation (before exceptional items)	**–**	–	**–**	–	**–**	–	**–**	–	**(1,780)**	(1,342)
Profit for the year (before exceptional items)									**7,033**	5,890
Segment assets	**76,400**	68,610	**15,071**	11,607	**8,342**	10,409	**–**	–	**99,813**	90,626
Unallocated assets	**–**	–	**–**	–	**–**	–	**–**	–	**477**	851
Total assets									**100,290**	91,477
Segment liabilities	**(37,280)**	(30,643)	**(1,101)**	(980)	**(591)**	(1,828)	**–**	–	**(38,972)**	(33,451)
Unallocated liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**(2,202)**	(1,643)
Total liabilities									**(41,174)**	(35,094)
Depreciation	**2,563**	2,626	**191**	122	**39**	37	**–**	–	**2,793**	2,785
Amortisation	**374**	391	**–**	–	**327**	419	**–**	–	**701**	810
Capital expenditure:										
Tangible fixed assets	**10,921**	10,996	**673**	1,162	**255**	–	**–**	–	**11,849**	12,158
Intangible fixed assets	**97**	245	**156**	198	**107**	–	**–**	–	**360**	443

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

Segment profit is made up of operating profit before foreign exchange losses and unallocated central costs. Unallocated central costs are not directly attributable or cannot be allocated to a segment.

Following a reassessment of cost classifications, certain costs at the Group's subsidiaries, previously recognised as distribution costs in 2016, have been reclassified to cost of sales (£203k) and administrative costs (£266k).

Notes Continued

3. Segment reporting (continued)

Geographical segments

Polyolefin foams, HPP and MEL are managed on a worldwide basis but operate from UK, US and Asian 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.

	United Kingdom & Eire £'000	Continental Europe £'000	North America £'000	Rest of the world £'000	Total £'000
For the year ended 31 December 2017					
Group revenue from external customers	**12,679**	**26,201**	**21,104**	**10,162**	**70,146**
Non-current assets	**30,028**	**–**	**30,372**	**397**	**60,797**
Capital expenditure	**3,708**	**–**	**7,744**	**397**	**11,849**
For the year ended 31 December 2016					
Group revenue from external customers	10,008	21,864	19,940	5,564	57,376
Non-current assets	29,399	–	25,648	–	55,047
Capital expenditure	3,708	–	7,593	857	12,158

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 £5,510k (2016: £4,610k) of the Group's revenue.

Analysis of revenue by category

Breakdown of revenues by products and services for the Group:

	2017 £'000	2016 £'000
Sale of foam	**65,969**	54,717
Licence and royalty income	**1,008**	847
Sale of equipment	**3,246**	1,886
Less: eliminations	**(77)**	(74)
Group revenue	**70,146**	57,376

4. Exceptional item

	2017 £'000	2016 £'000
Increase in past service costs	**1,265**	–
Restructuring costs	**–**	242

During the current period, following legal advice received by the pension trustees and an estimate calculated by the actuaries, the Company has provided £1,235k for potential additional liabilities in its defined benefit pension scheme and £30k for related expenses. This cost has been included in the income statement as an operating exceptional item.

In the prior year the Group and the Company incurred redundancy costs totalling £242k, as a result of an efficiency improvement programme, which have been included in the income statement as an operating exceptional item.

5. Expenses by nature

	2017 £'000	2016 £'000
Included in profit for the year are:		
Changes in inventories of finished goods and work in progress	**2,290**	649
Operating lease charges (note 22)	**633**	135
Amortisation (note 12)	**701**	810
Depreciation (note 11)	**2,793**	2,785
Research and development costs expensed	**1,207**	803
Development costs capitalised	**(156)**	(198)
Net exchange losses	**319**	33
External auditors' remuneration:		
Group – Fees payable to the Group's external auditors and its associates for the audit of the Company and consolidated financial statements	**68**	65
Fees payable to the external auditors and its associates in respect of other services:		
– audit-related assurance services	**17**	17
– audit work relating to subsidiaries	**38**	37
– advisory services	**–**	5
Total cost of sales, distribution costs and administrative expenses	**62,037**	49,971

6. 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	
	2017	2016	**2017**	2016
Production	**179**	172	**140**	147
Maintenance	**21**	21	**15**	16
Distribution and marketing	**61**	57	**37**	39
Administration and technical	**99**	89	**76**	66
	360	339	**268**	268

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Wages and salaries	**15,529**	13,804	**11,870**	10,909
Social security costs	**1,758**	1,650	**1,198**	1,110
Share options granted to directors and employees (note 24)	**459**	285	**391**	233
Pension costs, including past service costs (note 23)	**2,115**	814	**1,968**	751
	19,861	16,553	**15,427**	13,003

Notes Continued

6. Staff numbers and expenses (continued)

Details of aggregate directors' emoluments are provided below:

	2017 £'000	2016 £'000
Aggregate emoluments	**657**	656
Aggregate gains made on the exercise of the share options	**98**	49
Aggregate amounts receivable under long-term incentive schemes	**231**	159
Company contribution to money purchase pension scheme	**52**	70
	1,038	934

7. Finance costs

	2017 £'000	2016 £'000
On bank loans and overdrafts	**315**	207
Interest on defined benefit pension obligation	**193**	186
	508	393

8. Income tax expense

	Note	2017 £'000	2016 £'000
UK corporation tax		**1,556**	1,422
Overseas tax		**14**	43
Adjustment in respect of prior years		**–**	(132)
Total current tax		**1,570**	1,333
Deferred tax	19	**(30)**	(39)
Income tax expense		**1,540**	1,294

Factors affecting the tax charge

The weighted average applicable tax rate for the Group is 18.54% (2016: 20.00%). Differences arise on account of the following factors:

	2017 £'000	2016 £'000
Tax reconciliation		
Profit before tax	**7,548**	6,990
Tax at 18.54% (2016: 20.00%)	**1,400**	1,398
Effects of:		
Expenses not deductible for tax purposes	**17**	10
Research and development and other tax credits	**(229)**	(120)
Overseas tax losses for which no deferred income tax asset recognised	**334**	118
Re-measurement of deferred tax – change in tax rate	**18**	20
Adjustments to prior year UK corporation tax charge	**–**	(132)
	1,540	1,294

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2017 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the statement of financial position date have been measured using these enacted tax rates and reflected in these financial statements.

The Tax Cuts and Jobs Act ("US Tax Reform"), enacted on 22 December 2017, reduced the US federal corporate income tax rate from 35% to 21%. Deferred taxes at the statement of financial position date have been measured using these enacted tax rates and reflected in these financial statements.

The Group has not identified any uncertain tax positions as at 31 December 2017 (2016: none).

9. Dividends and earnings per share

	2017 £'000	2016 £'000
Prior year final dividend of 3.90p (2015: 3.80p) per 5.0p ordinary share	**1,710**	1,664
Interim dividend of 1.91p (2016: 1.85p) per 5.0p ordinary share	**837**	810
Dividends paid during the year	**2,547**	2,474

The proposed final dividend for the year ended 31 December 2017 of 4.02p per share (2016: 3.90p) 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 £1,785k 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 Company of £6,008k (2016: £5,795k) by the weighted average number of shares in issue during the year, excluding own shares held by the EBT which are administered by independent trustees. The number of shares held in the trust at 31 December 2017 was 521,351 (2016: 628,979). 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 IAS 33 Earnings per Share.

	2017	2016
Weighted average number of ordinary shares in issue	**43,845,843**	43,750,811
Deemed issued for no consideration	**585,512**	590,974
Diluted number of ordinary shares issued	**44,431,355**	44,341,785

10. Investments in joint venture

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 (a private company incorporated in Hong Kong) and Inoac Zotefoams Korea Limited (incorporated in South Korea). Azote Asia Limited commenced trading in 2014 and is the exclusive distributor of Zotefoams' AZOTE® products in the Far East. The registered address is 1318-22, Park-In Commercial Centre, 56 Dundas Street, Kowloon, Hong Kong. Inoac Zotefoams Korea Limited remains non-trading. As at the end of the year there were no contingent liabilities relating to the Group's interest in the joint venture.

The joint venture has share capital consisting solely of ordinary shares, which is held directly by the Group. Azote Asia Limited is a private company and there is no quoted market price available for its shares.

A summarised statement of financial position of Inoac Zotefoams Korea Limited is not presented as the company is dormant.

Set out below is the summarised financial information for Azote Asia Limited, which is accounted for using the equity method.

Summarised statement of financial position:

	As at 31 December	
	2017 £'000	2016 £'000
Cash and cash equivalents	**1,155**	2,095
Other current assets (excluding cash)	**566**	610
Total current assets	**1,721**	2,705
Financial liabilities (excluding trade payables)	**(19)**	(7)
Other current liabilities (including trade payables)	**(1,524)**	(2,414)
Total current liabilities	**(1,543)**	(2,421)
Net assets	**178**	284

Notes Continued

10. Investments in joint venture (continued)

Summarised statement of comprehensive income:

	As at 31 December	
	2017 £'000	2016 £'000
Revenue	**3,180**	2,676
Finance costs	**(1)**	(1)
Loss before tax from continuing operations	**(106)**	(42)
Income tax expense	**–**	–
Loss after tax from continuing operations	**(106)**	(42)
Other comprehensive income	**–**	–
Total comprehensive income	**(106)**	(42)
Dividend received from joint venture	**–**	–

The information above reflects the amounts presented in the financial statements of the joint venture, adjusted for differences in accounting policies between the Group and the joint venture.

Reconciliation of the summarised financial information presented to the carrying amount of the interest in the joint venture is provided below:

	2017 £'000	2016 £'000
Opening net assets 1 January	**284**	326
Loss for the period	**(106)**	(42)
Other comprehensive income	**–**	–
Closing net assets	**178**	284
Interest in joint venture @ 50%	**89**	142

	2017 £'000	2016 £'000
Information of the joint venture		
At 1 January	**142**	163
Share of loss	**(53)**	(21)
At 31 December	**89**	142

11. Property, plant and equipment

Group

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Leased machinery £'000	Under construction £'000	Total £'000
Cost						
Balance at 1 January 2016	17,710	53,345	6,626	–	12,524	90,205
Reclassification of opening balance	(2,308)	–	–	–	2,308	–
Additions	128	1,435	151	–	10,444	12,158
Reclassifications from under construction	17	187	138	–	(342)	–
Effect of movement in foreign exchange	1,040	1,094	200	–	2,077	4,411
Balance at 31 December 2016	16,587	56,061	7,115	–	27,011	106,774
Balance at 1 January 2017	**16,587**	**56,061**	**7,115**	**–**	**27,011**	**106,774**
Additions	**801**	**1,489**	**11**	**432**	**9,116**	**11,849**
Disposals	**–**	**(1,276)**	**–**	**–**	**–**	**(1,276)**
Reclassifications from under construction	**–**	**7,041**	**347**	**–**	**(7,388)**	**–**
Effect of movement in foreign exchange	**(732)**	**(1,022)**	**(72)**	**–**	**(1,489)**	**(3,315)**
Balance at 31 December 2017	**16,656**	**62,293**	**7,401**	**432**	**27,250**	**114,032**
Accumulated depreciation						
Balance at 1 January 2016	9,801	41,441	3,591	–	–	54,833
Depreciation charge for the year	519	1,966	300	–	–	2,785
Effect of movement in foreign exchange	615	934	107	–	–	1,656
Balance at 31 December 2016	10,935	44,341	3,998	–	–	59,274
Balance at 1 January 2017	**10,935**	**44,341**	**3,998**	**–**	**–**	**59,274**
Depreciation charge for the year	**487**	**2,015**	**242**	**49**	**–**	**2,793**
Disposals	**–**	**(1,270)**	**–**	**–**	**–**	**(1,270)**
Effect of movement in foreign exchange	**(374)**	**(389)**	**(118)**	**–**	**–**	**(881)**
Balance at 31 December 2017	**11,048**	**44,697**	**4,122**	**49**	**–**	**59,916**
Net book value						
At 1 January 2016	7,909	11,904	3,035	–	12,524	35,372
At 31 December 2016 and 1 January 2017	5,652	11,720	3,117	–	27,011	47,500
At 31 December 2017	**5,608**	**17,596**	**3,279**	**383**	**27,250**	**54,116**

Depreciation is included in cost of sales in the income statement.

Lease rentals amounting to £106k (2016: £66k) and £377k (2016: £110k) relating to the lease of machinery and property, respectively, are included in the income statement (note 22).

During the year, the Group has capitalised borrowing costs amounting to £219k (2016: £231k) on qualifying assets. Borrowing costs were capitalised at the rate of its specific borrowings of 3.95%.

Bank borrowings are secured on certain property, plant and equipment. Refer to note 18 for details.

Notes Continued

11. Property, plant and equipment (continued)

Company

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Leased machinery £'000	Under construction £'000	Total £'000
Cost						
Balance at 1 January 2016	10,590	48,351	6,168	–	7,203	72,312
Additions	–	169	43	–	3,496	3,708
Reclassifications from under construction	–	187	138	–	(325)	–
Balance at 31 December 2016	10,590	48,707	6,349	–	10,374	76,020
Balance at 1 January 2017	**10,590**	**48,707**	**6,349**	**–**	**10,374**	**76,020**
Additions	**–**	**1,310**	**2**	**432**	**2,348**	**4,092**
Disposal	**–**	**(31)**	**–**	**–**	**–**	**(31)**
Reclassifications from under construction	**–**	**7,041**	**347**	**–**	**(7,388)**	**–**
Balance at 31 December 2017	**10,590**	**57,027**	**6,698**	**432**	**5,334**	**80,081**
Accumulated depreciation						
Balance at 1 January 2016	7,065	37,111	3,165	–	–	47,341
Depreciation charge for the year	285	1,665	252	–	–	2,202
Balance at 31 December 2016	7,350	38,776	3,417	–	–	49,543
Balance at 1 January 2017	**7,350**	**38,776**	**3,417**	**–**	**–**	**49,543**
Depreciation charge for the year	**240**	**1,886**	**196**	**49**	**–**	**2,371**
Disposal	**–**	**(31)**	**–**	**–**	**–**	**(31)**
Balance at 31 December 2017	**7,590**	**40,631**	**3,613**	**49**	**–**	**51,883**
Net book value						
At 1 January 2016	3,525	11,240	3,003	–	7,203	24,971
At 31 December 2016 and 1 January 2017	3,240	9,931	2,932	–	10,374	26,477
At 31 December 2017	**3,000**	**16,396**	**3,085**	**383**	**5,334**	**28,198**

12. Intangible assets

Group

	Capitalised development £'000	Marketing related £'000	Customer related £'000	Technology related £'000	Software related £'000	Goodwill £'000	Total £'000
Cost							
Balance at 1 January 2016	–	215	289	4,190	2,233	2,049	8,976
Additions	198	–	–	9	236	–	443
Effect of movement in foreign exchange	–	48	51	928	–	441	1,468
Balance at 31 December 2016	198	263	340	5,127	2,469	2,490	10,887
Balance at 1 January 2017	**198**	**263**	**340**	**5,127**	**2,469**	**2,490**	**10,887**
Additions	**156**	**–**	**–**	**107**	**97**	**–**	**360**
Effect of movement in foreign exchange	**–**	**(23)**	**(29)**	**(533)**	**–**	**(235)**	**(820)**
Balance at 31 December 2017	**354**	**240**	**311**	**4,701**	**2,566**	**2,255**	**10,427**
Accumulated amortisation							
Balance at 1 January 2016	–	114	230	1,441	298	24	2,107
Charge for the year	–	25	94	348	343	–	810
Effect of movement in foreign exchange	–	21	16	410	–	(24)	423
Balance at 31 December 2016	–	160	340	2,199	641	–	3,340
Balance at 1 January 2017	**–**	**160**	**340**	**2,199**	**641**	**–**	**3,340**
Charge for the year	**–**	**–**	**5**	**322**	**374**	**–**	**701**
Effect of movement in foreign exchange	**–**	**(29)**	**(60)**	**(206)**	**–**	**–**	**(295)**
Balance at 31 December 2017	**–**	**131**	**285**	**2,315**	**1,015**	**–**	**3,746**
Net book value							
At 1 January 2016	–	101	59	2,749	1,935	2,025	6,869
At 31 December 2016 and 1 January 2017	198	103	–	2,928	1,828	2,490	7,547
At 31 December 2017	**354**	**109**	**26**	**2,386**	**1,551**	**2,255**	**6,681**

Amortisation is included in cost of sales in the income statement.

Goodwill arising on acquisition is allocated to the cash generating unit ('CGU') that is expected to benefit, being MEL. The recoverable amount of the CGU has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions of long-term growth rate and discount rate used in the value-in-use calculations are as follows.

Key assumptions:

Sales growth

This is based on past performance and management's expectations of market development over the three-year forecast period.

Other operating costs

These are the fixed costs of the CGU, which do not vary significantly with sales volumes or prices. Management forecasts these costs based on the current structure of the business, adjusting for inflationary increases, and these do not reflect any future restructurings or cost-saving measures.

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 12%

The pre-tax discount rate applied to the cash flow forecasts for the CGU are derived from the estimated pre-tax weighted average cost of capital for the MEL CGU.

Sensitivity to changes in assumptions

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

Notes Continued

12. Intangible assets (continued)
Company

	Capitalised development £'000	Customer related £'000	Software related £'000	Total £'000
Cost				
Balance at 1 January 2016	–	121	2,233	2,354
Additions	198	–	236	434
Balance at 31 December 2016	198	121	2,469	2,788
Balance at 1 January 2017	**198**	**121**	**2,469**	**2,788**
Additions	**156**		**97**	**253**
Balance at 31 December 2017	**354**	**121**	**2,566**	**3,041**
Accumulated amortisation				
Balance at 1 January 2016	–	69	298	367
Charge for the year	–	52	343	395
Balance at 31 December 2016	–	121	641	762
Balance at 1 January 2017	**–**	**121**	**641**	**762**
Charge for the year	**–**	**–**	**374**	**374**
Balance at 31 December 2017	**–**	**121**	**1,015**	**1,136**
Net book value				
At 1 January 2016	–	52	1,935	1,987
At 31 December 2016 and 1 January 2017	198	–	1,828	2,026
At 31 December 2017	**354**	**–**	**1,551**	**1,905**

13. Investment in subsidiaries
Company

	2017 £'000	2016 £'000
Shares in Group undertakings – at cost	**26,840**	16,754
Provision against the value of investment in subsidiary	**(3,294)**	(3,294)
	23,546	13,460

During the year, the Company increased its investment in its wholly-owned subsidiary, Zotefoams International Limited, by converting an intercompany receivable balance of £9,800k, owed to the Company by Zotefoams Inc, a wholly-owned subsidiary of Zotefoams International Limited.

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

	Registered office	Ownership	Incorporated in:
Zotefoams International Limited	675 Mitcham Road, Croydon CR9 3AL	100%	Great Britain
Zotefoams Pension Trustees Limited	675 Mitcham Road, Croydon CR9 3AL	100%	Great Britain
Zotefoams Inc. (indirectly owned)	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, Delaware	100%	USA
Zotefoams Midwest LLC (indirectly owned)	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, Delaware	100%	USA
MuCell Extrusion LLC (indirectly owned)	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, Delaware	100%	USA
Zotefoams Operations Limited (indirectly owned)	675 Mitcham Road, Croydon CR9 3AL	100%	Great Britain
Zotefoams Technology Limited (indirectly owned)	675 Mitcham Road, Croydon CR9 3AL	100%	Great Britain
KZ Trading and Investment Limited (indirectly owned)	15/F OTB Building, 160 Gloucester Road, Hong Kong	100%	Hong Kong
Kunshan Zotek King Lai Limited (indirectly owned)	181 Huanlou Road, Kunshan, Jiangsu	100%	China
Zotefoams France SAS (indirectly owned)	29 Boulevard Albert Einstien, Nantes	100%	France

13. Investment in subsidiaries (continued)

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, but during 2016 the remaining 49% was acquired. Kunshan Zotek King Lai is a trading company with operations in China. In 2016 Zotefoams Midwest LLC, based in Oklahoma, USA was formed to supply specialist materials, based on AZOTE® foams, for the construction industry. During 2017, Zotefoams France SAS was formed, which is a wholly-owned subsidiary of Zotefoams International Limited and did not engage in any trading activities in 2017. 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 statement of financial position.

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 2017 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	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Raw materials and consumables	**6,061**	5,948	**5,088**	4,920
Work in progress	**4,141**	3,719	**3,296**	2,520
Finished goods	**4,508**	2,640	**3,016**	1,841
	14,710	12,307	**11,400**	9,281
Inventories are shown net of:				
Provision for impairment losses	**1,973**	1,797	**1,608**	1,334

In 2017 the value of inventory recognised by the Group as an expense in cost of goods sold was £38,870k (2016: £35,451k).

15. Trade and other receivables

		Group		Company	
	Note	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Amounts falling due within one year:					
Trade receivables	21	**17,710**	18,643	**11,704**	11,394
Amounts owed by Group undertakings	25	**–**	–	**7,263**	10,552
Other receivables		**1,528**	667	**818**	392
Prepayments and accrued income		**495**	1,056	**186**	160
		19,733	20,366	**19,971**	22,498
Trade receivables are shown net of:					
Provision for impairment losses		**130**	250	**72**	195

Amounts owed by Group undertakings are payable on demand and attract no interest.

16. Cash and cash equivalents

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Cash at bank and in hand	**4,360**	2,868	**2,956**	–
Bank overdraft	**(2,550)**	(805)	**(2,550)**	(805)
Cash and equivalents per statement of cash flows	**1,810**	2,063	**406**	(805)

The Group and the Company have a net short-term multi-currency bank overdraft facility of £2,000k (2016: £2,000k). This facility is repayable on demand and is utilised by the Group and the Company under a cross-guarantee structure.

Notes Continued

17. Trade and other payables

		Group		Company	
	Note	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Trade payables	21	**5,688**	4,791	**4,392**	3,461
Other taxation and social security		**641**	348	**259**	314
Amounts owed to Group undertakings	25	**–**	–	**165**	69
Other payables		**2,044**	3,348	**1,640**	1,597
Accruals and deferred income		**2,056**	1,708	**1,434**	1,131
		10,429	10,195	**7,890**	6,572

Amounts owed to Group undertakings are payable on demand and attract no interest.

18. Interest-bearing loans and borrowings

		Group		Company	
	Note	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Current bank borrowings		**11,316**	9,156	**10,786**	8,594
Non-current bank borrowings		**8,450**	5,464	**4,030**	–
	21	**19,766**	14,620	**14,816**	8,594

Collateralised borrowings are secured by the property, plant and equipment of the Group (note 11) and are limited to the value of the debt.

In December 2012 the Company obtained a £3,500k loan repayable over five years in equal quarterly instalments. This loan was secured by specific property, plant and equipment at the Company's Croydon facility. This loan was settled during the year (2016: £766k).

In 2016 a multi-currency revolving credit facility (RCF) of £8,000k was obtained and the bank overdraft facility was reduced to net £2,000k. During 2017, the RCF limit was increased to £10,000k. This borrowing is secured by a floating charge on the Company's book debts, the Company's Croydon facility and a cross-guarantee structure.

During 2017, the Company obtained a £7,500k loan facility, which is secured by property, plant and equipment at the Company's Croydon facility. Each draw down from this facility is repayable over five years in equal quarterly instalments commencing in 2018. At 31 December 2017, the Company had utilised £4,500k of the above facility.

In December 2015 the Group obtained a $8,000k loan, repayable over ten years in equal monthly instalments. This loan is secured by the property, plant and equipment of Zotefoams Inc.

Refer to note 27 for events after the reporting period.

The Group and the Company have the following undrawn borrowing facilities:

	2017 £'000	2016 £'000
Floating rate:		
Expiring within one year	**–**	172
Expiring beyond one year	**3,000**	–
Total	**3,000**	172

Reconciliation of liabilities arising from financing activities:

			Non-cash changes		
Group	2016	Cash inflows/ (outflows)	Recognition of lease liabilities	Foreign exchange movement	**2017**
Long-term borrowings	5,464	3,215	–	(524)	**8,155**
Short-term borrowings	9,156	2,130	–	(58)	**11,228**
Lease liabilities	–	(49)	432	–	**383**
Total liabilities	14,620	5,296	432	(582)	**19,766**

18. Interest-bearing loans and borrowings (continued)

Group	2015	Non-cash changes Cash inflows/ (outflows)	Recognition of lease liabilities	Foreign exchange movement	2016
Long-term borrowings	5,758	(1,376)	–	1,082	**5,464**
Short-term borrowings	1,102	7,951	–	103	**9,156**
Total liabilities	6,860	6,575	–	1,185	**14,620**

Company	2016	Non-cash changes Cash inflows/ (outflows)	Recognition of lease liabilities	Foreign exchange movement	2017
Long-term borrowings	–	3,735	–	–	**3,735**
Short-term borrowings	8,594	2,097	–	7	**10,698**
Lease liabilities	–	(49)	432	–	**383**
Total liabilities	8,594	5,783	432	7	**14,816**

Company	2015	Non-cash changes Cash inflows/ (outflows)	Recognition of lease liabilities	Foreign exchange movement	2016
Long-term borrowings	790	(790)	–	–	**–**
Short-term borrowings	700	7,960	–	66	**8,594**
Total liabilities	1,490	7,170	–	66	**8,594**

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	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Property, plant and equipment	**–**	–	**1,335**	1,465	**1,335**	1,465
Rolled-over gain	**–**	–	**548**	613	**548**	613
Inventories	**(146)**	(350)	**–**	–	**(146)**	(350)
Derivatives financial instruments	**(26)**	–	**–**	67	**(26)**	67
Defined benefit pension scheme	**(1,049)**	(1,413)	**–**	–	**(1,049)**	(1,413)
Share option charges	**(268)**	(124)	**–**	–	**(268)**	(124)
Tax value of recognised losses carried forward	**(216)**	(359)	**–**	–	**(216)**	(359)
	(1,705)	(2,246)	**1,883**	2,145	**178**	(101)
Set off	**1,343**	1,537	**(1,343)**	(1,537)	**–**	–
Deferred tax (assets)/liabilities	**(362)**	(709)	**540**	608	**178**	(101)

Unrecognised deferred tax assets

The Group has tax losses carried forward in the USA of $3,242k (2016: $2,816k) which expire between 2022 and 2027 under prevailing tax legislation. At year-end exchange rates, these tax losses translate to £2,402k (2016: £2,200k). Of the above, the Board expects to utilise only tax losses of £1,026k (2016: £1,026k) in the upcoming years based on projections. Applying the enacted tax rate of 21% (2016: 35%), the Group has recognised a deferred tax asset of £216k (2016: £359k) on such tax losses expected to be utilised in future periods.

Notes Continued

19. Deferred tax assets and liabilities (continued)

Movement in deferred tax

	Property, plant and equipment £'000	Rolled-over gain £'000	Inventories £'000	Derivative financial instruments £'000	Defined benefit pension scheme £'000	Share option charges £'000	Tax value of recognised losses carried forward £'000	Total £'000
Balance at 1 January 2016	1,460	613	(226)	38	(995)	(178)	(348)	364
Charged/(credited) to the income statement	5	–	(124)	–	96	(5)	(11)	(39)
Recognised in other comprehensive income and equity	–	–	–	29	(514)	59	–	(426)
Balance at 31 December 2016	1,465	613	(350)	67	(1,413)	(124)	(359)	(101)
Balance at 1 January 2017	**1,465**	**613**	**(350)**	**67**	**(1,413)**	**(124)**	**(359)**	**(101)**
Charged/(credited) to the income statement	**(130)**	**(65)**	**204**	**–**	**(138)**	**(44)**	**143**	**(30)**
Recognised in other comprehensive income and equity	**–**	**–**	**–**	**(93)**	**502**	**(100)**	**–**	**309**
Balance at 31 December 2017	**1,335**	**548**	**(146)**	**(26)**	**(1,049)**	**(268)**	**(216)**	**178**

Deferred tax assets and liabilities – Company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Property, plant and equipment	**–**	–	**1,335**	1,465	**1,335**	1,465
Rolled-over gain	**–**	–	**548**	613	**548**	613
Derivative financial instruments	**(26)**	–	**–**	67	**(26)**	67
Defined benefit pension scheme	**(1,049)**	(1,413)	**–**	–	**(1,049)**	(1,413)
Share option charges	**(268)**	(124)	**–**	–	**(268)**	(124)
	(1,343)	(1,537)	**1,883**	2,145	**540**	608
Set off	**1,343**	1,537	**–**	(1,537)	**1,343**	–
Deferred tax (assets)/liabilities	**–**	–	**1,883**	608	**1,883**	608

Movement in deferred tax

	Property, plant and equipment £'000	Rolled-over gain £'000	Derivative financial instruments £'000	Defined benefit pension scheme £'000	Share option charges £'000	Total £'000
Balance at 1 January 2016	1,460	613	38	(995)	(178)	938
Charged/(credited) to the income statement	5	–	–	96	(5)	96
Recognised in other comprehensive income and equity	–	–	29	(514)	59	(426)
Balance at 31 December 2016	1,465	613	67	(1,413)	(124)	608
Balance at 1 January 2017	**1,465**	**613**	**67**	**(1,413)**	**(124)**	**608**
Charged/(credited) to the income statement	**(130)**	**(65)**	**–**	**(138)**	**(44)**	**(377)**
Recognised in other comprehensive income and equity	**–**	**–**	**(93)**	**502**	**(100)**	**309**
Balance at 31 December 2017	**1,335**	**548**	**(26)**	**(1,049)**	**(268)**	**540**

20. Issued share capital

	2017 £'000	2016 £'000
Allotted, called up and fully paid		
At 31 December		
Equity: 44,414,442 (2016: 44,414,442) ordinary shares of 5.0p each	**2,221**	2,221

Details of share options are provided in note 24.

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 cash in hand and at bank and interest-bearing loans and borrowings, 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. Per the Group's and Company's policy, no trading in financial instruments is 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 consistent throughout the year.

Credit risk

Credit risk is managed on a Group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents and derivative financial instruments with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

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

At the statement of financial position 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 statement of financial position.

Credit quality of financial assets

	Group		Company	
Counterparties without external credit rating:	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Existing customers with no defaults in the past	**17,473**	18,015	**18,015**	10,871
Existing customers with some defaults in the past, net of impairment allowance	**237**	628	**628**	523
	17,710	18,643	**11,704**	11,394

	Group		Company	
Cash at bank	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Moody's P-1	**4,360**	2,868	**2,956**	–

	Group		Company	
Derivative financial assets	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Moody's P-1	**213**	38	**213**	38

Notes Continued

21. Financial instruments and financial risk management (continued)

Trade receivables are analysed as follows:

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Amounts neither past due nor impaired	**14,278**	14,207	**9,824**	8,435
Amounts past due but not impaired:				
Less than 60 days	**2,682**	2,683	**1,505**	1,958
More than 60 days	**513**	1,125	**320**	478
Total past due but not impaired	**3,195**	3,808	**1,825**	2,436
Amounts impaired	**367**	827	**127**	689
Impairment allowance	**(130)**	(199)	**(72)**	(166)
Carrying amount of impaired receivables	**237**	628	**55**	523
Trade receivables net of allowances	**17,710**	18,643	**11,704**	11,394

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

The credit quality of trade receivables that are neither past due nor impaired is assessed individually based on credit history and experience. In 2017 and 2016, the Group and Company insured a significant portion of its trade receivable balances to mitigate credit risk. The uninsured exposure as at 31 December 2017 for the Group was £5,718k (2016: £6,890k) and for the Company was £2,499k (2016: £3,390k). The Group and the Company make provisions against trade receivables, such provisions being based on the debtor's prior credit history and knowledge of any adverse conditions affecting the debtor (e.g. receivership or liquidation). The Directors believe an adequate provision has been made for trade receivables at the year end.

None of the amounts owed by Group undertakings are impaired.

Interest rate risk

The Group's and Company's interest rate risk arises from long-term borrowings and short-term bank overdraft. Borrowings issued at variable rates expose the Group and Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group and Company has strong cash generation from its operations and closely monitors its borrowing levels to manage the interest rate risk.

The interest rate profile of the Group's and Company's borrowings at 31 December is shown below:

	2017			2016		
Group	**Effective interest rate %**	**Fixed rates £'000**	**Variable rates £'000**	Effective interest rate %	Fixed rates £'000	Variable rates £'000
Dollar long-term borrowings	**3.95%**	**4,950**	**–**	3.95%	6,027	–
Sterling long-term borrowings	**2.79%**	**–**	**4,500**	3.50%	766	–
Multi currency RCF	**2.50%**	**–**	**9,933**	2.37%	–	7,838
Bank overdraft	**2.29%**	**–**	**2,550**	2.40%	–	805
Total		**4,950**	**16,983**		6,793	8,643

	2017			2016		
Company	**Effective interest rate %**	**Fixed rates £'000**	**Variable rates £'000**	Effective interest rate %	Fixed rates £'000	Variable rates £'000
Sterling long-term borrowings	**2.79%**	**–**	**4,500**	3.50%	766	–
Multi currency RCF	**2.50%**	**–**	**9,933**	2.37%	–	7,838
Bank overdraft	**2.29%**	**–**	**2,550**	2.40%	–	805
Total		**–**	**16,983**		766	8,643

The impact on post tax profit of a 0.1% shift in the variable rate borrowings would be immaterial (2016: immaterial).

21. Financial instruments and financial risk management (continued)

Liquidity risk

Group Finance performs cash flow forecasting in the operating entities of the Group, which is then aggregated. Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure that it has sufficient cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities (note 18) at all times, so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and any applicable external regulatory or legal requirements.

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

	2017					2016				
Group	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	More than 2 years £'000	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	More than 2 years £'000
Non-derivative financial liabilities										
Interest-bearing loans and borrowings	**(19,766)**	**(19,766)**	**(11,554)**	**(1,621)**	**(6,591)**	(14,620)	(14,620)	(9,446)	(796)	(4,378)
Bank overdraft	**(2,550)**	**(2,550)**	**(2,550)**	**–**	**–**	(805)	(805)	(805)	–	–
Trade and other payables	**(7,732)**	**(7,732)**	**(7,732)**	**–**	**–**	8,139	8,139	8,139	–	–

	2017					2016				
Company	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	More than 2 years £'000	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	More than 2 years £'000
Non-derivative financial liabilities										
Interest-bearing loans and borrowings	**(14,816)**	**(14,816)**	**(10,833)**	**(900)**	**(3,083)**	(8,594)	(8,594)	(8,594)	–	–
Bank overdraft	**(2,550)**	**(2,550)**	**(2,550)**	**–**	**–**	(805)	(805)	(805)	–	–
Trade and other payables	**(6,197)**	**(6,197)**	**(6,197)**	**–**	**–**	5,127	5,127	5,127	–	–
Amounts owed to Group undertakings	**(165)**	**(165)**	**(165)**	**–**	**–**	(69)	(69)	(69)	–	–

Foreign currency risk

The Group and Company operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and euros. Foreign exchange risk arises from recognised assets and liabilities and future commercial transactions.

Foreign exchange risk is managed centrally by Group Finance. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Company's functional currency.

The Group's and Company's treasury risk management policy is to hedge approximately two-thirds of anticipated cash flows (mainly sales and purchases) in US dollar and euros for the subsequent 9-12 months. The Group and the Company use forward exchange contracts to hedge their foreign currency risk. Group Finance monitors cash flows to ensure that there is sufficient liquidity when forward currency contracts mature.

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

	2017		2016	
	Average	**Closing**	Average	Closing
Euro/sterling	**0.88**	**0.89**	0.82	0.85
US dollar/sterling	**0.78**	**0.74**	0.75	0.82

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 a 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.

Notes Continued

21. Financial instruments and financial risk management (continued)

Recognised assets and liabilities

The table below shows non-derivative financial instruments of the Group and Company in currencies other than sterling:

Group – 2017	**Euro £'000**	**US dollar £'000**	**Other £'000**	**Total £'000**
Cash and cash equivalents	**(712)**	**(1,003)**	**649**	**(1,066)**
Trade receivables	**4,707**	**10,329**	**334**	**15,370**
Trade payables	**(2,573)**	**(1,146)**	**(70)**	**(3,789)**

Group – 2016	Euro £'000	US dollar £'000	Other £'000	Total £'000
Cash and cash equivalents	(1,174)	325	(6)	(855)
Trade receivables	4,066	9,193	488	13,747
Trade payables	(2,111)	(1,533)	(60)	(3,704)

Company – 2017	**Euro £'000**	**US dollar £'000**	**Other £'000**	**Total £'000**
Cash and cash equivalents	**(712)**	**(1,838)**	**80**	**(2,470)**
Trade receivables	**4,700**	**3,378**	**267**	**8,345**
Trade payables	**(2,573)**	**(136)**	**(6)**	**(2,715)**

Company – 2016	Euro £'000	US dollar £'000	Other £'000	Total £'000
Cash and cash equivalents	(1,174)	(2,527)	(23)	(3,724)
Trade receivables	4,060	1,815	338	6,213
Trade payables	(2,110)	(345)	(2)	(2,457)

Forecast transactions

The Group and the Company classify their forward exchange contracts used to hedge forecast transactions as cash flow hedges. The fair value of such forward exchange contracts is shown in the table below:

31 December 2017	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Assets				
Forward exchange contracts	**–**	**213**	**–**	**213**
Total assets	**–**	**213**	**–**	**213**
Liabilities				
Forward exchange contracts	**–**	**(59)**	**–**	**(59)**
Total liabilities	**–**	**(59)**	**–**	**(59)**

31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Forward exchange contracts	–	38	–	38
Total assets	–	38	–	38
Liabilities				
Forward exchange contracts	–	(392)	–	(392)
Total liabilities	–	(392)	–	(392)

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 December 2017 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement. This is generally within 12 months of the end of the reporting period.

21. Financial instruments and financial risk management (continued)

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 (i.e. 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)

Derivative financial instruments are valued using Barclays Bank's mid-market rate at the statement of financial position date.

The maturity profile of the forward contracts as at 31 December is as follows:

	2017				2016			
Group and Company:	**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
Sell EUR	**€5,147**	**4,598**	**4,589**	**9**	€3,175	2,682	2,725	(43)
Buy EUR	**€1,500**	**(1,349)**	**(1,334)**	**(15)**	€1,500	(1,319)	(1,285)	(34)
Sell USD	**$13,345**	**9,985**	**9,824**	**160**	$16,344	12,943	13,222	(279)
Buy USD	**–**	**–**	**–**	**–**	$500	(404)	(406)	2

Sensitivity analysis

In managing currency risks the Group and Company aim to reduce the impact of short-term fluctuations on their earnings. Over the longer-term, however, changes in foreign exchange would have an impact on earnings.

At 31 December 2017 it is estimated that an increase of one percentage point in the value of sterling against the euro would decrease the Group's profit before tax by approximately £3k (2016: £74k) before forward exchange contracts and £1k (2016: £58k) after forward exchange contracts are included.

At 31 December 2017 it is estimated that an increase of one percentage point in the value of sterling against the US dollar would decrease the Group's profit before tax by approximately £175k (2016: £180k) before forward exchange contracts and £58k (2016: £102k) after forward exchange contracts are included.

Financial instruments by category

		2017			2016		
Group		**Loans and receivables £'000**	**Derivatives used for hedging £'000**	**Financial liabilities at amortised cost £'000**	Loans and receivables £'000	Derivatives used for hedging £'000	Financial liabilities at amortised cost £'000
Trade and other receivables		**19,238**	**–**	**–**	19,310	–	–
Cash and cash equivalents		**4,360**	**–**	**–**	2,868	–	–
Bank overdraft		**–**	**–**	**(2,550)**	–	–	(805)
Derivative financial instruments	– assets	**–**	**213**	**–**	–	38	–
	– liabilities	**–**	**(59)**	**–**	–	(392)	–
Interest-bearing loans and borrowings		**–**	**–**	**(19,766)**	–	–	(14,620)
Trade and other payables		**–**	**–**	**(7,732)**	–	–	8,139

Notes Continued

21. Financial instruments and financial risk management (continued)

Financial instruments by category (continued)

Company		2017 Loans and receivables £'000	2017 Derivatives used for hedging £'000	2017 Financial liabilities at amortised cost £'000	2016 Loans and receivables £'000	2016 Derivatives used for hedging £'000	2016 Financial liabilities at amortised cost £'000
Trade and other receivables		**12,522**	**–**	**–**	22,338	–	–
Cash and cash equivalents		**2,956**	**–**	**–**	–	–	–
Bank overdraft		**–**	**–**	**(2,550)**	–	(805)	(805)
Derivative financial instruments	– assets	**–**	**213**	**–**	–	38	–
	– liabilities	**–**	**(59)**	**–**	–	(392)	–
Interest-bearing loans and borrowings		**–**	**–**	**(14,816)**	–	(8,594)	(8,594)
Trade and other payables		**–**	**–**	**(6,197)**	–	5,127	5,127

Capital management

The Group's objectives, when managing capital, are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group can adjust the amount of dividends paid to shareholders or manage investments in new assets to reduce debt.

The Group defines its return on capital as operating profit before exceptional items divided by the average sum of its equity, net debt and other non-current liabilities. This measure excludes acquired intangible assets and their amortisation costs. The Group also excludes significant capacity investments under construction until they enter production. In 2017 the return on capital was 15.5% (2016: 14.0%). If the significant capacity investments were included, the return on capital was 12.07% (2016: 11.94%).

22. Commitments – Group

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:				
Property, plant and equipment	**3,284**	4,752	**1,766**	442

Operating lease commitments – Group and Company as lessee	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
No later than 1 year	**159**	56	**159**	56
Later than 1 year and no later than 5 years	**413**	195	**413**	195
Later than 5 years	**169**	–	**169**	–
Total	**741**	251	**741**	251

During the year ended 31 December 2017 £633k was recognised as an expense in the income statement in respect of operating leases (2016: £135k).

Financing lease commitments – Group and Company as lessee	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
No later than 1 year	**87**	–	**87**	–
Later than 1 year and no later than 5 years	**247**	–	**247**	–
Later than 5 years	**–**	–	**–**	–
Total	**334**	–	**334**	–

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 set 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; and
- Pensioner members: in receipt of pension.

The defined benefit obligation is valued by projecting the best estimate of future benefit outgoings (allowing for revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the statement of financial position date. The majority of benefits received increases in line with 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 2017 was 18 years.

Since 1 October 2001 the Scheme has been closed to new members and, from 31 December 2005, the 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 £2,500k. In respect of the deficit in the Scheme as at 5 April 2014, the Company agreed to pay £492k per annum until 5 April 2020. In addition, the Company pays £127k per annum to cover administration expenses. The Company therefore expects to pay £619k to the Scheme during the accounting year beginning 1 January 2018, until an updated valuation is performed. There is currently a valuation underway as at 5 April 2017 which, when finalised, may reveal a different funding level and therefore may likely result in a different recovery plan for the future.

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 2017 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	As at 31 December 2017	As at 31 December 2016
Discount rate	**2.40%**	2.70%
RPI inflation (before retirement)	**2.90%**	3.30%
CPI inflation (before retirement)	**1.90%**	2.30%
RPI inflation (after retirement)	**3.10%**	3.60%
CPI inflation (after retirement)	**2.10%**	2.60%

Notes Continued

23. Post employment benefits (continued)

Risks (continued)

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, of:

	2017	2016
For an individual aged 65		
– Male	**22.1**	22.4
– Female	**23.9**	24.5
At age 65 for an individual aged 45		
– Male	**23.5**	24.1
– Female	**25.4**	26.4

The table below outlines where the Company's post-employment amounts and activity are included in the financial statements.

	2017 £'000	2016 £'000
Statement of financial position for:		
– Defined benefit pension scheme obligations	**(6,168)**	(7,439)
Income statement charge included in operating profit for:		
– Defined benefit pension interest cost	**(193)**	(186)
– Defined benefit pension past service costs	**(1,235)**	–
Actuarial (losses)/gains recognised in other comprehensive income:		
– Defined benefit pension scheme	**2,080**	(2,707)

The amounts recognised in the statement of financial position are determined as follows:

	2017 £'000	2016 £'000
Market value of plan assets	**27,312**	25,617
Present value of defined benefit pension scheme obligation	**(33,480)**	(33,056)
Deficit – recognised as a liability in the statement of financial position	**(6,168)**	(7,439)

The movement in the defined benefit obligation over the year is as follows:

	2017 £'000	2016 £'000
Value of defined benefit obligation at the start of the year	**33,056**	28,227
Interest cost	**878**	1,044
Benefits paid	**(1,109)**	(1,502)
Past service costs (refer to note 4)	**1,235**	–
Actuarial gains: experience differing from that assumed	**(241)**	(399)
Actuarial (gains)/ losses: changes in financial assumptions	**(339)**	5,686
Value of defined benefit obligation at the end of the year	**33,480**	33,056

23. Post employment benefits (continued)

The movement in the value of the plan assets over the year is as follows:

	2017 £'000	2016 £'000
Market value of plan assets at the start of the year	**25,617**	22,989
Interest income	**685**	858
Actual return on plan assets	**1,500**	2,580
Employer contributions	**619**	692
Benefits paid	**(1,109)**	(1,502)
Market value of assets at the end of the year	**27,312**	25,617

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%/-0.5% pa	–8%/+9%
RPI inflation	+0.5% pa/–0.5% pa	+ 8%/–7%
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:

	Year ended 31 December 2017		Year ended 31 December 2016	
Asset class	Market value £'000	% of total Scheme assets	Market value £'000	% of total Scheme assets
Equities and other growth assets	**17,357**	**64%**	16,187	63%
Corporate bonds	**5,251**	**19%**	4,849	19%
Gilts	**3,132**	**11%**	2,958	12%
Cash	**921**	**3%**	1,034	4%
Insured pensioners	**651**	**2%**	589	2%
Total	**27,312**	**100%**	25,617	100%
Actual return on assets over the year	**2,185**		3,438	

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 2017 were £350k (2016: £404k).

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 2017 were £194k (2016: £204k).

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 2017 were £189k (2016: £141k).

For certain non UK based employees of the Company, the Company makes contributions into individual schemes. The contributions paid by the Company in 2017 were £2k (2016: nil).

For USA based employees, Zotefoams Inc. operates a 401(k) plan. The contributions paid by Zotefoams Inc. in 2017 were £145k (2016: £65k).

Notes Continued

24. Share-based payments

The Company has a share option scheme that entitles senior management personnel to purchase shares in the Company. Options are exercisable at a price equal to the lower of the mid-market price of the Company's shares the day before the option is granted or the average mid-market price for 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 will 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. Dependent on the circumstances awards are normally forfeited if the employee leaves the Group before the award vests. A new LTIP scheme was introduced in 2017, which operates in similar way to the LTIP scheme introduced in 2017. No new awards are made under the 2007 scheme. (Depending on the circumstances options are normally forfeited if the employee leaves the Group before the options vest.

In 2007 the Company introduced a Deferred Bonus Share Plan. Originally under the Plan executive bonuses over 40% of eligible salary were held as deferred shares for three years. 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. A new Deferred Bonus Share Plan scheme was introduced in 2017, which operates in similar way to the old Plan introduced in 2007. No new awards are made under the 2007 Plan. Depending on the circumstances options are normally forfeited if the employee leaves the Group before the options vest.

Details of the vesting conditions for the share, share option and LTIP awards are given in the Remuneration Report on pages 46 to 56.

Movements in share options during the year are as follows:

	2017		2016	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the year	**181,152**	**118.7**	177,949	205.2
Exercised during the year	**(37,271)**	**142.0**	(28,116)	106.7
Granted during the year	**43,197**	**312.5**	79,304	290.0
Forfeited during the year	**(20,849)**	**290.7**	(47,985)	260.5
Outstanding at the end of the year	**166,229**	**278.4**	181,152	118.7
Exercisable at the end of the year	**19,741**	**171.3**	42,174	106.7

The options outstanding at 31 December 2017 have an exercise price of between 106.7p and 327.5p (2016: 106.7p and 301.7p) and a weighted contractual life of 10 years (2016: 10 years).

The fair value received in return for share options granted is measured by reference to the fair value of share options granted using 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.

Movements in LTIP awards during the year are as follows:

	2017		2016	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the year	**470,886**	**–**	429,153	–
Exercised during the year	**(74,512)**	**–**	(59,351)	–
Granted during the year	**380,087**	**–**	176,062	–
Forfeited during the year	**(116,372)**	**–**	(74,978)	–
Outstanding at the end of the year	**660,089**	**–**	470,886	–
Exercisable at the end of the year	**–**	**–**	–	–

Movement in Deferred Bonus Plan awards during the year are as follows:

	2017		2016	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the year	**24,389**	**–**	61,459	–
Exercised during the year	**–**	**–**	(49,290)	–
Granted during the year	**22,131**	**–**	12,220	–
Outstanding at the end of the year	**46,520**	**–**	24,389	–
Exercisable at the end of the year	**–**	**–**	–	–

24. Share-based payments (continued)

Fair value of share options and assumptions

The expected volatility is based on historic volatility for a three-year period prior to the award.

	30-Mar 2015	17-Aug 2015	05-Apr 2016	**27-Mar 2017**	**24-Aug 2017**
Share price (p)	285.0	310.0	290.0	**305.5**	**327.5**
Exercise price (p)	285.0	301.7	290.0	**305.5**	**327.5**
Expected volatility	35%	35%	35%	**35%**	**35%**
Option life	Five years	Five years	Five years	**Five years**	**Five years**
Expected dividends (p) (assumed to be increasing at 2.5% pa)	5.5	5.5	5.6	**5.7**	**5.7**
Risk free interest rate (based on national government bonds)	2.00%	2.00%	2.00%	**2.00%**	**2.00%**
Fair value at grant date (p)	80.0	90.0	80.0	**103.1**	**111.1**

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:

		2017 £'000	2016 £'000
Within administrative expenses	– share-based payment charge	**459**	285
	– related National Insurance	**83**	16

Of the above, amounts relating to Directors of Zotefoams plc aggregate to £255k (2016: £189k)

25. Related parties

Directors

The Directors of the Company as at 31 December 2017 and their immediate relatives control approximately 1.1% (2016: 1.1%) of the voting shares of the Company. Details of Directors' pay and remuneration are given in the Remuneration Report on pages 46 to 56. Executive Directors are considered to be the only key management personnel. Details of compensation paid to key management personnel are included in note 6.

Subsidiaries and joint venture

Details of the subsidiaries and joint venture of the Company are set out in note 13. These companies are considered to be related parties.

Azote Asia Limited is the exclusive distributor of Zotefoams' AZOTE® products in the Far East. Azote Asia Limited works closely with its customers to develop products and find innovative solutions to meet their business needs through an ongoing commitment to quality, sustained value and customer service.

Common control exists between the Company and the Zotefoams Employee Benefit Trust (EBT). The Zotefoams EBT has therefore been consolidated as described in note 2.2.

The following material transactions were carried out with related parties:

	2017 £'000	2016 £'000
Sale of goods: Subsidiaries of the Company	**13,405**	12,735
Sale of services: Subsidiaries of the Company	**410**	97
Sale of goods: joint venture of the Company	**2,565**	2,057
Total	**16,380**	14,889

Notes Continued

25. Related parties (continued)

Subsidiaries and joint venture (continued)

Balances between the Company and its active subsidiaries and joint venture are as follows:

	Receivables/(payable) owed by/(to)		Investment in	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Zotefoams Inc	**5,490**	10,000	**–**	–
KZ Trading and Investment Ltd	**1,434**	213	**–**	–
Azote Asia Limited	**1,542**	2,391	**–**	–
MuCell Extrusion LLC	**(13)**	(69)	**–**	–
Zotefoams International Limited	**–**	339	**23,546**	13,460
Zotefoams Operations Limited	**187**	–	**–**	–

26. Accounting estimates and judgements for the Group and Company

In the application of the Group's accounting policies, which are described in note 2, 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.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position 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) Estimated impairment of goodwill and intangibles

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.12. The recoverable amounts of cash-generating units (CGUs) have been determined based on value-in-use calculations. These calculations require the use of estimates (note 12).

The determination of goodwill and intangible assets requires judgements made by the Directors. 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.

ii) Pensions assumptions

The present value of the defined benefit pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company engages an independent actuary to perform the valuation and assist in determining an appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation. Note 23 contains information about the assumptions relating to retirement benefit obligations.

The valuation of pension scheme liabilities is calculated in accordance with Company 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.

Key assumptions for pension obligations are based, in part, on current market conditions. Additional information is disclosed in note 23.

Key judgements

i) Joint ventures

The Group holds 50% of the voting rights of its joint arrangement. The Group has joint control over this arrangement because, under the contractual agreements, unanimous consent is required from all parties to the agreements for all relevant activities. The Group's joint arrangement is structured as a limited company and provides the Group and the parties to the agreements with rights to the net assets of the limited company under the arrangements. 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.

ii) Exceptional item

Due to the material and non-recurring nature of the items, the Group has disclosed the increase in past service costs as an exceptional item in 2017 (2016: restructuring costs).

27. Events after the reporting period

In March 2018, the Company secured a new £10,000k loan from Barclays Bank, repayable in 18 months.

Five-year trading summary

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Group revenue	**70.1**	57.4	53.9	48.9	44.6
Operating profit (excluding exceptional item)	**9.4**	7.6	6.3	5.6	4.2
Profit before tax (excluding exceptional item)	**8.8**	7.2	6.0	5.3	3.9
Profit before tax	**7.5**	7.0	6.0	4.0	3.9
Profit after tax	**6.0**	5.7	4.8	3.3	3.2
Capital expenditure (including intangibles)	**12.2**	12.6	9.1	7.6	4.2
Cash generated from operations	**10.0**	6.4	8.4	6.0	6.6
Basic earnings per share excluding exceptional items (p)	**16.04**	13.69	11.07	10.69	8.04
Basic earnings per share (p)	**13.70**	13.25	11.07	8.20	8.04
Dividends per ordinary share (p)	**5.93**	5.75	5.60	5.45	5.30

Notice of the 2018 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 16 May 2018 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 2017.
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 2017 set out on pages 46 and 56 (inclusive) in the Annual Report.
3. To declare a final dividend for the year ended 31 December 2017 of 4.02 pence per ordinary share, such dividend to be payable on 24 May 2018 to shareholders who are on the register of members of the Company at the close of business on 20 April 2018.
4. To elect J D Carling as a Director.
5. To elect D G Robertson as a Director.
6. To re-elect A C Bromfield as a Director who retires by rotation.
7. To re-elect S P Good as a Director who retires by rotation.
8. To re-elect G C McGrath 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 resolutions 12 and 16 will be proposed as ordinary resolutions and resolutions 13, 14, 15 and 17 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 2019 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.

13. That if resolution 12 is passed, the Directors be authorised to allot equity securities (as defined in Section 560 of the Act) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if Section 561 of the Act did not apply to any such allotment or sale, such authority to be limited:

    (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 the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (a) above) up to a nominal amount of £111,036,

    such authority to expire at the conclusion of the next Annual General Meeting of the Company (or, if earlier, on 30 June 2019) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

14. That if resolution 12 is passed, the Directors be authorised in addition to any authority granted under resolution 13 to allot equity securities (as defined in Section 560 of the Act) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if Section 561 of the Act did not apply to any such allotment or sale, such authority to be:

    (a) limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £111,036; and

    (b) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice,

    such authority to expire at the conclusion of the next Annual General Meeting of the Company (or, if earlier, on 30 June 2019) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

15. 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 2019 and 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.

16. That the rules of the Zotefoams plc Approved Share Option Plan 2018 (the '2018 ASOP'), described in the circular of which the notice containing this resolution forms part and in the form produced in draft to the meeting and for the purposes of identification initialled by the Chairman of the meeting, be and are hereby approved and adopted and that the Directors be and are hereby authorised to do all such other acts and things as they may consider appropriate to implement the 2018 ASOP, including making any changes to the rules of the 2018 ASOP necessary or desirable in order to ensure that the Directors can make a valid declaration to HM Revenue & Customs that the 2018 ASOP satisfies the requirements of Schedule 4 to the Income Tax (Earning and Pensions) Act 2003.

17. That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

Dated: 4 April 2018

By order of the Board

Registered Office:
675 Mitcham Road
Croydon
CR9 3AL

J W Kindell
Company Secretary

Notice of the 2018 Annual General Meeting
Continued

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 14 May 2018 (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 some form of identification (such as driver's licence or bankcard) 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 or her. 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 14 May 2018.

(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: (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 3 April 2018, 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 3 April 2018 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
Shareholders will be asked to receive the Company's Annual Report for the financial year ended 31 December 2017, as required by law.

Resolution 2 – Directors' Remuneration Report
Resolutions 2 seeks shareholder approval of the Directors' Remuneration Report for the year ended 31 December 2017 which can be found on pages 46 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 61 to 65 of the Annual Report.

The Shareholders approved the current Directors' Remuneration Policy at the AGM held on 17 May 2017 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 Directors' Remuneration Policy for Shareholder approval at the AGM scheduled for 2020, unless, in the interim, there are specific changes that require Shareholder approval. The Directors' Remuneration Policy may be found in the 2016 Annual Report on pages 41 to 52 (inclusive).

Resolution 3 – Declaration of dividend
This resolution concerns the Company's final dividend payment. The Directors are recommending a final dividend of 4.02 pence per ordinary share in respect of the year ended 31 December 2017 which, if approved, will be payable on 24 May 2018 to the shareholders on the register of members on 20 April 2018.

Resolutions 4 to 9 – Election and re-election of Directors
Resolutions 4 and 5 concern the election of J D Carling and D G Robertson, who were both appointed to the Board since the last AGM was held on 17 May 2017.

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, 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 6 to 9 concern the re-election of A C Bromfield, S P Good, G C McGrath and D B Stirling.

R J Clowes will not be standing for annual re-election and will be retiring from the Board at the close of the AGM.

Biographies for the Directors are set out on pages 36 and 37 of the Annual Report for the year ended 31 December 2017. 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 re-elected.

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 3 April 2018, being the latest practicable date before publication of this notice. In addition, in accordance with the latest institutional guidelines issued by the Investment Association, paragraph (b) of resolution 13 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 3 April 2018, 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 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 2019, whichever is the earlier.

Resolutions 13 and 14 – Authority to allot shares disregarding pre-emption rights
These resolutions authorise 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). Resolution 13 authorises the Directors to issue shares either where the allotment takes place in connection with a rights issue or the allotment is limited to a maximum nominal amount of £111,036, representing approximately 5% of the nominal value of the issued ordinary share capital of the Company as at 3 April 2018 being the latest practicable date before publication of this notice. Resolution 14 authorises the Directors to issue a further 5% of the issued ordinary share capital of the Company, but only to be used to raise finance for an acquisition or a 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.

Unless revoked, varied or extended, these authorities will expire at the conclusion of the next AGM of the Company or 30 June 2019, whichever is the earlier.

The Directors consider that the powers proposed to be granted by these resolutions are necessary to retain flexibility to allot shares.

Notice of the 2018 Annual General Meeting
Continued

Resolution 15 – 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 3 April 2018, 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 2019, 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 3 April 2018, being the latest practicable date before publication of this notice, there were outstanding awards under the Company's long-term incentive schemes (excluding the Share Incentive Plan) in respect of 805,899 ordinary shares in the capital of the Company representing 1.8% of the Company's issued ordinary share capital. If the authority to purchase the Company's ordinary shares were exercised in full, such awards would represent 2.0% of the Company's issued ordinary share capital.

Resolution 16 – Approved Share Option Plan

Resolution 16 is to authorise the adoption of the Zotefoams plc Approved Share Option Plan 2018 (the '2018 ASOP').

The 2018 ASOP replace the Company's existing ASOP that will expire on 8 May 2018 (the 'Old Share Plan'). Shareholder approval is sought for the approval of the 2018 ASOP at the AGM to ensure that the Company has the appropriate share incentives. No new awards will be made under the Old Share Plan after 8 May 2018.

There are no material differences between the Old Share Plan and the 2018 ASOP, save for the following:

- addition of malus and clawback arrangements; and
- addition of revised leaver and change of control provisions.

The rules of the 2018 ASOP will be available for inspection during normal business hours on Monday to Friday (excluding bank holidays) at the Company's registered office and on its website from the date of this document until the close of the AGM and at the place of the AGM for at least 15 minutes before the AGM and during the AGM.

Resolution 17 – 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 17 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.

Appendix

(which summarises the rules of the 2018 ASOP)

SUMMARY OF THE PRINCIPAL FEATURES OF THE ZOTEFOAMS PLC APPROVED Share OPTION PLAN 2018 (2018 ASOP)

Eligibility
The 2018 ASOP will be operated and administered by the Remuneration Committee of the Board of Directors of the Company (the 'Remuneration Committee').

The Remuneration Committee will determine who may participate in the 2018 ASOP and this will extend to any employee (including any executive directors of subsidiaries) of the Company or any of the Company's subsidiaries. Directors granted options under the ASOP must be full-time Directors devoting not less than 25 hours a week to the performance of their duties. Options cannot be granted to a participant who has a material interest in the Company.

Operation
Under the 2018 ASOP, selected employees and Executive Directors will be granted options over ordinary shares in the Company ("Shares") at an exercise price that is equal to or more than market value ("Options"). Options granted under the 2018 ASOP are intended to be qualifying options under Schedule 4 of ITEPA ("Schedule 4") and as such qualify for beneficial tax treatment.

Performance conditions
Options shall be subject to the satisfaction of a performance condition measured over a performance period if options are granted to Executive Directors of the Company. Whilst Options granted to other employees of the Group may be subject to the satisfaction of a performance condition, this will be determined by the Remuneration Committee at the time of grant.

Performance conditions may be amended or substituted if one or more events occur which cause the Remuneration Committee to consider that an amended or substituted performance condition would be more appropriate. Any amended or substituted performance condition would not be materially less difficult to satisfy than the original condition was intended to be.

Individual limits
For Executive Directors of the Company, the maximum number of Options that may be granted under the 2018 ASOP will be the limit as set out in the Directors' Remuneration Policy that is in force at the date of grant of the Option.

No option holders may be granted an option under the 2018 ASOP such that the market value of the Shares granted under it or any other option granted under the 2018 ASOP or any other option plan qualifying under Schedule 4 exceeds £30,000, calculated at the date of grant.

Grant of Options
Options may only be granted within the period of 42 days following the approval of the 2018 ASOP by the Company's shareholders, the announcement of the Company's results for any period, from the date on which an individual becomes an eligible employee under the rules of the 2018 ASOP or any day on which the Remuneration Committee determines that exceptional circumstances exist. If, during such period, the Company is restricted from granting Options, Options may be made immediately following such restrictions ceasing to apply.

Exercise Price
The exercise price of Options is determined by the Remuneration Committee and must not be less than the market value of a Share calculated either as the price on the business day before the date of grant or, if the Remuneration Committee determines, the average price over a number of business days, not exceeding five, preceding the date of grant.

Exercise of Options
Options may normally only be exercised between the third and tenth anniversary of the grant date. To the extent not exercised during this period the Option will lapse. Any Options which are subject to performance conditions may normally only be exercised after the third anniversary of the grant date to the extent any conditions have been met.

If a participant dies, his or her Option may be exercised to the extent that any performance conditions have been satisfied by his or her personal representatives for a period of 12 months following death to the extent vested (or to such further extent as the Remuneration Committee may determine). If a participant ceases to be employed by the Company or any other member of the Group by reason of ill health, injury, disability, a sale of the entity that employs the participant out of the Group, or for any other reason at the Remuneration Committee's discretion, Options can be exercised to the extent vested within 6 months of the date of cessation of employment provided the options have not already lapsed.

The Remuneration Committee has the discretion to allow the Option to be exercised in full.

If a participant ceases to be employed by the Company for any other reason, Options will lapse on the earlier of the date notice of such cessation is received from the participant or when the participant ceases to hold office or employment.

Reduction for malus and clawback
The Remuneration Committee may, in its absolute discretion, determine at any time within five years of the grant of an Option to:

- reduce the number of Shares to which an Option relates;
- cancel an Option;
- impose further conditions on an Option; or
- require the participant to transfer to the Company (or the Employees' Benefit Trust) a number of Shares or a cash amount,

in circumstances where:

- the financial statements or results for the Group are materially restated (other than restatement due to a change in accounting policy or to rectify a minor error);

Appendix
Continued

- if in the reasonable opinion of the Remuneration Committee and following consultation with the relevant group member:
  - a participant has deliberately misled the management of the Company and/or the market and/or the Company's shareholders regarding the financial performance of any part of the Group;
  - the participant's actions have caused the Group company and/or the participant's business unit reputational damage;
  - a participant's actions amount to serious misconduct or conduct which causes significant financial loss for the Group and/or the participant's business unit; or
  - there have been overpayments, including any vesting under the 2018 ASOP, to the participant at a level higher than would have otherwise been the case due to material abnormal write-offs affecting any Group company on an exceptional basis.

Corporate events
On a change of control of the Company, the number of Shares in respect of which Options vest shall be determined by the Remuneration Committee, having regard to the extent to which any performance condition has been satisfied at the date of change of control and, unless the Remuneration Committee determines otherwise, pro-rating such vesting to reflect the period from the start of the performance period to the date of the relevant event (or such other relevant period). The Options will then be exercisable for a period of one month and will then lapse.

Alternatively, the Remuneration Committee may permit or, in the case of an internal reorganisation or if the Remuneration Committee determined any other event, require Options to be exchanged for equivalent options which relate to Shares in a different company.

If other corporate events occur such as a demerger, special dividend or other event which, in the opinion of the Remuneration Committee, may affect the value of Shares to a material extent, the Remuneration Committee may determine that Options will vest conditional on the event occurring. The number of Shares in respect of which Options vest shall be determined by the Remuneration Committee, having regard to the extent to which any performance condition has been satisfied and, unless the Remuneration Committee determines otherwise, pro-rating to reflect the period from the start of the performance period to the date of the relevant event (or such other relevant period). If the event does not occur, Options will continue on their original terms.

Adjustments
In the event of any rights issue or capitalisation, sub-division, consolidation, reduction or other variation of the ordinary share capital, the Remuneration Committee may make such adjustments as it considers appropriate to the number of Shares and the exercise price subject to Options.

Terms of Awards
Options may be granted over newly issued Shares, treasury Shares or Shares purchased in the market. Options are not transferable (other than on death). No payment will be required from participants for the grant of any Options.

Limits on the issue of Shares
The 2018 ASOP is subject to the following overall limits:

- On any date, the number of Shares which may be issued or issuable pursuant to rights granted in the preceding 10 year period under the 2018 ASOP and under any other employees' share plan adopted by the Company may not exceed 10% of the issued ordinary share capital of the Company on that date; and
- on any date, the number of Shares which may be issued or issuable pursuant to rights granted in the preceding 10 year period under the 2018 ASOP and any other discretionary employees' share plan adopted by the Company may not exceed 7.5% of the Company's issued ordinary share capital on the day preceding that date.

Treasury Shares will be treated as newly issued for the purpose of these limits until such time as guidelines published by institutional investor representative bodies determine otherwise. Shares purchased in the market are not subject to these limits.

The above limits may be varied by the Remuneration Committee to take into account any variation in the Company's share capital from time to time.

Rights attaching to Shares
All Shares provided under the 2018 ASOP will rank pari passu with all other Shares of the Company for the time being in issue (save as regards any rights attaching to such Shares by reference to a record date prior to the date of issue or transfer to the participant).

Amendments and termination
The Remuneration Committee may amend the 2018 ASOP at any time, provided that prior approval of the Company's Shareholders in a general meeting will be required for amendments to the advantage of employees relating to eligibility, limits, the basis for determining a participant's entitlement to, and the terms of, the Shares comprised in an award and the impact of any variation of capital.

However, any minor amendment to benefit administration, or any amendment to take account of legislative changes, or to obtain or maintain favourable tax, exchange control or regulatory treatment in any jurisdiction, may be made by the Remuneration Committee without Shareholder approval.

No further awards may be made under the 2018 ASOP on or after the tenth anniversary of the approval by shareholders of the 2018 ASOP, but the rights of existing participants will not be affected by any termination.

Overseas plans
The Remuneration Committee may establish such sub-plans or schedules to the 2018 ASOP, modified to take account of local tax, exchange controls or securities laws if required to do so or if it is beneficial to do so in any overseas jurisdiction, provided that any Shares made available under such plans are treated as counting against the limits on individual and overall participation in the 2018 ASOP.

Pension benefits
Benefits under the 2018 ASOP are non-pensionable.

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Financial calendar

AGM	16 May 2018
Payment of final dividend	24 May 2018 to shareholders on the register at the close of business on 20 April 2018
Announcement of 2017 interim results	7 August 2018
Payment of interim dividend	11 October 2018
Announcement of 2018 results	March 2019

Website
The Company has a website (www.zotefoams.com) which provides information on the business and products.

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MuCell® is a registered trademark of Trexel Inc.

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: 0370 707 1424

www.investorcentre.co.uk/contactus

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