

## Zotefoams plc

### 2011 Annual Report and Accounts and Notice of the 2012 Annual General Meeting

In compliance with Listing Rule 9.6.1, the following documents have been submitted to the National Storage Mechanism and will shortly be available for inspection at: [www.Hemscott.com/nsm.do](http://www.Hemscott.com/nsm.do)

- 1 Annual Report and Accounts for the year ended 31 December 2011, incorporating the Notice of the 2012 Annual General Meeting; and
- 2 Form of Proxy for the 2012 Annual General Meeting.

Copies of the 2011 Annual Report and Accounts and the Notice of the 2012 Annual General Meeting are available on our website, [www.zotefoams.com](http://www.zotefoams.com) under the Company and then Investor Relations tab.

The above-mentioned documents have also been posted to the shareholders.

A condensed set of the financial statements, the Chairman's Statement and Business Review were included in the preliminary results announcement issued on 6 March 2012. This announcement contains additional information for the purposes of compliance with the Disclosure and Transparency Rules, including principal risks and uncertainties, details of related party transactions and a responsibility statement. This information is extracted from the 2011 Annual Report and Accounts in full unedited text. This announcement is not a substitute for reading the full Annual Report and Accounts. Page and note references in the text below refer to page numbers and notes in the 2011 Annual Report and Accounts.

### Risks and uncertainties

Zotefoams' business and share price may be affected by a number of risks, not all of which are in our control. Zotefoams has a process by which such risks are identified, assessed and managed and this is set out in the Corporate Governance report. Sections of the Annual Report contain forward-looking statements, including statements relating to future demand for the Group's products, research and development, liquidity and cash resources. These forward-looking statements involve risks and uncertainties because they relate to events that may or may not occur in the future. Zotefoams' management believe the specific risks which are set out below are the principal risks, as identified under our risk management process, which could affect our profits, assets and reputation. However, other risks may also adversely affect the Group. Accordingly, actual results may differ materially from anticipated results because of a variety of risk factors including: changes in global, political, economic, business, competitive and market forces; changes in legislation and tax rates; future business combinations or disposals; relations with customers and customers' credit risk; events affecting international security, including global health issues and terrorism; changes in the regulatory and safety environment and the outcome of litigation.

#### *Operational disruption*

Zotefoams' business is dependent on the ongoing operation of manufacturing facilities. Any significant operational disruption could impact our ability to manufacture and supply products. The Directors consider the Company's extensive

Safety, Health and Environment ('SHE') policies and procedures to be the main mitigating controls around these risks. These are described in more detail in the Corporate and Social Responsibility Report on page 33. The Group also holds insurance which is designed to cover capital reinstatement and loss of profits in the event of operational disruption caused by certain events. We use pressure equipment which is operated under the Pressure Systems Safety Regulations 2000 and SAFed ('best practice' system) which requires systematic internal and frequent external inspections.

#### *Supply chain disruption*

Certain raw materials are currently only available from single sources. Inability to source these materials may result in an inability to supply products to our customers. Zotefoams seeks wherever practical to purchase materials from more than one source but the highly specified nature of our product lines means this is not always possible. We therefore monitor the situation closely and maintain 'desktop' studies of alternative materials which may be offered to our customers as substitutes. Currently high levels of demand for polymer products and changes in availability of supply from some suppliers is requiring us to adopt more flexible production schedules and utilise some of these alternative sources of supply.

#### *Technological change and competitor activity*

Market demand for our products depends, in part, on availability of suitable alternatives. Any significant change in competitor activity or a technological change which brings new or enhanced products to the market may result in a change in demand for our products. Zotefoams maintains close contacts with existing customers and end users to understand market activity and trends and has a constant flow of product variants developed for specific projects to maintain and enhance our position with our customers. We are developing a portfolio of High-Performance Polymers which together with the MuCell® technology are unique and protected by both patents and process capability. We believe these products will open up new markets with a significant and lasting differential advantage for the Group.

#### *Pension liabilities*

Zotefoams operates a Defined Benefit Pension Scheme with retirement benefits being based on final salary. The value of scheme liabilities and assets, along with the assumptions used in this valuation, are disclosed in note 23 of the financial statements. Any change in the assumptions used or where the actual outcome varies from these assumptions may have a significant effect on the liabilities or assets which, ultimately, may be the responsibility of the Company. We have taken steps to minimise the risk to the Company by closing the Scheme to new members in 2001 and closing it to future accrual of benefits in 2005.

#### *Foreign exchange*

Zotefoams mainly sells in the local currencies of the customer and in 2011 approximately 80% of our revenue was in currencies other than sterling, particularly US dollars and euros. We do have US dollar costs associated with MEL and our facility in Kentucky, USA while the majority of our raw material purchases are denominated in euros. However, most of our manufacturing assets and costs, including capital expenditure, are substantially in the UK and therefore sterling denominated. The net impact of this is that we generate surpluses in US dollars and euros which we convert to sterling. We manage this risk firstly by converting purchases to either US dollars or euros wherever sensible. This reduces our net exposure and transaction costs of converting from one currency to another. The

Group hedging policy to deal with the remaining risk is set out in note 21 of the financial statements.

### Financing

The Company finances its activities partly through the use of bank overdraft and loan facilities, the utilisation of which fluctuates during the year. The Company has a £4.90m overdraft facility which is repayable on demand and a £3.30m loan. This loan is repayable over five years, has no operating covenants and is secured against certain items of plant and equipment. At 31 December 2011 £1.82m of this loan had been repaid. We finished the year with net funds at 31 December 2011 of £1.92m (2010: net funds of £1.86m).

### Related parties

#### Directors

The Directors of the Company as at 31 December 2011 and their immediate relatives control 1% of the voting shares of the Company. Details of Directors' pay and remuneration are given in the Directors' Remuneration Report on page 27. The executive Directors are considered to be the only key management personnel.

#### Transactions with key management personnel

The compensation of key management personnel is as follows:

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Key management emoluments including social security costs	478,000	495,000	478,000	495,000
Company contributions to money purchase pension plan	64,190	49,426	64,190	49,426
Share related awards	108,000	110,000	108,000	110,000
	<b>650,190</b>	<b>654,426</b>	<b>650,190</b>	<b>654,426</b>

### Subsidiaries

Zotefoams plc owns 100% of the shares of Zotefoams International Ltd, which is incorporated in the UK. Zotefoams International Ltd owns 100% of the shares in Zotefoams Inc., which is incorporated in the USA. Common control exists between Zotefoams plc and Zotefoams Employee Benefit Trust ('EBT') and Zotefoams EBT has therefore been consolidated as described in note 1b.

Zotefoams Inc. owns 100% of the ownership units of MuCell Extrusion LLC, which is incorporated in the USA.

Transactions between Zotefoams plc and these subsidiaries are as follows:

### Income Statement

	Sales to/(from)		Service fees to		Interest charged to		Interest charged from	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
MuCell Extrusion LLC	—	—	58	26	—	—	—	—
Zotefoams Inc.	<b>6,337</b>	5,298	<b>72</b>	74	<b>32</b>	95	<b>29</b>	68

### Balance Sheet

	Loan owed to		Loan owed by		Payables owed to		Receivables owed by		Investment in	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Zotefoams Inc. <sup>1</sup>	<b>322</b>	3,375	—	4,151	—	—	<b>3,273</b>	1,329	—	—
MuCell Extrusion LLC	—	—	—	—	<b>21</b>	—	—	—	—	—
Zotefoams	—	—	<b>2,489</b>	—	—	—	—	—	<b>3,863</b>	3,863

International

<sup>1</sup>Loans with Zotefoams Inc. are interest bearing

In addition there is a net payable balance of £315k owed by Zotefoams Inc. to MuCell Extrusion LLC.

### Statement of Directors' Responsibilities in respect of the Annual Report

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### *Responsibility statement of the Directors in respect of the annual financial report*

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

- the Directors' Report includes a fair review of the development and performance of the business and position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors of Zotefoams plc are detailed on pages 20 to 21.