

## Zotefoams plc

### 2013 Annual Report and Accounts and Notice of the 2014 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:

<http://www.morningstar.co.uk/uk/NSM>

- 1 Annual Report and Accounts for the year ended 31 December 2013, incorporating the Notice of the 2014 Annual General Meeting; and
- 2 Form of Proxy for the 2014 Annual General Meeting.

Copies of the 2013 Annual Report and Accounts and the Notice of the 2014 Annual General Meeting are available on our website, [www.zotefoams.com](http://www.zotefoams.com) under the Company and then Investor Relations tab.

A condensed set of the financial statements, the Chairman's statement, Managing Director's statement (strategic report) and responsibility statement of the Directors in respect of the annual financial report were included in the preliminary results announcement issued on 18 March 2014. This announcement contains additional information for the purposes of compliance with the Disclosure and Transparency Rules, including principal risks and uncertainties and details of related party transactions. This information is extracted from the 2013 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 2013 Annual Report and Accounts.

#### Principal risks and uncertainties

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

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

<b>Risk and potential impact</b>	<b>Mitigation actions</b>
<b>Operational</b> As the Company's operations are mainly on one site, a significant operational disruption could impact the ability to manufacture and supply products.	The Company has extensive Safety, Health and Environment ('SHE') policies and procedures in place, which are in line with best practice. 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.

	<p>The Company and Zotefoams Inc. have extensive fire prevention systems in place. A programme is underway to improve further the systems in place on the Croydon site.</p> <p>The Company has appropriate contingency plans in place in the event of the failure of certain major pieces of equipment.</p> <p>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.</p> <p>Insurance is in place to cover capital restatement and loss of profits in the event of operational disruption caused by certain events.</p>
<p><b>Supply chain</b>  Certain of the Company's raw materials are sourced from single suppliers. Disruption in those supplies, either on a temporary or more permanent basis, could affect production and supply to the Company's customers and in certain defined circumstances have contractual commercial consequences which may result in customer claims.</p>	<p>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 used.</p> <p>The Company continually monitors suppliers and undertakes research of alternative suppliers that could be used and the resulting products that could be offered to the Company's customers as substitutes.</p>
<p><b>Technology</b>  The Company's processes for the manufacture of its products are substantially unique to the Company. 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 Company's processes and produce comparable (or better) products at lower prices.</p> <p>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 are successfully challenged and hence have no commercial value for being licensed.</p>	<p>There are high barriers of entry to replicate our processes. Significant capital investment is required for the autoclaves as well as long lead times for their manufacture.</p> <p>The Company has a constant flow of product variants to keep its product offering diversified.</p> <p>The development of High-Performance Products ('HPP') and MEL, where the product offerings are unique and protected by both patents and process capability, opens up new markets for the Company with potential significant and lasting differential advantages.</p> <p>MEL actively maintains and updates its intellectual property portfolio to ensure it is current. This is done by undertaking research and development to add new patents to the portfolio and obtaining licences of key third-party patents, which are complementary to the existing portfolio.</p> <p>The portfolio is not dependent on any particular patent or licence, therefore if a patent is successfully challenged, MEL is still able to license its technology.</p>
<p><b>Pension</b>  The Company has a Defined Benefit Pension</p>	<p>To minimise the risk to the Company of meeting the obligations under the Scheme,</p>

<p>Scheme ('Scheme') and any inability of the Scheme to meet its liabilities to its members could, ultimately, be the responsibility of the Company.</p>	<p>the Company closed the Scheme to new members in 2001 and closed it to future accrual of benefits in 2005.</p> <p>The Company had committed to paying £42k monthly to the Defined Benefit Pension Scheme to September 2013 to eliminate the deficit based on the actuarial valuation in April 2011. As at April 2013, an indicative valuation of the Scheme showed a deficit of £5.5m and the Company has therefore continued its contributions to September 2014 when it is expected the results of the 2014 triennial review will be available.</p>
<p><b>Foreign exchange</b> The Company has significant exposure to foreign exchange fluctuations.</p> <p>The Company's operations are substantially based in the UK and, therefore, most of its manufacturing assets and costs are sterling denominated.</p> <p>The Company's customers are normally invoiced in their local currencies. In 2013, approximately 80% of the Company's revenue was in currencies other than sterling. The Company, therefore, generates surpluses in US dollars and euros, which are converted into sterling.</p>	<p>The Company tries to minimise its foreign exposure by making its purchases either in euros or US dollars. For example, there are US dollar costs associated with the Company's operations in Kentucky USA and with MEL. In addition, the majority of the Company's raw materials are purchased in euros.</p> <p>The Company hedges a proportion of its exposure to foreign exchange for the next nine months by using forward exchange contracts.</p> <p>The Company, like most public companies, does not hedge for translating its foreign subsidiaries' assets or liabilities in the consolidation of its group accounts.</p>
<p><b>Macro economics</b> Most of our markets are exposed to general economic conditions. The Company is operationally geared and a fall in demand for its products could adversely impact the Company.</p>	<p>The Company's markets are spread geographically and across a number of markets. The Company's experience is that in these circumstances operational labour costs can be reduced, polymer prices generally fall with reduced economic demand giving a cost benefit and cash can be generated from reducing working capital and slowing capital expenditure projects to help offset the effects of a downturn. The Company has always maintained a low financial gearing to give it operational flexibility in a downturn. Going forward the growth of the Company's HPP and MEL businesses should take the Company into less cyclical markets.</p>
<p><b>Financing</b> The Company needs to have sufficient cash, or be able to draw on loan facilities, to finance its operations and growth.</p>	<p>The Company has strong cash generation from its operations.</p> <p>The Company has:</p> <ul style="list-style-type: none"> <li>• a £4.9m overdraft facility (payable on demand);</li> <li>• a £3.3m loan facility taken out in January 2009 (£3.1m had been repaid at 31 December 2013); and</li> <li>• £3.5m loan facility taken out in December 2012 (£0.6m had been repaid at 31 December 2013).</li> </ul>

	Both loan facilities are repayable over five years and have no major financial operating covenants, but are secured against certain items of plant and equipment.
<b>Commercial</b> Loss or failure of a major customer	The Company's largest customers are distributors and converters of foam. The Company has good knowledge of the end-customers of its major customers and, with some additional short-term work, would be able to bring or identify additional converter capacity to service these markets. The risk for constructing a satellite plant in Asia has been mitigated by partnering with the plant's major customer.
<b>IT</b> The business is highly dependent on its ERP (Enterprise Resource Planning) system and is currently implementing a new system, which poses risks of there being flaws in the new system and/or a prolonged implementation.	The new system chosen, Microsoft Dynamics AX, is proven in a large number of companies worldwide. The implementation's risk is minimised by use of experienced and reputable consultants as well as the appointment of a suitably qualified, dedicated project manager. An ERP Steering Committee comprising the most senior Executives in the Group, reports directly to the Board.

#### Related parties

#### **Directors**

The Directors of the Company as at 31 December 2013 and their immediate relatives control approximately 1.75% of the voting shares of the Company. Details of Directors' pay and remuneration are given in the Directors' Remuneration Report on pages 41 to 45. 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:

	<b>Group</b>		<b>Company</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Key management emoluments	334	525	334	525
Company contributions to money purchase pension plan	68	66	68	66
Share related awards	<u>120</u>	<u>97</u>	<u>120</u>	<u>97</u>
	552	688	522	688

#### **Subsidiaries**

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

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

The other indirect subsidiaries of the Company are currently dormant.

Balances between the Company and its active subsidiaries are as follows:

	Receivables owed by		Investments in	
	2013	2012	2013	2012
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Zotefoams Inc.	3,029	3,231	-	-
Zotefoams International Limited	-	-	6,352	6,352

In addition there is a net payable balance of £673k owed by MuCell Extrusion LLC to Zotefoams Inc.