Tuesday 17 March 2015

Zotefoams plc

Preliminary Results for the Twelve Months Ended 31 December 2014

Zotefoams plc ("Zotefoams", or "the Group" or "the Company"), a world leader in cellular material technology, today announces its preliminary results for the twelve months ended 31 December 2014.

Highlights

In Constant FX[1]:

- Total Revenue[2] increased by 15%
- High-Performance Products ('HPP') revenue growth of 61%
- Profit before tax and exceptional items up 43%

Other:

- HPP segment margins increase to 15% (2013: 6%)
- MuCell Extrusion LLC ('MEL') installed equipment base increases by 62% to 52 units (2013: 32)
- Successful share placing in September 2014 raising £8.8m gross to deliver global capacity expansion based at Group's Kentucky, USA site
- Proposed final dividend increased by 3% to 3.7 pence (2013: 3.6p)

Financial highlights

	Twelve months ended 31 December 2014 £m	Twelve months ended 31 December 2013 £m	Change %	Change in Constant FX[1] %
Total Revenue[2]	49.08	44.63	10	15
Group Revenue	48.95	44.63	10	15
Adjusted profit[3] before tax excluding exceptional[4] items	5.60	4.18	34	40
Profit before tax excluding exceptional items	5.27	3.86	37	43
Profit before tax	4.01	3.86	4	10
Basic eps excluding exceptional items (p)	10.7	8.0	34	
Basic eps (p)	8.2	8.0	3	
Proposed final dividend (p)	3.7	3.6	3	

Commenting on the results, Nigel Howard, Chairman said:

"We entered 2015 with a larger than normal order backlog and a strong forward order book. In Polyolefin foams demand in Europe and North America has remained robust in the first two months of 2015 and we are also experiencing increasing levels of activity in Asia. Following very strong levels of growth in HPP and in our MEL licensing business we expect further progress in 2015.

While being mindful of currency and economic conditions, the Board anticipates 2015 being another year of growth and remains confident about the long-term prospects for our business."

Notes
[1] Estimated impact of restating 2014 at 2013 average foreign currency exchange rates, including the restatement of gains/losses on maturing forward exchange hedges in the period at 2013 average rates which reduces the profit impact by £0.59m. Balance sheet foreign exchange translation differences have not been restated.
[2] Total Revenue consolidates all external sales made by the joint-ventures as well as those made by Zotefoams plc and its subsidiaries.
[3] Before amortisation of acquired intangible assets.
[4] The non-cash impairment charge made following the decision to curtail manufacturing activity on the microZOTE® extrusion line has been treated as an exceptional item.

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About Zotefoams plc
Zotefoams plc (LSE - ZTF) is a world leader in cellular material technology. Using a unique manufacturing process with environmentally friendly nitrogen expansion, Zotefoams produces lightweight foams in Croydon, UK and Kentucky, USA for diverse markets worldwide through its global sales force. Zotefoams also owns and licenses patented MuCell® microcellular foam technology from a base in Massachusetts, USA to customers worldwide and sells T-Tubes® advanced insulation systems made from its patented ZOTEK® fluoropolymer foams.

www.zotefoams.com

Chairman's Statement

Results

Total Revenue increased by 10% to a record £49.08m (2013: £44.63m) while profit before tax and exceptional items increased by 37% to £5.27m (2013: £3.86m). Basic earnings per share pre-exceptional items grew by 34% to 10.7p (2013: 8.0p).

Group Revenue increased by 10% to £48.95m (2013: £44.63m). The non-cash impairment charge of £1.27m made following the decision to curtail manufacturing activity on the microZOTE® extrusion line, announced in June 2014, has been treated as an exceptional item. Profit before tax after this exceptional item was £4.01m (2013: £3.86m). After exceptional items basic earnings per share were 8.2p (2013: 8.0p).

Sales in our High-Performance Products ('HPP') segment now account for 13% (2013: 10%) of Total Revenue and increased by 53% to £6.61m (2013: £4.31m) while MuCell Extrusion LLC ('MEL') sales grew 34% to £2.09m (2013: £1.56m). Polyolefin foams, accounting for 82% (2013: 87%) of Total Revenue and sold under the Azote® brand, remains the largest segment of our business and here Total Revenue increased by 4% to £40.44m (2013: £38.83m). Polyolefin foams Group Revenue increased by 4% to £40.30m (2013: £38.83m).

Zotefoams has approximately 80% of sales denominated in US Dollars and euros, both of which were relatively weaker against sterling in 2014 than in 2013. In Constant FX sales growth was approximately 15% and profit before tax and exceptional items increased by 43%.

Strategy

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

Objectives

We target sales growth in our core Polyolefin business in excess of twice the average rate of increase in GDP. Our largest markets are Europe and North America, served by factories in Croydon, UK and Kentucky, USA. Outside these regions our largest market is in Asia and in mid-2013 we signed a joint-venture agreement with INOAC Corporation of Japan to develop the Asian market. We are also committed to developing a portfolio of unique foam products from high performance polymers with significant competitive advantages over rival materials. This will allow us to command higher margins and affirm our position as a leading foam technology company. We intend to achieve this growth while continuing to improve our operating margins and return on capital employed.

Share placing and investment

In September 2014 Zotefoams raised gross proceeds of £8.8m from a placing of 9.99% of the existing issued share capital. The purpose was to finance investment in our Walton, Kentucky, USA factory to deliver a significant increase in global capacity to support future growth. The investment will comprise a high-pressure autoclave along with supporting extrusion capacity and related infrastructure. The programme is proceeding to plan with the 285 tonne ingot for the high-pressure autoclave already forged and ground breaking for the factory building extension scheduled early in April.

At our site in Croydon, we increased factory space by approximately 13% which gives us the flexibility to accommodate planned growth in our HPP business as well as extended technical support facilities. Further extrusion capacity for Polyolefin foams was completed in 2014 and commissioned early in 2015 and high-specification foam slicing equipment, suitable for both our Azote® and ZOTEK® product ranges, installed in our new factory in late 2014.

Talent

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

Dividend
In 2010 the Board adopted a progressive dividend policy subject to profit growth, investment requirements and the other needs of the business. I am pleased to say we intend to retain this policy and therefore, based on our expectations for the future, the Board proposes to increase its final dividend to 3.7p per ordinary share (2013: 3.6p), which, if approved by the shareholders, would make a total of 5.45p per ordinary share for the year (2013: 5.3p), an increase of 3%. If approved, the dividend will be paid on 27 May 2015 to shareholders on the register on 24 April 2015.

Current trading and prospects
We entered 2015 with a larger than normal order backlog and a strong forward order book. In Polyolefin foams demand in Europe and North America has remained robust in the first two months of 2015 and we are also experiencing increasing levels of activity in Asia. Following very strong levels of growth in HPP and in our MEL licensing business we expect further progress in 2015, with clear indications of increased demand from existing customers and markets along with good development opportunities in new areas. The joint-venture in China with King Lai Group, announced earlier this month, is expected to make a positive contribution to revenue growth rates later in the year. As a net exporter we are exposed to movements in foreign exchange rates. Sterling is currently much stronger against the euro than the average rates experienced last year, but this is counteracted by sterling's current weakness against the US Dollar. The euro-denominated price of LDPE, our major raw material, is currently at slightly lower levels than seen in 2014 and these levels offer some limited benefit.

Outlook
The wide scope of Zotefoams' business means we are influenced by global economic conditions. In addition, the timing of sales from new products and markets, where higher growth rates are anticipated, can be somewhat difficult to predict. While being mindful of currency and economic conditions, the Board anticipates 2015 being another year of growth and remains confident about the long-term prospects for our business.

Nigel Howard

Managing Director's Statement

Zotefoams is the world leader in cellular materials technology. Using a unique manufacturing process with environmentally friendly nitrogen-gas expansion, Zotefoams produces lightweight foams in Croydon, UK and Kentucky, USA which it then sells through its global sales force to diverse markets worldwide. Zotefoams also owns and licenses patented MuCell® microcellular foams technology from a base in Massachusetts, USA to customers worldwide and sells T-Tubes® advanced insulation systems made from its patented ZOTEK® fluoropolymer foams.

Business overview

Zotefoams' foams business is a value-added processor of plastics, using unique, high-pressure nitrogen gas technology to manufacture blocks of foam, which are then sold through a global network of customers who process those foams into parts for a wide variety of industries. We compete primarily through the superior foam properties created by our technology, offering reduced environmental impact, better safety and technical performance. This business has significant barriers to entry including capital cost, know-how, user specifications and, in our HPP business, patents. Zotefoams block foams are sold, and often specified, under the AZOTE® and ZOTEK® brand names, which are well-known in the industries we serve: automotive, aerospace, packaging, industrial parts, marine, building and construction, military and sports and leisure. Zotefoams also sells T-Tubes® speciality clean-room insulation, manufactured from ZOTEK® foams, for pharmaceutical, semiconductor and biotech facilities.

MuCell Extrusion LLC ('MEL') specialises in technology to reduce the use of plastics consumption at the point of manufacture. Our technology creates "microbubbles" in the centre of plastic parts by injecting gas into them as they are manufactured. This creates a foam core that can typically deliver a 15-20% savings in the use of raw materials and reduces both environmental impact and cost. MEL has significant Intellectual Property ('IP'), including both know-how and patents, which is licensed to customers. MEL shares in the customers' benefits by receiving a licence fee for IP and/or royalty on parts made.

Results

Zotefoams manages and reports its business in three main segments defined by product type: Polyolefin foams, HPP foams and MEL.

Total Revenue increased by 10% to £49.08m (2013: £44.63m), with growth in all three segments and in all major geographies. Before exceptional items gross profit increased by 11% and, with distribution and administration costs at similar levels to 2013, operating profit margin pre-exceptional items increased from 9.3% to 11.4% and operating profit pre-exceptional items by 34% to £5.57m (2013: £4.16m) before exceptional items.

Group Revenue increased by 10% to £48.95m (2013: £44.63m). After exceptional items operating profit increased from £4.16m to £4.31m.

In Constant FX, sales growth of 61% in HPP and 40% in MEL were the main drivers of an overall 15% increase in Total Revenue. Sales volumes of polyolefin foams increased by 9%, recovering from customer destocking in 2013 in Continental Europe, and delivering good underlying growth in both UK and North America while volumes in Asia were at a similar level to 2013.

HPP

	2014 £m	2013 £m	% change (reporting currency)	% change (Constant FX)
Total and Group Revenue	6.61	4.31	53%	61%
Segment profit pre-amortisation	1.02	0.27		
Amortisation of acquired intangibles	-	-		
Segment profit	1.02	0.27		
Segment profit margin	15%	6%		

HPP sales grew by 61% in Constant FX and 53% in reporting currency, consolidating and building on a 20% increase in 2013 and a 51% increase in 2012. The HPP segment reported a segment profit of £1.02m (2013 restated: £0.27m), with segment profit margins increasing to 15% from 6% in 2013.

In HPP we delivered a near doubling of revenue from T-Tubes® insulation products, combined with continued strong progress in aviation and a variety of early stage developmental projects with good future growth prospects. The main markets for insulation products are in clean-rooms for pharmaceutical, biotech and semiconductor manufacture in China, India and Asia. To support and continue the progress of our insulation products business we have signed a joint-venture with King Lai Group, one of our existing customers, to manufacture insulation products from our ZOTEK® high-performance foams in China. The new venture, based in Kunshan, Jiangsu Province, China and a related holding and trading company in Hong Kong, will be 51% owned by Zotefoams and 49% owned by King Lai Group, with a capital contribution of $0.3m by Zotefoams. Sales activity in China will be the direct responsibility of the joint-venture using King Lai as an exclusive distributor while all sales to customers outside China will be the responsibility of a wholly owned Zotefoams' subsidiary branch based in Thailand. Operations are expected to begin in the second half of 2015.

Within HPP the largest market is aviation, which is strategically well-placed to grow both as a result of new applications (increased content per aeroplane) and an increase in the build rate of aeroplanes using our products. Our customers have good application development pipelines and long aviation order books at original equipment manufacturers (OEMs) are supporting our growth trend which we expect to be augmented later in the cycle by a demand for retrofit and replacement parts from airlines. In addition the aviation interiors market, which is driven by airlines and private jets, is becoming increasingly interesting with applications in high-end seats, luxury retrofits and flooring all benefitting from our patented ZOTEK® flouropolymer foams which are lightweight, fire retardant and have low moisture uptake.

We continue to invest in our HPP products and sales development and support, primarily with product line extensions of existing materials, capitalising on our existing know-how and increasingly strong market presence. Other HPP products, such as nylon, which are currently less than 5% of segment sales, offer good medium-term prospects from current projects in sports and leisure, automotive, industrial and construction. Overall, the progress made in sales and profitability over the past three years validates our strategic approach to HPP and demonstrates the significant potential of this segment.

MEL

	2014 £m	2013 £m	% change (reporting currency)	% change (Constant FX)
Total and Group Revenue	2.09	1.56	34%	40%
Segment loss pre-amortisation	(0.10)	(0.14)		
Amortisation of acquired intangibles	(0.30)	(0.32)		
Segment loss	(0.41)	(0.46)		

Total Revenue increased 34% to £2.09m (2013: £1.56m) representing a 40% growth in Constant FX. The segment result was a loss (after amortisation costs associated with acquired intangible assets) of £0.41m (2013: £0.46m), reflecting the investment made in people and Intellectual Property ("IP") development in MEL. Before amortisation costs on acquired intangible assets the loss was £0.10m (2013: £0.14m).

MEL's business model is to develop and license IP and share in the savings or benefits of the licensee through a royalty and/or licence fee. The MuCell® extrusion technology is delivered through a gas injection system which is sold to customers, often with other associated equipment and engineering support, to retrofit their existing extruders. Following product development and end-user validation the customers will manufacture their products using our technology and pay our licence fees and/or royalties. MEL revenue therefore comes from two main sources: initial set-up (engineering and equipment sales) and operation (licence fees and/or royalties). MEL's IP comprises a significant body of patents and know-how in gas injection methods and apparatus, product performance, additives, operating systems, die and screw design, etc.

The main target market for MEL is consumer packaging. Here production volumes are large and developments are scalable across geographic and product markets. Our approach is to demonstrate the benefits of our technology with a limited number of partners in selected markets and application types: plastic films, sheet and blow moulded bottles, and achieve in-market validation. A highlight of 2014 was Unilever's announcement that MuCell® technology would be used in Dove body wash bottles in Europe and we estimate over 80 million units now have been manufactured using our technology, each unit saving approximately 15% plastic content. Following such validation the interest levels in our technology have dramatically increased as a clear benefits statement is supported by a proven delivery mechanism.

In addition to the consumer packaging market, MEL is active in a variety of speciality applications. Many of these are subject to client confidentiality agreements and are non-scalable and/or exclusive to an individual company. Typically these licensees are more resource intensive to develop, but can offer higher licensing fees and technological insights which are beneficial in IP development.

In 2014, Equipment and Engineering revenue ('E&E') increased by 55% to $1.91m (2013: $1.21m), while Licence and Royalty revenue ('L&R') increased by 25% to $1.54m (2013: $1.23m). In MEL's business E&E is a leading indicator of a future L&R stream, with contracts often lasting over 10 years the annuity potential of a new licensee can be significantly in excess of the initial E&E. The ability to forecast L&R from E&E depends on a number of factors: the application type (revenues from a large sheet line can be five times larger than from a blow moulded bottle line, while speciality lines can be substantially more and output from a film line is somewhat lower than a sheet line), the speed of development (some licensees are using our technology within months while others take years for approval) and line utilisation (the retrofit process allows production equipment to be dual foam/non-foam use giving the licensee flexibility). We believe that, as a leading indicator the E&E and installed equipment base is the most useful metric and in 2014 the installed base, excluding non-royalty bearing lines such as laboratories, increased from 32 to 52 units of which 38 are in use.

2013	Film	Blow Moulding	Sheet	Speciality	Total
Total Units	4	12	5	11	32
Unit in Use	3	11	3	9	26

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

Speciality applications currently represent two-thirds of L&R and, although we continue to develop licences in this area, the consumer packaging market is a higher priority, offering greater revenue potential in both the short and medium term - MEL now has 28 licensees operating in 23 countries, a validated technology platform and a clear strategy for growth. Further investment in IP development and people is planned to deliver on the potential of this business over the coming years.

Polyolefin foams

	2014 £m	2013 £m	% change (reporting currency)	% change (Constant FX)
Total Revenue	40.44	38.83	4%	9%
Group Revenue	40.30	38.83	4%	8%
Segment profit pre-amortisation	6.01	5.80	4%	
Amortisation of acquired intangibles	0.02	-		
Segment profit	5.99	5.80	3%	
Segment profit margin	15%	15%		

Total Revenue in Polyolefin foams increased by 9% in Constant FX with a 9% increase in volume as sales recovered from the customer destocking experienced in 2013. However, volume growth was offset by the effect of a stronger pound and Total Revenue in Polyolefin foams increased by 4% to £40.44m (2013: £38.83m) and Group Revenue by 4% to £40.30m (2013: £38.83m), delivering a segment profit of £5.99m (2013 restated: £5.80m). Overall 2014 was a year in which the Polyolefin segment performed below potential, with a capacity constraint in the first half of the year and administrative bottlenecks due to our new Enterprise Resource Planning ('ERP') IT system that delayed shipments in the fourth quarter. We estimate that delayed shipments reduced Total Revenue by approximately £1.5m which if shipped in 2014 would have delivered sales growth of 8%. Input costs were at similar levels to 2013, with the average euro price of our main raw material, LDPE, being close to the average level as the previous year although registering a slight downward trend within the period.

Polyolefin foams are sold through a network of converters globally, being used in a huge variety of applications in markets such as marine, automotive, sports, aviation, rail, construction, consumer goods, military and packaging. Fundamental to Zotefoams' success is our unique, high-pressure nitrogen gas processing of extruded plastic sheets into foams. This process allows foams to be as light as 98.5% air by volume and offers improved insulation and cushioning protection, lower use of polymer and improved environmental and safety performance in use. Our foams are also very consistent, a result of the physical foaming process that uses pure, inert gas rather than the environmentally contentious chemical processes common in our industry. MicroZOTE® roll foams are included in this business segment but, following the decision taken in June 2014 to curtail development of this product in favour of further investment in the speciality business of MEL, sales were minimal and the write-down of assets treated as an exceptional item.

Demand overall is driven by three main market trends: better use of resources, safety improvements or other performance benefits. Zotefoams makes foams that use less polymer for comparable performance, lightweight foams for improved fuel efficiency or better insulation properties, foams that cushion and protect from impact or other damage (both people and objects in dynamic or static situations) and foams with other performance benefits such as flotation properties, electrically conductive materials and foams where the colour match meets customer requirements.

Our Polyolefin foams business is global, currently operating from facilities in UK and USA and selling to over 40 countries. We manage the business in three major territory groups, which account for 98% of sales. Sales in UK and Continental Europe account for 72% of our turnover and increased 14% in Constant FX. North America, served from our satellite manufacturing facility in Kentucky, represents 22% of our Polyolefin foams business and grew by 5% in Constant FX, while Asia, where we operate a sales joint-venture with our largest customer in that area, reported a small decline in sales. We see all areas offering scope for further sales growth in line with our stated objective of growing Polyolefin Foams sales at twice the rate of global GDP and have invested in and restructured our management teams in Europe and Asia with the aim of delivering commercially and operationally on the opportunities which exist.

Investment

Zotefoams' HPP and Polyolefin foams businesses are backed by significant investment in plant and machinery as well as our technical know-how and market position. To deliver on the potential for our business globally we increased investment in plant, machinery and a new IT system in 2013 and accelerated this investment in 2014 with a decision to expand our Kentucky, USA facility. Zotefoams ZOTEK® fluoropolymer foams and AZOTE® polyolefin foams are manufactured in three main steps: extrusion of a polymer sheet, high-pressure gassing with inert nitrogen gas and final expansion. Our Croydon, UK factory employs all these processes and supplies intermediate AZOTE® product for the final expansion stage to our facility in Kentucky. Investment in extrusion and gassing in Kentucky, at a cost estimated to be US$22m, will deliver additional global capacity and shorten the supply chain into the North American market. The programme is well underway with orders placed for long lead-time items, including the critical high-pressure autoclave.

In Croydon, investment in additional factory and office space is expected to be substantially utilised from the third quarter of this year. Further extrusion capacity for ZOTEK® fluoropolymer and nylon foams is in progress with planned commissioning in 2016 and our new AZOTE® extruder is now operational, giving 17% additional capacity in this area.

In October 2014 we implemented the first phase of a new fully integrated IT system, Microsoft Dynamics AX, chosen to meet the needs of our increasingly diverse business. Our previous system was implemented in 2002 when Zotefoams was less than half its current size and was not providing sufficient management information or processes to support our current and future needs. The initial implementation of the new system did not immediately deliver sufficiently clear, detailed and accurate information from planning through customer service and as a result our delivery performance in the fourth quarter fell well short of expectations. While we are confident that all substantive issues have been resolved we entered 2015 with a higher than anticipated order backlog which will take some time to clear.

In Asia we have plans for investment in two manufacturing joint-ventures. In early 2015 we invested $0.3m in China to begin moulding of insulation products from our ZOTEK® fluoropolymer foams in a joint-venture with King Lai Group, initially for clean-room insulation where the largest market opportunities are China and India. In AZOTE® foams we have an agreement with INOAC Corporation in Japan for a 50:50 manufacturing joint-venture, similar to our current expansion only facility in Kentucky, USA which is supplied from Zotefoams plc in the UK. The trigger for investment in this manufacturing facility, based on sales volumes, has not yet been met and the final investment will be subject to Board approval based on sales volumes and overall potential.

Our Research and Development ('R&D') in Croydon focuses on variations of existing materials, particularly within the HPP portfolio. We now offer a number of different densities and formulations of our ZOTEK® fluoropolymer foams meeting the specific requirements of certain applications, while our range of nylon foams offers an even wider scope for development. As we are active in end markets as diverse as automotive, sports, construction and aviation it is important to tailor products and we often find that developments aimed at one market open up opportunities in other areas. In 2014, similar to previous years, we spent approximately 2% of Group Revenue on R&D. All R&D is expensed in the year incurred.

Strategy and objectives

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

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

Performance against these objectives was as follows:

- Sales of Polyolefin foams increased by 4% in reporting currency and 9% in Constant FX.
- HPP sales grew by 61% in Constant FX and 53% in reporting currency. The HPP segment reported a segment profit of £1.02m (2013 restated: £0.27m) with segment average profit margins improving to 15%, reflecting higher margins in more established products and lower or negative margins where we are investing for future growth. MEL has grown its installed base of commercial machines at customers to 52 units from 32 units in 2013, but is still in early growth phase with the potential for enhanced margins in the future, therefore we continue to invest in people and intellectual property to deliver this future potential.
- Group operating margins pre-exceptional items increased to 11.4% (2013: 9.3%).
- Pre-tax return on average capital employed, excluding exceptional items and acquired intangible assets and their amortisation costs, increased to 14.7% (2013: 12.9%). Group profitability is the main reason for the improvement in this metric. Levels of capital employed will increase with the current investment programme at our Croydon site from mid-2013 continuing until the latter part of 2015 and the strategically significant investment in our Kentucky, USA site planned to commission in the third quarter of 2016. We expect the return on capital to reflect this until the benefit of these investments can be realised.

Financial Results

Income Statement
Total Revenue increased by 10% to £49.08m (2013: £44.63m). Total Revenue consolidates all external sales made by joint-ventures as well as those made by Zotefoams and its subsidiaries and therefore shows like-for-like sales growth. Group Revenue, which excludes the mark-up on sales made by the Azote Asia Limited joint-venture with Inoac, increased by 10% to £48.95m from £44.63m in 2013. Gross margins pre-exceptional items improved slightly at 26.2% (2013: 26.0%) with the operational gearing benefit of the higher sales and growth in the higher gross margin HPP business being offset by adverse foreign exchange rates. In distribution and administrative expenses of £7.27m (2013: £7.46m) there is a £0.31m gain from forward exchange hedging contracts and foreign exchange translation (2013: £0.33m loss).

The business segment results (note 2) have been restated. Previously the HPP business result included direct costs and an allocation of R&D and manufacturing overhead but not a share of indirect administration costs. As the HPP business has grown significantly in the period the result has been restated to better reflect HPP's use of indirect resource. For 2013 the HPP segment profit has been restated to £0.27m (previously reported £0.42m). Central plc costs have also been excluded from the business segments as these are non-business specific. In 2014 central costs were £1.34m (2013: £1.11m).

Profit before tax and exceptional items was £5.27m (2013: £3.86m). As announced in June 2014, there was a non-cash impairment charge of £1.27m made following the decision to curtail manufacturing activity on the microZOTE® extrusion line which has been treated as an exceptional item. Profit before tax after this exceptional item was £4.01m (2013: £3.86m).

The effective tax charge is 17% (2013: 18%), which is less than the UK corporation tax rate for the year of 21.5%. This is mainly due to a reduction in the tax charge for prior years and research and development and other tax allowances.

Earnings Per Share and Dividend
Group basic earnings per share pre-exceptional items were 10.7p (2013: 8.0p) and post exceptional items were 8.2p (2013: 8.0p). The Directors are recommending a 0.1p increase in the final dividend to 3.7p per share, which, subject to shareholder approval, would be payable on 27 May 2015 to shareholders on the Company register at the close of business on 24 April 2015. This would bring the total dividend to 5.45p per ordinary share for the year (2013: 5.3p).

Cash Flow and Funding
Cash generated from operations was £5.98m (2013: £6.63m) with a £2.48m (2013: £0.71m) increase in working capital mainly reflecting the higher sales in the final quarter of 2014 compared to 2013. Capital expenditure was £7.57m (2013: £4.21m) with the main items of expenditure being on the new ERP system (treated as an intangible asset), the factory extension in Croydon and the initial stages of investment on the expansion of our Kentucky, USA site. The costs of the Kentucky programme are estimated at $22m and in September 2014 Zotefoams raised £8.45m net via a share placing of 9.99% of its issued share capital to support this investment with the remainder to be provided through debt and operational cash flow across the anticipated two year capital programme. After tax and dividend payments, the Group had net funds of £2.42m (2013: net debt of £1.12m) at the end of the year. These net funds at 31 December 2014 consist of £4.63m cash less £2.21m secured borrowings. The Group also has a £4.9m overdraft facility.

Pensions
The gross IAS19 deficit on the Company's Defined Benefit Pension Scheme (the "Scheme") increased by £1.85m to £6.13m (2013: £4.28m). This was primarily due to a fall in bond yields which reduced the discount rate used to value the Scheme's liabilities, partially offset by better than expected investment growth and the Company's contributions to the Scheme.

The April 2014 triennial actuarial review and future funding arrangements for the Scheme are currently under discussion between the Company and the Trustees. In the meantime the Company is continuing to pay £55,000 per month into the Scheme. The Company closed the Scheme to new members in 2001 and future accrual of benefit in 2005.

David Stirling
Managing Director

Statement of Directors' Responsibilities in Respect of the Annual Report

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

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

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

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

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

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

Each of the Directors confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- and the Strategic Report - Business Review 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.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2014

	Note	**Pre exceptional items 2014 £000**	Exceptional items (see Note 3) 2014 £000	**Post exceptional items 2014 £000**	2013 £000
Total Revenue	2	**49,081**	-	**49,081**	44,634
Adjustment for JV sales		**(136)**	-	**(136)**	-
Group Revenue		**48,945**	-	**48,945**	44,634
Cost of sales		**(36,103)**	(1,265)	**(37,368)**	(33,015)
Gross profit		**12,842**	(1,265)	**11,577**	11,619
Distribution costs		**(3,442)**	-	**(3,442)**	(3,587)
Administrative expenses		**(3,829)**	-	**(3,829)**	(3,868)
Operating profit		**5,571**	(1,265)	**4,306**	4,164
Finance income	4	**2**	-	**2**	7
Finance costs	4	**(235)**	-	**(235)**	(315)
Share of loss from JVs		**(64)**	-	**(64)**	-
Profit before tax		**5,274**	(1,265)	**4,009**	3,856
Taxation	5	**(926)**	253	**(673)**	(695)
Profit for the year		**4,348**	(1,012)	**3,336**	3,161
Attributable to:					
Equity holders of the parent		**4,348**	(1,012)	**3,336**	3,161
Earnings per share					
Basic (p)	6	**10.7**	-	**8.2**	8.0
Diluted (p)	6	**10.5**	-	**8.1**	7.9

CONSOLIDATED STATEMENT OF COMPREHSENSIVE INCOME

for the year ended 31 December 2014

	2014	2013
	£000	£000
Profit for the year	**3,336**	3,161
Other comprehensive income/(expense)		
Items that will not be reclassified to profit or loss		
Foreign exchange translation gains/(losses) on investment in foreign subsidiaries	**669**	(187)
Actuarial (losses)/gains on defined benefit schemes	**(2,334)**	2,526
Tax relating to items that will not be reclassified	**467**	(505)
Total items that will not be reclassified to profit or loss	**(1,198)**	1,834
Items that may be classified subsequently to profit or loss		
Effective portion of changes in fair value of cash flow hedges net of recycling	**(394)**	283
Tax relating to items that may be reclassified	**79**	(57)
Total items that may be classified subsequently to profit or loss	**(315)**	226
Other comprehensive (expense)/income for the year, net of tax	**(1,513)**	2,060
Total comprehensive income for the year	**1,823**	5,221
Attributable to equity holders of the parent	**1,823**	5,221

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
for the year ended 31 December 2014

	Note	**2014 £000**	2013 £000
Non-current assets			
Property, plant and equipment		**28,561**	27,333
Investments in joint-ventures		**174**	-
Intangible assets		**6,851**	4,916
Deferred tax assets		**502**	477
Total non-current assets		**36,088**	32,726
Current assets			
Inventories		**9,218**	8,019
Trade and other receivables		**13,437**	10,991
Cash and cash equivalents		**4,628**	1,957
Total current assets		**27,283**	20,967
Total assets		**63,371**	53,693
Current liabilities			
Interest-bearing loans and borrowings		**(718)**	(865)
Tax payable		**(385)**	(506)
Trade and other payables		**(6,715)**	(5,557)
Total current liabilities		**(7,818)**	(6,928)
Non-current liabilities			
Interest-bearing loans and borrowings		**(1,489)**	(2,207)
Employee benefits	7	**(6,132)**	(4,280)
Deferred tax liabilities		**(698)**	(1,264)
Total non-current liabilities		**(8,319)**	(7,751)
Total liabilities		**(16,137)**	(14,679)
Total net assets		**47,234**	39,014
Equity			
Issued share capital		**2,191**	1,992
Own shares held		**(17)**	(21)
Share premium		**24,340**	16,090
Capital redemption reserve		**15**	15
Translation reserve		**827**	158
Hedging reserve		**(149)**	245
Retained earnings		**20,027**	20,535
Total equity attributable to the equity holders of the Parent		**47,234**	39,014

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2014

	Note	**2014 £000**	2013 £000
Cash flows from operating activities			
Profit for the year		**3,336**	3,161
Adjustments for:			
Depreciation, amortisation and impairment		**4,669**	3,609
Finance income		**(2)**	(7)
Finance costs		**235**	315
Loss from joint-ventures		**64**	-
Equity-settled share-based payments		**138**	232
Taxation		**673**	695
Operating profit before changes in working capital and provisions		**9,113**	8,005
(Increase)/decrease in trade and other receivables		**(2,398)**	763
Increase in inventories		**(1,249)**	(1,430)
Increase/(decrease) in trade and other payables		**1,171**	(45)
Employee benefit contributions		**(660)**	(660)
Cash generated from operations		**5,977**	6,633
Interest paid		**(55)**	(24)
Tax paid		**(868)**	(1,013)
Net cash from operating activities		**5,054**	5,596
Interest received		**2**	7
Investment in joint-ventures		**(238)**	-
Acquisition of intangibles		**(1,606)**	(71)
Acquisition of property, plant and equipment		**(5,967)**	(4,141)
Net cash used in investing activities		**(7,809)**	(4,205)
Proceeds from issue of share capital		**8,453**	153
Repurchase of own shares		**(19)**	(113)
Repayment of borrowings		**(865)**	(1,340)
New loans taken out		**-**	90
Dividends paid		**(2,112)**	(2,048)
Net cash generated/(used) in financing activities		**5,457**	(3,258)
Net increase/(decrease) in cash and cash equivalents		**2,702**	(1,867)
Cash and cash equivalents at 1 January		**1,957**	3,698
Effect of exchange rate fluctuations on cash held		**(31)**	126
Cash and cash equivalents at 31 December		**4,628**	1,957

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

	Note	Share capital £000	Own shares held £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Hedging reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2013		1,992	(36)	16,090	15	345	(38)	17,322	35,690
Foreign exchange translation losses on investment in foreign subsidiaries		—	—	—	—	(187)	—	—	(187)
Effective portion of changes in fair value of cash flow hedges net of recycling		—	—	—	—	—	283	—	283
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		—	—	—	—	—	—	(57)	(57)
Actuarial gains on defined benefit scheme		—	—	—	—	—	—	2,526	2,526
Tax relating to actuarial gains on defined benefit scheme		—	—	—	—	—	—	(505)	(505)
Profit for the year		—	—	—	—	—	—	3,161	3,161
Total comprehensive (expenditure)/income for the year		—	—	—	—	(187)	283	5,125	5,221
Transactions with owners of the Parent:									
Shares issued		—	18	—	—	—	—	135	153
Shares acquired		—	(3)	—	—	—	—	(110)	(113)
Equity-settled share-based payments net of tax		—	—	—	—	—	—	111	111
Dividends paid	8	—	—	—	—	—	—	(2,048)	(2,048)
Total transactions with owners of the Parent		—	15	—	—	—	—	(1,912)	(1,897)
Balance at 31 December 2013 and 1 January 2014		1,992	(21)	16,090	15	158	245	20,535	39,014
Foreign exchange translation gains on investment in subsidiaries		—	—	—	—	669	—	—	669
Effective portion of changes in fair value of cash flow hedges net of recycling		—	—	—	—	—	(394)	—	(394)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		—	—	—	—	—	—	79	79
Actuarial losses on defined benefit scheme		—	—	—	—	—	—	(2,334)	(2,334)
Tax relating to actuarial losses on defined benefit scheme		—	—	—	—	—	—	467	467
Profit for the year		—	—	—	—	—	—	3,336	3,336
Total comprehensive income/(expenditure) for the year		—	—	—	—	669	(394)	1,548	1,823
Transactions with owners of the Parent:									
Shares issued		199	4	8,250	—	—	—	—	8,453
Shares acquired		—	—	—	—	—	—	(19)	(19)
Equity-settled share-based payments net of tax		—	—	—	—	—	—	75	75
Dividends paid	8	—	—	—	—	—	—	(2,112)	(2,112)
Total transactions with owners of the Parent		199	4	8,250	—	—	—	(2,056)	6,397
Balance at 31 December 2014		**2,191**	**(17)**	**24,340**	**15**	**827**	**(149)**	**20,027**	**47,234**

1. Accounting policies

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

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The Parent Company financial statements present information about the Company as a separate entity and not about its Group. The consolidated financial statements of Zotefoams plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS.

The financial information does not constitute the Company's statutory accounts, as defined in Sections 434 of the Companies Act 2006, for the year ended 31 December 2014 or 2013 but is derived from those accounts which have been approved by the Board of Directors. Statutory accounts for 2013 have been delivered to the Registrar of Companies, and those for 2014 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under Section 498 (2) of the Companies Act 2006.

2. Segment reporting

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

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

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

	Polyolefins		HPP		MEL		Eliminations		Consolidated	
	2014	2013 Restated	**2014**	2013 Restated	**2014**	2013	**2014**	2013 Restated	**2014**	2013 Restated
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000	**£000**	£000
Total Revenue	**40,440**	38,825	**6,614**	4,311	**2,088**	1,562	**(61)**	(64)	**49,081**	44,634
Segment profit/(loss) pre-amortisation	**6,008**	5,798	**1,022**	269	**(103)**	(138)	**-**	-	**6,927**	5,929
Amortisation of acquired intangible assets	**(21)**	-	**-**	-	**(304)**	(320)	**-**	-	**(325)**	(320)
Segment profit/(loss)	**5,987**	5,798	**1,022**	269	**(407)**	(458)	**-**	-	**6,602**	5,609
Foreign exchange gains/(losses)	**-**	-	**-**	-	**-**	-	**-**	-	**310**	(334)
Unallocated central costs	**-**	-	**-**	-	**-**	-	**-**	-	**(1,341)**	(1,111)
Operating profit	**-**	-	**-**	-	**-**	-	**-**	-	**5,571**	4,164
Net financing costs	**-**	-	**-**	-	**-**	-	**-**	-	**(233)**	(308)

Share of loss from joint-ventures	**-**	-	**-**	-	**-**	-	**-**	-	**(64)**	-
Taxation	**-**	-	**-**	-	**-**	-	**-**	-	**(926)**	(695)
Profit for the year (pre exceptional items)									**4,348**	3,161
Segment Assets	**48,214**	41,794	**7,955**	5,402	**6,526**	6,020	**-**	-	**62,695**	53,216
Unallocated assets	**-**	-	**-**	-	**-**	-	**-**	-	**676**	477
Total assets									**63,371**	53,693
Segment liabilities	**(14,257)**	(11,639)	**(210)**	(998)	**(587)**	(272)	**-**	-	**(15,054)**	(12,909)
Unallocated liabilities	**-**	-	**-**	-	**-**	-	**-**	-	**(1,083)**	(1,770)
Total liabilities									**(16,137)**	(14,679)
Depreciation and impairment	**4,155**	3,114	**151**	138	**38**	37	**-**	-	**4,344**	3,289
Amortisation	**21**	-	**-**	-	**304**	320	**-**	-	**325**	320
Capital expenditure:										
Tangible fixed assets	**5,488**	4,655	**129**	107	**94**	35	**-**	-	**5,711**	4,797
Intangible fixed assets	**1,577**	-	**-**	-	**29**	71	**-**	-	**1,606**	71

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

Previously the HPP business result included direct costs and an allocation of R&D and manufacturing overhead but not a share of indirect administration costs. As the HPP business has grown significantly in the period the result has been restated to better reflect HPP's use of indirect resource. For 2013 the HPP segment profit has been restated to £0.27m (previously reported £0.42m). Central plc costs have also been excluded from the business segments as these are non-business specific. In 2014 central costs were £1.34m (2013: £1.11m).

Geographical segments

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

	United Kingdom £000	Europe £000	North America £000	Rest of the world £000	Total £000
For the year ended 31 December 2014					
Revenue from external customers	**10,465**	**20,381**	**14,277**	**3,958**	**49,081**
Non-current assets	**26,647**	**—**	**8,939**	**—**	**35,586**
Capital expenditure	**4,625**	**—**	**1,086**	**—**	**5,711**
For the year ended 31 December 2013					
Revenue from external customers	9,479	18,680	12,569	3,906	44,634
Non-current assets	24,166	—	8,083	—	32,249
Capital expenditure	4,045	—	96	—	4,141

Non-current assets do not include financial instruments, deferred tax assets or post-employment assets.

Major customer

Revenues from one customer of the Group represents approximately £5,127,000 (2013: £4,453,000) of the Group's total revenues.

3. Exceptional Item

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

	2014	2013
	£000	£000
Fixed asset impairment	**1,175**	-
Inventory impairment	**90**	-
	1,265	-

4. Finance income and costs

Financial income

	2014	2013
	£000	£000
Interest on bank deposits	**2**	7

Finance costs

	2014	2013
	£000	£000
On bank loans and overdrafts	**57**	21
Interest on defined benefit pension obligation	**178**	294
	235	315

5. Taxation

		2014	2013
	Note	**£000**	£000
UK corporation tax		**859**	776
Overseas taxation		**44**	6
Adjustment to prior year UK tax charge		**(154)**	(64)
Current taxation		**749**	718
Deferred taxation	19	**(76)**	(23)
Total tax charge		**673**	695

Factors affecting the tax charge

The tax charge for the year is lower (2013: lower) than the standard rate of corporation tax in the UK of 21.5 % (2013: 23.25%). The differences are explained below:

	2014	2013
	£000	£000
Tax reconciliation		
Profit before tax	**4,009**	3,856
Tax at 21.5% (2013: 23.25%)	**862**	897
Effects of:		
Research and development tax credits and other allowances less expenses not deductible for tax purposes	**(61)**	(41)
Overseas earnings and effect of US tax losses	**26**	(16)
Change in deferred tax rate to 20%	**-**	(81)
Adjustments to prior year UK corporation tax charge	**(154)**	(64)
Total tax charge	**673**	695

6. Dividends and earnings per share

	2014	2013
	£000	£000
Final dividend prior year of 3.60p (2012: 3.50p) net per 5.0p ordinary share	**1,421**	1,378
Interim dividend of 1.75p (2013: 1.7p) net per 5.0p ordinary share	**691**	670
Dividends paid during the year	**2,112**	2,048

The proposed final dividend for the year ended 31 December 2014 of 3.70p per share (2013: 3.60p) 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 £1,621,000 if paid to all the shares in issue.

Earnings per ordinary share

Earnings per ordinary share is calculated by dividing profit after tax attributable to equity holders of the Parent Company of £3,336,000 (2013: £3,161,000) by the weighted average number of shares in issue during the year excluding own shares held by employee trusts which are administered by independent trustees. The number of shares held in the trust at 31 December 2014 was 340,611 (2013: 418,750). 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.

	2014	2013
Average number of ordinary shares issued	**40,664,440**	39,330,596
Deemed issued for no consideration	**599,430**	515,843
Diluted number of ordinary shares issued	**41,263,870**	39,846,439

7. Employee benefits

Defined benefit pension plans

The Company operates a UK registered trust based pension scheme that provides defined benefits. Pension benefits are linked to the members' final pensionable salaries and service at their retirement (or date of leaving if earlier). The Trustees are responsible for running the Scheme in accordance with the Scheme's Trust Deed and Rules, which sets out their powers. The Trustees of the Scheme are required to act in the best interests of the beneficiaries of the Scheme. There is a requirement that one-third of the Trustees are nominated by the members of the Scheme.

There are two categories of pension scheme members:

- Deferred members: former and current employees of the Company
- Pensioner members: in receipt of pension.

The defined benefit obligation is valued by projecting the best estimate of future benefit outgo (allowing for revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the balance sheet date. The majority of benefits receive increases linked to inflation (subject to a cap of no more than 5% pa). 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 2014 was 20 years.

Since 1 October 2001 the Scheme has been closed to new members and from 31 December 2005 future accrual of benefits for existing members of the Scheme ceased.

Future funding obligation

The last actuarial valuation of the Scheme was performed by the Actuary for the Trustees as at 5 April 2011. The Company agreed to pay annual contributions of £504,000 per annum over the period to 30 September 2013 towards paying off the deficit. The Company also agreed to pay £156,000 per annum to meet the Scheme's expenses, PPF levy and death in service premiums.

Due to the deterioration in funding, the Company has continued to pay contributions at this level until the results of the 5 April 2014 triennial actuarial valuation are finalised and a new recovery plan has been agreed with the Trustees.

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 with reference to corporate bond yields, however the Scheme invests significantly in equities. These assets are expected to outperform corporate bonds in the long term, but provide volatility 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 member's AVC benefits. This removes investment, inflation, longevity and expense risks after members retire for these benefits.

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 2014 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	As at 31 December 2014	As at 31 December 2013
Discount rate	**3.6%**	4.5%
RPI inflation (before retirement)	**2.9%**	3.4%
CPI inflation (before retirement)	**1.9%**	2.4%

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:

	2014 £000	2013 £000
For an individual aged 65 in 2014		
- Male	**22.3**	21.8
- Female	**24.3**	24.1
At age 65 for an individual aged 45 in 2014		
- Male	**24.0**	23.2
- Female	**26.2**	25.6

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

	2014 £000	2013 £000
Balance Sheet obligations for:		
- Defined pension benefits	**6,132**	4,280
Income statement charge included in operating profit for:		
- Defined pension benefits	**178**	294
Actuarial (losses)/gains recognised		

in Other Comprehensive Income:		
- Defined pension benefits	**(2,334)**	2,526

The amounts recognised in the balance sheet are determined as follows:

	2014 **£000**	2013 £000
Market value of assets	**22,819**	21,546
Present value of defined benefit obligation	**(28,951)**	(25,826)
Funded status	**(6,132)**	(4,280)
Liability in the Balance Sheet	**(6,132)**	(4,280)

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

	2014 **£000**	2013 £000
Value of defined benefit obligation at start of year	**25,826**	26,527
Interest cost	**1,138**	1,120
Benefits paid	**(1,100)**	(949)
Actuarial losses: experience differing from that assumed	**(56)**	(220)
Actuarial gains/(losses): changes in demographic assumptions	**381**	(150)
Actuarial gains/(losses): changes in financial assumptions	**2,762**	(502)
Value of defined benefit obligation at end of year	**28,951**	25,826

The movement in the value of the Scheme's assets over the year is as follows:

	2014 **£000**	2013 £000
Market value of assets at start of year	**21,546**	19,355
Interest income	**960**	826
Actual gain	**753**	1,654
Employer contributions	**660**	660
Benefits paid	**(1,100)**	(949)
Market value of assets at end of year	**22,819**	21,546

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Change in assumption	Change in defined benefit obligation
Discount rate	+/- 0.5% pa	-8%/+ 9%
RPI inflation	+ 0.5% pa/ - 0.5% pa	+ 6%/- 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 2014		Year ended 31 December 2013	
Asset class	**Market value £'000**	**% of total Scheme assets**	Market value £'000	% of total Scheme assets
Equities	**15,512**	**68%**	14,308	67%
Corporate Bonds	**3,487**	**15%**	2,936	14%
Gilts	**2,633**	**12%**	2,776	13%
Cash	**752**	**3%**	1,338	5%
Insured pensioners	**435**	**2%**	188	1%
Total	**22,819**	**100%**	21,546	100%
Actual return on assets over the year:	**1,713**		2,480	

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 2014 were £431,000 (2013: £427,000).

In addition to this scheme, the Company operates a stakeholder scheme which is open to employees who joined after 1 October 2001. The contributions paid by the Company in 2014 were £276,000 (2013: £168,000).

The Company also operates another stakeholder scheme which is open to employees who joined after 1 March 2014. The contributions paid by the Company in 2014 were £65,000 (2013: nil).

For certain non UK based employees of the Company, the Company makes contributions into individual schemes. The contributions paid by the Company in 2014 were £2,000 (2013: £6,000).

For US based employees, Zotefoams Inc. operates a 401(k) plan. The contributions paid by Zotefoams Inc. in 2014 were £54,000 (2013: £51,000).