

## Zotefoams plc

### 2014 Annual Report and Accounts and Notice of the 2015 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 2014, incorporating the Notice of the 2015 Annual General Meeting; and
- 2 Form of Proxy for the 2015 Annual General Meeting.

Copies of the 2014 Annual Report and Accounts and the Notice of the 2015 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 17 March 2015. 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 2014 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 2014 Annual Report and Accounts.

#### Principal risks and uncertainties

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

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

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

	<p>systems in place.</p> <p>The Group 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>The Group is investing in its Kentucky, USA site which, when completed, will give multi-site capability, subject to capacity, on many polyolefin products.</p>
<p><b>Operational</b> The Group is extending its operations in Kentucky to cover the full block foam manufacturing process stages. This is a significant capital project and needs to be managed to time and budget.</p>	<p>The extension of our facilities in Kentucky will replicate, where appropriate, machinery and processes already in operation in the UK. Existing managerial and engineering support in North America will be supplemented by external project expertise and resource from the Group's Croydon operations. Raw materials will be trialed in the UK first to reduce the commissioning risk.</p>
<p><b>Supply chain</b> 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.</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 Group continually monitors suppliers and undertakes research of alternative suppliers that could be used.</p>
<p><b>Technology</b> 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.</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 expire or are successfully challenged.</p>	<p>There are high barriers of entry to the market. Significant capital investment is required for the autoclaves and related infrastructure.</p> <p>The Group 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.</p> <p>The development of High-Performance Products ('HPP') and MEL, where the product offerings are unique and protected by both patents and/or process know-how and capability, opens up new markets for the Group with potential significant and lasting differential advantages.</p>

	<p>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.</p> <p>MEL licences typically include a bundle of patents and know-how and therefore are not completely dependent on any particular patent.</p>
<p><b>Pension</b> 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.</p>	<p>To minimise the risk to the Company of meeting the obligations under the Scheme, the Company closed the Scheme to new members in 2001 and closed it to future accrual of benefits in 2005.</p> <p>The Company is currently in discussions with the Trustees of the Scheme on the triennial actuarial valuation of the Scheme as at 5 April 2014, and the associated recovery plan for the Scheme. The Company is currently making a discretionary contribution to the Scheme of £42k per month to reduce the deficit.</p>
<p><b>Foreign exchange</b> 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.</p> <p>The Group's operations are substantially based in the UK and, therefore, most of its manufacturing assets and costs are sterling denominated.</p> <p>The Group's customers are normally invoiced in their local currencies. In 2014, 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.</p>	<p>The Group reduces its foreign exposure for transactional items by making purchases either in euros or US dollars where possible. For example, there are US dollar costs associated with the Group's operations in Kentucky, USA and with MEL. In addition, the majority of the Group's raw materials are purchased in euros.</p> <p>The Group is currently undertaking a major capital investment in North America which will reduce exposure for transactional items on the US dollar significantly.</p> <p>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 for the next nine months by using forward exchange contracts.</p> <p>The Company, like most public companies, does not hedge for the translation of its foreign subsidiaries' assets or liabilities in the consolidation of its group accounts.</p>
<p><b>Macro economics</b> Most of our markets are exposed to general economic conditions. The Group is operationally geared and a fall in demand for its products could adversely impact the Group.</p>	<p>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 and the joint-ventures. The Group's experience is that in these circumstances operational labour costs can be reduced, polymer prices generally fall with reduced economic demand giving a cost benefit and cash can be generated from</p>

	<p>reducing working capital and slowing capital expenditure projects to help offset the effects of a downturn. The Group targets a low financial gearing to give it operational flexibility in a downturn.</p>
<p><b>Financing</b> The Group needs to have sufficient cash, or be able to draw on loan facilities, to finance its operations and growth.</p>	<p>The Group has strong cash generation from its operations.</p> <p>The Group has:</p> <ul style="list-style-type: none"> <li>• a £4.9m overdraft facility (payable on demand); and</li> <li>• a £3.5m loan facility taken out in December 2012 (£1.3m of which had been repaid at 31 December 2014).</li> </ul> <p>The loan facility is repayable over five years and has no major financial operating covenants, but is secured against certain items of plant and equipment.</p> <p>When considering investment projects the Group has regard to its ability to raise finance for the project and will not commit to a project until acceptable and appropriate finance is in place, or believed to be available.</p>
<p><b>Commercial</b> Loss, poor performance or insolvency of a major customer or joint-venture partner.</p>	<p>The Group's largest customers are distributors and converters of foam. The Group has good knowledge of the end-customers of its major customers and, with some additional short-term work, would be able to bring or identify additional converter capacity to service these markets.</p> <p>The risk for constructing a satellite plant in Asia has been mitigated by partnering with the plant's major customer.</p> <p>The joint-venture agreements contain clauses to address performance and insolvency issues.</p>
<p><b>IT</b> The business is highly dependent on its ERP (Enterprise Resource Planning) system and has implemented a new system, which poses risks of there being flaws in its design and in user understanding and operation of the new system.</p>	<p>The system has been implemented with minimal software changes, which reduces the risk substantially. It has been operational since October 2014 with no major system software issues so far encountered. Lesser issues remain and are being addressed in a prioritised order. A team of business analysts has been retained to support and control the operation of the system.</p>
<p><b>People</b> The failure to attract, develop or retain the right calibre of staff for a growing business.</p>	<p>The Group keeps under review its skill needs and labour requirements. The Group aims to provide its employees with varied and interesting work and to incentivise them appropriately.</p> <p>The Group has recently appointed a Global Talent Manager, whose remit is to ensure senior and emerging talent is appropriate for the Group's current and future needs.</p>

## Related parties

### **Directors**

The Directors of the Company as at 31 December 2014 and their immediate relatives control approximately 1.76% of the voting shares of the Company. Details of Directors' pay and remuneration are given in the Directors' Remuneration Report on pages 45 to 51. 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>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Key management emoluments	488	334	488	334
Company contributions to money purchase pension plan	71	68	71	68
Share related awards	<u>78</u>	<u>120</u>	<u>78</u>	<u>120</u>
	<b>637</b>	<b>522</b>	<b>637</b>	<b>522</b>

### **Subsidiaries**

Details of the subsidiaries of the Company are set out in note 13. These companies are considered to be related parties.

In addition the Company has a 50% interest in associate companies Azote Asia Limited (incorporated in Hong Kong) and Inoac Zotefoams Korea Limited (incorporated in South Korea).

Common control exists between the Company and Zotefoams Employee Benefit Trust (EBT) and Zotefoams EBT has therefore been consolidated as described in note 1b.

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

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

	<b>Receivables owed by</b>		<b>Investments in</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Zotefoams Inc	1,604	3,029	-	-
Azote Asia Limited	995	-	-	-
Zotefoams International Limited	-	-	10,172	6,352

In addition there is a net payable balance of £1,025,000 owed by MuCell Extrusion LLC to Zotefoams Inc.