Tuesday 15 March 2016

Zotefoams plc

Preliminary Results for the Year Ended 31 December 2015

Continued strong revenue growth and investment in commercial infrastructure

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 2015.

Highlights

- Total Revenue[1] growth of 11% to £54.44m (2014: £49.08m)

- Adjusted profit before tax and exceptional items increased by 14% to £6.36m (2014: £5.60m), with reported profit before tax up 50%.

- Polyolefin foams
  - Total Revenue growth of 8% to £43.61m (2014: £40.44)
  - Continued investment in manufacturing facilities at Croydon, UK and Kentucky, USA sites to support global growth opportunity

- High-Performance Products ('HPP')
  - Total Revenue growth of 25% to £8.27m (2014: £6.61m)
  - Represents 15% of Total Revenue (2014: 13%)

- MuCell Extrusion LLC ('MEL')
  - Increased sales by 25% to £2.62m (2014: £2.09m), mainly driven by a 47% increase in equipment and engineering sales and more favourable US dollar exchange rates

- Gross margins increased 1.4% to 27.6% (2014 before exceptional item: 26.2%)

- 41% improvement in cash generated from operations of £8.41m (2014: £5.98), driven by better profitability and increased working capital efficiency

- Increase in proposed final dividend to 3.8p per share (2014: 3.7p) taking the full year dividend for 2015 to 5.6p per share (2014: 5.45p)

Financial Highlights

£ million	2015	2014	Change
Total Revenue	54.44	49.08	11%
Group Revenue	53.87	48.95	10%
Adjusted profit before tax[2]	6.36	5.60	14%
Profit before tax[3]	6.01	4.01	50%
Cash generated from operations	8.41	5.98	41%

Commenting on the results, Nigel Howard, Chairman said:

"During the year Zotefoams reported strong growth in all three business units and in all major geographies. Profit before tax and exceptional items increased by 14%. We continue to focus on our strategy of organic development for materials based on our proprietary technology, which offers a high growth potential. We believe certain of our longer term developments are now reaching the point where market success is much more likely and we plan to further increase resources to support these opportunities. While being mindful of market and macro-economic conditions, the Board anticipates 2016 being another year of growth and remains confident about the long-term prospects for our business"

Notes

[1] Total Revenue consolidates all external sales made by joint-ventures as well as those made by Zotefoams plc and its subsidiaries

[2] Adjusted profit before tax excludes the amortisation of acquired intangible assets and exceptional items. In 2014 the Group decided to curtail the manufacturing activity on the microZOTE® line and treat this as an exceptional item

[3] Profit before tax includes exceptional items

Enquiries:

Zotefoams plc	**+44 (0)208 664 1600**
David Stirling, Group CEO	
Gary McGrath, Finance Director	
FTI Consulting	**+44 (0)203 727 1000**
Victoria Foster Mitchell / Simon Conway	

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 under the family brand names AZOTE® and ZOTEK® 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-FIT® advanced insulation systems made from its patented ZOTEK® fluoropolymer foams.

AZOTE®, T-FIT® and ZOTEK® are registered trademarks of Zotefoams plc. MuCell® is a registered trademark of Trexel Inc, licensed exclusively to MuCell Extrusion LLC for use in microcellular foaming of extrusion products.

www.zotefoams.com

Chairman's Statement

Results

Total Revenue increased by 11% to a record £54.44m (2014: £49.08m), with good growth from all business units, while profit before tax and exceptional items increased by 14% to £6.01m (2014: £5.27m). Basic earnings per share before exceptional items grew by 3.7% to 11.1p (2014: 10.7p). Group Revenue increased by 10% to £53.87m (2014: £48.95m) and profit before tax increased by 50% to £6.01m (2014: £4.01m).

Polyolefin foams, sold under the AZOTE® brand, is our largest business unit and recorded a Total Revenue increase of 8% to £43.61m (2014: £40.44m). Sales from High-Performance Products ('HPP') increased by 25% to £8.27m (2014: £6.61m) and now represent 15% (2014: 13%) of Total Revenue. MuCell Extrusion LLC ('MEL') sales grew 25% to £2.62m (2014: £2.09m).

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 global GDP growth. Our largest markets are Europe and North America, served by manufacturing facilities in Croydon, UK and in Kentucky, USA, where we are currently investing in additional capacity. In Asia we have a joint-venture agreement with INOAC Corporation of Japan to develop the market for our AZOTE® polyolefin foams. We are also committed to developing a portfolio of unique foam products from high-performance polymers, with significant competitive advantages over rival materials, and to increase the customer base for MuCell® extrusion technology. This will allow us to command higher margins and affirm our position as a leading foam technology company. Delivering on part of our strategy in Asia, we are investing in a foam moulding operation in China to supply T-FIT® advanced insulation materials through our joint-venture Kunshan ZOTEK King Lai Limited ('KZKL') with a local partner, the King Lai Group. We intend to achieve growth while continuing to improve our operating margins and return on capital employed.

Investment

Zotefoams' growth is supported by a programme of investment in both capacity and technology. The largest single investment is in our Walton, Kentucky, facility, where a high-pressure autoclave along with supporting extrusion capacity and related infrastructure is now expected to be commissioned in the first half of 2017. This facility was proceeding to plan in all significant aspects until the supplier informed us of an unscheduled delay in the delivery of the autoclave.

Improvements in efficiency and output from existing capacity at our Croydon site, together with targeted investment will, we expect, cover our capacity needs until the Kentucky facility is fully commissioned. Additional investment at our Croydon site is also planned in anticipation of further growth in HPP sales volumes.

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 the delivery of opportunities created by our product portfolio and are increasing our investments in people, training and development to meet our ambitious goals.

Board Composition

On 1 February 2016 Gary McGrath was appointed Finance Director in succession to Clifford Hurst, who retires from the Board on 16 May 2016. On behalf of the Board and employees, I would like to thank Clifford for his part in making Zotefoams a success over his past 15 years of service and wish him all the best for the future. On 31 March this year I will retire as Chairman of the Board, a post I have held since 2007, to be succeeded by Steve Good, who joined Zotefoams in 2014 as a Non-Executive Director and was appointed Chairman Designate in November 2015. I wish both Gary and Steve all the best at what is a very exciting time for Zotefoams.

Dividend
In 2010 the Board adopted a progressive dividend policy subject to profit growth, investment requirements and the other needs of the Group. I am pleased to say we intend to retain this policy and, therefore, the Board is proposing a final dividend of 3.8p per ordinary share (2014: 3.7p) which, if approved by the shareholders, would make a total of 5.60p per ordinary share for the year (2014: 5.45p), an increase of 3%. If approved, the final dividend will be paid on 25 May 2016 to shareholders on the register on 22 April 2016.

Current Trading and Prospects
Sales for the first two months of 2016 have been higher than those of the comparative period in 2015. Sales in AZOTE® polyolefin foams have grown in line with our long-term target of twice the rate of global GDP growth, while our HPP business has also experienced a strong start to the year. MEL is currently experiencing high activity levels in machinery commissioning, following a particularly strong fourth quarter in 2015. The majority of Zotefoams' costs are sterling denominated, while approximately 80% of sales are outside the UK, mainly invoiced in US dollars or euros. The recent relative weakness of sterling will, therefore, have a positive impact on our Group, although this is unlikely to be significant this year, as the majority of expected foreign exchange exposure during 2016 has been hedged, in accordance with our policy, at rates prevailing before the recent sterling weakness. The price of our major raw material, low-density polyethylene, remains high but at a similar level to last year's average price.

Outlook
Zotefoams sells globally into a variety of industries and we are therefore influenced by, and mindful of, worldwide economic conditions. Our strategy of organic development for materials based on our proprietary technology offers higher growth potential, but is accompanied by timelines which can be difficult to predict as we enter new applications or markets. We believe certain of our longer term developments are now reaching the point where market success is much more likely and we plan to further increase resources to support these opportunities. While being mindful of market and macro-economic conditions, the Board anticipates 2016 being another year of growth and remains confident about the long-term prospects for our business.

Nigel Howard

Strategic Report

Business Overview

Zotefoams is a diversified value-added plastics processor, utilising unique cellular materials technology in a variety of markets globally. Zotefoams manufactures block foams using high-pressure nitrogen gas technology, licenses intellectual property ('IP'), sells related machinery and also processes foams for specific markets. The block foams business units compete primarily through the superior foam properties created by our technology, offering reduced environmental impact and a better safety and technical performance. This business has significant barriers to entry, including capital cost, know-how, user specifications and, in our HPP business, patents. 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-FIT® (replacing the T-TUBES® brand) technical insulation, manufactured from ZOTEK® foams, for pharmaceutical, semiconductor and biotech facilities. MuCell Extrusion LLC ('MEL') licenses a patented process that creates "micro-bubbles" in the core of plastic parts or products by injecting gas into them as they are manufactured. This produces a foamed core, bound by a solid skin into one integral material that seems indistinguishable from a solid product. Products using MEL technology can be designed to perform like solid plastic, but will typically use 15-20% less material, realising both cost and environmental benefits, by using inert carbon dioxide or nitrogen gas and reducing plastic content at source. 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 business units defined by product type: Polyolefin foams, HPP foams and MEL. Total Revenue increased by 11% to £54.44m (2014: £49.08m), with growth in all three segments and in all major geographies. Gross profit increased by 17% to £15.00m (2014: £12.84m excluding exceptional items) and our gross margin improved to 27.6% (2014: 26.2%). We have increased our investment in distribution and administration capabilities to support future growth expectations and the further globalisation of our Group, while still delivering growth of 14% in operating profit before exceptional items to £6.33m (2014: £5.57m).

Group Revenue increased by 10% to £53.87m (2014: £48.95m). In 2014, there was an exceptional charge of £1.27m relating to the curtailment of the manufacture of microZOTE® foams. After this, operating profit increased by 47% to £6.33m (2014: £4.31m) and profit before tax by 50% to £6.01m (2014: £4.01m).

Our AZOTE® business unit operates regionally across Europe, North America and Asia, while HPP and MEL are global operations. As our business develops we are creating new opportunities, such as our joint-venture in China and, in 2016, the formation of Zotefoams Midwest LLC in Oklahoma, USA, which are extending our traditional business and moving us closer to key customers. These initiatives, operational in 2016, along with our major investment in capacity in Kentucky, USA, which is now expected to begin production in the first half of 2017, required significant investment in time and expertise from our senior management team over the past year. We see these initiatives as the start of a period of transformational organic growth of our business using our unique technologies, while building on our IT systems, operational capability and continued investment in people.

2015	**United Kingdom & Eire**	**Continental Europe**	**North America**	**Rest of the world**	**Total**
Growth %	9%	6%	12%	40%	11%
Total Revenue (000's)	£11,372	£21,568	£15,975	£5,522	£54,437
% of Total Revenue	21%	39%	30%	10%	100%

2014	**United Kingdom & Eire**	**Continental Europe**	**North America**	**Rest of the world**	**Total**
Total Revenue (000's)	£10,465	£20,381	£14,277	£3,958	£49,081
% of Total Revenue	21%	42%	29%	8%	100%

Polyolefin foams

POLYOLEFIN FOAMS	2015 £m	2014[2] £m	% Change
Total Revenue	43.61	40.44	8%
Group Revenue	43.04	40.30	7%
Segment profit pre amortisation[1]	7.60	6.01	26%
Segment profit post amortisation	7.55	5.99	
Segment profit margin [1]	17%	15%	

[1] Excludes amortisation of acquired intangible items
[2] Excludes exceptional items

Zotefoams' AZOTE® polyolefin foams are manufactured using our unique, high-pressure, nitrogen gas process. Sheets of extruded plastic, in this case mainly low-density polyethylene and ethylene-vinyl acetate co-polymers, are processed through large pressure vessels known as autoclaves at temperatures up to 250 degrees Centigrade and pressure up to 670 bar, before being expanded into sheets of foam in a lower-pressure autoclave. The autoclave process allows foams to be as light as 98.5% air by volume and lowers polymer usage for improved environmental impact. Our foams are consistent, closed cell (giving cushioning, very low water absorption and buoyancy), good insulators and can be processed in many different ways for a variety of end applications. Demand overall is driven by three main market trends: better use of resources, safety improvements and other performance benefits.

Total Revenue in Polyolefin foams increased by 8% to £43.61m (2014: £40.44m). Sales volumes increased by 10%, while foreign exchange rates were, in aggregate, 3% adverse, as a weaker euro was only partially offset by a stronger US dollar. The segment profit was £7.55m (2014: £5.99m), after the amortisation of acquired intangible items.

In the UK and Continental Europe, which accounts for 69% (2014: 72%) of AZOTE® polyolefin foams' Total Revenue, sales volumes increased by 11%, while North America volumes grew by 2%. In Asia, where we operate a sales joint-venture, sales volumes increased by 27% following a small decline the previous year. 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. To support this global opportunity, we need to invest in capacity and our approach to this is described in more detail in the "investment" section of the report.

In 2015 we began the year very strongly, with an order book that was partly a result of delayed European shipments from late in 2014. Sales volumes throughout the year remained strong, with sales records in 8 out of 12 months of the year. Inventory levels of customers increased during the first part of the year, generating an overall demand in the market for our products in excess of normal supply, but declined later in the year, leading to a more stable demand situation. Zotefoams' investment in manufacturing systems, efficiency and de-bottlenecking of capacity continued throughout the year and further capacity improvements are expected to be delivered from existing autoclaves as improvements in support services come on line in the first half of 2016. Input costs began the year at slightly lower levels than in 2014, however, by the end of the first quarter, the average euro price of our main raw material, Low Density Polyethylene ('LDPE'), began to trend upward. While the price of crude oil, the source raw material for LDPE, has reduced significantly over the past 18 months the price for LDPE has remained at a similar level for the past three years. The overall price for LDPE in the year was similar to 2014, but with the second six months of 2015 approximately 10% higher than the first six months.

HPP

HPP	2015 £m	2014 £m	% Change
Total and Group Revenue	8.27	6.61	25%
Segment profit pre-amortisation	0.82	1.02	
Segment profit	0.82	1.02	
Segment profit margin	10%	15%	

The High-Performance Products ('HPP') business unit covers our ZOTEK® block foams as well as the recently rebranded T-FIT® technical insulation. ZOTEK® products use the same proprietary autoclave technology as our AZOTE® polyolefin foams but are manufactured from PVDF fluoropolymer, nylon or PEBA, generating a uniqueness based on the combination of the original polymer attributes and our foaming process. ZOTEK® F fluoropolymer foams are inherently fire and chemical resistant, ZOTEK® N nylon foams are tough and can operate in very high temperatures environments, while ZOTEK® PEBA foams have excellent kinetic energy management properties. All of these foams are light weight, moisture resistant and good insulators.

HPP sales increased by 25% in the year to £8.27m (2014: £6.61m) and now represent 15% of Group Revenue. Within HPP the largest market is aviation, where growth is expected as a result of new applications (increased content per aeroplane) and an increase in the build rate of aeroplanes. Typical aviation applications are in window gaskets, air ducts, high-end seats, seals and gaskets. Following a strong performance in 2014, in which we delivered a near doubling of revenue from T-FIT® insulation products, 2015 sales from T-FIT® increased by 2%, which was below our expectations. This was due mainly to the timing of projects in the major application of clean-rooms insulation for pharmaceutical, biotech and semiconductor manufacture in China, India and the rest of Asia. I am pleased to report that indications are positive for future growth in T-FIT®, supported by our joint-venture to manufacture and sell these products in China, which we expect to be operational by the end of the first half of 2016.

The HPP segment reported a profit of £0.82m (2014: £1.02m), with sales growth offset by a planned higher investment of resource in sales, development and supply chain surety to support future opportunities. With these additional resources we have also made considerable progress in other markets such as industrial, automotive and sports and leisure, which we believe have excellent potential for future growth but may take longer to realise.

MEL

MEL	2015 £m	2014 £m	% Change
Total and Group Revenue	2.62	2.09	25%
Segment profit pre-amortisation	(0.50)	(0.10)	
Amortisation of acquired intangibles	(0.30)	(0.30)	
Segment loss	(0.80)	(0.41)	

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 us 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, where production volumes are large and developments are scalable across geographic and product markets.

MEL Total Revenue increased 25% to £2.62m (2014: £2.09m), driven by more favourable US dollar exchange rates and a 47% increase in Equipment and Engineering sales, from £1.16m to £1.70m, as licensees convert their extrusion lines to use our technology. License and Royalty payments were at a similar level to the previous year, with underlying growth distorted by a one-off limited exclusivity license fee in 2014. MEL is still an early stage growth business and our key performance measures include increasing the installed base at customers and further developing our licensable technology. Over the past 18 months we have delivered significant improvements in capital efficiency of line conversions from transfer mixer technology and the proven use of satellite units. Transfer mixers minimise operational downtime and cost when converting an extruder to MuCell® technology, while satellite units allow more than one extruder to be run from a MuCell extrusion gas system at a minimal marginal cost. Improved conversion costs for customers are one reason why equipment revenues grew by 47% compared to 2014, representing 36 units (2014: 20 units), while the total installed base at customers is now 88 units (2014: 52 units), an increase of 69%. Approximately half of these units are now in operational use at customers and are generating revenue, while we anticipate that the majority of the remaining units will be commissioned for commercial use within 6-12 months. Following sale, commissioning and commercial ramp up, the value delivered from our strategy of increasing the installed base will be delivered over the life of our commercial contracts, which are typically 10-12 years.

2015	Film	Blow Moulding	Sheet	Speciality	Total
Total Units	19	35	22	12	88
Unit in Use	5	19	12	9	45

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

Further development of IP remains a core activity for the MEL business unit and, pleasingly during 2015, improvements in processing certain polymers, additive technology as well as machinery modifications were developed and are factors which will contribute to our future success.

The MEL segment result was a loss (after amortisation costs associated with acquired intangible assets) of £0.80m (2014: loss of £0.41m), reflecting the increased investment made in people and IP development in MEL. Before amortisation costs on acquired intangible assets, the loss was £0.50m (2014: loss of £0.10m).

Investment

Zotefoams' core autoclave technology is used in both our AZOTE® and ZOTEK® block foam manufacture. The overall need to increase capacity is currently driven by our demand expectations for AZOTE® polyolefin foams, which account for over 95% of production volumes. Wherever possible, we seek capacity enhancements through measures such as improving efficiency, investing in services to increase cycle times, planning improvements etc. However, in 2014, we decided that the timing was right to begin the next phase of investment in a new high-pressure autoclave and to site this vessel in our facility in Kentucky, USA. Zotefoams Inc, in Kentucky, has operated low-pressure autoclave technology, for the final expansion of intermediate material, since 2001 and demand from the North American market will fill a new vessel capacity almost immediately, releasing capacity from the UK to service demand elsewhere. The investment programme was originally scheduled to commission in the second half of 2016, but will now more likely be the first half of 2017, due to a quality problems identified by the autoclave supplier requiring them to reschedule delivery of the vessel. The other components of the programme are running to schedule: a building extension, extrusion capability including feed systems, extruders and ovens, plant services including heating nitrogen gas to over 250 degrees Centigrade and systems to pressurise an autoclave with this superheated gas at pressures more than 300 times the pressure of a standard car tyre, not to mention sourcing appropriate raw materials, implementing an IT system and hiring and training a technically competent workforce. With this delay we have examined the need for capacity and expect the improvements made in Croydon during 2015, including some additional items to be brought on-line during 2016, to be sufficient to meet our demand needs until mid-2017. At our Croydon site we are planning further investment in low-pressure autoclaves and extrusion, specifically designed for ZOTEK® foams, as well as commissioning additional laboratory space for our technical and quality departments.

In Asia, our joint-venture with King Lai Group is scheduled to begin production in the first half of 2016 and will initially make product for clean-room insulation, where the largest market opportunities are China and India. The investment needed is relatively modest, with machines to heat and mould our ZOTEK® foams to the specific shapes needed. In addition to manufacturing we will expand our sales team dedicated to the T-FIT® advanced insulation products and, with the benefit of local manufacture and supply, expect this business to show strong growth over the coming years. In AZOTE® polyolefin foams we currently have a 50:50 sales joint-venture agreement with INOAC Corporation in Japan, with the plan to begin local manufacturing for the Asian market when sales volumes reach an appropriate level.

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 8%
- HPP sales grew by 25% and MEL sales grew by 25%. In both business units we continue to invest further in resources to deliver growth, with a clear understanding of the inherent profit potential being higher than the current Group operating margins. These business units now account for 20% of Total Revenue, up from 18% in 2014.
- Group operating margins before exceptional items increased to 11.6% (2014: 11.4%).
- Pre-tax return on average capital employed, excluding acquired intangible assets and their amortisation costs, decreased to 14.4% (2014: 14.7%). Levels of capital employed will continue to increase with the strategically significant investment in our Kentucky USA site, planned to commission in 2017. We expect the return on capital to reflect this until the benefit of this investment can be realised.

Financial Results

Income Statement
Total Revenue for the year increased by 11% to £54.44m (2014: £49.08m). Total Revenue consolidates all external sales made by Zotefoams and its subsidiaries as well as those from its joint-ventures and therefore shows like-for-like sales growth. Group Revenue, being the statutory reported measure, excludes the mark-up on sales made by the Azote Asia Limited joint-venture with INOAC. Group Revenue increased by 10% to £53.87m (2014: £48.95m), with growth in all three business units and in all major geographies.

Gross margins increased 1.4% to 27.6% (2014 before exceptional item: 26.2%), with the operational gearing benefit of the higher sales.

In 2014 the Group recorded an impairment charge of £1.27m related to manufacturing curtailment of the microZOTE® extrusion line, which was treated as an exceptional item.

Distribution and administrative expenses of £8.68m (2014: £7.27m) reflect the Group's investment to support future growth expectations and its increasing globalisation, albeit with a continued emphasis on tight cost discipline. These expenses have been reduced by a £0.21m net gain from foreign exchange hedging contracts and foreign exchange translation (2014: net gain of £0.31m).

The business unit results are shown in the Strategic Report. They do not included central plc costs, as they are not considered to be business unit specific. In 2015 central plc costs were £1.46m (2014: £1.34m).

Profit before tax increased 14% to £6.01m (2014 before exceptional item: £5.27m).

The effective tax charge is 20.2% (2014: 16.8%), which is in line with the UK corporation tax rate for the year of 20.3%. 2014 benefited from a favourable prior year adjustment, without which the effective tax charge was 20.6%.

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

	2015	2014
Euro – average	1.38	1.25
Euro – year-end spot	1.36	1.29
USD – average	1.53	1.65
USD – year-end spot	1.48	1.56

Earnings per share and dividend
Group basic earnings per share were 11.1p (2014 pre-exceptional item 10.7p, post exceptional item 8.2p). The Directors are recommending a 0.1p increase in the final dividend to 3.8p per share which, subject to shareholder approval, would be payable on 25 May 2016 to shareholders on the Company register at the close of business on 22 April 2016. This would bring the total dividend for the year to 5.60p per ordinary share (2014: 5.45p)

Cash flow and funding
Cash generated from operations was £8.41m (2014: £5.98m), mainly due to the improvement in profitability for the year and increased working capital efficiency.

Capital expenditure increased to £9.11m (2014: £7.57m), reflecting continuation of the Group's capacity expansion of the Kentucky, USA site, investment in its factory extension in Croydon and other capital programmes in the UK relating to capacity improvements, efficiency initiatives and operational and safety-related investment.

The costs of the Kentucky investment were part funded in September 2014 via a successful placing of 9.99% of the issued share capital for £8.45m net. In December 2015 Zotefoams Inc signed a 10-

year $8m fixed rate secured loan which, together with the 2014 equity raising and expected operational cash flows, secures funding for the capital programme.

After tax and dividend payments, the Group had net debt of £1.59m (2014: net funds £2.42m) at 31 December 2015. This net debt at the end of the year consists of £5.27m cash and bank overdrafts less £6.86m secured borrowings. At 31 December 2015 the Group had a £4.90m overdraft facility.

In March 2016 Zotefoams refinanced its existing bank facilities, signing a four-year £8m multi-currency revolving credit facility with a further £2m overdraft facility. This bank facility replaces the £4.9m overdraft facility previously in operation and provides the Group with a solid foundation for its stated growth strategy.

Pensions

The gross IAS19 deficit on the Company's Defined Benefit Pension Scheme (the 'Scheme') reduced by £0.89m to £5.24m as at December 2015 (2014: £6.13m).This is primarily due to a higher discount rate following rises in corporate bond yields over the year and contributions paid by the Company towards reducing the deficit.

The Company has agreed, under the last triennial actuarial valuation of the Scheme as at 5 April 2014, to make annual payments of £0.50m over the period to 5 April 2020 to eliminate a funding shortfall of £2.5m. It has also agreed to pay £0.16m per annum to cover administration expenses and premiums for death in service benefits.

The Company closed the Scheme to new members in October 2001 and ceased the future accrual of benefit for existing members at the end of 2005.

David Stirling
Group CEO

Statement of Directors' Responsibilities in Respect of the Annual Report

The Directors confirm that, to the best of their knowledge, the extracts from the consolidated financial statements included in this report, which has been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company taken as a whole, and that the management report contained in this report includes a fair view of the development and performance of the business

Consolidated Income Statement for the year ended 31 December 2015

	Note	**2015 £000**	Pre-Exceptional items 2014 £000	Exceptional items (see note 3) 2014 £000	Post-Exceptional items 2014 £000
Total Revenue	2	**54,437**	49,081	-	49,081
Adjustment for JV sales		**(568)**	(136)	-	(136)
Group Revenue		**53,869**	48,945	-	48,945
Cost of sales		**(38,863)**	(36,103)	(1,265)	(37,368)
Gross profit		**15,006**	12,842	(1,265)	11,577
Distribution costs		**(3,886)**	(3,442)	-	(3,442)
Administrative expenses		**(4,795)**	(3,829)	-	(3,829)
Operating profit		**6,325**	5,571	(1,265)	4,306
Finance income	4	**2**	2	-	2
Finance costs	4	**(306)**	(235)	-	(235)
Share of loss from JVs		**(11)**	(64)	-	(64)
Profit before taxation		**6,010**	5,274	(1,265)	4,009
Taxation	5	**(1,213)**	(926)	253	(673)
Profit for the year		**4,797**	4,348	(1,012)	3,336
Attributable to:					
Equity holders of the Parent		**4,824**	4,348	(1,012)	3,336
Non-Controlling Interest		**(27)**	-	-	-
		4,797	4,348	(1,012)	3,336
Earnings per share					
Basic (p)	6	**11.1**	10.7		8.2
Diluted (p)	6	**10.9**	10.5		8.1

ZOTEFOAMS

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2015

	2015 £000	2014 £000
Profit for the year	**4,797**	3,336
Other comprehensive income/(expense)		
Items that will not be reclassified to profit or loss		
Foreign exchange translation gains on investment in foreign subsidiaries	**814**	669
Actuarial gains/(losses) on defined benefit schemes	**443**	(2,334)
Tax relating to items that will not be reclassified	**(84)**	467
Total items that will not be reclassified to profit or loss	**1,173**	(1,198)
Items that may be re-classified subsequently to profit or loss		
Effective portion of changes in fair value of cash flow hedges net of recycling	**(46)**	(394)
Tax relating to items that may be reclassified	**6**	79
Total items that may be classified subsequently to profit or loss	**(40)**	(315)
Other comprehensive income/(expense) for the year, net of tax	**1,133**	(1,513)
Total comprehensive income for the year	**5,930**	1,823
Attributable to:		
Equity holders of the Parent	**5,952**	1,823
Non-Controlling Interest	**(22)**	-
Total comprehensive income for the year	**5,930**	1,823

Consolidated Statement of Financial Position
as at 31 December 2015

	Note	2015 £000	2014 £000
Non-current assets			
Property, plant and equipment		**35,372**	28,561
Intangible assets		**6,868**	6,851
Investments in joint-ventures		**163**	174
Deferred tax assets		**574**	502
Total non-current assets		**42,977**	36,088
Current assets			
Inventories		**9,862**	9,218
Trade and other receivables		**17,219**	13,437
Cash and cash equivalents		**6,148**	4,628
Total current assets		**33,229**	27,283
Total assets		**76,206**	63,371
Current liabilities			
Trade and other payables		**(10,445)**	(6,715)
Taxation payable		**(726)**	(385)
Interest-bearing loans and borrowings		**(1,102)**	(718)
Bank overdraft		**(879)**	-
Total current liabilities		**(13,152)**	(7,818)
Non-current liabilities			
Interest-bearing loans and borrowings		**(5,758)**	(1,489)
Deferred tax liabilities		**(938)**	(698)
Post employment benefits	7	**(5,238)**	(6,132)
Total non-current liabilities		**(11,934)**	(8,319)
Total liabilities		**(25,086)**	(16,137)
Total net assets		**51,120**	47,234
Equity			
Issued share capital		**2,221**	2,191
Own shares held		**(38)**	(17)
Share premium		**24,340**	24,340
Capital redemption reserve		**15**	15
Translation reserve		**1,636**	827
Hedging reserve		**(195)**	(149)
Retained earnings		**23,003**	20,027
Total equity attributable to the equity holders of the Parent		**50,982**	47,234
Non-controlling interest		**138**	-
Total equity		**51,120**	47,234

Consolidated Statement of Cash Flows
for the year ended 31 December 2015

	Note	2015 £000	2014 £000
Cash flows from operating activities			
Profit for the year		**4,797**	3,336
Adjustments for:			
Depreciation, amortisation and impairment		**3,476**	4,669
Finance income		**(2)**	(2)
Finance costs		**306**	235
Share of loss from joint-ventures		**11**	64
Equity-settled share-based payments		**223**	138
Taxation		**1,213**	673
Operating profit before changes in working capital and provisions		**10,024**	9,113
Increase in trade and other receivables		**(3,546)**	(2,398)
Increase in inventories		**(471)**	(1,249)
Increase in trade and other payables		**3,065**	1,171
Employee benefit contributions		**(660)**	(660)
Cash generated from operations		**8,412**	5,977
Interest paid		**(97)**	(55)
Tax paid		**(782)**	(868)
Net cash from operating activities		**7,533**	5,054
Interest received		**2**	2
Investment in joint-ventures		**–**	(238)
Purchases of intangibles		**(422)**	(1,606)
Purchases of property, plant and equipment		**(8,683)**	(5,967)
Net cash used in investing activities		**(9,103)**	(7,809)
Proceeds from issue of share capital		**126**	8,453
Repurchase of own shares		**(127)**	(19)
Repayment of borrowings		**(741)**	(865)
Proceeds from borrowings		**5,356**	–
Investment in subsidiary by non-controlling interest		**160**	–
Dividends paid		**(2,400)**	(2,112)
Net cash generated in financing activities		**2,374**	5,457
Net increase in cash and cash equivalents		**804**	2,702
Cash and cash equivalents at 1 January		**4,628**	1,957
Exchange losses on cash and cash equivalents		**(163)**	(31)
Cash and cash equivalents at 31 December	16	**5,269**	4,628

Consolidated Statement of Changes in Equity
for the year ended 31 December 2015

	Note	Share capital £000	Own shares held £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Hedging reserve £000	Retained earnings £000	Non controlling interest £000	Total equity £000
Balance 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	6	—	—	—	—	—	—	(2,112)	—	(2,112)
Total transactions with owners of the Parent		199	4	8,250	—	—	—	(2,056)	—	6,397
Balance at 31 December 2014 and 1 January 2015		2,191	(17)	24,340	15	827	(149)	20,027	—	47,234
Foreign exchange translation gains on investment in subsidiaries		—	—	—	—	809	—	—	5	814
Effective portion of changes in fair value of cash flow hedges net of recycling		—	—	—	—	—	(46)	—	—	(46)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		—	—	—	—	—	—	6	—	6
Actuarial gain on defined benefit scheme		—	—	—	—	—	—	443	—	443
Tax relating to actuarial gain on defined benefit scheme		—	—	—	—	—	—	(84)	—	(84)
Profit for the year		—	—	—	—	—	—	4,824	(27)	4,797
Total comprehensive income/(expenditure) for the year		—	—	—	—	809	(46)	5,189	(22)	5,930
Transactions with owners of the Parent:										
Shares issued		30	10	—	—	—	—	86	—	126
Shares acquired		—	(31)	—	—	—	—	(96)	—	(127)
Equity-settled share-based payments net of tax		—	—	—	—	—	—	197	—	197
Dividends paid	6	—	—	—	—	—	—	(2,400)	—	(2,400)
Total transactions with owners of the Parent										
Non-controlling interest on acquisition		—	—	—	—	—	—	—	160	160
Balance at 31 December 2015		**2,221**	**(38)**	**24,340**	**15**	**1,636**	**(195)**	**23,003**	**138**	**51,120**

Notes

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 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 2015 or 2014 but is derived from those accounts which have been approved by the Board of Directors. Statutory accounts for 2014 have been delivered to the Registrar of Companies and those for 2015 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 Chief Executive Officer, David Stirling, who is considered to be the 'chief operating decision maker' for the purpose of evaluating segment performance and allocating resources.

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

- Polyolefins: these foams are made from olefinic homopolymer and copolymer resin. The most common resin used is polyethylene. Included in this segment were microZOTE® foams made using polyolefin resins, an activity curtailed in 2014.
- 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-FIT® insulation, both made from PVDF fluoropolymer. Other products either commercially launched or being assessed in development include foams made from polyamide (nylon) and PEBA.
- MuCell Extrusion LLC ('MEL'): licenses microcellular foam technology and sells related machinery.

	Polyolefins		HPP		MEL		Eliminations		Consolidated	
	2015 £000	2014 £000	**2015 £000**	2014 £000	**2015 £000**	2014 £000	**2015 £000**	2014 £000	**2015 £000**	2014 £000
Total Revenue	**43,608**	40,440	**8,274**	6,614	**2,621**	2,088	**(66)**	(61)	**54,437**	49,081
Adjustment for JV sales	**(568)**	(136)	–	–	–	–	–	–	**(568)**	(136)
Group Revenue	**43,040**	40,304	**8,274**	6,614	**2,621**	2,088	**(66)**	(61)	**53,869**	48,945
Segment profit/(loss) pre-amortisation	**7,601**	6,008	**816**	1,022	**(497)**	(103)	–	–	**7,920**	6,927
Amortisation of acquired intangible assets	**(47)**	(21)	**–**	–	**(304)**	(304)	–	–	**(351)**	(325)
Segment profit/(loss)	**7,553**	5,987	**816**	1,022	**(801)**	(407)	–	–	**7,568**	6,602
Foreign exchange gains	–	–	–	–	–	–	–	–	**213**	310
Unallocated central costs	–	–	–	–	–	–	–	–	**(1,456)**	(1,341)
Operating profit	–	–	–	–	–	–	–	–	**6,325**	5,571
Net financing costs	–	–	–	–	–	–	–	–	**(304)**	(233)
Share of loss from joint-ventures	–	–	–	–	–	–	–	–	**(11)**	(64)
Taxation	–	–	–	–	–	–	–	–	**(1,213)**	(926)
Profit for the year (pre-exceptional items)									**4,797**	4,348
Segment Assets	**59,423**	48,214	**8,989**	7,955	**7,057**	6,526	–	–	**75,469**	62,695
Unallocated assets	**–**	–	**–**	–	**–**	–	–	–	**737**	676
Total assets									**76,206**	63,371
Segment liabilities	**(20,318)**	(14,257)	**(2,420)**	(210)	**(684)**	(587)	–	–	**(23,422)**	(15,054)
Unallocated liabilities	**–**	–	**–**	–	**–**	–	–	–	**(1,664)**	(1,083)
Total liabilities									**(25,086)**	(16,137)

Depreciation and impairment	**2,606**	4,155	**178**	151	**43**	38	–	–	**2,827**	4,344
Amortisation	**345**	21	**–**	–	**304**	304	–	–	**649**	325
Capital expenditure:										
Tangible fixed assets	**8,800**	5,488	**456**	129	**12**	94	–	–	**9,268**	5,711
Intangible fixed assets	**413**	1,577	**–**	–	**9**	29	–	–	**422**	1,606

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

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 & Eire £000	Continental Europe £000	North America £000	Rest of the world £000	Total £000
For the year ended 31 December 2015					
Total Revenue	**11,372**	**21,568**	**15,975**	**5,522**	**54,437**
Group Revenue from external customers	**11,372**	**21,568**	**15,975**	**4,954**	**53,869**
Non-current assets	**27,157**	**–**	**14,882**	**201**	**42,240**
Capital expenditure	**2,725**	**–**	**6,342**	**201**	**9,268**
For the year ended 31 December 2014					
Total Revenue	10,465	20,381	14,277	3,958	49,081
Group Revenue from external customers	10,465	20,381	14,277	3,822	48,945
Non-current assets	26,473	–	8,939	–	35,412
Capital expenditure	4,625	–	1,086	–	5,711

Non current assets do not include financial instruments, deferred tax assets or investments in joint-ventures.

Major customer
Revenue from one customer of the Group represents approximately £4.90m (2014: £5.13m) of the Group's Total Revenue.

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 resulted in a non-cash impairment charge as follows:

	2015 £000	2014 £000
Fixed asset impairment	-	1,175
Inventory impairment	-	90
	-	1,265

4. Finance income and costs

Finance income

	2015 £000	2014 £000
Interest on bank deposits	**2**	2

Finance costs

	2015 £000	2014 £000
On bank loans and overdrafts	**97**	57
Interest on defined benefit pension obligation	**209**	178
	306	235

5. Taxation

	2015 £000	2014 £000
UK corporation tax	**989**	859
Overseas taxation	**124**	44
Adjustment to prior year UK tax charge	**10**	(154)
Current taxation	**1,123**	749
Deferred taxation	**90**	(76)
Total tax charge	**1,213**	673

Factors affecting the tax charge
The tax charge for the year is equal to (2014: lower than) the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%). The differences are explained below:

	2015 £000	2014 £000
Tax reconciliation		
Profit before tax	**6,010**	4,009
Tax at 20.25% (2014: 21.5%)	**1,217**	862
Effects of:		
Research and development tax credits and other allowances less expenses not deductible for tax purposes	**(114)**	(61)
Overseas earnings and effect of US tax losses	**135**	26
Re-measurement of deferred tax	**(35)**	–
Adjustments to prior year UK corporation tax charge	**10**	(154)
Total tax charge	**1,213**	673

6. Dividends and earnings per share

	2015 £000	2014 £000
Final dividend prior year of 3.70p (2013: 3.60p) net per 5.0p ordinary share	**1,615**	1,421
Interim dividend of 1.80p (2014: 1.75p) net per 5.0p ordinary share	**785**	691
Dividends paid during the year	**2,400**	2,112

The proposed final dividend for the year ended 31 December 2015 of 3.80p per share (2014: 3.70p) 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 £1,688,000 if paid to all the shares in issue.

Earnings per ordinary share
Earnings per ordinary share is calculated by dividing consolidated profit after tax attributable to equity holders of the Parent Company of £4.82m (2014: £3.34m) 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 2015 was 768,911 (2014: 340,611). 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 IAS33 *Earnings*.

	2015	2014
Average number of ordinary shares issued	43,595,921	40,664,440
Deemed issued for no consideration	599,401	599,430
Diluted number of ordinary shares issued	44,195,323	41,263,870

7. Post Employment benefits

Defined benefit pension plans

The Company operates a UK registered trust-based pension scheme that provides defined benefits. Pension benefits are linked to the members' final pensionable salaries and service at their retirement (or date of leaving if earlier). The Trustees are responsible for running the Scheme in accordance with the Scheme's Trust Deed and Rules, which 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% per annum). The valuation method is known as the Projected Unit Method. The approximate overall duration of the Scheme's defined benefit obligation as at 31 December 2015 was 20 years.

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

Future funding obligation

The Trustees are required to carry out an actuarial valuation every 3 years. The last actuarial valuation of the Scheme was performed by the Scheme Actuary for the Trustees as at 5 April 2014. This valuation revealed a funding shortfall of £2,500,000. In respect of the deficit in the Scheme as at 5 April 2014, the Company has agreed to pay £492,000 per annum until 5 April 2020. In addition, the Company will pay £168,000 per annum to cover administration expenses and premiums for death in service benefits. The Company therefore expects to pay £660,000 to the Scheme during the accounting year beginning 1 January 2016.

Risks

Through the Scheme, the Company is exposed to a number of risks:

- Asset volatility: the Scheme's defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields, however the Scheme invests significantly in equities and other growth assets. These assets are expected to outperform corporate bonds in the long term, but provide volatility and risk in the short term.
- Changes in bond yields: a decrease in corporate bond yields would increase the Scheme's defined benefit obligation, however this would be partially offset by an increase in the value of the Scheme's bond holdings.
- Inflation risk: a significant proportion of the Scheme's defined benefit obligation is linked to inflation, therefore higher inflation will result in a higher defined benefit obligation (subject to the appropriate caps in place). The majority of the Scheme's assets are either unaffected by inflation, or only loosely correlated with inflation, therefore an increase in inflation would also increase the deficit.
- Life expectancy: if Scheme members live longer than expected, the Scheme's benefits will need to be paid for longer, increasing the
- Scheme's defined benefit obligation.

The Trustees and Company manage risks in the Scheme through the following strategies:

- Diversification: investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.
- Investment strategy: the Trustees are required to review their investment strategy on a regular basis.
- Annuities: the Scheme holds insurance contracts to pay some members' AVC benefits and spouses' pensions. This removes investment, inflation and longevity risk for those members.

The Company has recognised all actuarial gains and losses immediately in Other Comprehensive Income. The initial results calculated as part of the formal actuarial valuation as at 5 April 2014 have been updated to 31 December 2015 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	As at 31 December 2015	As at 31 December 2014
Discount rate	3.8%	3.6%
RPI inflation (before retirement)	2.7%	2.9%
CPI inflation (before retirement)	1.7%	1.9%

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:

	2015	2014
For an individual aged 65 in 2015		
– Male	22.4	22.3
– Female	24.4	24.3
At age 65 for an individual aged 45 in 2015		
– Male	24.1	24.0
– Female	26.3	26.2

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

	2015 £000	2014 £000
Balance Sheet obligations for:		
– Defined pension benefits	**5,238**	6,132
Income statement charge included in operating profit for:		
– Defined pension benefits	**209**	178
Actuarial gains/(losses) recognised in Other Comprehensive Income:		
– Defined pension benefits	**443**	(2,334)

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

	2015 £000	2014 £000
Market value of assets	**22,989**	22,819
Present value of defined benefit obligation	**(28,227)**	(28,951)
Funded status	**(5,238)**	(6,132)
Liability in the Balance Sheet	**(5,238)**	(6,132)

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

	2015 £000	2014 £000
Value of defined benefit obligation at start of year	**28,951**	25,826
Interest cost	**1,023**	1,138
Benefits paid	**(1,078)**	(1,100)
Actuarial gains: experience differing from that assumed	**(186)**	(56)
Actuarial gains: changes in demographic assumptions	**–**	381
Actuarial (gains)/losses: changes in financial assumptions	**(483)**	2,762
Value of defined benefit obligation at end of year	**28,227**	28,951

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

	2015 £000	2014 £000
Market value of assets at start of year	**22,819**	21,546
Interest income	**814**	960
Actual (loss)/gain	**(226)**	753
Employer contributions	**660**	660
Benefits paid	**(1,078)**	(1,100)
Market value of assets at end of year	**22,989**	22,819

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	+ 7%/–6%
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 2015		Year ended 31 December 2014	
Asset class	**Market value £'000**	**% of total Scheme assets**	Market value £'000	% of total Scheme assets
Equities	15,120	66%	15,512	68%
Corporate Bonds	3,967	17%	3,487	15%
Gilts	2,597	11%	2,633	12%
Cash	873	4%	752	3%
Insured pensioners	432	2%	435	2%
Total	22,989	100%	22,819	100%
Actual return on assets over the year:	588		1,713	

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 2015 were £390,000 (2014: £431,000).

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 2015 were £228,000 (2014: £276,000).

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 2015 were £76,000 (2014: £65,000).

For certain non UK based employees of the Company, the Company makes contributions into individual schemes. The contributions paid by the Company in 2015 were £1,000 (2015: £2,000).

For US based employees, Zotefoams Inc. operates a 401(k) plan. The contributions paid by Zotefoams Inc. in 2015 were £52,000 (2014: £54,000).