

## Zotefoams plc

### 2016 Annual Report and Notice of the 2017 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 for the year ended 31 December 2016, incorporating the Notice of the 2017 Annual General Meeting; and
- 2 Form of Proxy for the 2017 Annual General Meeting.

Copies of the 2016 Annual Report and the Notice of the 2017 Annual General Meeting are available on our website at:

<http://www.zotefoams.com/investors/annual-interim-reports/>  
<http://www.zotefoams.com/investors/agma/>

A condensed set of the financial statements, the Chairman's statement and Strategic report in respect of the Annual Report were included in the unaudited preliminary results announcement issued on 14 March 2017, which may be found at:

<http://www.zotefoams.com/wp-content/uploads/2017/03/Zotefoams-Prelim-Statement-14.03.17.pdf>

This announcement contains additional information for the purposes of compliance with the Disclosure and Transparency Rules, including the statement of Directors' responsibilities in respect of the Annual Report, principal risks and uncertainties and details of related party transactions. This information is extracted from the 2016 Annual Report in full unedited text. This announcement is not a substitute for reading the full Annual Report. Page and note references in the text below refer to page numbers and notes in the 2016 Annual Report.

#### 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 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, whose names and functions are listed on pages 32 and 33 of the Annual Report, 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, beginning on page 1 of the Annual Report, 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.

By order of the Board  
G C McGrath  
Finance Director

#### 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.

Key to Links to the Strategy:

- 1 Grow: Grow sales in the Polyolefin business
- 2 Develop: Develop a HPP portfolio and MEL customer base to deliver enhanced margins
- 3 Profit: Increase our profit margins
- 4 Improve: Improve our return on capital employed

Risk and potential impact	Mitigation actions
<p><b>Operational</b> Trend: → Link to strategy: 1, 2, 3, 4</p> <p>As the Group's operations are currently mainly on one site, a significant operational disruption or Safety, Health and Environmental ('SHE') incident could impact the Group's ability to manufacture and supply products. This could have sizeable financial and commercial consequences including, in certain defined circumstances, customer claims. It could also generate reputational risk.</p>	<p>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.</p> <p>Regular training is provided on SHE matters to the staff.</p> <p>Pressure equipment used is operated under the Pressure Systems Safety Regulations 2000 and is subject to systematic internal and frequent external inspections in accordance with the Safety Assessment Federation.</p>

	<p>The Group has extensive fire prevention systems in place and also 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> Trend: → Link to strategy: 1, 3, 4</p> <p>The Group is extending its operations in Kentucky to cover the full block foam manufacturing process. This is a significant capital project, which is reliant on some specialist suppliers and needs to be managed to time and budget.</p>	<p>The extension of our facilities in Kentucky is replicating, where appropriate, machinery and processes already in operation in the UK. Existing managerial and engineering support in North America is being supplemented by external project expertise and resource from the Group's Croydon operations. Alternative suppliers were considered. Raw materials will be trialed in the UK first to reduce the commissioning risk.</p>
<p><b>Supply chain</b> Trend: → Link to strategy: 1, 2, 3, 4</p> <p>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 and machinery used.</p> <p>The Group continually monitors suppliers and is investing significantly in the search for, and testing and approval of, alternative suppliers of critical materials.</p>
<p><b>Technology</b> Trend: → Link to strategy: 1, 2, 3, 4</p> <p>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>There are high barriers of entry to the market. Significant capital investment is required for the autoclaves and related infrastructure.</p> <p>The Group actively maintains its intellectual property. It 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>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>The Group reduces its technology risk by entering into new markets. For example, the development of High-Performance Products ('HPP') and MEL, where the product offerings are unique and protected by 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> Trend: ↑ Link to strategy: 2, 4</p> <p>The Company has a defined benefit pension scheme ('the Scheme') and any inability of the Scheme to meet its liabilities to its members could, ultimately, be the responsibility of the Company.</p> <p>There have in recent times been a number of legal cases challenging the validity of previously closed defined benefit schemes, but as yet no clear case law.</p>	<p>To minimise the risk to the Company of meeting the obligations under the Scheme, the Company took action to close the Scheme to new members in 2001 and closed it to future accrual of benefits in 2005. The Company is following the development of case law around the effective closure of defined benefit schemes. The Company will continuously work together with the Trustees to undertake de-risking activities to the Scheme, where feasible.</p> <p>The next triennial actuarial valuation of the Scheme is at 5 April 2017. As a recovery plan for the Scheme for the previous valuation (5 April 2014), the Company agreed to make a contribution to the Scheme of £41,000 per month until April 2020 to reduce the deficit.</p>
<p><b>Foreign exchange</b> Trend: ↑ Link to strategy: 1, 3, 4</p> <p>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 2016,</p>	<p>The Group reduces its foreign exposure for transactional items by making purchases either in euros or US dollars. 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 and US dollars.</p> <p>The Group is nearing completion of its significant capital investment in North America, which will reduce net exposure for transactional items on the US dollar by increasing the cost base in the USA, with local labour and raw material procurement.</p>

<p>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 has a hedging policy, which is approved by the Board. The Group hedges a proportion of its exposure for transactional items to foreign exchange by using forward exchange contracts.</p> <p>The Group, 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> Trend: → Link to strategy: 1, 2, 3, 4</p> <p>Our markets are exposed to general economic and political changes, such as Brexit, which may impact the Group's performance and ability to meet its strategic objectives.</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. The Group is operationally geared and its experience is that, in challenging circumstances, operational labour costs can be reduced, polymer prices generally fall with reduced economic demand giving a cost benefit and cash flow can be improved from both reducing working capital as well as slowing capital expenditure projects to help offset the effects of a downturn. The Group targets appropriate financial gearing to give it flexibility in a downturn.</p> <p>The Group will monitor developments of Brexit and take appropriate commercial action when the situation becomes clearer.</p>
<p><b>Financing</b> Trend: → Link to strategy: 1, 2, 3, 4</p> <p>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. In 2017 the Group is committed to a number of capital projects, the largest of which is the remainder of the US expansion programme amounting to £8.4m.</p> <p>The Group has, at 31 December 2016:</p> <ul style="list-style-type: none"> <li>• a ten-year, \$8m fixed rate loan;</li> <li>• £0.7m of a £3.5m loan outstanding;</li> <li>• a four-year, £8m reducing credit facility ('RCF') and a £2m overdraft facility; and</li> <li>• since March 2017, the Group has increased the RCF by £2m to £10m.</li> </ul> <p>The loans and RCF facility are secured against certain Group assets and are subject to covenants as described in note 21 of the Annual Report.</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> Trend: →</p>	<p>The Group's largest customers are distributors and converters of foam. The</p>

<p>Link to strategy: 1, 3, 4</p> <p>Loss, insolvency or divergence of interest with a major customer.</p>	<p>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, supply routes or channel partners to service these markets.</p>
<p><b>People</b> Trend: ↑ Link to strategy: 1, 2, 3, 4</p> <p>The failure to attract, develop or retain the right calibre of staff to deliver growing opportunities by product and geographic reach.</p> <p>The impact of Brexit on the Group's ability to retain mainland European nationals.</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 a Global Talent Manager, whose remit is to ensure senior and emerging talent is appropriate for the Group's current and future needs.</p> <p>The Group is following the developments of the UK's European Union exit negotiations closely and addressing its consequences on people.</p>

#### Related parties

#### **Directors**

The Directors of the Company as at 31 December 2016 and their immediate relatives control approximately 1.06% (2015: 1.9%) of the voting shares of the Company. Details of Directors' pay and remuneration are given in the remuneration report on pages 40 to 61. 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>2015</b>	<b>Company</b>	<b>2015</b>
	<b>2016</b>	<b>£000</b>	<b>2016</b>	<b>£000</b>
Key management emoluments	656	505	656	505
Company contributions to money purchase pension plan	70	73	70	73
Share related awards	134	140	134	140
	<u>860</u>	<u>718</u>	<u>860</u>	<u>718</u>

#### **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 Employees' 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 and Zotefoams Midwest LLC, which are incorporated in the USA.

KZ Trading and Investment Limited owns 100% of the ownership units of Kunshan ZOTEK King Lai Limited, which is incorporated China.

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

	Receivables owed by/(to)		Investments in	
	2016	2015	2016	2015
	£000	£000	£000	£000
Zotefoams Inc	10,000	4,747	-	-
KZ Trading and Investment Ltd	231	125	-	-
Azote Asia Limited	2,391	1,817	-	-
MuCell Extrusion LLC	(69)	(67)	-	-
Zotefoams International Limited	339	-	13,460	13,265

In addition, there is a net payable balance of £4,192,000 (2015: £2,166,000) owed by MuCell Extrusion LLC to Zotefoams Inc.

#### Enquiries:

James Kindell  
Company Secretary  
Zotefoams plc

12 April 2017

020 8664 1600

#### About Zotefoams plc:

Zotefoams plc (LSE – ZTF) is a world leader in cellular materials technology. Using a unique manufacturing process with environmentally friendly nitrogen expansion, Zotefoams produces and sells lightweight AZOTE® polyolefin and ZOTEK® high-performance foams for diverse markets worldwide. Zotefoams uses its own cellular materials to manufacture T-FIT® advanced insulation for demanding industrial markets. In addition, Zotefoams owns and licenses patented MuCell® microcellular foam technology, developed specifically for extrusion applications, from a base in Massachusetts, USA to customers worldwide.

Zotefoams is headquartered in Croydon, UK, with additional manufacturing sites in Kentucky and Oklahoma, USA (foam products manufacture and conversion), Massachusetts, USA (MuCell Extrusion) and Jiangsu Province, China (T-FIT®).

[www.zotefoams.com](http://www.zotefoams.com)

AZOTE®, ZOTEK®, T-FIT® are registered trademarks of Zotefoams plc  
MuCell® is a registered trademark of Trexel Inc.