

Corporate governance

Dear Shareholder

I am pleased to present the report on corporate governance on behalf of the Board.

At Zotefoams, we recognise the importance of being a well-managed business, not only for the interests of our shareholders, but for other stakeholders as well. The Board and I are committed to the highest standards of corporate governance and regularly monitor our compliance with the UK Corporate Governance Code. The Code is available from the Financial Reporting Council's website (www.frc.org.uk).

Statement of compliance with the UK Corporate Governance Code (the 'Code')

Under the UK Corporate Governance Code, we are required to state whether we have complied with the Code's provisions. The Board confirms that, throughout the financial year ended 31 December 2016, the Group applied all of the provisions set out in the UK Corporate Governance Code as published in September 2014.

The Board also confirms that the Group has applied the principles set out in the Code, including both the main principles and the supporting principles, by complying with the Code. Further explanation of how the principles and supporting principles have been applied is set out below and in the Directors' remuneration report, the Audit Committee report and the Nominations Committee report.

Board and Committee composition

As reported in last year's report, N G Howard retired as Chairman on 31 March 2016 and C G Hurst as a Director on 16 May 2016. I replaced N G Howard as Chairman on 1 April 2016 and G C McGrath replaced C G Hurst as Finance Director on 1 February 2016. A C Bromfield replaced R J Clowes as the Chair of the Remuneration Committee on 19 May 2016.

The previous Chairman stated in his report last year that R J Clowes would remain on the Board as Senior Independent Non-Executive Director for a period not to go beyond 30 June 2017, in order to provide continuity in experience and knowledge as the membership of the Board transitions and a further independent Non-Executive Director is found. We are still in the process of searching for such a Director and, therefore, the Board has agreed that R J Clowes should remain on the Board as Senior Independent Non-Executive Director for a further period not to go beyond 30 June 2018. The Board remains of the opinion that R J Clowes continues to be independent, notwithstanding the fact that he has served on the Board for over nine years, as he demonstrates being independent in his judgement and challenges management on matters.

AGM

We believe that the AGM is an ideal opportunity for the shareholders to attend and meet both the Executive Directors and the Non-Executive Directors, see the Croydon site and ask questions that they may have. The AGM is scheduled for 17 May 2017 and the Board looks forward to meeting you there.

S P Good

Chairman

20 March 2017

The Board and its Committees

The Board's role is to provide the entrepreneurial leadership of the Group within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board sets the strategic aims of the Group, ensures that the necessary resources are in place to achieve the Group objectives and reviews management performance. The Board's role is to act as representative of the shareholders and other stakeholders and focuses on the governance of the Group. Management is delegated to the Executive Directors and the senior executive management of the Group.

All Directors must take decisions objectively in the interests of the Group.

As part of their role as members of a unitary Board, Non-Executive Directors constructively challenge and help develop proposals on strategy. Non-Executive Directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of Executive Directors and have a prime role in appointing, and where necessary removing, Executive Directors, and in succession planning.

The Board has three principal committees which report into it and function within defined Terms of Reference. These are the Audit Committee, the Remuneration Committee and the Nominations Committee. The Terms of Reference for these Committees are available on the Group's website, www.zotefoams.com, and in paper form, on request to the Company Secretary.

The Board has put in place a schedule of matters that are reserved for its determination or which need to be reported to the Board. This schedule is reviewed regularly and was last updated in January 2017.

The Directors' attendance at meetings of the Board and the Committees is as follows:

Attendance at meetings	Board meetings		Audit Committee meetings		Remuneration Committee meetings		Nominations Committee meetings	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
A C Bromfield	11	11	4	4	8	8	2	2
M-L Clayton	11	11	4	4	8	7	2	2
R J Clowes	11	11	4	4	8	8	2	2
S P Good	11	11	1	1	8	8	2	2
N G Howard	3	3	n/a	n/a	1	1	2	2
C G Hurst	4	3	n/a	n/a	n/a	n/a	n/a	n/a
G C McGrath	11	11	n/a	n/a	n/a	n/a	n/a	n/a
D B Stirling	11	11	n/a	n/a	n/a	n/a	n/a	n/a

Chairman and Group CEO

The Chairman is responsible for the leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. The Chairman is also responsible for ensuring that the Directors receive accurate, timely and clear information. The Chairman facilitates the effective contribution of the Non-Executive Directors in particular and ensures constructive relations between Executive and Non-Executive Directors.

The Board considers that S P Good has sufficient time to devote to his role as being the Chairman of the Company. Mr Good has no executive positions, but is a Non-Executive Director of three other companies (Elementis plc, Cape plc and Anglia Water Services Limited).

The Group CEO is responsible for the running of the Group's business. He is supported by the other Executive Director and senior management team members in the Group.

Board balance and independence

The Board currently comprises two Executive Directors, three independent Non-Executive Directors and the Non-Executive Chairman. R J Clowes has acted as the Senior Independent Non-Executive Director throughout 2016.

The Chairman is also Chair of the Nominations Committee and a member of the Remuneration Committee. Only the respective Committee Chairs and members are entitled to be present at meetings of the Remuneration, Audit and Nominations Committees, but others may attend at the invitation of the Committees. During the year the Chairman met with the Non-Executive Directors several times without the Executive Directors present and the Non-Executive Directors met without the Chairman being present.

Appointments to the Board and the Nominations Committee

Appointments to the Board are proposed by the Nominations Committee and approved by the Board.

A separate Nominations Committee report provides details of the role and activities of the Committee and its work in relation to appointments to the Board.

The Board acknowledges the benefits of diversity, including that of gender but, when considering appointments to the Board, appointments are made purely on merit and against objective criteria. No specific policy or quotas have been set on diversity and, when search consultants are briefed of the search criteria, they are encouraged to cast their search sufficiently broadly to identify the best candidates. Care is taken to ensure that appointees, as well as the existing Directors, have sufficient time to devote to their roles.

Information and professional development

Each month all Directors receive management reports and briefing papers in relation to Board matters. New appointments to the Board receive an induction and, if appropriate, training. Training is made available in order to fulfil the requirements of being a Director of a listed company. The Directors have access to the Company Secretary and independent professional advisers, at the Company's expense, if required for the furtherance of their duties.

Corporate governance continued

Board evaluation

A formal review of the performance of the Board and its Committees is carried out each year. The review of the Chairman's performance is led by the Senior Independent Non-Executive Director together with the other Non-Executive Directors in consultation with the Executive Directors. The other Non-Executive Directors' performance is evaluated by the Chairman in consultation with the Executive Directors. The Executive Team's performance is evaluated by the Remuneration Committee in conjunction with the Group CEO (except in the case of the Group CEO, when the Group CEO is not present in that evaluation).

The evaluation of the Board normally takes the form of a questionnaire, prepared by the Chairman, and the results are compiled and discussed, with actions agreed. Each Committee undertakes its own evaluation, led by the relevant Chair. These take the form of a discussion reviewing the work undertaken during the year and actions agreed. Due to the Group's size, the Board feels, at this stage, it is not appropriate to use the services of an external facilitator for its annual evaluation, but will keep the matter under review.

The most recent Board evaluation was undertaken in the first couple of months following S P Good becoming Chairman on 1 April 2016. The Chairman held individual meetings with all Board members and then prepared a discussion document putting forward several recommendations, which included ensuring an appropriate balance on the Board agendas between strategic and operational topics, and a fundamental review of the strategy process to ensure issues such as people, culture, values and communications are also sufficiently covered.

All the evaluations were completed in a satisfactory manner.

Re-election

Re-election of Board members is required by the Articles at the first AGM following appointment and normally once every three years thereafter. However, the Code requires all directors of FTSE 350 companies to stand for annual re-election. Although the Group is not within the FTSE 350, best practice for Main Market Listed companies is to adopt the practice of annual re-election of all the Directors. The Board has decided, as has been the case for the last few years, that all of the Directors will stand for annual re-election at the 2017 AGM.

Remuneration Committee and executive remuneration

A report on the activities of the Remuneration Committee is contained within the Directors' remuneration report, together with the principles and details of executive remuneration.

Financial reporting

The Directors' responsibilities for preparing the financial statements are set out in the Statement of Directors' responsibilities.

Audit Committee and Auditors

A separate Audit Committee report provides details of the role and activities of the Committee and its relationship with the External Auditors.

Relations with shareholders

The Group is always willing, where practicable, to discuss with its shareholders its objectives to promote a mutual understanding. Meetings with institutional shareholders are held twice a year following the announcements of the Group's interim and final results. Other meetings are held at institutional shareholders' request. To ensure that the Board, particularly the Non-Executive Directors, understands the views of the shareholders, the Group's corporate brokers provide summary feedback from the investor meetings that they arrange, in particular the meetings held following the interim and final results announcements. The Chairman and the Senior Independent Non-Executive Director, as well as the other Non-Executive Directors, are available to meet institutional shareholders if requested.

The Board considers the Annual Report, the AGM and the corporate website www.zotefoams.com to be the primary vehicles for communication with private investors. The Chairs of the Audit and Remuneration Committees will normally be available at the AGM to answer questions. The Chairman, being also the Chair of the Nominations Committee, will normally be present as well.

Internal control

The Board has applied the Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Group faces. The Board regularly reviews the process, which has been in place from the start of the year to the date of approval of this report and which is in accordance with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with the Code, the Board regularly reviews the effectiveness of the Group's system of internal control, as well as how it is reported to the Board. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Board has also performed a specific assessment for the purpose of this Annual Report. This assessment considered all the significant aspects of internal control arising during the period covered by the report. The assessment also included a robust review of the principal risks facing the Group, including those that would threaten the Group's business model, future performance, solvency and liquidity. The Audit Committee assists the Board in discharging its review responsibilities.

During the course of its review of the system of internal control and the principal risks facing the Group, the Board had not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

Key elements of the Group's system of internal controls are as follows:

Control environment

The Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Group objectives. Overall business objectives are set by the Board and communicated through the organisation. Lines of responsibility and delegations of authority are documented.

Risk identification

Group management is responsible for the identification and evaluation of key risks applicable to its areas of business. These risks are assessed on a continual basis and may be associated with a variety of internal or external sources.

Information and communication

Annual budgets are a key part of the planning process and performance against plan is actively monitored at Board level, supported by quarterly forecasts. Statistics and commentary on actual operating performance are made available to all Directors monthly.

Through these mechanisms, the performance of the Group is continually monitored, risks identified in a timely manner, their financial implications assessed, control procedures re-evaluated and corrective actions agreed and implemented.

Control procedures

The Group has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties, reviews by management, internal audit and external audit to the extent necessary to arrive at their audit opinion.

A process of control self-assessment and hierarchical reporting has been established, which provides for a documented and auditable trail of accountability. These procedures are relevant across the Group and provide for successive assurances to be given at increasingly higher levels of management and, finally, to the Board. Planned corrective actions are independently monitored for timely completion.

Monitoring and corrective action

There are clear and consistent procedures in place for monitoring the system of internal financial and non-financial controls. The Audit Committee normally meets three times a year and, within its remit, reviews the effectiveness of the Group's system of internal financial controls. The Committee receives reports from the External Auditors, Internal Auditors and management.

Non-financial controls are reviewed regularly by executive management, who report any issues and corrective actions taken directly.