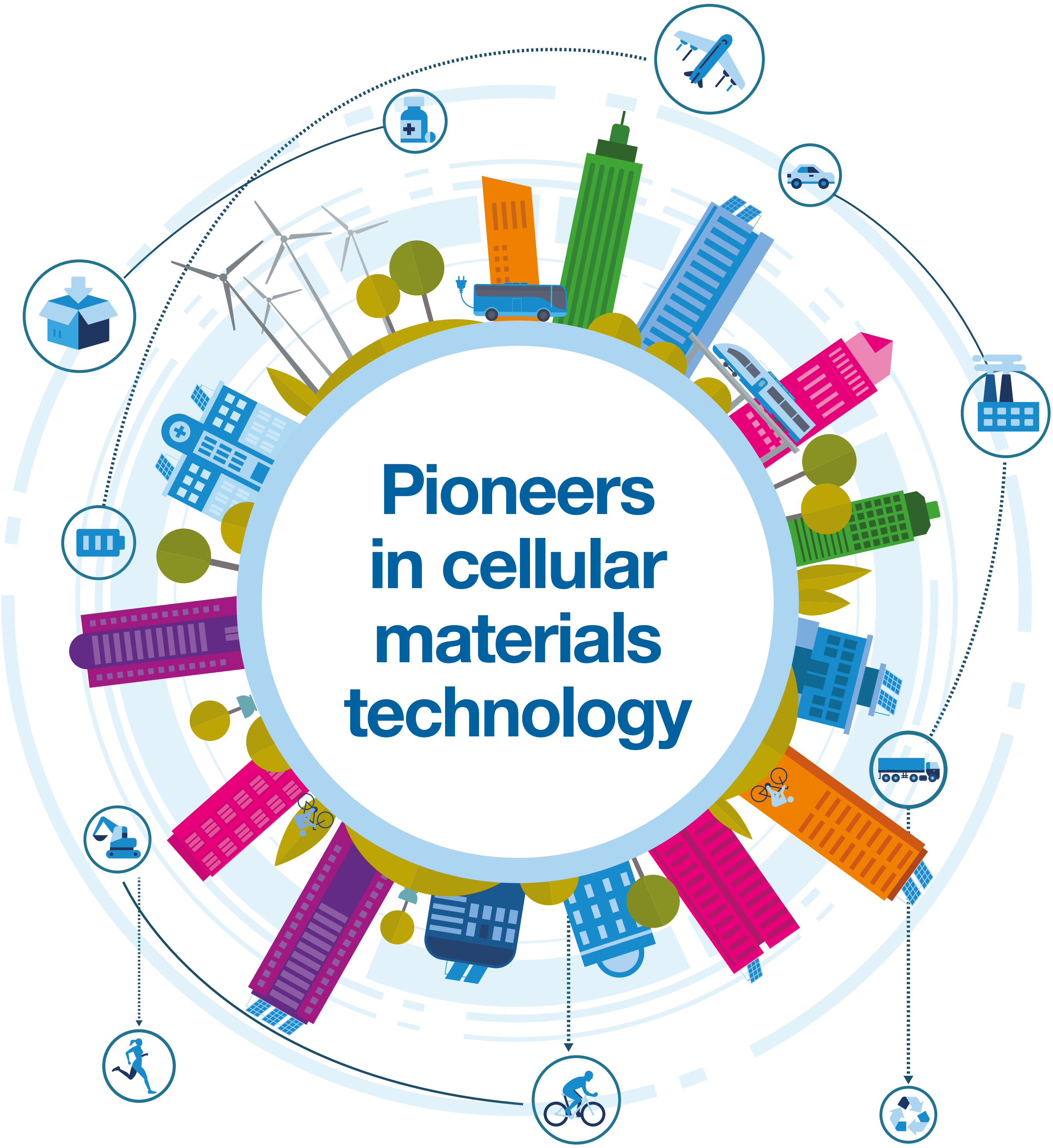
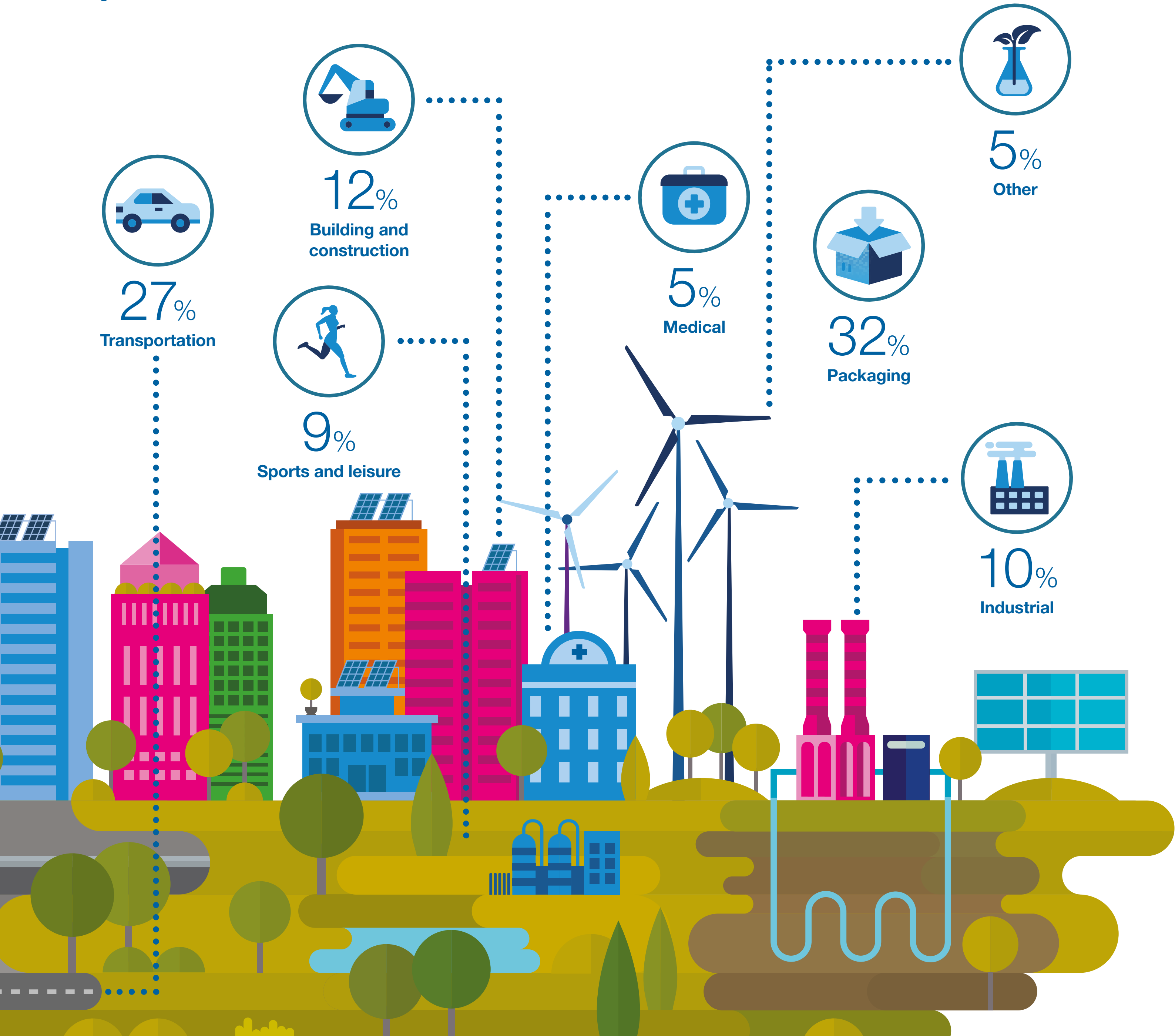
ZOTEFOAMS



Zotefoams plc Annual Report 2016

Contents

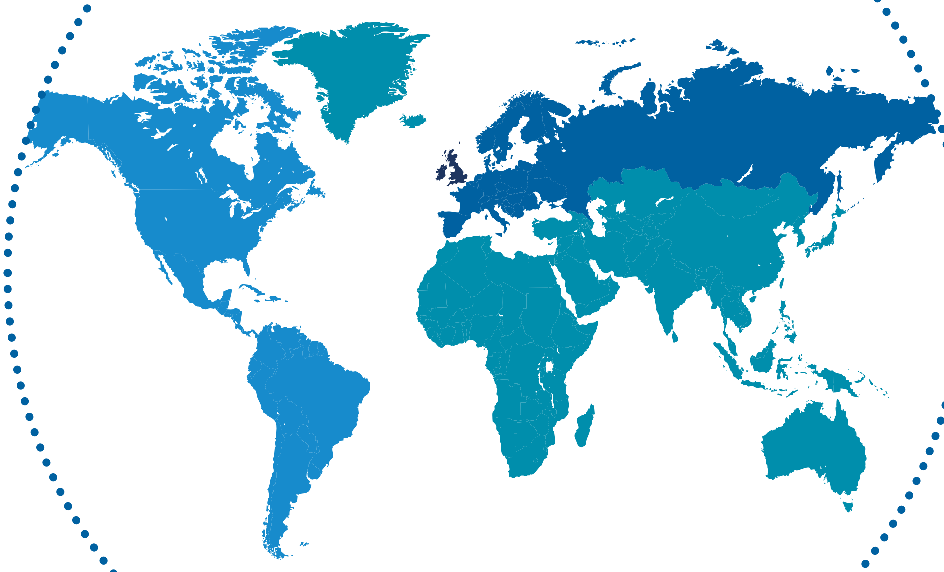
Revenue by market



At a glance

Using a unique manufacturing process with environmentally friendly nitrogen gas expansion, Zotefoams produces lightweight foams in the UK and USA for diverse markets worldwide. Zotefoams also owns and licenses patented MuCell® microcellular foams technology from a base in Massachusetts, USA, to customers worldwide and sells T-FIT® technical insulation.

Zotefoams by region



Continental Europe

Largest market for polyolefin foams sold through a network of over 80 customers. Branch office in Germany.

→ 38% of Group revenue

North America

Local manufacturing presence in Kentucky for polyolefin foams and headquarters of MuCell Extrusion LLC (MEL), based in Massachusetts, licensing technology globally. In 2016 opened Zotefoams Midwest LLC, in Oklahoma, to service the construction market.

→ 35% of Group revenue

United Kingdom and Eire

Group headquarters and main factory, manufacturing polyolefin and High-Performance Products (HPP) foams for sale globally.

→ 17% of Group revenue

Asia and the rest of the world

T-FIT® technical insulation venture in China for manufacture and sales of insulation products globally, as well as branch office in Thailand. Local representation of HPP. Joint venture with INOAC Corporation for polyolefin foams sales in Asia.

→ 10% of Group revenue

→ Read more about our strategy P08

Highlights

7%
growth in Group revenue to £57.38m
(2015: £53.87m)

35.8%
gross margin
(2015 restated: 32.1%)

20%
increase in reported profit before tax and exceptional items to £7.23m
(2015: £6.01m)

16%
increase in reported profit before tax and after exceptional items to £6.99m
(2015: £6.01m)

19%
increase in basic earnings per share to 13.3p
(2015: 11.1p)

15.4%
return on capital employed
(2015: 14.4%)

3%
increase in proposed final dividend payment to 3.9p
(2015: 3.8p)

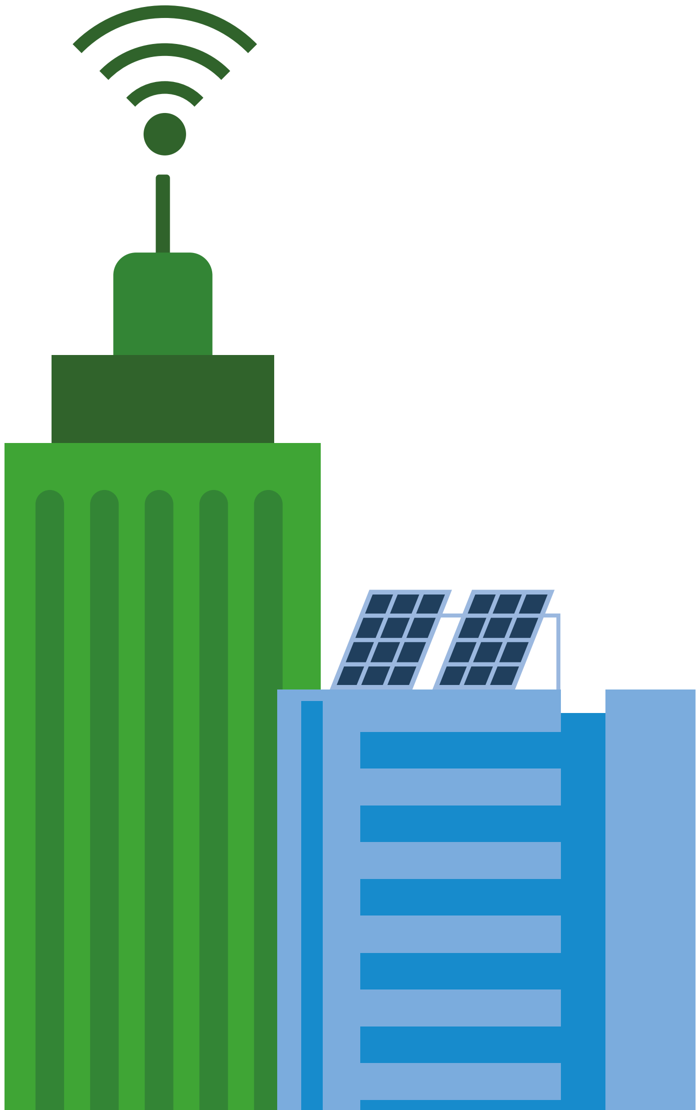
£12.6m
capex programme, including £6.9m investment in our Kentucky, USA facility

22%
gearing as the Kentucky, USA, investment reaches its final stages
(2015: 3%)

£2.5m
HPP segment profit for the year
(2015: £0.8m)

Solid progress in delivering strategy

- HPP segment profit for the year increase to £2.48m (2015: £0.82m)
- First significant sales of ZOTEK® PEBA energy-management foams into sports and leisure market
- £12.6m capex programme, including £6.9m investment in our Kentucky, USA, expansion project
- Zotefoams Midwest LLC operational and 100% ownership of Chinese JV, operational since January 2017
- Currency benefit used to continue investment in people and systems to support future opportunities and global footprint



Business overview

Zotefoams intends to be the world leader in cellular materials technology in our chosen markets. We deliver stakeholder value by using unique technology to create a portfolio of differentiated products. We focus resources primarily on markets where we are, or have the potential to be, a market leader. We intend to develop our business through sustained high levels of organic growth and, where appropriate, through partnerships or acquisitions.

Autoclave technology

Polyolefins

AZOTE®

Application adapted

Sheet and block polyolefin foams
Common polymers made extraordinary by Zotefoams' unique process. The process creates premium, durable, consistent cell-size materials

Key markets
Automotive, aviation, sport and leisure, packaging, construction, industrial, marine, military

HPP

ZOTEK®

Ground breaking by design

Unique sheet and block foams
Engineering polymers designed to compete against non-foam materials for specific markets and applications. This is made possible by Zotefoams' unique process

Key markets
Aviation, automotive, athletic footwear, packaging, construction

T-FIT®

Technical insulation

Pipe and fittings insulation
Manufactured from ZOTEK® foam for specialist high-technology industrial insulation applications

Key markets
T-FIT® Clean: pharmaceutical cleanrooms
T-FIT® Process: high temperature processing environments
T-FIT® Hygiene: food and personal care manufacturing

Extrusion technology

MEL

MUCELL®

Microcellular extrusion solutions

Lighter, greener, cheaper finished products
This unique, patented technology can reduce polymer consumption by 15% due to the creation of a microcellular foam core. MuCell® equipment fits any extrusion line and produces revenue from customer royalties and machinery sales

Key markets
Consumer packaging, (including Unilever's Dove Body Wash), automotive

Chairman's statement

Steve Good
Chairman

The Group is increasingly well resourced to support its ambitious plans for growth.

Results

I am pleased to report another year of progress, with good profit growth and, as a consequence of significant investments in organisational capability during the year, the Group is increasingly well resourced to support its ambitious plans for growth.

Group revenue increased by 7% to £57.38m (2015: £53.87m) and profit before tax and exceptional items increased by 20% to £7.23m (2015: £6.01m). After exceptional items, profit before tax increased by 16% to £6.99m (2015: £6.01m) and earnings per share was up 19% to 13.25p (2015: 11.10p).

It was a somewhat challenging year for our Polyolefin foams business. We operated close to full capacity in the earlier and latter parts of the year, but suffered from much softer mid-year demand in the UK and Europe. The rate of growth in our HPP business was adversely affected by a key aviation customer managing inventory lower in the downstream supply chain, although the remainder of that business continued to grow strongly. While overall sales volumes were lower as a consequence, the adverse impact was offset by the weakening of sterling against the euro and the US dollar, which materially benefitted our reported results and enabled the Group to continue to make significant investments in its operating cost base to support future growth whilst still growing earnings.

Strategy

Zotefoams intends to be the world leader in cellular materials technology in our chosen markets. We deliver stakeholder value by using unique technology to create a portfolio of differentiated products. We focus resources primarily on markets where we are, or have the potential to be, a market leader. We intend to develop our business through sustained high levels of organic growth and, where appropriate, through partnerships or acquisitions.

During the year we made solid progress in initiatives to support the delivery of our strategy. Our major investment in Kentucky will give sufficient capacity to allow us to meet our growth ambitions in our Polyolefin foams business while offering future flexibility for HPP production. We have continued to invest in opportunities to expand our technology platform, such as the foaming of 3D-complex shapes. The HPP business unit has also developed an exciting portfolio of market opportunities and made good progress in establishing business in sports, leisure, insulation and automotive applications. MuCell Extrusion LLC has improved its product and service offering and, albeit slower than anticipated, is beginning to show the real potential of its technology, focused on the consumer packaging market.

Investment

During 2016 Zotefoams set up two new sites in Oklahoma, USA and Kunshan, China, to service the construction end markets for AZOTE® polyolefin products and T-FIT® technical insulation respectively. Our major investment in Kentucky, USA, to increase global block foam capacity by 20%, is scheduled to come on stream around the middle of 2017.

We continue to invest at our Croydon site, with two additional, smaller, foaming autoclaves specifically designed for HPP products being commissioned in the first quarter of 2017. We also plan further investment in extrusion assets, alongside continued infrastructure to improve health and safety, efficiency and output from existing assets.

People and 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 who have worked hard to deliver further progress for the Group. We recognise that talent management is key to the delivery of opportunities created by our product portfolio and have therefore increased the number and, we believe, the quality of staff in senior managerial and technical positions throughout the Zotefoams Group. This increase in people, training and development is essential if we are to meet our ambitious goals.

Dividend

The Board is proposing a final dividend of 3.9p per ordinary share (2015: 3.8p) which, if approved by shareholders, would make a total of 5.75p per ordinary share for the year (2015: 5.60p), an increase of 3%. If approved, the final dividend will be paid on 25 May 2017 to shareholders on the register on 21 April 2017. A more detailed explanation of dividend policy is included within the Finance Director's review.

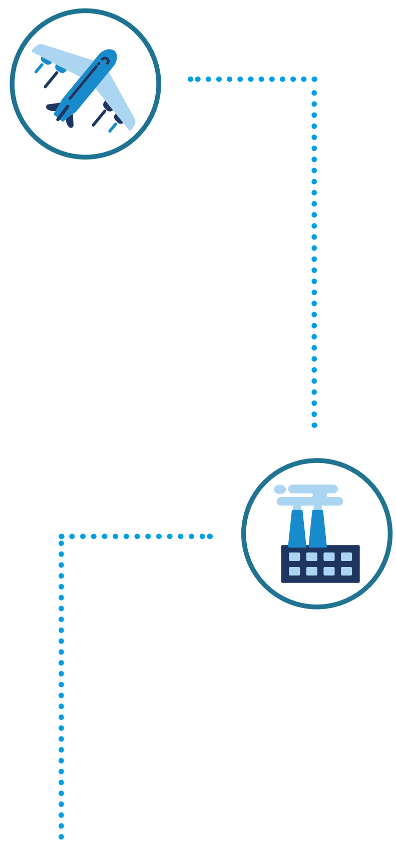
Current trading and outlook

We start the year with polyolefin sales volumes broadly similar to the previous year, as we operate close to capacity, and a double-digit increase in sales value, with the benefit of weaker sterling and good growth in our HPP business improving the sales mix.

Zotefoams' strategy of organic development, based around unique technology, offers the opportunity for sustained high levels of organic growth in markets where underlying growth is responsive to trends in demographics, regulation, environmental issues and sustainability. We see these opportunities driving organic sales growth across all business units in 2017.

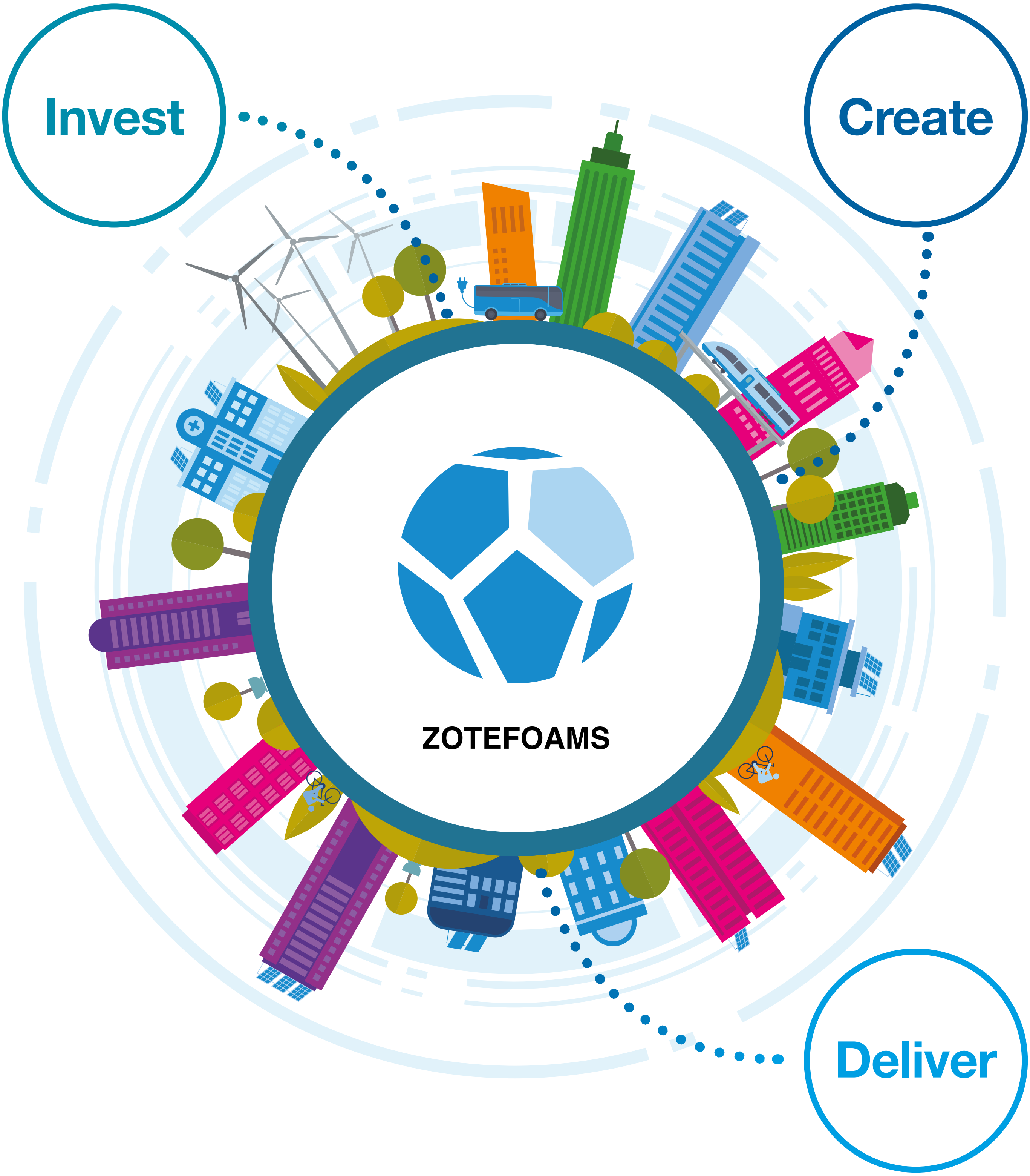
We are mindful of the less stable political and macroeconomic environment, and in particular the potential risks and complications which may be caused by Brexit. Despite this, the Board anticipates 2017 being another year of progress and remains confident about the long-term prospects for our business.

Steve Good
Chairman
20 March 2017



Business model

Our business model is designed to harness our unique manufacturing technologies and intellectual property to produce value-added products that meet or anticipate market requirements.



Zotefoams is a UK-headquartered manufacturing business operating globally, with subsidiary entities operating from three sites in the USA and one each in China and in Thailand. 56% of our asset base and 76% of our employees are UK-based, while 83% of Group revenue is generated outside the UK.

The main business of Zotefoams is the manufacture of polymer foam using bespoke autoclave technology to produce foams with unique attributes. These foams are value-added input materials used in a wide variety of industries globally. In certain cases Zotefoams participates further down the value chain by cutting and shaping these foams for specific markets and customers. Through MuCell Extrusion LLC, the Group licenses technology to manufacturers of plastic products, mainly in the consumer packaging industry.

Zotefoams operates in niche segments of the polymer foam market globally where our technology is particularly valued, and therefore does not have a high concentration of business with any particular customer or market.

Invest

> People
Our business is reliant on the quality of our people. We employ people from a broad range of cultures and backgrounds. Further information on our equal opportunities policies may be found in the Directors' report. We invest in our people so they have the necessary skills to contribute to the success of Zotefoams.

> Products
We engage with our suppliers and customers to ensure that the products that we produce are of a consistently high standard and meet our customers' needs. By listening to our customers we gain an understanding of their requirements not just for the present, but for the future as well. We use this information, coupled with our extensive knowledge, to research and develop products to meet those needs.

> Processes
We invest in our equipment and business processes to maintain and improve safety standards, improve operating efficiencies, increase capacity to meet future demands and reduce operating costs.

Create

> Defensible technology leadership
By investing in technology, often as an extension of our existing knowledge, we differentiate ourselves from our competitors. We view our technology leadership as a considerable barrier to entry.

> Unique attributes
Our market position is based around the uniqueness of our technology. We use this technology to create a portfolio of products with unique attributes which bring advantages to our customers.

> Market position
We are active in many markets, both geographical and across industries, and are therefore well positioned to identify and deliver benefits for users of Zotefoams' technology and products.

Deliver

> Stakeholder value
Delivering stakeholder value is core to our business. Our technology benefits people across the world by delivering lightweight, protective, regulatory-compliant, resource-efficient products, which are used in leading-edge solutions globally and which are manufactured in a safe environment.

> Sustainable margin
We charge the right price to our customers to give a sustainable margin, and continuously strive for efficiency improvements to maintain or improve margins through the supply chain.

> Accelerated growth
Continuing to deliver value on core products, augmented by success in new and innovative areas.

Forward-looking statements
This document contains statements that are not historical facts, but forward-looking statements that involve risks and uncertainties, including the timing and results of technical trials, product development and commercialisation risks, the risks of satisfying the regulatory approval process in a timely manner and the need for and the availability of additional capital. A discussion of principal risks and uncertainties is contained in the section entitled 'Risk management'. These forward-looking statements are based on knowledge and information available to the Directors at the date the Annual Report was prepared, and are believed to be reasonable at the time of its preparation, though they are inherently uncertain and difficult to predict. Actual results or experience could differ materially from the forward-looking statements.

Strategic framework

Zotefoams' strategic ambition

"We intend to be the world leader in cellular materials technology in our chosen markets"

Zotefoams considers four key performance indicators to measure its development and performance against the core elements of strategy.

	Strategic initiatives	Business model	What have we been doing in 2016?
GROW	Grow sales in the Polyolefin business	• Technology • Processes • People	Our objective is to grow sales in our AZOTE® business in excess of twice global GDP growth. Demand for improved resource efficiency, regulation and global demographics underpin our growth potential. In 2016 we grew polyolefin sales by 4%, with the benefit of favourable foreign exchange rates and product mix offsetting a decline of 5% in sales volume, which was mainly due to demand patterns in Europe.
DEVELOP	Develop a HPP portfolio and MEL customer base to deliver enhanced margins	• Products • Innovation • Customer value	HPP and MEL both offer inherently higher growth rates and margins than our AZOTE® foams. As we increase the proportion of our business from these products, and the HPP and MEL business units reach appropriate scale, our margins will improve. These business units now account for 22% of Group revenue, up from 20% last year.
PROFIT	Increase our profit margins	• Market position • Accelerated growth • People	Group operating margins increased to 13.3% before exceptional items (2015: 11.7%). The large increase in gross margin to 35.8% (2015 restated: 32.1%) more than offset our continued investment in product development, people and start-up costs for two foreign ventures. Gross margins increased favourably due to sterling weakness, a higher percentage of HPP sales and efficiency gains within HPP manufacturing.
IMPROVE	Improve our return on capital employed	• Sustainable margin • Unique attributes • People	Pre tax, pre exceptional return on average capital employed, excluding acquired intangible assets and their amortisation costs, increased to 15.4% (2015: 14.4%). Levels of capital employed will continue to increase with the strategically significant investment in our Kentucky, USA, facility, until it is commissioned around the middle of 2017. We expect the return on capital to improve further once the facility is fully operational.

Strategy

"We deliver stakeholder value by using unique technology to create a portfolio of differentiated products. We focus resources primarily on markets where we are, or have the potential to be, a market leader. We intend to develop our business through sustained high levels of organic growth and, where appropriate, through partnerships or acquisitions".

	Most significant risks	Potential impact	Key measures
GROW	• Operational • Supply chain • Foreign exchange	Interruption of operational capability risks loss of existing orders or future potential business. Supply chain failure, particularly in raw materials or engineering parts, may compromise our ability to meet sales commitments or opportunities. Approximately 80% of polyolefin foam sales are in currencies other than sterling. A short-term strengthening of sterling will impact reported sales while a longer-term structural strengthening may raise our manufacturing costs relative to competitors.	**+4%** Sales value growth in Polyolefin foams
DEVELOP	• Technology • Supply chain • Operational • People	Successful challenges to patents, replication of or improvements on our manufacturing processes would weaken our market position relative to competitors. Supply chain failure, particularly in raw materials or engineering parts, may compromise our ability to meet sales commitments or opportunities. Interruption of operational capability risks loss of existing orders or future potential business. To develop and sell new technology requires talented and dedicated people. As we grow we need to develop or recruit to meet our needs as, without a sufficient pool of requisite talent, we may not fulfil our potential.	From **20.2%** to **22.2%** Proportion of Group revenue represented by HPP and MEL
PROFIT	• Commercial • Supply chain	Loss or failure of a major customer or end user would lower sales and might increase costs in the short term as our supply chain re-balanced. Supply chain failure, particularly in raw materials or engineering parts, may compromise our ability to meet sales commitments or opportunities, losing margin in our business.	From **11.7%** to **13.3%** Improvement in Group operating margins (pre exceptional item)
IMPROVE	• Operational • Macro-economic	Operational risks may lead to loss of revenues or additional costs and, in some cases, machinery redundancy and/or excess capacity, which will reduce ROCE. Macro-economic downturn may reduce overall demand, leading to lower capacity utilisation and lower absolute margins, leading to reduced ROCE.	From **14.4%** to **15.4%** Improvement in return on capital employed

Global megatrends

Demand for Zotefoams' products is influenced by three global megatrends. These inform and dictate our product development and marketing strategy, as well as the allocation of resources.

Environment

Saving scarce resources has become a universal driver. Light weight is the key to reducing fuel usage and controlling emissions for the aviation and automotive industries. High-quality insulation conserves thermal energy.

Driver 1: Light weighting = lower fuel use and lower emissions

Driver 2: High-technology insulation = lower energy use and lower emissions

Driver 3: Reduced raw material usage = reduction in unit weight and resources required

Driver 4: Durability = less need for product replacement

Demographics

Better healthcare has created a population boom, especially in the older age groups. Demand for healthcare products is rising in line. Wealthier, more discerning, elderly consumers are a new and lucrative target audience.

Driver 1: Aging population = increased demand for medical equipment

Driver 2: More active population = increased participation in sports and leisure activities

Driver 3: Increase in purchasing power = increased expenditure on consumer goods

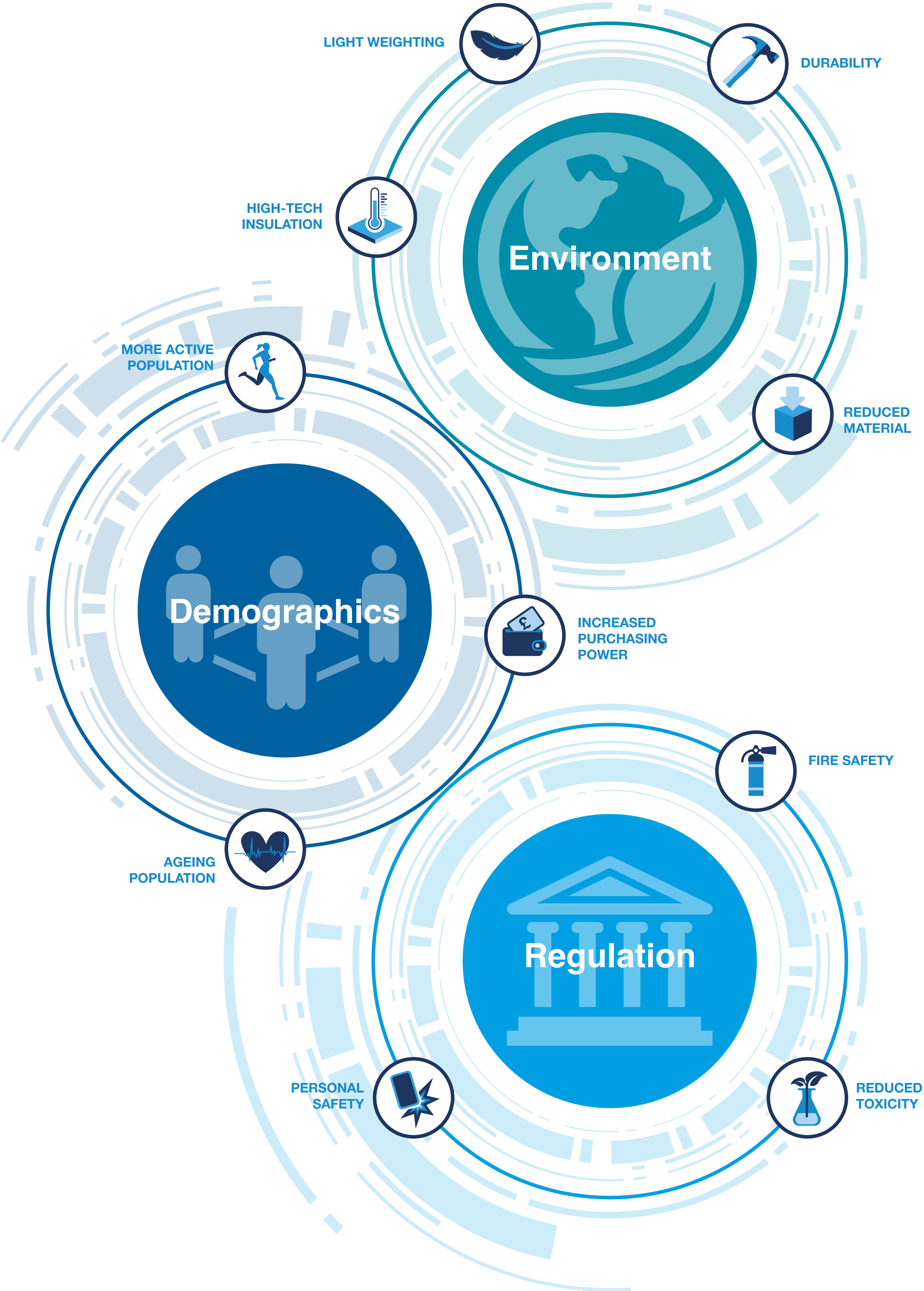
Regulation

Regulatory pressures to safeguard consumers are driving up standards worldwide. These standards in turn drive worldwide demand for both safer products and protective equipment.

Driver 1: Fire safety

Driver 2 : Reduced toxicity

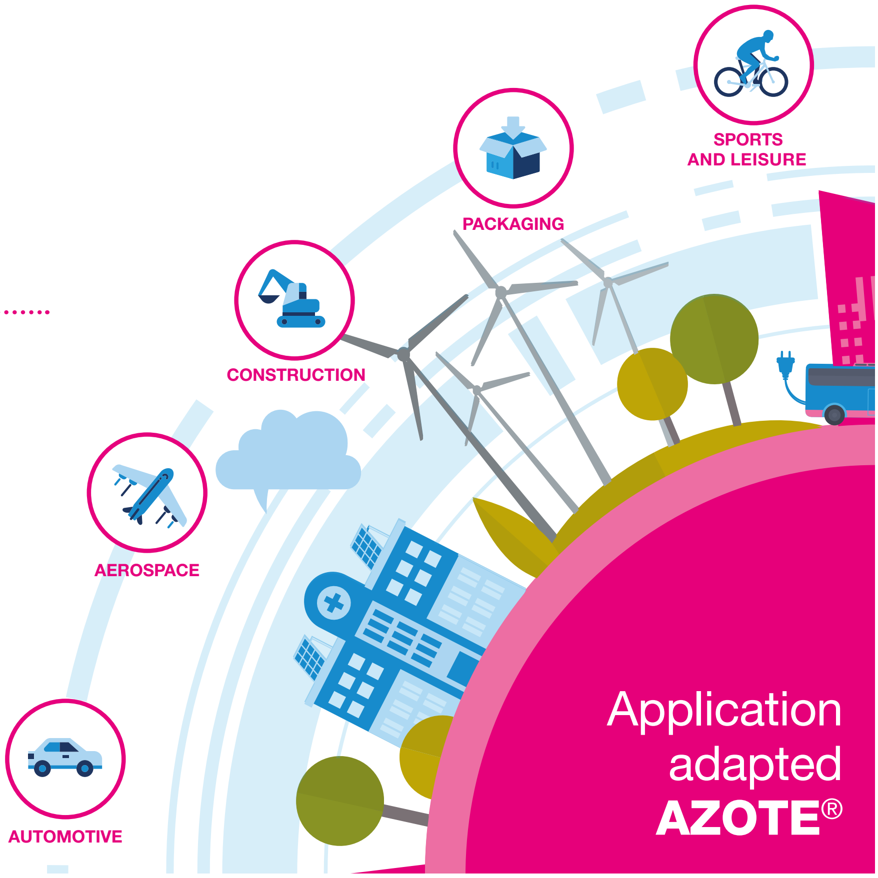
Driver 3: Personal safety = increased personal protection


LIGHT WEIGHTING
DURABILITY
HIGH-TECH INSULATION
Environment
REDUCED MATERIAL
MORE ACTIVE POPULATION
Demographics
INCREASED PURCHASING POWER
AGEING POPULATION
FIRE SAFETY
Regulation
PERSONAL SAFETY
REDUCED TOXICITY

Brand profiles

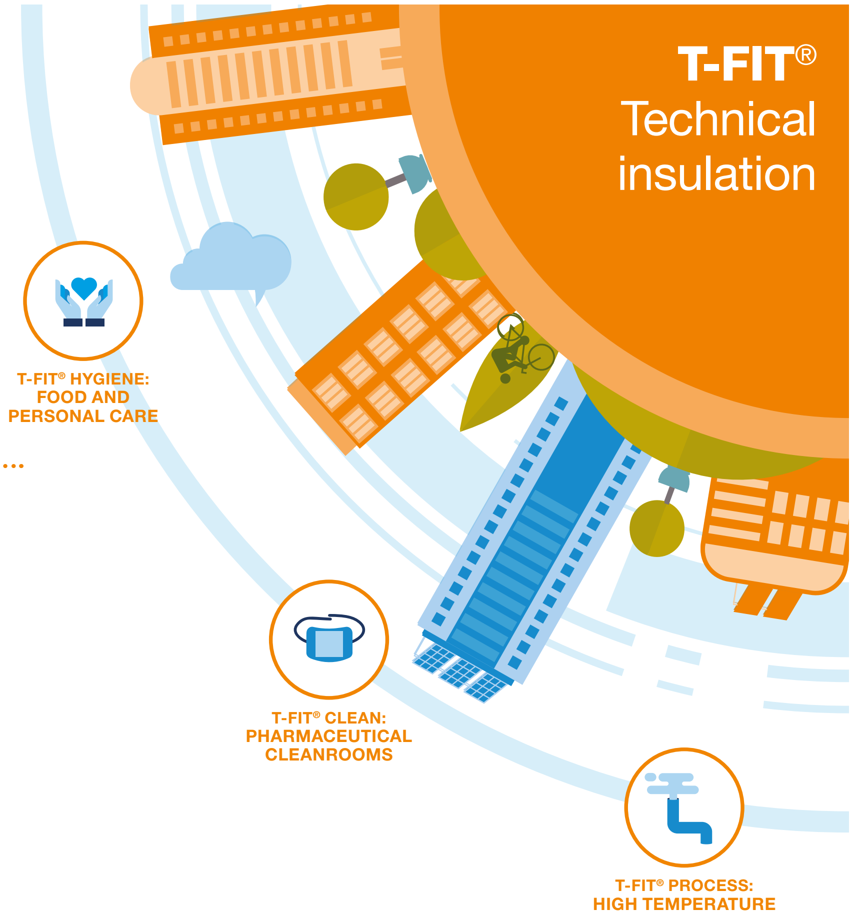
Sheet and block polyolefin foams

Common polymers made extraordinary by Zotefoams' unique process. The process creates premium, durable, consistent cell-size materials.



Pipe and fittings insulation

Manufactured from ZOTEK® foam for specialist industrial applications.



Unique sheet and block foams

Engineering polymers designed to compete against non-foam materials for specific markets and applications. This is made possible by Zotefoams' unique process.

Lighter, greener, cheaper finished products

This unique, patented technology can reduce polymer consumption by 15% due to the creation of a microcellular foam core. MuCell® equipment fits any extrusion line and produces revenue from customer royalties and machinery sales.

Group CEO's review

David Stirling
Group CEO

Higher value HPP and MEL share of Group revenue increased to 22%, with HPP margins more than doubling to 25%.

Business overview

Zotefoams is a UK-headquartered manufacturing business operating globally, with subsidiary entities operating from three sites in the USA and one each in China and in Thailand. 56% of our fixed asset base and 76% of employees are UK-based, while 83% of Group revenue is generated outside the UK.

The main business of Zotefoams is the manufacture of polymer foam using bespoke autoclave technology to produce foams with unique attributes. These foams are value-added input materials used in a wide variety of industries globally and compete primarily through the superior properties created by our technology: improved resource usage, reduced environmental impact and 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, medical and sports and leisure.

In certain cases Zotefoams participates further down the value chain by cutting and shaping these foams for specific markets and customers. In 2016 we established entities in Kunshan, China, to manufacture T-FIT® technical insulation products for pharmaceutical, semiconductor and biotech facilities globally and in Tulsa, Oklahoma, USA, to cut our foams for a niche segment within the North American construction industry.

Through our USA-based subsidiary MuCell Extrusion LLC ('MEL'), the Group licenses technology to manufacturers of plastic products, mainly in the consumer packaging industry. 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 a royalty payment on parts made.

Strategic Report Governance Financial Statements

	United Kingdom & Eire	Continental Europe	North America	Rest of the world	Total
2016					
Change %	**(12)**	**1**	**25**	**12**	**7**
Group revenue (£000s)	**10,008**	**21,864**	**19,940**	**5,564**	**57,376**
% of Group revenue	**17**	**38**	**35**	**10**	**100**
2015					
Group revenue (£000s)	11,372	21,568	15,975	4,954	53,869
% of Group revenue	21	39	30	10	100

Results

Zotefoams manages and reports its business in three main business units defined by product type: Polyolefin foams, HPP foams and MEL. The implementation of our global organic growth strategy requires increasing resources to develop and support the changing size and nature of our business. During the year management capitalised on the significant benefit of favourable currency rates to invest in these resources and still deliver a strong increase in profit, despite the impact of lower sales volumes in our Polyolefin foams business and a key customer in our HPP aviation business managing inventory lower in the downstream supply chain.

Group revenue increased 7% to £57.38m (2015: £53.87m), with growth in all three business units due to more favourable currency rates and improved mix despite a 5% decline in polyolefin foams volumes. Gross profit increased by 19% to £20.54m (2015 restated: £17.27m) and our gross margin improved to 35.8% (2015 restated: 32.1%), with HPP margins very strong in the second half of the year. The large increase in gross profit funded increased resources in distribution and administrative expenses, including technical costs, underpinning our capability to support future growth expectations and the further globalisation of our Group, whilst still delivering growth of 20.9% in operating profit before exceptional items to £7.65m (2015: £6.33m). Overall more favourable foreign exchange rates, before the impact of any hedging, increased operating profit by £2.78m, with a Group revenue benefit of £5.35m offset by an estimated increase in operating and raw material costs of £2.57m. In 2016 there was an exceptional charge of £0.24m relating to an efficiency programme in our Croydon UK facility. Including this, operating profit increased by 17% to £7.40m (2015: £6.33m) and profit before tax by 16% to £6.99m (2015: £6.01m).

Polyolefin foams

AZOTE® polyolefin foams are manufactured using our unique, high-pressure, nitrogen gas process. This physical expansion process differentiates Zotefoams from competitors manufacturing similar foams from low-density polyethylene ('LDPE'), which is our main raw material. Zotefoams produces foams that are more consistent, lighter weight and possess higher purity compared to foams manufactured using chemical technology. These superior attributes are valued globally in many uses with examples as diverse as aerospace, sports equipment and medical packaging.

The main uses for our AZOTE® foams are shown in our brand profiles on pages 12–13 and underlying growth of many of these segments is driven by global trends in demographics, regulation and environmental, including resource efficiency. The main geographical markets for our AZOTE® foams are UK, continental Europe and North America as, beyond this, distribution costs limit the market opportunity. However, we do generate approximately 10% of sales outside these areas, mainly in Japan and China, where more niche markets value the technical properties of our foams. We target overall growth in Polyolefin foams in excess of twice global GDP and see opportunities in all markets to contribute to this goal.

Revenue from Polyolefin foams increased by 4% to £44.73m (2015: £43.04m), with gains largely driven by favourable foreign exchange rates and the value added from the Zotefoams Midwest foam cutting operation more than offsetting a 5% decline in sales volume. In constant currency, sales declined by 5%. Market demand was variable during the year with a relatively strong overall start and finish to the year, where we operated close to capacity, dragged down by sluggish demand in UK and continental Europe from around mid-year until late October. Inventory management through the supply chain accounted for some of these swings, with the pick up later in the year continuing into 2017.

Group CEO's review continued

However, German market sales were adversely impacted by actions of our largest customer and we have now begun selling direct and through additional channels to improve visibility and control in this important market.

Polyolefin foams' segment profit was up 5% at £7.96m (2015: £7.55m), after the amortisation of acquired intangible items. In constant currency, segment profit was £6.06m. The average price of LDPE, our main raw material which is sold in euros, declined slightly in 2016 compared with the prior year, although our purchase cost increased by approximately 9% due to weaker sterling. Overall reported margins in this segment remained around 18%, with higher selling prices offset by increased raw materials cost and the less favourable operational gearing of lower sales volumes.

HPP

The High-Performance Products ('HPP') business unit is comprised of ZOTEK® block foams and T-FIT® technical insulation. ZOTEK® products use Zotefoams' unique autoclave technology applied to high-end polymers such as PVDF fluoropolymer, nylon or PEBA. Combining the original polymer properties with our foaming process creates truly unique materials. ZOTEK® F fluoropolymer foams, which account for 72% of HPP sales, are inherently fire and chemical resistant and are mainly used in aerospace applications. During the year sales volumes of ZOTEK® F foams for use in aviation, which is our main market, declined slightly as a key customer managed inventory lower in the downstream supply chain. ZOTEK® N nylon foams are designed to operate at very high temperatures and find uses in a wide variety of mainly industrial applications. Sales approximately doubled to 5% of HPP segment revenue. ZOTEK® PEBA foams, which were the fastest growing product in HPP during the year, have excellent kinetic-energy management properties and are being sold primarily in sports and leisure applications. T-FIT® technical insulation is manufactured from ZOTEK® F foams, and is sold primarily for use in cleanrooms. In 2015 we set up a joint-venture company Kunshan ZOTEK King Lai Ltd ('KZKL') to manufacture T-FIT® products in Kunshan, China and expected this to be operational in 2016. Numerous operational and administrative issues delayed this project and, late in December 2016, we bought out our joint-venture partner. I am pleased to report that early in 2017, after absorbing more cost and management time than expected, KZKL is now operational and we can focus on the growth of our T-FIT® business.

We believe our portfolio of HPP growth opportunities is very strong, all of which have higher margin potential than our polyolefin foams products. Many of the applications on which we are working are pioneering and, therefore, the timing of revenue generation is difficult to predict.

Polyolefin foams

	2016[2] £m	2015 £m	% Change
Group revenue	44.73	43.04	4%
Segment profit pre amortisation[1]	8.00	7.60	5%
Segment profit post amortisation	7.96	7.55	5%
Segment profit margin[1]	18%	18%	

HPP

	2016 £m	2015 £m	% Change
Group revenue	9.99	8.27	21%
Segment profit pre amortisation	2.48	0.82	204%
Segment profit post amortisation	2.48	0.82	204%
Segment profit margin	25%	10%	

MEL

	2016 £m	2015 £m	% Change
Group revenue	2.73	2.62	4%
Segment loss pre amortisation	(0.40)	(0.50)	20%
Amortisation of acquired intangibles	(0.42)	(0.30)	
Segment loss post amortisation	(0.82)	(0.80)	(3%)

1 Excludes amortisation of acquired intangible items.
2 Excludes exceptional item.

Nevertheless, the progress we made during 2016, particularly in PEBA and Nylon foams, is very encouraging for 2017 and beyond.

HPP sales increased by 21% in the year to £9.99m (2015: £8.27m), equivalent to 7% at constant exchange rates, and now represent 17% of Group revenue. The majority of HPP sales and raw materials costs are US dollar denominated, while most other costs are incurred in sterling. The favourable foreign exchange rates and positive operational gearing therefore benefitted gross margins, which improved to 51% (2015: 40%). The HPP segment reported a profit of £2.48m (2015: £0.82m), which was a significant driver of Group profits, particularly in the second half of the year. Constant currency adjusted, segment profit increased 89% to £1.53m.

MEL

MuCell Extrusion LLC ('MEL') licenses microcellular foam technology and sells related machinery. 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. MEL technology offers the potential to reduce the plastic content of an article by around 15% by injecting inert gas to displace plastic with microcellular bubbles. MEL technology can be used with most common plastics and reduces material consumption with no negative impact on recycling. The primary target market for MEL is consumer packaging, where production volumes are large and developments are scalable across geographic and product markets. Polymer sheet, which is moulded into containers, pots and cups, as well as films for bags and blow-moulded articles such as bottles, can all benefit from MuCell® technology.

2016 was a year in which the focus in MEL was on standardisation and incorporation of the latest technology in our equipment, deeper understanding of the challenges of customers moving into volume production with specific products, resins and machinery configurations, and on a small number of major projects which will generate large equipment revenues in 2017. As a result, MEL's capabilities have been expanded and it is now able to act as a partner in product development, in addition to being an expert in foaming technology.

As a result of this change in focus during 2016, the conversion rate of our equipment slowed to an additional 22 lines, bringing the total installed base to 111 lines. During the year MEL also refined its equipment offering by developing the technology for customers to run multiple extrusion lines from a single MuCell® SCF, which is the critical equipment that controls gas injection at extremely high pressure. The lower capital cost of these satellite units, which were used to convert 11 of the 22 lines in 2016, further enhances the potential returns to customers, making MEL technology even more appealing.

Sales increased by 4% to £2.73m (2015: £2.62m), although the US dollar sales value of equipment reduced since fewer SCF lines were sold than in 2015 as a result of customers utilising the lower-priced satellite units. Overall licence and royalty income declined slightly as increases from most customers were offset by the timing of licensing income recognition for a large customer, who adopted an alternative agreement, which resulted in certain revenue obligations falling into 2017. Overall order intake in 2016 was at record levels buoyed by two orders with a combined value in excess of $2m, $1.6m of which will not be recorded as sales until Q1 2017, where licensees are investing in complete, new, extrusion lines to utilise our technology. MEL's operating loss, pre amortisation, reduced to £0.40m (2015: £0.50m), with no constant currency adjustment, and machinery margins improved due to standardisation and high-margin licence and royalty income remaining stable at approximately one-third of revenues.

MEL's growth will come from signing additional licensees and managing a client portfolio of 25 licensees as at 31 December 2016, 12 of which are not yet in commercial production. We have high levels of interest in our technology and expect to continue to increase the number of licensees each year at a rate broadly consistent with that achieved over the past four to five years. Existing licensees are at different stages of their lifecycle, and those in production are focused on increasing utilisation of our technology. Over the past few years we have gained an additional depth of knowledge in our key markets of film, sheet and blow-moulded containers and this is highly beneficial to helping existing licensees into commercial production for their first products.

Health and safety

The Group takes health and safety very seriously. Zotefoams plc is certified to accredited standards including OHSAS 18001 on Health and Safety and ISO 14001, the International Standard for Environmental Management Systems, and is regularly audited against these standards. Similar standards exist in our international businesses. The most strictly controlled parts of the Croydon site are where high-pressure gas is used, and these operating vessels are subject to stringent regulations. Employee induction and refresher training are essential elements of the Group's approach to safety, as is an environment that encourages, and acts upon, unsafe or potentially unsafe conditions. During the year the Group suffered 13 (2015: seven) reportable lost time injuries, defined as an absence in excess of one week. Ten of these were in a three-month period around a Croydon site restructuring programme, where there was significant change in the workplace and employee roles, including redundancies, which, in retrospect, highlighted areas for improvement in our processes. Until this period, the Group had enjoyed over 300 days without a lost time injury. In addition to investigating every incident and putting corrective actions in place, the Group

	Film	Blow moulding	Sheet	Speciality	Total
2016					
Total units	22	43	32	14	111
2015					
Total units	19	35	22	12	88

has reassessed its health and safety environment and commenced a number of actions and training programmes with a target of zero lost time accidents.

Investment

Zotefoams' core autoclave technology is used in both our AZOTE® and ZOTEK® block foam manufacturing. This manufacturing process comprises three main, separable, steps: extrusion of polymer into a solid sheet, high-pressure nitrogen gas impregnation and low-pressure foaming. Currently our UK site operates all three processes and, since 2001, has supplied our site in Walton, Kentucky, USA, with nitrogen-impregnated sheet for foaming. In Kentucky, we are investing approximately $31m in infrastructure, two extruders and a high-pressure autoclave to increase global capacity by 20%. This capacity will begin to come on stream around the middle of 2017, while a second high-pressure autoclave body, included as part of the investment, will allow us to double capacity on this site as needed.

Our Croydon site added additional laboratory space and equipment during 2016 and completed the majority of work on two smaller low-pressure autoclaves and an additional extrusion line, both specifically designed for ZOTEK® foams, which are currently in the process of being fully commissioned.

In Asia, Zotefoams invested for the first time in foam thermoforming machinery. Normally associated with our customers and downstream processing, these machines, installed at KZKL, will be used to manufacture T-FIT® products for global cleanroom insulation, where the largest market opportunities are China and India. In the USA, we established Zotefoams Midwest in Tulsa, Oklahoma, USA, which cuts our foams for the construction market, thereby adding value in a typically higher-volume, lower-margin segment of our business. These two 'downstream' investments increase our ability to influence and control defined segments of our business with high-volume, value-added potential.

Main trends and factors

Zotefoams' manufacturing processes are unique and capital intensive and to optimise profitability we operate at high levels of capacity utilisation 24/7. During 2017 we plan to commission our additional investment in Kentucky, USA, which will bring additional capacity and increased overhead costs and depreciation. Manufacturing for North American customers from our Kentucky facility will reduce internal freight and duty costs from the UK, but this will take time to realise fully. Therefore, in 2017, one of the key factors for our business is to commission our new Kentucky capacity effectively, manage the transition of production from the UK in a timely manner to mitigate the impact of the additional costs during transition and, thereafter, to operate at high levels of Group capacity utilisation in order to absorb the additional overhead and fixed costs.

Over time we expect our higher-margin HPP business and the potentially high-margin but currently sub-scale MEL business to account for a larger percentage of sales. While we continue to identify new opportunities in our ZOTEK® F business, as well as leverage those already identified in the aviation market, we see positive developments in our Nylon and PEBA-based foams, which will help diversify the HPP portfolio as they find traction in their respective markets. The rate of growth of these two segments will be a significant determinant of the development of Group profitability.

We manage our portfolio of businesses to ensure AZOTE® foams can deliver the required high levels of asset utilisation, while focusing the majority of development expenditure on HPP and MEL to support higher growth rates. As our global profile and market balance changes we need to ensure the administrative and support structures are in place to manage the risk and opportunities we create. This includes reacting to external changes, such as Brexit, which is likely to place barriers between our UK facility and continental Europe, which is both our largest market and the source of most raw materials. While it is too early to take any concrete action, we are considering potential outcomes from Brexit negotiations and their possible impact on our business, including the approximately 50 non-UK European Union nationals currently working in mainly management, technical and administrative roles at our Croydon facility.

Overall we consider the main trends driving demand (shown on pages 10 and 11) to be positive, augmented by our use of technology to develop innovative, higher-growth products.

David Stirling
Group CEO
20 March 2017

Our people

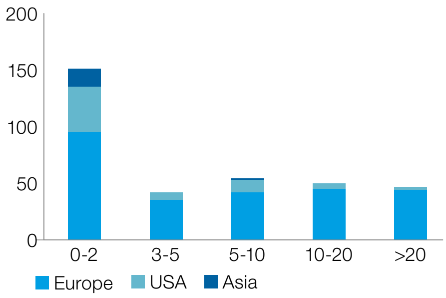
Investing in people

As a business with ambitious growth plans, employing people with the right capabilities is consistently both a priority and a challenge. We operate in a complex market using unique technology, which makes it is essential that we excel in attracting, engaging and retaining talented people.

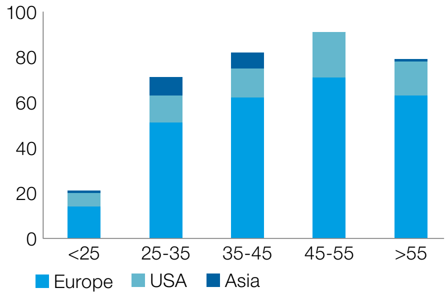
Over the last two years our investment in human resources and talent has yielded significant progress in recruitment. Attention to employer branding and resourcing, with increased focus on potential, has attracted a number of high-calibre people into our technical and commercial teams. Many of these new hires have PhDs or MBA qualifications. In addition, the Group has expanded its executive management team with expertise aligned to its strategic ambition.

Going forward, it is critical that we can offer the right incentives to continue to attract good people. Having invested in recruitment, training and development, it is important to be able to retain our employees. This is an area where we do well, with a consistent history of employee turnover rates under 10%, well below industry average. We know that rapid career progression is particularly important for millennial professionals – a key target group for us. Our portfolio of opportunities, record of promoting internally and positive approach to progressing people throughout the organisation mean we are well placed in this regard.

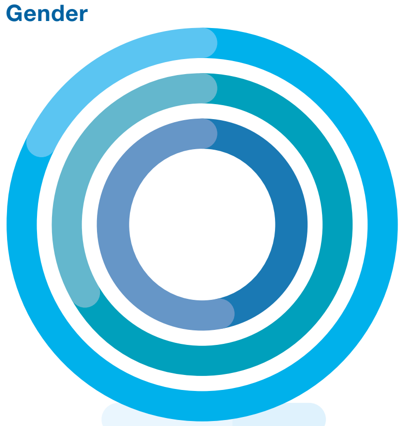
Years of service



Age



Gender



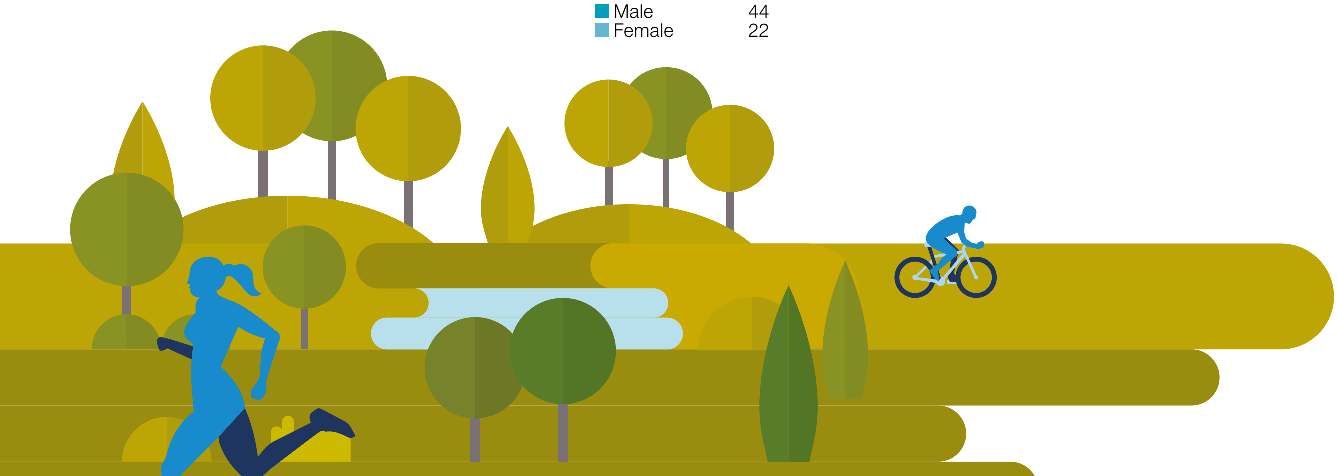
Europe	**261**	**Asia**	**17**
Male	216	Male	8
Female	45	Female	9
USA	**66**		
Male	44		
Female	22		

Equality and diversity

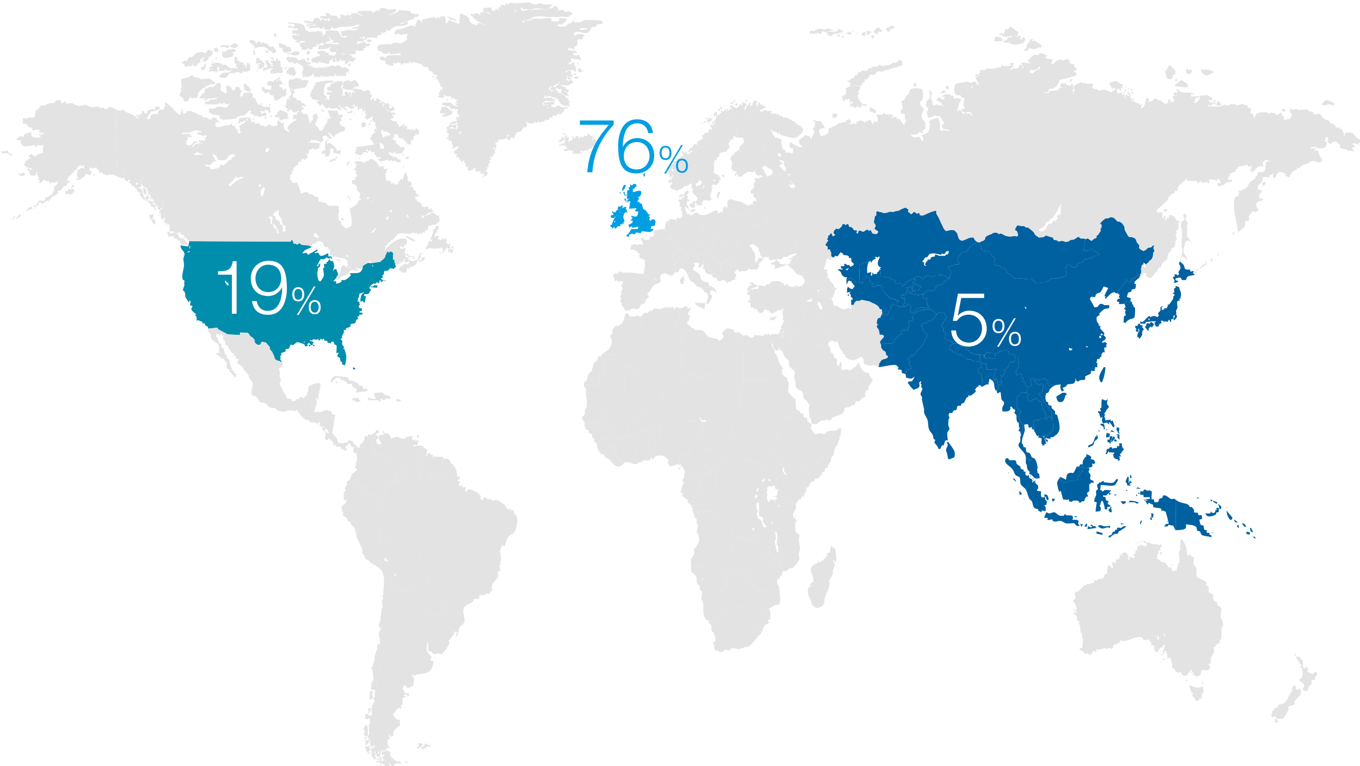
Zotefoams has long-established policies, available on our website, in relation to equality and diversity. Diversity can enrich any business, particularly a multi-functional, global business such as ours. Zotefoams is currently very culturally diverse, employing people from a broad spectrum of regions and backgrounds, as illustrated below. However, we traditionally struggle to hire women into management and specialist roles, as manufacturing and polymer chemistry are both male-dominated fields. Prior to 2015, less than 10% of these roles were occupied by women (excluding Non-Executive Director positions). This is an area where we have made substantial improvement and our hiring rate of new joiners during 2015 and 2016 exceeds 30% women into these influential roles, both in the UK and globally.

At 31 December 2016, Zotefoams had 344 employees (2015: 334) globally and four Non-Executive Directors (2015: five). The breakdown of those employees and Non-Executive Directors is as follows:

	2016 Male	2016 Female	2015 Male	2015 Female
Non-Executive Directors	2	2	3	2
Executive Directors	2	–	3	–
Senior managers	4	–	3	–
Other employees	262	76	268	60
Total	270	78	277	62



Employees by region (%)



Cultural diversity: Europe

Cultural diversity: USA

British	1
North American	65

Cultural diversity: Asia

British	1
Asian	16

Finance Director's review

In Kentucky, we are investing approximately $31m to increase global capacity by 20%.

Gary McGrath
Finance Director

Overview

The Group continued to make progress in 2016. While sales were below our established growth targets, the benefits of weaker sterling allowed significant investments to continue in operating infrastructure, enabling the development of Group growth opportunities and its continued transformation into a global organisation. During the year we expanded our international footprint with the formation of Zotefoams Midwest, based in Tulsa, Oklahoma, USA, and the start up of our Kunshan ZOTEK King Lai Ltd ('KZKL') venture in Kunshan, China.

Trading results

Group revenue for the year increased 7% to £57.38m (2015: £53.87m). The Group generates 82% of its revenues from non-sterling currencies, primarily US dollar and euro, and benefitted from the sterling devaluation during the year. In constant currency, Group revenues fell 4%.

Gross margin increased to 35.8% (2015 restated: 32.1%), with sales mix, foreign currency benefits and operations efficiencies offsetting increases in input costs. Raw materials and US production costs increased in line with foreign currency rate movements, while energy costs rose 8%. The restatement of 2015 gross margin arose following a reassessment of cost classifications, where £2.26m of costs, previously recognised as cost of sales, have been reclassified to distribution and administrative costs.

Supporting the Group's future growth expectations has required an increase in investment in sales, technical and governance structures. In 2016, the full-year impact of its 2015 actions, together with continuation of disciplined investment in core functional areas and new ventures in Kunshan, China, and Oklahoma, USA, resulted in an increase in distribution and administrative costs of £1.95m to £12.89m (2015 restated: £10.94m). These expenses include a net gain from foreign exchange hedging contracts and foreign exchange translation of £0.03m (2015 net gain: £0.21m).

The Business Unit results are shown on pages 15 to 17 in the Strategic Report. They do not include central plc costs, which are not considered to be segment specific. In 2016 central plc costs were £1.94m (2015: £1.46m), reflecting investment in Group leadership and higher incentive-based payments.

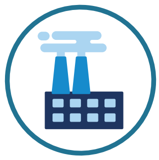
Profit before tax and exceptional items increased 20% to £7.23m (2015: £6.01m). Approximately £2.42m of the increase was due to the net benefit of changes in foreign currency rates. Profit before tax and after exceptional items increased 16% to £6.99m (2015: £6.01m).

Exceptional item

In June, the Group completed an efficiency improvement programme at our Croydon, UK factory, with the objective to increase effective capacity and reduce operating costs in the future. This resulted in a pre tax exceptional cost of £0.24m during the year.

Currency review

Zotefoams is a predominantly UK-based exporter. In 2016 approximately 80% of sales were denominated in US dollars and euros. Most costs are incurred in sterling, other than our main raw materials for polyolefin foams, which are euro-denominated, and subsidiaries staff, operational costs and HPP raw materials, which are US dollar-denominated. Movements in foreign exchange rates can therefore have a significant impact on our results. As a result, the Group reduces its foreign exposure for transactional items by using forward exchange contracts. The Group does not hedge for the translation of its foreign subsidiaries assets or liabilities.



During the year the Group generated a loss on forward contracts of £2.01m (2015 gain: £0.23m). This was offset by a translation gain, primarily on the Company's US dollar receivables, of £1.98m (2015 gain: £0.01m). The receivable position was temporarily high during 2016 as the Group retained cash generated from its US dollar sales to fund its capital investment. This exposure will reduce during 2017 as the investment completes.

The currency impact on business segments was as follows:

Exchange rates

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

	2016	2015
GBP to EUR – average	0.82	0.72
GBP to EUR – year-end spot	0.85	0.74
GBP to USD – average	0.75	0.65
GBP to USD – year-end spot	0.82	0.68

Interest, tax and earnings per share

The total net interest charge for the year was £0.39m (2015: £0.31m) and includes £0.19m (2015: £0.21m) of interest on the Company's defined benefit pension obligation.

Group revenue £m	2016 Reported	2016 Adjusted[1]	2015 Reported	Net change % Reported	Net change % Adjusted[1]
Polyolefins foams	44.73	40.91	43.04	4%	(5%)
HPP	9.99	8.81	8.27	21%	7%
MEL	2.73	2.38	2.62	4%	(9%)
Eliminations	(0.07)	(0.07)	(0.07)		
Group	57.38	52.02	53.87	7%	(3%)

1 Constant currency.

Finance Director's review continued

The effective tax rate for the year is 18.5% (2015: 20.2%), which is marginally below the Corporate Tax rate for the year of 20.0%. This is due to an adjustment to the prior year tax charge, without which the tax rate would have been 20.4%. Taxation paid during the year was £1.00m (2015: £0.78m).

Group basic earnings per share were 13.25p (2015: 11.10p), an increase of 19.4%.

Dividend

The Directors are proposing a final dividend of 3.9p (2015: 3.8p), which would be payable on 25 May 2017 to shareholders on the Company register at the close of business on 21 April 2017. Taken with the interim dividend of 1.85p (2015: 1.80p) this would bring the total dividend for the year to 5.75p per ordinary share (2015: 5.60p), an increase of 3%, in line with the Group's targeted policy of paying a progressive dividend subject to profit growth, investment and other business requirements. It would also represent a dividend cover of 2.2 times (2015: 1.9 times).

Cash flow and funding

Net cash inflow from operations for the year reduced to £6.36m (2015: £8.41m) as a result of higher working capital outflows in the year of £4.22m (2015: £0.95m), some of which is timing-related with record sales in the final quarter, while some reflects the Group's inventory investment in anticipation of demand for its high-margin HPP business.

Zotefoams continued its significant investment activity to support future growth, amounting to a net cash outflow of £12.78m in 2016 (2015: £9.10m). The Group's largest project is extending its existing facility in Kentucky, USA, to deliver approximately 20% additional capacity for block foams. During 2016 the Group invested £6.90m in the US expansion project, bringing the total investment at 31 December 2016 to £16.60m. It also continued to invest in its Croydon, UK facility, increasing capacity and capability, as well as invest in new facilities in China and the USA. Dividends paid in the year amounted to £2.47m (2015: £2.40m).

Closing net debt was £12.56m (2015: £1.59m), linked primarily to the Group's US expansion plan, as well as timing differences on working capital outflows.

In December 2015 the Group signed a ten-year fixed rate secured US dollar loan for $8m. In March 2016 it refinanced its £4.9m overdraft facility with a four-year, multi-currency revolving credit facility ('RCF') of £8m, together with a £2m overdraft. As at 31 December 2016 it also had a £0.7m secured mortgage facility. The Group retains a strong balance sheet, with funding and flexibility for future growth. Key ratios at year end were an interest cover of 33, compared with the RCF covenant of a minimum of 4 and net borrowings to EBITDA of 1.2, the RCF covenant being a maximum of 2.5. Since the balance sheet date the Group has increased its RCF by £2m, to £10m.

Pensions

The gross IAS 19 deficit on the Company's defined benefit pension scheme (the 'Scheme') increased by £2.20m to £7.44m as at 31 December 2016 (2015: £5.24m). This is primarily due to a reduced discount rate of 2.70% (2015: 3.80%) following falls in corporate bond yields during the year.

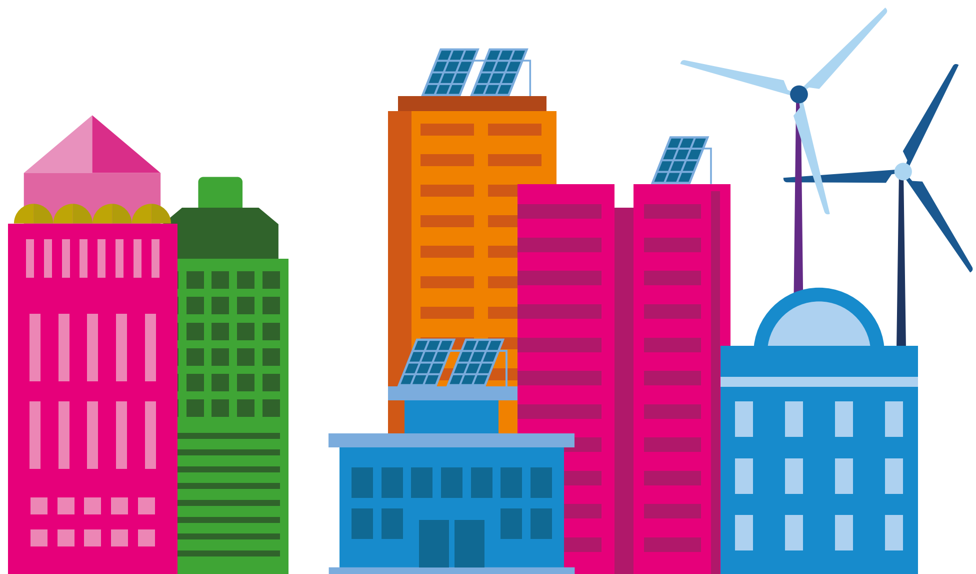
The Company has agreed, under the last triennial actuarial valuation of the Scheme as at 5 April 2014, to make annual payments of £0.50m over the period to 5 April 2020 to eliminate a funding shortfall identified at that valuation point of £2.50m. It has also agreed to pay £0.16m pa to cover administrative expenses. The position will be reviewed following the next full actuarial valuation in April 2017.

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.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Group CEO's review on pages 14 to 17 and the section entitled Risk management on pages 24 to 27. The Finance Director's review describes the financial position of the Group, its cash flows and liquidity position. In addition, note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, borrowing facilities, and its exposure to credit risk and liquidity risk.

The Directors believe that the Group is well placed to manage its business risks and, after making enquiries, including a review of forecasts, budgets and banking facilities, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Annual Report.



Viability statement

In accordance with provision C2.2 of the UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a three-year period to December 2019, being the period covered by the Group's Board-approved strategic plan. The strategic plan, which is updated annually, includes analysis of growth and profit performance by business segment, impact and timing of new business opportunities and Group-level cash flow, including investment programmes and returns to shareholders.

The Directors consider the timeline of three years to be appropriate, being the period the Group actively focuses on, and has reasonable visibility over, its opportunity portfolio and given the inherent uncertainties in considering the consequences of this portfolio over a longer period than three years.

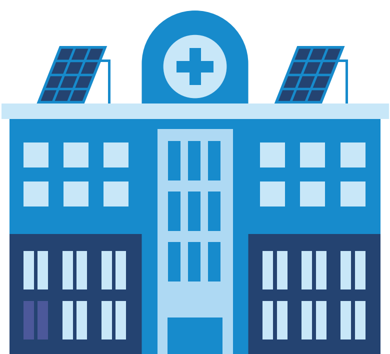
In making their assessment, the Directors have taken account of the Group's market positioning and alignment with global trends, its financial position and its level of cash generation. They have also undertaken a sensitivity analysis over the key trading assumptions and considered the potential financial and operational impacts of the principle risks and uncertainties set out on pages 24 to 27.

On the basis of this and other matters considered and reviewed by the Directors during the year, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period.

Financial risk management

The main financial risks of the Group relate to funding and liquidity, credit, interest rate fluctuations and currency exposures. The management of these risks are documented in note 21.

Gary McGrath
Finance Director
20 March 2017



Risk management

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

Principal risks and uncertainties

Risk and potential impact	Description	Mitigation actions
Operational Trend: → Link to strategy: 1, 2, 3, 4	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.	The Group has extensive SHE policies and procedures in place, which are in line with best practice. In the UK the Company is certified to accredited standards OHSAS 18001 on Health and Safety and ISO 14001, the International Standard for Environment Management Systems. Regular training is provided on SHE matters to the staff. Pressure equipment used is operated under the Pressure Systems Safety Regulations 2000 and is subject to systematic internal and frequent external inspections in accordance with the Safety Assessment Federation. The Group has extensive fire prevention systems in place and also has appropriate contingency plans in place in the event of the failure of certain major pieces of equipment. 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. Insurance is in place to cover capital restatement and loss of profits in the event of operational disruption caused by certain events. The Group is investing in its Kentucky, USA, site which, when completed, will give multi-site capability, subject to capacity, on many polyolefin products.
Operational Trend: → Link to strategy: 1, 3, 4	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.	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 trialled in the UK first to reduce the commissioning risk.

Risk and potential impact	Description	Mitigation actions
Supply chain Trend: → Link to strategy: 1, 2, 3, 4	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.	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. The Group continually monitors suppliers and is investing significantly in the search for, and testing and approval of, alternative suppliers of critical materials.
Technology Trend: → Link to strategy: 1, 2, 3, 4	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. 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.	There are high barriers of entry to the market. Significant capital investment is required for the autoclaves and related infrastructure. 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. 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. 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. MEL licences typically include a bundle of patents and know-how and therefore are not completely dependent on any particular patent.
Pension Trend: ↑ Link to strategy: 2, 4	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. 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.	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. 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.

Risk management continued

Principal risks and uncertainties continued

Risk and potential impact	Description	Mitigation actions
Foreign exchange Trend: ↑ Link to strategy: 1, 3, 4	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. The Group's operations are substantially based in the UK and, therefore, most of its manufacturing assets and costs are sterling denominated. The Group's customers are normally invoiced in their local currencies. In 2016, 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.	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. 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. 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. 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.
Macro-economics Trend: → Link to strategy: 1, 2, 3, 4	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.	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. The Group will monitor developments of Brexit and take appropriate commercial action when the situation becomes clearer.
Financing Trend: → Link to strategy: 1, 2, 3, 4	The Group needs to have sufficient cash, or be able to draw on loan facilities, to finance its operations and growth.	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. The Group has, at 31 December 2016: • a ten-year, $8m fixed rate loan; • £0.7m of a £3.5m loan outstanding; • a four-year, £8m reducing credit facility ('RCF') and a £2m overdraft facility; and • since March 2017, the Group has increased the RCF by £2m to £10m. 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. 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.

Risk and potential impact	Description	Mitigation actions
Commercial Trend: → Link to strategy: 1, 3, 4	Loss, insolvency or divergence of interest with a major customer.	The Group's largest customers are distributors and converters of foam. The Group has good knowledge of the end-customers of its major customers and, with some additional short-term work, would be able to bring or identify additional converter capacity, supply routes or channel partners to service these markets.
People Trend: ↑ Link to strategy: 1, 2, 3, 4	The failure to attract, develop or retain the right calibre of staff to deliver growing opportunities by product and geographic reach. The impact of Brexit on the Group's ability to retain mainland European nationals.	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. 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. The Group is following the developments of the UK's European Union exit negotiations closely and addressing its consequences on people.

Corporate social responsibility report

Zotefoams considers that the management of safety, health, environmental, social and ethical matters forms a key element of effective corporate governance. These areas are covered by the internal control systems and procedures outlined in the Corporate governance report on pages 38 and 39.

Safety, Health and Environment ('SHE')

The Board has in place separate policies relating to Safety, Health and Environment. The Company is certified to accredited standards OHSAS 18001 on Health and Safety and ISO 14001, the International Standard for Environmental Management Systems, and is regularly audited by those bodies to ensure that the Company complies with those standards. In 2017, the Company will work towards implementing ISO 14001/2015 in order to become fully compliant during 2018.

The Board has ultimate responsibility for SHE policy and performance and receives quarterly reports on SHE issues. Annual performance objectives are agreed by the Board and performance against these objectives is monitored as part of its quarterly reporting programme.

The Group CEO is directly responsible to the Board for Safety, Health and Environmental performance. Site Committees on SHE normally meet once a quarter to consider all SHE matters and are overseen by Steering Committees, chaired by the Group CEO (or appropriate responsible person in subsidiary companies). The Steering Committees consider overall performance and the impact of current and impending legislation.

On joining the Group, all employees receive training on SHE matters, including the Group's policies, and refresher training is provided, as appropriate, to ensure that the employees understand SHE matters. All employees are made aware that everyone has a part to play to ensure the safety of themselves and their colleagues at work. Employees are encouraged to report to their managers any unsafe, or potentially unsafe, conditions. Senior managers are responsible for ensuring that SHE policies are implemented in their areas, that their teams are informed of the departmental SHE requirements and that the employees receive training on environmental issues and safe working practices and understand them. Regular audits are conducted to ensure policy and procedure implementation is appropriate.

The Group takes the reporting of all SHE incidents very seriously and requires the employees to report all incidents, including any near misses, as well as damage to plant or equipment which has not resulted in personal injury. The Group considers the reporting of near misses to be as equally important as actual incidents, since it raises situations to management that could cause, or might have caused, harm and, therefore, appropriate corrective action can be taken to eliminate or minimise the risk. The Group also ensures that appropriate safety practices are included in standard operating procedures to reduce the risk of SHE incidents occurring.

All SHE events are investigated by appropriate levels of management to ascertain the root cause of the event and, wherever possible, working practices and procedures are improved to minimise the risk of reoccurrence. In 2016 there were no prosecutions, fines or enforcement actions taken as a result of non-compliance with safety, health or environmental legislation (2015: none).

The number of reportable lost time injuries increased in the second half of 2016 (see below on health and safety performance), following a significant change in the workplace and employee roles, including redundancies, as part of a restructuring programme at the Croydon site. This prompted a visit by the Health and Safety Executive ('HSE') to the site in September 2016, with direction on the appropriate course of action, all of which is being followed.

Health and safety performance

Few controlled substances are used in the manufacture of our foams, but where they are, the Group has established procedures, upon which the relevant employees are trained to ensure the storage and handling of such substances are safe and in accordance with regulatory requirements. The manufacturing process involves manual handling and processing of materials. When new or altered equipment or materials are introduced, and at regular periods thereafter, the risks to the processes are assessed and, wherever possible, improvements are made, such as the design of the equipment to reduce or eliminate the risks identified.

The most strictly controlled parts of the Group's sites are where high-pressure gas is used. The high-pressure operating vessels are subject to the Pressure Systems Safety Regulations 2000 in the UK and OSHA (Occupational Safety and Health Administration) in the USA. Tightly defined procedures and operational controls are in place to manage the safety of these pressure systems. Fail-safe mechanisms known as pressure relief valves and bursting discs (which act like fuses in an electrical system) are included in the design of the pressure systems, which when triggered allow depressurisation of sections of the system, preventing any further risks. Operation of these fail-safe mechanisms releases harmless nitrogen gas into the atmosphere.

In 2016, the Group had 13 reportable lost time injuries. All incidents were fully investigated and appropriate corrective actions have been put in place. The nature of these incidents varied, but the majority related to incorrect manual handling or slips and falls.

Year	2016	2015	2014	2013
Reportable lost time injuries	13	7	1	6

Environmental performance

The process used by Zotefoams to manufacture foam is one of the most environmentally friendly methods to manufacture cross-linked polymer foams. Nitrogen gas, which is an inert gas and comprises 78% of the earth's atmosphere, is used to expand the foams. The common peroxide cross-linking agent, which improves the foam's properties, is completely utilised during the manufacturing process. Unlike foam manufactured by the Group's competitors, no other chemical additives are used to expand the Group's foam products and, therefore, the basic foam products have no toxic or volatile chemicals (such as solid chemical residues, CFC, HCFC or volatile hydrocarbons).

In 2016 the Group had 11 internally recorded environmental incidents (2015: six), which were as follows:

Type of Incident	2016	2015
Oil and chemical leaks	2	1
Noise and light complaints	7	1
Equipment failure	–	1
Other	2	3
Total	**11**	6

There were two oil leaks in Croydon (2015: one). The first was a leak from an oil/water separator, which was repaired immediately. The other was a fuel leak from an employee's car parked on site. The fuel was absorbed using granules and the vehicle was removed from the site.

There were seven noise and light complaints (2015: one) for the Croydon site. This site is adjacent to a residential area and, occasionally and normally in the summer months when residents' windows are open, the Group will receive complaints concerning noise or light. Such complaints are taken seriously and are investigated, and responses given. The Group takes a proactive approach with its neighbours and informs them in advance of situations that might be considered to be a disturbance.

There were no equipment failures in 2016 (2015: one). There were two other incidents in Croydon (2015: three) relating to storage of palletised waste materials and a limited release of nitrogen in one area of the factory.

Corporate social responsibility report continued

The majority of the waste produced by Zotefoams in the UK is either solid or foamed polyolefin. Due to the essential cross-linking step used on the polymers to manufacture the foams, recycling by being melt processed (the process used to recycle most plastics) is complicated and not generally considered economically viable. Instead, the Group tries to reduce its waste material through its Operations Excellence Programme, which started in 2015, to improve its operational efficiency. Through this programme, the yield (ie the conversion rate from raw material to final product) achieved in 2016 was 1.5% better than 2015, this equated to approximately 121 tonnes of raw material not being wasted in production.

In conjunction with trying to reduce waste material, the Group tries to find outlets to recycle or use its waste material as opposed to sending it to landfill. In 2015, 17.7% of the waste material produced in Croydon was sent to landfill, but this increased to 24.8% in 2016 due to the higher amount of fabrication work undertaken on HPP material for customers where, currently, we are seeking outlets to recycle or use our HPP waste material.

Water consumption at Croydon fell 10% in 2016 to 60,000m^3, but this remains above the optimal level and we have an active programme to reduce water consumption, including tracing potential leak-paths and optimising use in cooling and washing processes.

We measure energy efficiency by taking energy consumption and dividing it by the amount of material (in kg) that passes through high-pressure vessels. In 2016, our energy efficiency was very similar to the past year, at 11.76 kWhr/kg (2015: 11.75 kWhr/kg).

In October 2009, the Company entered into a Climate Change Levy ('CCL') agreement, which involves meeting specific targets to reduce energy consumption. Providing the Company meets the requirements of the CCL agreement it receives a rebate on its electricity bills and is also exempt from the Carbon Reduction Commitment Scheme.

In 2015 the Group had its first assessment under the Energy Savings Opportunity Scheme ('ESOS'). The next assessment for ESOS will be for the four-year period ending 31 December 2018. We have begun implementation of the recommendations from the ESOS report such as LED lighting in the Croydon site production areas.

During 2016, vaporising technology was installed at the Croydon site and began to be incorporated into our high-pressure gas processes towards the end of the year. This technology is expected to reduce times to fill an autoclave with pressurised gas. It will be used alongside a series of electrical compressors and lower overall energy consumption. The vaporising technology is intended to become the sole method used in Kentucky, USA, once the high-pressure system there becomes operational.

Carbon emissions

The Group's total carbon emissions for all its operations globally were 16,142 metric tonnes for the year ended 31 December 2016 (2015: 18,576 metric tonnes). The breakdown of these figures is shown on the table on page 31.

Our principal carbon emissions have been from energy usage in the manufacture of our foam products in both Croydon and Kentucky. The carbon emissions from MuCell Extrusion LLC and Zotefoams Midwest are minimal.

Croydon site: Year	2016	2015	2014	2013
Internally recorded environmental incidents	11	6	8	2
Waste sent to landfill (tonnes)	237	191	225	442
Water consumption (000 m^3)	60	66	43	39
Energy consumption (kWhr/kg)	11.76	11.75[1]	11.63[1]	12.30

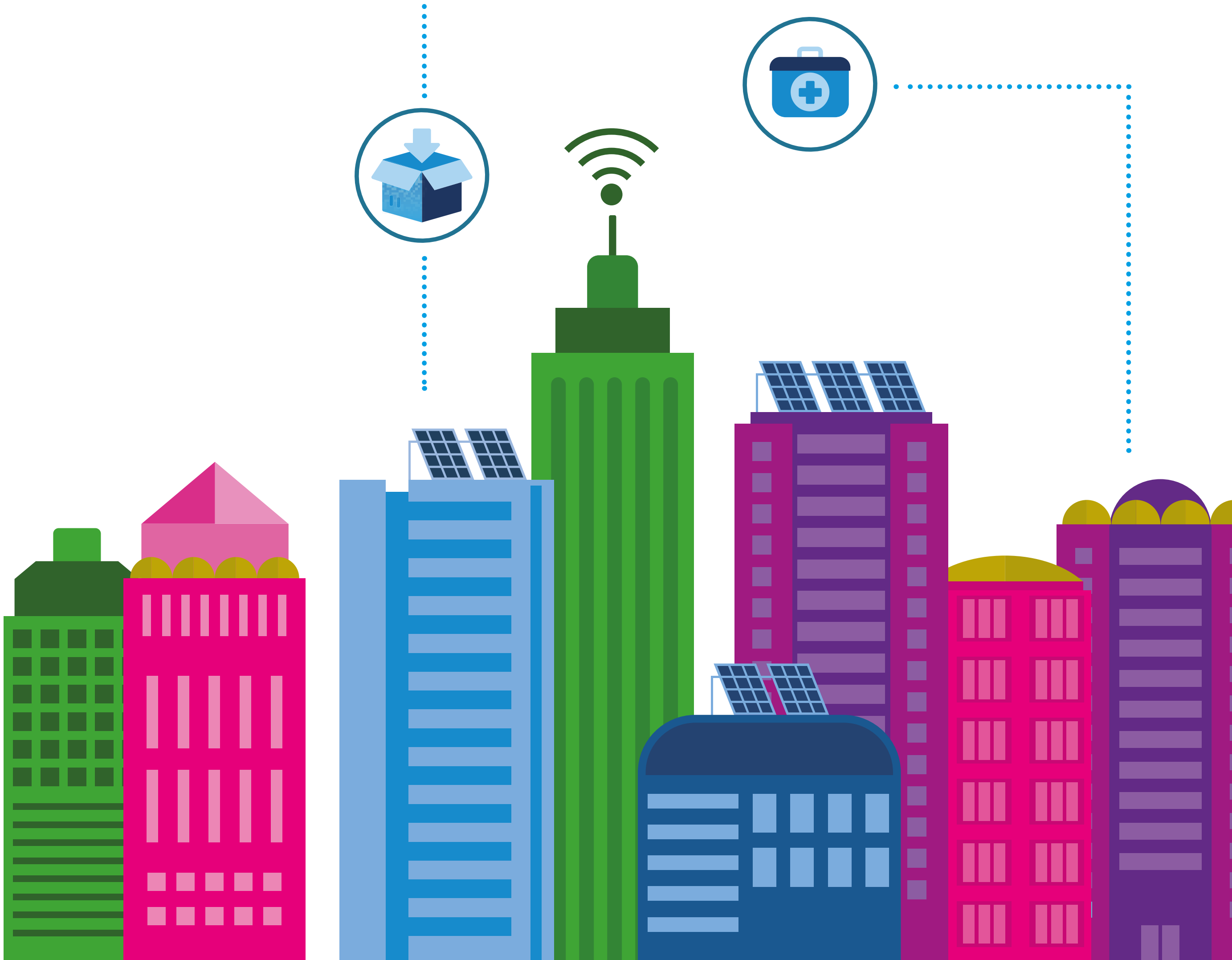
1 Restated due to incorrect methodology being used in 2014 and 2015.

The methodology that we have used has been in accordance with the guidance published by the Department for Environment, Food and Rural Affairs in June 2013. We have only included emissions for which we are directly responsible. We have not included emissions for activities over which we have no direct control. For example, we have included business mileage on Company vehicles and mileage claimed by employees in the UK, but not other forms of business travel, such as travel made by employees elsewhere in the Group or travel using public transport or aeroplanes.

There has been a significant drop in our carbon emission for 2016 compared to the previous years reported. The main driver for this is the lower conversion factors used for electricity and gas consumed in the UK. The Department for Business, Energy and Industrial Strategy last updated the conversion factors in October 2016.

Carbon emissions

Description	2016 Emission total (tonnes)	2015 Emission total (tonnes)	2014 Emission total (tonnes)	2013 Emission total (tonnes)
Emissions arising directly from our operations (including fuel used in our vehicles)	**136**	382	255	204
Indirect emissions – use of energy (electricity and gas)	**16,006**	18,194	17,227	16,848
Total	**16,142**	18,576	17,482	17,052
Carbon emissions (kg) per material gassed (kg)	**2.3**	2.4	2.4	2.6



Board of Directors

David Stirling
Group CEO

Appointed
September 1997 (Finance Director) and in May 2000 (as the Chief Executive of the Group)

Skills and experience
David started his career with KPMG in Scotland where he qualified as a Chartered Accountant. He has worked for Price Waterhouse in USA and Poland and with BICC plc. David is a graduate of Glasgow University and has an MBA from Warwick University and an MSc in Finance from London Business School.

External appointments
None

Steve Good
Non-Executive Chairman

Chair of the Nominations Committee and member of the Remuneration Committee

Appointed
October 2014 (Board) and April 2016 (Chairman)

Skills and experience
Steve was Chief Executive of Low & Bonar plc between September 2009 and September 2014. Prior to that role, he was Managing Director of its technical textiles division between 2006 and 2009, Director of New Business between 2005 and 2006, and Managing Director of its plastics division between 2004 and 2005. Prior to joining Low & Bonar he spent 10 years with BTP plc (now part of Clariant) in a variety of leadership positions, managing international speciality chemicals businesses. He is a Chartered Accountant.

External appointments
Non-Executive Director of Cape plc, Elementis plc and Anglian Water Services Limited

Gary McGrath
Finance Director

Appointed
December 2015 (Executive Director) and February 2016 (Finance Director)

Skills and experience
Gary is a Chartered Accountant, qualifying with Arthur Andersen. He spent 11 years with RMC Group plc before joining Koch Industries Inc, where he spent several years in various positions, including Global Finance Director of INVISTA Apparel and EMEA Vice President of Finance, Planning and Analysis at Georgia Pacific. Before joining Zotefoams, Gary was CFO of GC Aesthetics Limited. He has worked across public, private and private equity environments in the UK, Belgium, Germany, the USA and the Republic of Ireland.

External appointments
None

Angela Bromfield
Non-Executive Director

Chair of the Remuneration Committee and member of the Audit and Nominations Committees

Appointed
October 2014

Skills and experience
Angela was Strategic Marketing & Communications Director at Morgan Sindall plc until 2013 and prior to that she held senior roles at the Tarmac Group, Premier Farnell plc and ICI plc. Angela was a Non-Executive Director for Mondi Paper & Packaging Limited. Angela has a degree in Chemistry from the University of Reading and an MBA from Warwick University.

External appointment
Non-Executive Director of Churchill China plc

Marie-Louise Clayton
Non-Executive Director

Chair of the Audit Committee and member of the Nominations and Remuneration Committees

Appointed
July 2011

Skills and experience
Marie-Louise was the Group Finance Director of Venture Production plc, a FTSE 250 company in the oil and gas sector before it was acquired by Centrica plc and has held senior positions in Alstom and GEC. She was a Non-Executive Director of Forth Ports plc, Diploma plc and Independent Oil and Gas plc. Marie-Louise is a Fellow of the Association of Chartered Certified Accountants.

External appointments
Non-Executive Director of Clarkson plc and GCHO Holdings Limited (Osborne - the construction and property services group)

Richard Clowes
Senior Independent Non-Executive Director

Member of the Audit, Nominations and Remuneration Committees

Appointed
July 2007

Skills and experience
Richard has worked for GKN plc and TI Group plc. He was a main Board Director from 2001 to 2005 for GKN plc and has extensive operational and general management experience. At GKN plc, Richard was a Divisional Managing Director for their Powder Metallurgy, Offhighway and Auto Components divisions.

External appointments
None

Directors' report

The Directors present their Annual Report and audited consolidated financial statements for the year ended 31 December 2016.

Results and dividends

Profit attributable to shareholders for the year amounted to £5.80m (2015: £4.82m). An interim dividend of 1.85p (2015: 1.80p) per share was paid on 13 October 2016. The Directors recommend that a final dividend of 3.9p (2015: 3.8p) per share be paid on 25 May 2017 to shareholders who are on the Company's register at the close of business on 21 April 2017. This makes a total dividend of 5.75p per share for the year (2015: 5.6p). For further information on the performance of the entity refer to the Strategic Report.

Directors

The appointment, replacement and powers of the Directors are governed by the Company's Articles of Association (the 'Articles'), the UK Corporate Governance Code, the Companies Act 2006, prevailing legislation and resolutions passed at the Annual General Meeting ('AGM') or other general meetings of the Company.

The current Directors named on pages 32 and 33 served throughout the year. N G Howard resigned on 31 March 2016 and C G Hurst resigned on 16 May 2016. The Articles give the Directors power to appoint and replace Directors. Under the Terms of Reference of the Nominations Committee, any appointment must be recommended by the Nominations Committee for approval by the Board of Directors. The Articles also require Directors to retire and, if they so wish, submit themselves for election at the first AGM following their appointment and normally every three years thereafter. As has been the case for the last few AGMs, the Board has decided to follow best practice and all Directors will stand for annual re-election at this year's AGM, notwithstanding that this specific requirement in the UK Corporate Governance Code is for FTSE 350 companies.

D B Stirling and G C McGrath, the Executive Directors, have service contracts which are terminable on 12 months' written notice. All the other Directors have letters of appointment which are terminable on six months' written notice.

The Company has issued Deeds of Indemnity in favour of all of the Directors. These Deeds were in force throughout the year ended 31 December 2016 and remain in force as at the date of this report. These Deeds, as well as the service contracts and the Company's Articles of Association, are available for inspection during normal business hours at the Company's registered office and will be available at the AGM and 15 minutes before the meeting.

Conflicts of interest

All Directors submit details to the Company Secretary of any new situations, or changes to existing ones, which may give rise to an actual or potential conflict of interest with those of the Company. On an annual basis, the Company Secretary seeks confirmation from the Directors of their interests, which are reviewed by the Board and, where considered appropriate, approved by the Board.

Where an actual, or potential, conflict is approved by the Board, the Board will normally authorise the situation on the condition that the Director concerned abstains from participating in any discussion or decision affected by the conflicted matter. Authorisation of a conflict is only given by Directors who are not interested in the matter.

Amendment to the Articles of Association

The Company's Articles of Association may only be amended by a special resolution of the shareholders passed in general meeting.

Corporate governance

The Corporate governance report on pages 36 to 39 should be read as forming part of the Directors' Report.

Employees

To ensure employee welfare, the Group has documented, and well publicised, policies on occupational health and safety, the environment and training. The Group operates an equal-opportunities, single-status employment policy, together with an open management style. The Company operates to a number of recognised industry standards including Quality (ISO 9001), Environmental (ISO 14001) and Occupational Health and Safety (OHSAS 18001).

Zotefoams operates an equal opportunities policy and we believe diversity (ethnicity, age, gender, language, sexual orientation, gender re-orientation, religion, socio-economic status, personality and ability) of the employees promotes a better working environment, which in turn leads to innovation and business success. Applications for employment by disabled persons are always fully considered and, in the event of an employee becoming disabled, every effort is made to ensure that their employment with Zotefoams continues and that appropriate training is provided where necessary. Zotefoams' policy is that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Zotefoams places considerable value on the involvement of its people and holds formal and informal meetings to brief them on matters affecting them as employees and on the various factors affecting the performance of the Group. In the UK, there is a Joint Consultative Committee ('JCC'), which comprises an employee representative from each department. The JCC meets regularly and considers a wide range of matters affecting the employees' current and future interests.

In order to encourage employees to share in the successes of Zotefoams, an all-employee share incentive plan was established in 2015 in the UK, where employees can purchase shares each month through the plan. For every four shares bought, the employee is awarded one further share, which normally vests on the third anniversary of it being awarded.

Human rights

Whilst Zotefoams does not, at present, have a specific policy on human rights, it recognises and respects all human rights as defined in international conventions. We conduct every aspect of our business with honesty, integrity and openness, respecting human rights and the interests of our employees, customers and third parties, according to the principles set out in our Ethics Policy, where we state that we will respect the human rights of all our employees, including:

- ensuring our employees have the freedom to join a union, associate or bargain collectively without fear of discrimination against the exercising of such freedoms;
- not using forced labour or child labour; and
- respecting the rights of privacy of our employees and protecting access and use of their personal information.

Supporting our Ethics Policy, we also have an Equal Opportunities Policy and a Dignity at Work Policy, which promote the right of every employee to be treated with dignity and respect and not be harassed or bullied on any grounds. We aim to ensure that goods and services are from sources that do not jeopardise human rights, safety or the environment, and expect our suppliers to observe business principles consistent with our own. Zotefoams will be publishing its first statement on the steps it has taken to ensure that its supply chains are free of modern slavery by 30 June 2017.

Business ethics

Zotefoams is committed to high standards of business conduct and seeks to maintain these standards across all of our operations throughout the world. Under our Ethics Policy, we state that we will:

- operate within the law;
- not tolerate any discrimination or harassment;
- not make any political donations;
- not make or receive bribes;
- avoid situations that might give rise to conflicts of interest;
- not enter into any activity that might be considered anti-competitive;
- aim to be a responsible company within our local communities; and
- support and encourage our employees to report, in confidence, any suspicions of wrongdoing.

Supporting our Ethics Policy, we have policies on anti-bribery and corruption, anti-fraud, anti-competitive behaviour, employee share trading and whistleblowing.

Substantial shareholdings

In accordance with the Disclosure and Transparency Rules DTR 5, the Company, as at 20 March 2017, had received notices of the following material interests of 3% or more in the issued ordinary share capital:

	Ordinary share of 5.0p	Percentage of issued share capital
Miton Group plc	6,289,977	14.2%
BlackRock Inc.	5,328,338	12.0%
Schroders plc	5,250,880	11.8%
Sekisui Alveo AG	3,814,762	8.6%
J M Finn & Co Ltd	1,986,843	4.5%
Marc and Claire Downes	1,600,000	3.6%
Nicholas Adrian Beaumont-Dark	1,418,000	3.2%

Directors' shareholdings are shown in the Directors' remuneration report on pages 57 to 58.

Research and development

The amount spent by the Group on R&D in the year was £1,001,000 (2015: £839,000). In the opinion of the Directors £198,000 (2015: £nil) of this expenditure met the requirements for capitalisation under IAS 38, while £803,000 (2015: £839,000) did not and was consequently expensed in the Consolidated Income Statement.

Share capital and reserves

The Company has one class of ordinary shares which has no right to fixed income. Each share carries the right, on a poll, to one vote at general meetings of the Company. There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

At 31 December 2016, the Zotefoams Employees' Benefit Trust ('EBT') held 628,979 shares (approximately 1.42% of the issued share capital) (2015: 768,911 shares, approximately 1.73% of the issued share capital at 31 December 2015) to satisfy share plans as described in the Directors' remuneration report. In accordance with best practice, the voting rights on the shares held in the EBT are not exercised and the right to receive dividends has been waived. During the year, the EBT released 139,932 shares in respect of these share plans and no shares were bought by the EBT during the year.

At the AGM held on 18 May 2016, authority was given to the Directors to allot unissued shares in the Company up to a maximum amount equivalent to approximately two-thirds of the issued share capital of the Company. Authority was also given to the Directors to allot equity securities in the Company for cash without regard to the pre-emption provisions of the Companies Act 2006. At the date of this Report neither authority has been used and they both expire at the AGM to be held on 17 May 2017. The Directors seek new authorities for a further year.

The Company was given authority at the 2016 AGM to purchase up to 4,441,444 of its ordinary shares. This authority will also expire on 17 May 2017 and, at the date of this Report, had not been used. In accordance with normal practice for listed companies, a special resolution will be proposed at this year's AGM to seek a new authority to make market purchases up to a maximum of 10% of the issued share capital of the Company.

Subsidiaries and branches

Details of the joint ventures, subsidiaries and branches within the Group are given in note 10, note 13 and note 25 of the financial statements.

Treasury and financial instruments

Information in respect of the Group's policies on financial risk management objectives, including policies for hedging, as well as an indication of exposure to financial risk, is given in note 21 to the financial statements.

Future developments

Information on future developments for the Group has been stated under Main trends and factors in the Group CEO's review on page 17.

Greenhouse gas emissions

Information on the Group's greenhouse gas emissions may be found in the Corporate social responsibility report on pages 30 and 31.

Pension schemes

The Company closed its defined benefit pension scheme to future accrual of benefit in December 2005. Employees are offered membership of one of a number of defined contribution pension schemes.

Disclosure of information to Auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware, and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Independent auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as the Company's Auditors will be proposed at the forthcoming AGM.

By order of the Board

J W Kindell
Company Secretary
20 March 2017

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.

Remuneration report

ANNUAL STATEMENT BY THE CHAIR OF THE REMUNERATION COMMITTEE

Dear Shareholder

I am pleased to present the remuneration report for the year ended 31 December 2016.

Introduction

This is my first report as Chair of the Remuneration Committee, having taken over from R J Clowes on 19 May 2016. The Committee and I immediately commenced the process to review our Directors' Remuneration Policy in readiness for it being approved at this year's AGM. We received proposals from four remuneration consultants, shortlisted two to meet and, from that process, decided to re-engage Deloitte to assist us in the review, design and creation of our new Directors' Remuneration Policy, which has been the main focus for the Remuneration Committee in 2016.

Proposed changes to Executive Director reward for 2017

The Committee undertook an in-depth review of the Company's approach to executive remuneration to ensure that it is supportive of the Group's long-term strategic ambitions and is aligned with the wider interests of the Company's shareholders.

The Board's strategic priorities for the business have progressed since shareholders last approved the Remuneration Policy in 2014, when the Group's focus was on research and development and creating a range of growth opportunities. The next phase of our growth will see the business work to exploit the opportunities that have been developed, which we expect to result in increased sales, increased profitability and, ultimately, increased shareholder value. To accomplish this, talent management, and our ability to recruit, retain and inspire individuals of the required calibre, is crucial.

Whilst in the recent past we have been able to recruit Executives of a strong calibre (our Finance Director, for example), we have faced difficulties in recruiting individuals to certain senior roles due to our approach to positioning salaries at a significant discount to market and, more broadly, the overall structure of our remuneration arrangements.

In light of the move towards an execution-focused strategy, and the desire to align better the Policy with the business strategy, the Committee considered it appropriate to make a number of changes to the Remuneration Policy with effect from 2017. The changes aim to provide the Committee with a more balanced approach going forward, where the significant discount to market on base salaries is removed and the focus of incentive arrangements is shifted towards the longer-term element to ensure that our Executives are focused on the delivery of strong long-term returns to our shareholders.

The Committee consulted with a number of the Company's major shareholders on the proposed changes. As a result of the feedback received, we amended our original proposals to ensure that they strike the right balance between our long-term ambitions and the wider interests of the Company's shareholders, and are also appropriate given the current external sentiment towards executive remuneration. On behalf of the Committee, I would like to thank shareholders for the time they provided and their input into the consultation. The following sets out the proposals.

Base salaries reviewed to represent a more balanced approach going forward

The Committee has decided to remove the reference to positioning base salaries at a discount to market, which placed base salaries for our Executive Directors well below the lower end of the market-competitive range when compared to other FTSE SmallCap listed companies of a similar size and complexity.

Following a review of appropriate market data, which takes into consideration the financial size of the Group, its human capital size as well as the global breadth of the Group's operations, further context on which is provided below, we intend to make the following changes to base salary for the Executive Directors:

With effect from	Group CEO	Finance Director
1 April 2016	£225,000	£143,500
1 April 2017	£238,500 (+6%)	£156,500 (+9%)
1 April 2018	£253,000 (+6%)	£170,500 (+9%)

The salary increase with effect from 1 April 2018 will be subject to continued strong performance by the Executives and the Group.

The proposed phased increases will position our Executive Directors at the lower end of the market-competitive range from 1 April 2018. Given that base salaries will continue to be positioned conservatively against market, the Committee intends to keep base salary and total compensation positioning under review following the implementation of the increase in April 2018.

Incentive package re-weighted towards long-term performance

One of the Committee's key principles for executive remuneration is that a significant element of the total package should be delivered through long-term incentives, increasing the focus on long-term performance and aligning management with our shareholders.

In line with this principle, it is proposed that the annual incentive opportunity be decreased from 100% of salary to 75% of salary, while the long-term incentive opportunity be increased from 100% of salary to 150% of salary.

The annual incentive will continue to be based on an appropriate balance of financial and non-financial performance, and 25% of the bonus will continue to be deferred into shares for three years. Details of the performance measures to be used for the purpose of the annual bonus will be provided prospectively, with detailed disclosure on performance against the targets provided following the end of the financial year.

The long-term incentive award will be based on the following performance measures:

- Earnings per share (between 70% and 80% of an award) – the weighting of the EPS measure has been increased from 50% to a maximum of 80% to maintain the focus of management on the delivery of operational performance.
- Relative Total Shareholder Return (between 20% and 30% of an award) – which replaces absolute TSR as a performance measure following feedback received from investor proxy bodies last year. A weighting of up to 30% will be applied to the relative TSR measure to ensure that management is appropriately aligned to the creation of long-term value for our shareholders.

To reflect the increased opportunity under the plan, the Committee has considered it appropriate to reduce the level of vesting for threshold performance from 25% to 20% of maximum, while the upper end of the performance range relating to the EPS measure has been increased. Further details on the proposed targets for the 2017 LTIP award are set out on page 53.

The Committee believes that EPS, weighted as the majority of the award, (in combination with relative TSR) is the most appropriate measure for the LTIP to ensure management is focused on the delivery of profitable growth which will ultimately deliver long-term shareholder returns. The Committee did consider a number of other measures (including return measures), however they were not considered appropriate given the current phase of the business strategy.

The Committee will continue to keep the performance measures under review and, should we feel that more detailed operational measures are appropriate, we would implement such measures, subject to consultation with shareholders as appropriate.

Increased time horizons for the LTIP
Reflecting emerging market practice, the Committee has considered it appropriate to introduce a holding period of up to two years on LTIP awards with effect from 2017 onwards. The Committee considered that the most appropriate way to introduce the holding requirement, given the Group's relatively small size and the impact of re-weighting of overall remuneration towards long-term performance, would be to allow for the LTIP awards to be released in three equal tranches following the third, fourth and fifth anniversaries of the grant date. The Committee believes this phased approach will be helpful for recruitment and in transitioning existing Executives to the new arrangements. The Committee retains the flexibility to review the approach to the holding period in future years as appropriate.

Shareholding requirement increased to 200% of salary
The shareholding requirement for Executives going forward will be 200% of salary, which is 50% of salary in excess of the new LTIP opportunity and double the previous shareholding guideline. Shares up to the shareholding requirement will also be required to be held for one year post cessation of employment.

Performance in 2016
The Group's profit before tax and exceptional item was £7.23m, compared to £6.01m in 2015. In addition to delivering the profit, the Executive Directors made good progress in building operational capability and delivering the strategy. As a consequence, there were payouts on the 2016 annual bonus. Vesting of the 2014 LTIP awards will be 37.7% of the maximum opportunity of the 2014 LTIP awards. Further details on the annual bonus and the LTIP awards are given on pages 55 and 56.

Conclusion
The Committee and I believe that the proposed changes to the Remuneration Policy are consistent with our ethos of rewarding strong long-term performance and are in the best interests of our shareholders and other key stakeholders.

The Committee and I hope you will be able to support the resolutions in respect of the Remuneration Policy, annual remuneration report and the new Long-Term Incentive and Deferred Bonus Share Plans at the 2017 AGM.

I will be available at the AGM to answer any questions you may have.

A C Bromfield
Chair of the Remuneration Committee
20 March 2017

Introduction

Directors' remuneration report for the year ended 31 December 2016
The Directors' remuneration report has been prepared in accordance with the relevant provisions of the Listing Rules, section 421 of Companies Act 2006 and Schedule 8 to the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations').

This report is split into two sections:
- The new Directors' Remuneration Policy, which is being submitted to the shareholders for approval at the 2017 AGM (17 May 2017). The Policy, if approved, becomes effective immediately and is intended to last three years (ie until the AGM planned for 2020).
- The Annual Report on Remuneration, which provides details on how Directors were paid in 2016 and how we intend to implement the new Directors' Remuneration Policy in 2017. This section of the report will be subject to an advisory shareholder vote at the 2017 AGM.

NEW DIRECTORS' REMUNERATION POLICY

As set out in the letter from the Chair of the Remuneration Committee, the Committee was guided by three key principles:

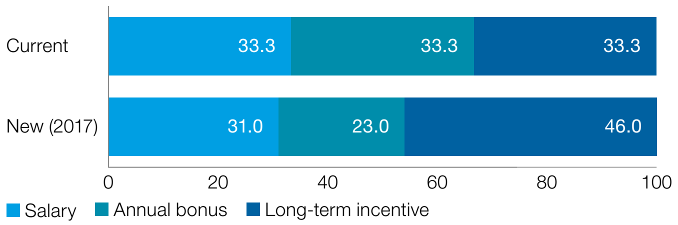
Remuneration principles

Strategic and operational delivery	• The Remuneration Policy should support the delivery of the Group's long-term strategic ambitions and operational performance.
Competitive salaries	• Base salaries should be set to be market competitive, reflecting the size and complexity of the business and the calibre of individuals in each role.
Focus on long-term performance	• A significant element of the total package should be delivered through long-term incentives, increasing the focus on long-term performance and aligning management with growth for the shareholders. Within this: – short-term incentives should continue to focus management on the delivery of annual results; and – long-term incentives should focus management on both the delivery of operational performance and the growth potential of the Group.

Remuneration report continued

The changes to the proposed structure for both the Group CEO and the Finance Director decreases the emphasis on short-term remuneration and increases the emphasis on long-term remuneration going forward, as illustrated below.

Remuneration principles (%)



Future Directors' Remuneration Policy

The following section sets out the Remuneration Policy for our Executive and Non-Executive Directors.

Remuneration Policy for Executive Directors

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	To provide a core reward for undertaking the role, positioned at a level needed to recruit and retain Executive Directors of the calibre required to develop and deliver the business strategy.	The Committee sets base salary taking into consideration a range of factors, including: • the individual's experience, performance and skills; • the scope of the role; • pay and conditions elsewhere in the Group; and • remuneration levels at companies of a comparable size and complexity. Normally reviewed annually, with increases effective from 1 April, however the Committee may review base salary more frequently where it considers this appropriate. Paid in cash.	Base salaries for Executive Directors are set at an appropriate level to be market competitive, reflecting the size and complexity of the business, and to attract and incentivise the calibre of individuals required for each role. While there is no maximum opportunity for base salary, any increases for Executive Directors will be considered in the context of the typical level of increases awarded to other employees in the Group. In specific circumstances, including but not limited to: • where the Committee has set the base salary for a newly appointed Executive Director at lower than the market level for such a role to allow for the individual to progress into the role; or • where, in the Committee's opinion, there has been a significant increase in the size or scope of an Executive Director's role or responsibilities; the Committee may award increases above this level.	N/A

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Benefits	To provide market-competitive benefits for the Executive Directors, to assist in carrying out their duties effectively.	The Committee's policy is to provide Executive Directors with a market-competitive level of benefits, taking into consideration benefits offered to other senior managers within the Group, the individual's circumstances and prevailing market practice. • **Core benefits** currently provided to Executive Directors include, but are not limited to, a car allowance, private medical insurance and death in service cover. • **Participation in all-employee share plans** that the Company establishes from time to time is on the same terms as all other UK employees. • **Relocation/international assignment benefits.** Where an Executive Director is required to relocate to take up their position, additional benefits may be provided, including, but not limited to: assistance for housing, school fees, travel assistance, relocation costs, insurance cover and assistance with tax advice.	There is no maximum or minimum level of benefits, as they are dependent on the individual's circumstances and the cost to the Group. Participation in all-employee share schemes that the Company establishes from time-to-time will be on the same basis as all other UK employees. Relocation/international assignment benefits – the level of such benefits would be set at an appropriate level, taking into account the circumstances of the individual and typical market practice	N/A

Remuneration report continued

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Pension	To provide Executive Directors with competitive post retirement benefits and reward sustained contribution.	Executive Directors are eligible to participate in a defined contribution pension plan or receive a cash allowance in lieu of pension. D B Stirling is also a deferred member of the closed defined benefit pension plan. The policy for a new Executive Director is either to participate in a defined contribution pension plan or receive a cash allowance in lieu of pension. There will be no contractual commitment to increase the level of contribution every five years. The Committee would continue to honour any legacy arrangements agreed with an individual prior to them being promoted to an Executive Director role.	The level of contribution in respect of any financial year is as follows: • D B Stirling – 15.75% pensionable salary. • G C McGrath – 5% pensionable salary. Following the closure of the defined benefit pension plan, there was a commitment to increase the level of contribution to the replacement defined contribution pension plan for the members of that scheme (which includes D B Stirling) by 3% of pensionable salary every five years. The most recent increase was applicable from 1 January 2016 and, therefore, the maximum opportunity for the duration of this policy will be as shown above. The defined benefit pension plan is closed to future accruals, but legacy arrangements will continue to be honoured. Contributions for new Executive Directors will be set at the time of the relevant appointment, taking into account the individual's circumstances, relevant market practice and the arrangements provided to the wider workforce.	N/A

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus	Incentivise Executive Directors to achieve specific financial and pre determined strategic goals aligned with the Group's annual business plan. Deferred proportion of annual variable pay provides a retention element and alignment with shareholders.	Awards are based on a balanced scorecard, combining Group financial and non-financial performance targets. Performance normally assessed over one financial year. Performance targets are set annually by the Remuneration Committee to ensure they are appropriately stretching. Bonus out-turns are determined by the Committee after the year end, taking into consideration actual performance against targets and the underlying performance of the business. The Committee has the discretion to amend bonus out-turns should the formulaic output not produce a result which, in the view of the Committee, fairly reflects overall performance. 25% of the earned bonus is normally deferred under the deferred bonus share plan ('DBSP'). Awards under the DBSP will vest after a period set by the Committee, which will normally be three years from the date of award. Deferred awards are normally granted in the form of conditional awards of shares, although awards may take other forms if it is considered appropriate. Deferred awards will accrue dividend equivalents during the deferral period. These will normally be paid in shares on a reinvested basis. Deferred awards are subject to Malus and Clawback provisions (see pages 47 and 48). The Committee may adjust and amend awards in accordance with the DBSP Rules.	Maximum opportunity in respect of any financial year is 75% of base salary.	Performance is measured based on an appropriate mix of financial, strategic and personal performance measures. At least 75% of the bonus opportunity will be based on financial performance targets. The split between financial, strategic and personal performance measures will be kept under review and set annually by the Committee. Normally no more than 20% of the bonus is payable at the trigger point, dependent on the stretch in the targets, with a graduated scale operating thereafter through to the maximum bonus being payable for outperforming the Group's targets for the year.

Remuneration report continued

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
2017 Long-Term Incentive Plan ('LTIP')	To incentivise the delivery of long-term sustainable operational performance and the growth potential of the Group. To align interests of Executive Directors and shareholders. To attract and retain executives of the calibre required to drive the Group's long-term strategic ambitions.	Awards subject to a performance period of normally no less than three years with a subsequent holding period of up to two years. Performance targets are set annually by the Remuneration Committee to ensure they are appropriately stretching. The Committee has the discretion to amend the final level of vesting of awards if it does not consider that it reflects the underlying performance of the Group. LTIP awards are normally in the form of conditional awards of shares, although the Remuneration Committee may decide to make awards in other forms, such as nil-cost options, if considered appropriate. Dividend equivalent payments accrue during the performance period and holding period. These will normally be paid on a reinvested basis. LTIP awards are subject to Malus and Clawback provisions (see page 47 and 48). The Committee may adjust and amend awards in accordance with the 2017 LTIP Rules.	The normal maximum award permitted in respect of any financial year is 150% of base salary.	Awards vest based on an appropriate balance of earnings and shareholder return measures. LTIP awards for 2017 will be based on: • Earnings Per Share (70%); and • Relative Total Shareholder Return measured against the FTSE SmallCap Index (excluding investment trusts) (30%). 20% of the award vests for performance at the trigger point, increasing to 100% of the maximum for maximum performance. The performance measures selected by the Committee may change from time to time to reflect any change in the Group strategy. The performance measures will be disclosed in the Directors' remuneration report for the relevant year.

Shareholding guidelines

To align the interests of the Executive Directors with shareholders, the Company operates a shareholding guideline for Executive Directors of 200% of salary. A newly or recently appointed Executive Director will have five years from the date of his or her appointment to the Board to build up such a holding.

For the current Executive Directors, there will be a transitional arrangement in place from the previous shareholding guideline set in 2014 (100% of salary) to the new guideline over the five-year period from the date of the 2017 AGM, such that the full holding requirement (200% of salary) will need to be met by the fifth anniversary of the implementation of the new guideline.

Shares up to the value of the phased-in new shareholding guideline will be required to be held for one year post cessation of employment.

Notes to the policy table

The deferred share element of the annual bonus plan and the 2017 Long-Term Incentive Plan shall be operated in accordance with the rules of the respective plan.

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretion available to it in connection with such payments) notwithstanding that they are out of line with the policy set out above where the terms of the payment were agreed (i) before the policy set out above and any previous policy came into effect, or (ii) at a time when a previous policy, approved by shareholders, was in place, provided the payment is in line with the terms of that policy or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes (but is not limited to) the Committee satisfying awards of variable remuneration and, in relation to an award over shares (including awards granted in 2015 and 2016 under the 2007 Long-Term Incentive Plan and legacy awards under the 2008 Approved Share Option Plan ('ASOP')) the terms of the payment are 'agreed' at the time the award is granted.

Awards granted to Executive Directors under the 2007 Long-Term Incentive Plan are subject to the achievement of EPS and absolute TSR performance targets measured in the final financial year of each three-year performance period. The maximum individual award made to Executive Directors under this plan is 100% of salary. These awards accrue dividend equivalents during the performance period and will normally be paid in shares on a re-invested basis. Awards granted to the Executive Directors under the ASOP were subject to an achievement of an earnings target measured over the three-year performance period. The maximum individual award under the plan was £30,000. The awards do not accrue dividend equivalents until they are exercised.

Changes to the Policy

As explained in further detail in the letter from the Chair of the Remuneration Committee, the key changes that have been made to this Policy compared to the last Policy approved by shareholders are:

- introduction of the ability to pay a cash allowance to existing Directors in lieu of a contribution to a defined contribution pension scheme;
- decrease in the annual bonus opportunity from 100% of salary to 75%;
- intention to use 150% of salary for the long-term incentive opportunity (the previous Policy permitted this, but the stated intention was that only 100% of salary would normally be used);
- introduction of a holding period for 2017 Long-Term Incentive Plan awards for up to two years;
- increasing the shareholding guideline to 200% of salary and introducing a one-year retention period following cessation of employment; and
- minor amendments to clarify the Committee's intended approach and ensure that the Committee has an appropriate level of flexibility to implement the Policy in the most appropriate manner each year.

Committee discretion in relation to future operation of the Remuneration Policy

For share awards, in the event of a variation of the Company's share capital or a demerger, delisting, special dividend, rights issue or any other event that may affect the Company's share price, the number of shares subject to an award and/or any exercise price applicable to the award and/or any performance condition attached to the award, may be adjusted.

The Committee may amend any performance conditions applicable to ASOP or LTIP awards if any event occurs which causes the Committee to consider an amended performance condition would be more appropriate and not materially less difficult to satisfy.

The Committee may make minor amendments to the Policy set out above for, for example, regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without obtaining shareholder approval for that particular amendment.

Performance measures and approach to target setting

Annual bonus

Performance measures for the short-term incentive arrangements are selected annually by the Committee to align with Zotefoams' annual business strategy.

Performance targets for the financial element are set to be appropriately stretching, by reference to the Group's internal business plan, and to align with delivery of returns to shareholders. Performance targets for the strategic element are determined annually by the Committee and set to incentivise the delivery of key strategic priorities over the course of the year.

Long-Term Incentive Plan

Performance measures for the long-term incentive arrangements are selected annually by the Committee to align with Zotefoams' long-term business strategy and to reflect the Group's growth ambitions and returns to the shareholders.

The performance targets for the Long-Term Incentive Plan are reviewed annually and set taking into account market conditions, external market forecasts, internal business forecasts and market practice.

Malus arrangements for the DBSP and LTIP – applies to awards made in 2014 onwards

The Remuneration Committee may, in its absolute discretion, determine at any time prior to the vesting of an award under the DBSP or LTIP to:

a) reduce the number of shares to which an award relates;
b) cancel an award; or
c) impose further conditions on an award

in circumstances where the Remuneration Committee considers such action is appropriate.

Such circumstances include, but are not limited to:

a) a material financial downturn in the performance of the Group, a company forming part of the Group or a relevant business area;
b) a material misstatement of the Group's audited financial results;
c) a material failing in the risk management of the Group, a company forming part of the Group or a relevant business area; or
d) serious damage to the reputation of the Group, a company forming part of the Group or a relevant business area due to the participant's misconduct or otherwise.

Remuneration report continued

Clawback arrangements for the DBSP and LTIP – applies to awards made in 2016 onwards

Where an Executive Director has, in the sole opinion of the Remuneration Committee, committed an act of gross misconduct or when there has been a material misstatement of the Group's audited financial results, the Remuneration Committee may, at its absolute discretion, require an Executive Director to:

A) repay some or all of the cash element of his or her annual bonus received in the previous two years from the date of the Remuneration Committee's determination; and/or

B) transfer back or surrender to the Company (or its Employees' Benefit Trust) some or all of the shares that have vested under the LTIP in the previous two years from the date of the Remuneration Committee's determination. If such shares have been sold, either as part of the vesting or subsequently, the proceeds of such sale are to be paid to the Company (or its Employees' Benefit Trust).

Remuneration structure for employees below Board

The remuneration for the senior management immediately below the Board is a similar structure to the structure used for the Executive Directors. Middle management participates, at the discretion of the Remuneration Committee, in the Approved Share Option Plan subject to the Plan's rules. There is a general staff discretionary bonus scheme which is based on the performance of the Group and other factors. Other arrangements are also in place for specific areas of the Group.

Illustration of application of remuneration policy

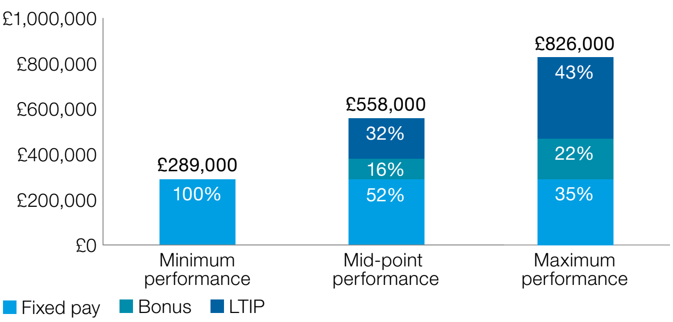
The charts below show how the composition of each of the Executive Directors' remuneration packages varies at different levels of performance achievement. The assumptions used in the charts below are as follows:

	Minimum performance	Mid-point performance	Maximum performance
Fixed pay[1]	✓	✓	✓
Annual bonus	×	✓ (50% of maximum)	✓ (75% of salary)
Long-Term Incentive	×	✓ (50% of maximum)	✓ (150% of salary)

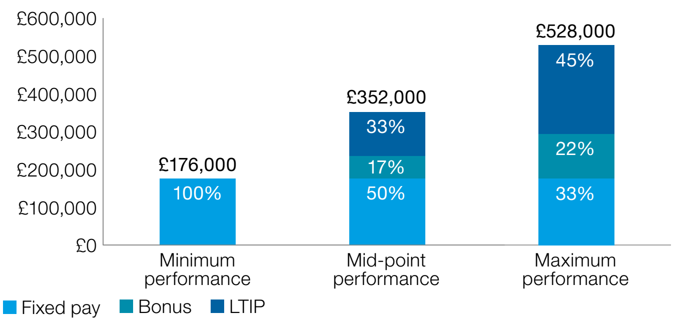
1. Comprises base salary for 2017, benefits (as per the 2016 single figure) and pension contribution/cash in lieu of pension for 2017.

The charts below do not take into account share price appreciation or dividends.

Group CEO



Finance Director



Remuneration policy on recruitment

Area	Policy and operation
Principles	The Remuneration Committee takes into consideration all relevant factors, including local market practice in the individual's home country, appropriate market data, internal relativities, the current remuneration arrangements applicable for other Executive Directors on the Board and the Committee's desire to recruit an Executive Director of the required calibre to develop and deliver the business strategy, while at the same time ensuring that remuneration arrangements offered are in the best interests of both Zotefoams and its shareholders. The Committee endeavours to align the remuneration arrangements of new recruits with the policy outlined on the previous pages. In the event that an internal candidate was promoted to the Board, legacy terms and conditions would normally be honoured. The Committee will make every effort to explain the rationale for the remuneration arrangements for a new recruit in the remuneration report following the recruitment of a new Director.
Base salary	Set at a level to recruit the candidate with the required calibre, skills and experience to deliver the Group's strategy.
Benefits and pension	To be provided in line with normal policy. In the event that an Executive Director is required to relocate to undertake the role, the Committee may provide additional benefits to reflect the relevant circumstances (on a one-off or on-going basis).
Incentive awards	When appointing a new Executive Director, existing incentive arrangements will be used where possible. The Committee has the discretion to include any other remuneration component or award which it feels is appropriate, taking into account the specific commercial circumstances, and subject to the limit on variable remuneration set out below. The key terms and rationale for any such component would be appropriately disclosed. The maximum level of annual variable pay and long-term incentive awards which may be awarded to a new Executive Director in respect of their recruitment, excluding any buy-out awards, is 225% of salary. Such variable remuneration may be made in the form of cash or shares, subject to performance conditions as selected by the Committee, and may vest immediately or at a future point in time.
Buy outs	To facilitate recruitment, the Remuneration Committee may 'buy out' any remuneration arrangements forfeited by the new Executive Director on leaving his or her former employment. In doing so, the Committee will consider all relevant factors including the form of the awards (ie cash or equity), performance conditions attached to the awards, the likelihood of such conditions being met and the timeframe of the awards. Typically, any buy outs will be made on a like-for-like basis. On recruitment, the Committee retains discretion to grant awards under Listing Rule 9.4.2, which allows for the grant of awards specifically to facilitate in unusual circumstances the recruitment of an Executive Director.
Non-Executive Directors	The Remuneration Committee will normally align the remuneration arrangements for new Non-Executive Directors with those outlined in the Policy table on page 52.

Remuneration report continued

Service contracts and termination policy
When determining leaving arrangements for an Executive Director the Committee takes into account any pre established contractual agreements including the provisions of any incentive plans, pension entitlements, typical market practice, the performance and conduct of the individual and the commercial justification for any payments.

The following summarises our policy in relation to Executive Director service contracts and payments in the event of loss of office:

Area	Policy and operation
Notice period	• D B Stirling, Group CEO – 12 months' notice by either party. • G C McGrath, Finance Director –12 months' notice by either party. • for new recruits, the Committee's policy is that Executive Director contracts will normally provide up to 12 months' notice by the Company and up to 12 months' notice by the Executive Director.
Contract commencement date	• D B Stirling, Group CEO – 1 September 1997 (contract updated 31 July 2014). • G C McGrath, Finance Director – 1 December 2015.
Expiry date	• the contracts for the Executive Directors are rolling service contracts with no expiry date.
Termination payments	• if the Company terminates an Executive Director's contract without full notice then the Executive Director has the right to a termination payment to reflect the unexpired term of the notice. • a payment in lieu of notice can be made of no more than one year's base salary. • our policy for new appointments is that termination payments in lieu of notice will be based on base salary. • termination payments may be subject to mitigation and may be paid in instalments. • rights to annual bonus, DBSP awards, LTIP awards and ASOP awards are governed by the respective plan rules. • the Committee reserves the right to make any other payments in connection with a Director's cessation of office/employment where the payments are made in good faith in the discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of the Director's office/employment. Any such payments may include, but are not limited to, any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office/employment.
Other information	**Annual bonus** • under the annual bonus plan a 'good leaver' is someone that leaves employment because of death, disability, ill health, injury, sale or transfer out of the Group of the participant's employing company or business, redundancy or any other circumstance at the discretion of the Remuneration Committee. • a 'bad leaver' is someone that leaves employment for any other reason. • for 'good leavers', rights to any outstanding annual bonus in the year of cessation will be determined at the discretion of the Remuneration Committee, normally after the end of the financial year, and taking into account the level of performance achieved during the performance period. Any payments will be made in such proportions of cash and shares as the Committee considers appropriate. Outstanding DBSP awards will normally vest at the end of the normal vesting period, although the Remuneration Committee may, in its discretion, allow the award to vest earlier. • for 'bad leavers', rights to annual bonus and unvested DBSP awards will normally be forfeited.

Area	Policy and operation
Other information	**2017 Long-Term Incentive Plan** *Leavers during the performance period* • under the 2017 Long-Term Incentive Plan, a 'good leaver' is someone that leaves employment because of death, disability, injury, ill health, redundancy, retirement, their employing company or business being sold or transferred out of the Group, or any other circumstances at the discretion of the Remuneration Committee. • a 'bad leaver' is someone that leaves employment for any other reason. • for 'good leavers', rights to any awards under this plan will normally, unless the Remuneration Committee determines otherwise, be pro-rated by reference to the proportion of the performance period that has elapsed on cessation and will vest, subject to performance, at the normal time. • the Remuneration Committee retains the discretion to accelerate vesting in certain circumstances, eg death. • for 'bad leavers', rights to unvested awards under this plan will normally be forfeited. *Leavers during the holding period* • where a participant who is subject to a further holding period in relation to his/her award ceases to be employed by the Group, the award will normally be delivered at the end of the holding period or the expiry of such shorter period as the Committee may determine. **2007 Long-Term Incentive Plan** • under the 2007 Long-Term Incentive Plan a 'good leaver' is someone that leaves employment because of death, disability, ill health, injury, redundancy, retirement, their employing company or business being sold or transferred out of the Group, or any other circumstance at the discretion of the Remuneration Committee. • a 'bad leaver' is someone that leaves employment for any other reason. • for 'good leavers', rights to any awards under this plan will normally, unless the Committee determines otherwise, be pro-rated for the period from the date of grant to cessation and will vest, subject to performance, as soon as practicable, unless the Committee determines otherwise. The Remuneration Committee's current practice is for vesting to be at the normal time. • the Remuneration Committee reserves the right to adjust the final level of vesting of awards in these circumstances. • for 'bad leavers', rights to unvested awards under this plan will normally be forfeited. **2008 Approved Share Option Plan** • under the 2008 Approved Share Option Plan a 'good leaver' is someone that leaves employment because of death, disability, injury, redundancy, retirement, their employing company or business being sold or transferred out of the Group or any other circumstance at the discretion of the Committee. • a 'bad leaver' is someone that leaves employment for any other reason. • for 'good leavers', rights to any awards under this plan will normally be pro-rated from the start of the performance period to cessation and will vest based on performance to the date of cessation. The Remuneration Committee has the discretion to adjust the final level of vesting of these awards. • for 'bad leavers', rights to unvested awards under this plan will normally be forfeited.
Change of control	• the Committee would determine the treatment of any annual bonus award at the time taking into account such circumstances as it considers appropriate. • in the event the Company is taken over, ASOP, DBSP and LTIP awards vest early. The extent to which LTIP awards granted after the date of the 2017 AGM vest will be determined by the Committee, taking into account the performance conditions and, unless the Committee determines otherwise, the proportion of the performance period that has elapsed. The extent to which any LTIP awards granted prior to the 2017 AGM vest will be determined by the Committee. • if there is a demerger, special dividend, delisting or any other event that may materially affect the Company's share price, the Committee may allow awards to vest on the same basis as for a takeover. • awards may be exchanged for new awards if the Committee consider this appropriate.

Copies of the Executive Directors' service contracts and deeds of indemnity in favour of the Directors are available for inspection at the Company's registered office.

Remuneration report continued

External appointments
Executive Directors may be invited to become Non-Executive Directors of other companies. These appointments provide an opportunity to gain broader experience outside Zotefoams and therefore benefit the Group. Providing that appointments are not likely to lead to a conflict of interest and the Board agrees, Executive Directors may accept non-executive appointments and retain the fees received.

Remuneration policy for Non-Executive Directors

Approach to fees	Operation	Other items
Fees for the Chairman and Non-Executive Directors ('NEDs') are set at an appropriate level to reflect: • the time commitment required to fulfil the role; • the responsibilities and duties of the positions; and • typical practice in other companies. Fees are reviewed at appropriate intervals by the Board. Base fees are subject to the aggregate limit in the Company's Articles of Association for fees paid to NEDs.	Our NED fee policy is to pay: • a base fee for membership of the Board; and • an additional fee for being Chair of a Committee and/or Senior Independent Director to reflect the additional responsibilities and time commitments of the role. The Chairman receives an inclusive fee for the role. Additional fees for membership of a committee, chairing or membership of subsidiary boards, for a time commitment significantly more than anticipated at the start of the year or other fixed fees may be introduced if considered appropriate. Fees can be paid in cash and/or shares as appropriate.	The Chairman and NEDs are not eligible to participate in the bonus or any long-term incentive arrangements. NEDs do not currently receive any taxable benefits. Benefits (such as travel and accommodation allowances to allow the NEDs to fulfil their duties along with any tax liability arising on such allowances) may be provided in the future if the Board considers this appropriate.

Non-Executive Directors and the Chairman have appointment letters setting out their duties and the time commitment expected. Appointment letters are currently for terms of three years. Appointments may be terminated by either party with six months' written notice.

Considering employment considerations elsewhere in the Group
Budgeted salary increases for the wider employee group are taken into consideration when determining increases for the Executive Directors. The Remuneration Committee does not consult with employees when formulating the remuneration policy for Executive Directors.

Considering shareholder views
The Remuneration Committee is committed to engaging in an open dialogue with the Group's shareholders and will seek views and opinions on significant matters relating to the remuneration of the Executive Directors as appropriate. As part of formulating the Remuneration Policy, a consultation was undertaken with the Company's main shareholders regarding the proposed changes to the Policy. The feedback from shareholders was taken into account by the Committee and resulted in changes being made to the original proposal as set out earlier in the Chair's statement. The Committee would like to thank shareholders for the time they provided and their input into the consultation.

Both the Chairman and the Chair of the Remuneration Committee make themselves available at the Annual General Meetings to answer questions on remuneration matters. They are also available at other times (requests should be made to the Company Secretary), should a shareholder wish to raise a matter on remuneration.

ANNUAL REPORT ON REMUNERATION

Statement of implementation of the Directors' Remuneration Policy in 2017 (unaudited)
Base salary and annual bonus
The new Remuneration Policy is supportive of increasing the Executive Directors' focus on longer-term value creation. Due to the previous Remuneration Policy providing a base remuneration below the market, the salaries of the Executive Directors are below the relevant market norms, with a bonus potential of 100% of base salary. To reduce short-term (annual) drivers and increase the emphasis on the longer term, a reshaping of the Executive Directors' packages is proposed.

In the case of the Group CEO, D B Stirling, the Remuneration Committee intends to make an increase of 6% effective 1 April 2017 (2016: 4.5%) with a commensurate reduction in the annual short-term incentive opportunity to 75% (2016: 100%).

G C McGrath was appointed on 1 December 2015. At the time of his appointment, he was new to a listed Finance Director role but on 1 February 2016 fully assumed the responsibilities of the Finance Director, the previous incumbent, C G Hurst, retiring on 16 May 2016. It is intended to increase Mr McGrath's base salary by 9% effective 1 April 2017 (2016: 2.5%), reflecting the relatively lower salary on appointment and his performance during 2016. It is also intended to reduce the short-term incentive opportunity to 75% (2016: 100%).

These increases and subsequent planned increases outlined in the Policy will be reviewed by the Remuneration Committee and are subject to continued good performance.

Budgeted salary increases for the wider employee group are taken into consideration when determining increases for the Executive Directors and senior executives, but the Remuneration Committee does not consult with employees when formulating the Remuneration Policy for the Executive Directors.

The 2017 salary increase for the wider work force has not yet been agreed and, in the UK, is subject to negotiation with the unions.

For 2017, the maximum opportunity for D B Stirling and G C McGrath in respect of the annual bonus will be 75% of base salary (before salary sacrifice).

Awards to the Executive Directors under the annual bonus are subject to a mix of financial, strategic and individual performance measures as follows:

	As a percentage of maximum bonus opportunity	
Measure	D B Stirling	G C McGrath
Profit before tax	50%	50%
HPP segment sales	15%	15%
Development of MEL business	15%	15%
Individual objectives	20%	20%

The bonus for the HPP segment sales will not be paid if the trigger point for the profit before tax bonus has not been reached.

Due to the competitive nature of our industry, the actual target ranges for these measures have not been disclosed as they are considered by the Board to be commercially sensitive information.

Benefits
Executive Directors will be provided with a car allowance, private medical insurance, death-in-service cover and, if they participate in the SIP, Matching Shares.

Retirement benefits
For 2017, contributions to the defined contribution pension plan (or cash alternative payments) are as follows:
- D B Stirling – 15.75% pensionable salary.
- G C McGrath – 5.0% pensionable salary (before salary sacrifice).

LTIP
As soon as practicable after the 2017 AGM, the Executive Directors will receive awards of performance shares under the LTIP equal to 150% of base salary (before salary sacrifice).

The 2017 awards will be subject to two measures: (i) relative TSR performance measured against the FTSE SmallCap Index (excluding investment trusts), which will represent 30% of the award; and (ii) EPS performance, which will represent 70% of the award vesting. TSR will be measured over the three-year performance period with a three-month average at the start and end of the performance period. If performance is below the TSR trigger point then no part of the TSR award will vest. If the performance is below the EPS trigger point then no part of the EPS award will vest. Between the trigger point and the maximum, the award vests on a sliding scale basis.

The table below summarises the performance criteria which is proposed to be used for the 2017 award.

	Trigger point		Maximum	
	Performance target	% of award vesting	Performance target	% of award vesting
Relative TSR goal	Median performance against FTSE SmallCap Index (excluding investment trusts)	6	Upper quartile performance against FTSE SmallCap Index (excluding investment trusts)	30
Annualised EPS growth	5%	14	22%	70

Remuneration report continued

Single total figure of remuneration (audited)

The following tables set out the single figure for total remuneration for Directors for the 2016 and 2015 financial years.

Executive Directors

	Salary (£)	Benefits (£)	Bonus (£)	LTIP[1] (£)	Pension[2,3] (£)	Total (£)
D B Stirling						
2016	**213,864**	**13,173**	**123,750**	**86,416**	**44,083**	**481,286**
2015	198,117	12,658	95,724	68,612	43,456	418,567
C G Hurst						
2016	**50,461**	**4,666**	**21,600**	**47,479**	**12,765**	**136,971**
2015	132,970	11,780	42,394	47,652	29,818	264,614
G C McGrath						
2016	**136,660**	**11,559**	**80,360**	**nil**	**12,752**	**241,331**
2015	10,056	880	nil	nil	nil	10,936

1 The LTIP award made in April 2014 is not due to vest until 7 April 2017, but has been included in the table as its performance was measured for the three-year period ended 31 December 2016. For the purposes of this table, the award has been valued using the average share price over the three months to 31 December 2016 of £2.525. This compares to a share price of £2.275 at the date of grant. The LTIP award made in March 2013 vested on 19 March 2016 and has been recalculated using the actual sales price achieved for the shares when they were sold (£2.712) on 21 and 22 March 2016.

2 Since September 2016, no further pension contributions have been made to D B Stirling's DC Pension Plan as he approached his lifetime pension limit. See the note below for further information.

3 As stated in the Directors' Remuneration Policy that was approved at the AGM held on 20 May 2014, there was a commitment, which existed before 27 June 2012, to increase the level of pension contribution by 3% of pensionable salary every five years for D B Stirling and C G Hurst. The most recent increase took effect on 1 January 2016 and has been reflected in the above table.

Non-Executive Directors

	Fees paid in respect of 2016 (£)	Fees paid in respect of 2015 (£)
N G Howard	**14,625**	58,250
A C Bromfield	**36,958**	29,238
M-L Clayton	**37,875**	31,250
R J Clowes	**37,875**	31,250
S P Good	**67,375**	29,238

The Non-Executive Directors (including the Chairman) will not receive a fee increase in 2017.

Notes to the table (audited)

Base salary and pension contributions

The Company operates a Defined Contribution ('DC') Pension Plan, where individuals can elect to change their contract of employment under a salary sacrifice arrangement, whereby their salary is reduced and the Company makes a corresponding contribution into their DC Pension Plan. D B Stirling, until September 2016 (see below), C G Hurst and G C McGrath all opted for the salary sacrifice scheme and the amounts shown for base salary are after salary sacrifice. Similarly, the amounts shown for pension include the amounts of salary sacrificed. At 31 December 2016, the base salaries (before salary sacrifice) were £225,000 pa for D B Stirling and £143,500 pa for G C McGrath. C G Hurst's base salary at the date he left (16 May 2016) was £144,000 pa.

In September 2016, both D B Stirling and the Company ceased contributing to his DC Pension Plan as he approached his lifetime pension limit. The Company's contributions have been paid into a deposit account held by the Company and will be released to D B Stirling after the 2017 AGM, subject to the new Directors' Remuneration Policy being approved. The table includes the contributions paid into the deposit account.

Benefits

Benefits include a company car allowance, private medical insurance and the value of the Matching Shares (at dates when awarded) acquired during the year under the SIP.

Annual bonus

2016

The targets for the annual bonus for 2016 for D B Stirling and G C McGrath are as set out in the below table.

		Performance required		Performance achieved	Calculated pay out	
	Bonusable salary	Trigger point £m	Maximum £m	Actual £m	D B Stirling	G C McGrath
Profit before tax	50.0%	6.00	7.25	7.23	49.2%	49.2%
HPP segment sales	30.0%	10.70	13.80	9.99	0.0%	0.0%
Individual objectives	20.0%	n/a	n/a	n/a	15.0%	16.0%
Total	**100%**	**n/a**	**n/a**	**n/a**	**64.2%**	**65.2%**
				Adjusted pay out	**55.0%**	**56.0%**

The trigger point for the annual bonus was £6.00m and the maximum was £7.25m. The Group's profit before tax and exceptional items was £7.23m, which results in a calculated pay out of 49.2% for this element of the bonus. However, this result was supported by the weakening of sterling to the euro and the US dollar, which benefitted the Group's reported results. The Executive Directors did not achieve the trigger point for HPP sales, but they did make good progress in their personal objectives. The personal objectives for the Group CEO were focused on elaboration of business strategy, development of the management team and investments in the fixed cost base to grow the organisation's delivery capability. The Finance Director's personal objectives were linked to building a high-quality international finance team, cash management and investment in the IT systems.

The Remuneration Committee has not previously exercised discretion in determining bonus because of the impact of foreign exchange and would not have wanted to deter the Executive Directors from making key investment decisions that could have impacted the future growth of the business. However, considering the performance in the round and because of the unusual and particularly significant impact of foreign exchange, the Committee has reduced the overall bonus payments to 55.0% of base salary for D B Stirling and 56.0% of base salary for G C McGrath.

The annual bonus was based on base salary before salary sacrifice ('bonusable salary'). The maximum opportunity for the bonus was 100% of bonusable salary. 25% of the bonus will be deferred by making awards under the Deferred Bonus Share Plan ('DBSP'). Full details of the operation of the DBSP are set out in the Directors' Remuneration Policy (see page 45).

For C G Hurst, his bonus for 2016 was subject only to performance against personal objectives, which he fully completed and, therefore, the maximum opportunity of 15% of his bonusable salary has been paid to him in cash.

2016	Cash bonus (£)	Deferred bonus (£)	Total bonus (£)
D B Stirling	92,813	30,937	123,750
C G Hurst	21,600	nil	21,600
G C McGrath	60,270	20,090	80,360

The Committee is satisfied with the overall payments in light of the level of performance achieved.

2015

The annual bonus for 2015, which has not been previously disclosed, was as follows:

		Performance required		Performance achieved	Pay out	
	Bonusable salary	Trigger point £m	Maximum £m	Actual £m	D B Stirling	C G Hurst
Profit before tax	42.5%	5.274	6.336	6.010	29.4%	29.4%
HPP segment sales	42.5%	8.700	11.150	8.274	0.0%	0.0%
Individual objectives	15.0%	n/a	n/a	n/a	15.0%	0.0%
Total	**100%**	**n/a**	**n/a**	**n/a**	**44.4%**	**29.4%**

The maximum opportunity was 100% of bonusable salary. G C McGrath did not receive a bonus in relation to 2015 due to him joining on 1 December 2015.

Remuneration report continued

No discretion was used by the Committee in determining bonus pay outs for the year.

2015	Cash bonus (£)	Deferred bonus (£)	Total bonus (£)
D B Stirling	71,793	23,931	95,724
C G Hurst	42,394	nil	42,394

LTIP
The LTIP awards made are subject to performance and service conditions. 50% of the award is subject to growth in absolute Total Shareholder Return ('TSR') and 50% subject to EPS growth. Performance is measured over a three-year period and a proportion of the restricted shares will be released to the participant, to the extent that TSR and EPS targets over the period have been met, together with additional shares that represent the dividends that would have been paid during the performance period on the restricted shares that have been released.

The total award vesting is the sum of the awards for TSR and EPS. If the performance is below the EPS trigger point then no part of the EPS award vests. If performance is below the TSR trigger point then no part of the TSR award vests. Between the trigger point and the maximum, the award vests on a sliding scale basis.

The table below summarises the performance criteria for the 2014 award, which is due to vest on 7 April 2017.

	Trigger point		Maximum	
	Performance target	% of award vesting	Performance target	% of award vesting
Absolute TSR goal[1]	7.5% pa growth	12.5	30% pa growth	50
EPS goal[2]	12.6p	12.5	22.2p	50

1 The absolute TSR growth is from a share price of 182.4p, being the average share price of the final quarter of 2013.
2 The trigger point for the EPS target was originally set as 13.2p, where 12.5% of the award would vest, to the maximum of 23.3p, where 50% of the award would vest. The EPS target was adjusted in December 2014 to reflect the dilutive effect that the share placement, which took place on 17 September 2014, had on earnings.

The target for TSR growth and the adjusted target for EPS were both partially met. TSR growth was 13.6% pa and EPS was 13.25p. Therefore, 37.7% of the award will vest, which will be increased to reflect the dividends paid during the performance period.

LTIP awards granted during 2016 (audited)
The table below sets out details of the LTIP awards made under the LTIP to the Executive Directors during 2016:

	Type of award	Date of grant	Number of shares granted	Face value[1] (£)	Face value (% of salary)	Performance condition	Trigger point for vesting (% of face value)	End of performance period
D B Stirling	LTIP (Conditional shares)	05/04/2016	74,507	215,400	100	50% based on TSR growth[2] and 50% EPS target[3]	12.5	05/04/2019
G C McGrath	LTIP (Conditional shares)	05/04/2016	48,426	140,000	100	50% based on TSR growth[2] and 50% EPS target[3]	12.5	05/04/2019

1 Face value calculated using the average of the Company's mid-market price for the five trading days preceding the date of grant (£2.891). The share price was £2.85 on 5 April 2016.
2 The trigger point for absolute TSR growth is 3.0% pa growth, where 12.5% of the award will vest, to the maximum of 12% pa growth, where 50% of the award will vest.
3 The trigger point for the EPS target is 12.8p, where 12.5% of the award will vest, to the maximum of 19.2p, where 50% of the award will vest.

Total pension entitlements (audited)

The Zotefoams Defined Benefit Pension Scheme (the 'DB Scheme') was closed to future accrual of benefits as from 31 December 2005. At this time, all active members left the DB Scheme and were granted preserved pensions payable from their normal retirement age (or immediately, if the member had reached normal retirement age).

The following Directors were members of the DB Scheme during the year.

	Accrued pension pa at 31 December 2016 (£)	Gross decrease in pension (£)	Increase in accrued pension net of CPI inflation (£)	Change in value over the year (£)
D B Stirling	19,147	(29)	–	–
C G Hurst	9,745	(15)	–	–

Notes

(1) The pension entitlement shown is that which would be paid annually on retirement at normal retirement age (or immediately upon late retirement where applicable), based on service to 31 December 2005 (the date the DB Scheme was closed to future accrual), including increases to the year end, but excluding any future increases under the rules of the DB Scheme.

(2) As required by the Regulations, the pension input amount has been calculated using the method set out in section 229 of the Finance Act 2004(a) where:
- 'Pension input period' is the year ended 31 December 2016; and
- in the application of section 234 of the Act, the figure 20 is substituted for the figure 16.

The following is additional information relating to the Directors' pensions from the DB Scheme:

(a) Before the DB Scheme closed, members had the option of paying Additional Voluntary Contributions ('AVCs'). The value of these AVCs has been excluded from the above figures.

(b) Normal retirement age is 65.

(c) On death before retirement, a spouse's pension is payable of one half of the member's preserved pension at leaving, revalued from leaving to the date of death. On death in retirement, a spouse's pension is payable of one half of the member's pension at death, without reduction for any part of the member's pension commuted for cash at retirement.

(d) Members' Guaranteed Minimum Pensions increase at statutory rates. Other pensions increase in payment at 5% pa, or the increase in the Retail Prices Index if lower.

(e) From 1 January 2006, active employee members were able to pay contributions to the DC Pension Plan set up by the Company in order to receive retirement benefits. The Company also contributes to this arrangement. Details of the contributions made into this Plan have been disclosed in the single figure calculation and are not included in the above disclosure.

Payments made to past Directors (audited)

No payments were made during 2016 other than disclosed elsewhere in the report.

Payments for loss of office (audited)

No payments were made during 2016.

Statement of Directors' shareholding and share interests (audited)

In 2014 the Remuneration Committee introduced a policy requiring Executive Directors to hold a shareholding equivalent to 100% of base salary, with a five-year period to build up to this holding from introduction of the policy or becoming an Executive Director. D B Stirling complied with the policy throughout 2016. C G Hurst complied with the policy until he left the Board on 16 May 2016. G C McGrath, who only joined the Company on 1 December 2015, has until 30 November 2020 to build up a shareholding to comply with the policy.

The tables below set out the Directors' interests (including those of their connected persons) in Zotefoams shares as at 31 December 2016 or on leaving the Board if earlier.

Executive Directors

	Shares owned outright[1]	Interest in share incentive schemes without performance conditions[2]	Interest in share incentive schemes with performance conditions[3]
D B Stirling	379,798	44,717	180,733
C G Hurst[4]	372,117	4,795	70,205
G C McGrath	504	125	58,770

1 Includes Partnership Shares, Dividend Shares and vested Matching Shares under the SIP.
2 Comprises: vested ASOP awards; DBSP shares; and unvested Matching Shares under the SIP.
3 Comprises: unvested LTIP shares and unvested ASOP awards.
4 Left the Board on 16 May 2016.

Remuneration report continued

Non-Executive Directors

	Shares owned outright
N G Howard[1]	69,300
A C Bromfield	Nil
M-L Clayton	29,800
R J Clowes	44,000
S P Good	15,000

1 Left the Board on 31 March 2016.

Scheme interests (audited)

The table below provides details of the current position of outstanding awards made to the Executive Directors who served in the year under review.

	Scheme	As at 31 December 2015	Date of exercise or release	Granted during the year	Exercised or released	Lapsed or cancelled	As at 31 December 2016	Market price on exercise date	Exercise price	Date from which exercisable	Expiry date
D B Stirling	ASOP	28,116	–	–	–	–	**28,116**	–	£1.067	12.08.2011	11.08.2018
	LTIP (2013)	23,760	19.03.2016	–	23,760	–	**–**	£2.712	–	19.03.2016	n/a
	LTIP (2014)	85,798	–	–	–	53,452	**32,346**	–	–	07.04.2017	n/a
	LTIP (2015)	73,880	–	–	–	–	**73,880**	–	–	30.03.2018	n/a
	LTIP (2016)	–	–	74,507	–	–	**74,507**	–	–	05.04.2019	n/a
	DBSP (2012)	20,842	19.03.2016	–	20,842	–	**–**	£2.712	–	19.03.2016	n/a
	DBSP (2014)	8,150	–	–	–	–	**8,150**	–	–	30.03.2018	n/a
	DBSP (2015)	–	–	8,278	–	–	**8,278**	–	–	05.04.2019	n/a
	SIP[2]	10	–	163	–	–	**173**	–	–	–	n/a
C G Hurst	ASOP	28,116	20.04.2016	–	28,116	–	**–**	£2.850	£1.067	12.08.2011	11.08.2018
	LTIP (2013)	16,501	19.03.2016	–	16,501	–	**–**	£2.712	–	19.03.2016	n/a
	LTIP (2014)[1]	59,591	–	–	–	41,819	**17,772**	–	–	07.04.2017	n/a
	LTIP (2015)[1]	50,358	–	–	–	27,293	**23,065**	–	–	30.03.2018	n/a
	DBSP (2012)	14,475	19.03.2016	–	14,475	–	**–**	£2.712	–	19.03.2016	n/a
	DBSP (2014)	4,722	08.06.2016	–	4,722	–	**–**	£3.000	–	30.03.2018	n/a
	SIP[2]	10	–	76	86	–	**–**	–	–	–	n/a
G C McGrath	ASOP	–	–	10,344	–	–	**10,344**	–	£2.900	05.04.2019	n/a
	LTIP (2016)	–	–	48,426	–	–	**48,426**	–	–	05.04.2019	n/a
	SIP[2]	–	–	125	–	–	**125**	–	–	–	n/a

1 As C G Hurst is a 'good leaver', his outstanding LTIP awards will vest at the normal times as if he had not left the Company, but have been pro-rated to reflect that he left the Company on 16 May 2016.
2 Matching Shares under the SIP. Participants buy Partnership Shares monthly under the SIP. The Company provides one Matching Share for every four Partnership Shares purchased. These Matching Shares are first available for vesting three years after being awarded or on leaving if the person is considered to be a 'good leaver'.

Details of Directors' service contracts and appointment letters (unaudited)

The following table sets out the details of the service contracts and appointment letters for the Directors as at 31 December 2016:

Director	Date of current service contract or appointment letter	Unexpired terms at 31 December 2016
A C Bromfield	1 October 2014	9 months
M-L Clayton	1 July 2014	6 months
R J Clowes	1 February 2016	6 months
S P Good	1 February 2016	2 years and 3 months
G C McGrath	28 October 2015	–
D B Stirling	31 July 2014	–

Copies of the Directors' service contracts and appointment letters are available for inspection at the Company's registered office.

Change in remuneration of the Group CEO (unaudited)
The table below illustrates the percentage change in salary and benefits for the Group CEO and the UK work force.

The employee subset consists of an average of the UK work force employees for the period under review. This group has been selected as the Group CEO is based in the UK and this employee representative group is the largest group of employees within the organisation.

	% change in base salary (2016 to 2015)	% change in taxable benefits (2016 to 2015)	% change in annual bonus (2016 to 2015)
Group CEO	4.5	0.8	23.9
Employee subset	2.5	–	114.3

The employees' salary review is negotiated with the unions and a 2.5% increase was agreed in relation to 2016. The Remuneration Committee normally keeps salary increases for the Executive Directors similar to those of the employees when they review the salaries of the Executive Directors in April each year. There was a 0.8% increase in the taxable benefits for the Group CEO, which is due to an increase in the premium for the private medical insurance for the Group CEO. The majority of employees do not receive any taxable benefits.

Historic TSR performance and Group CEO remuneration outcomes (unaudited)
The graph below compares the TSR of Zotefoams against the FTSE SmallCap Index. The FTSE SmallCap Index is considered the most appropriate choice of index due to the Group's size and it being a member of the FTSE SmallCap Index.

TSR performance

Remuneration report continued

The table below illustrates the Group CEO's single figure for total remuneration, annual bonus pay out, LTIP vesting as a percentage of maximum opportunity, the EPS and the average share price for the final quarter for the same eight-year period.

	Group CEO's single figure of remuneration (£)	Annual bonus pay out (% of maximum)	LTIP vesting (% of maximum)	EPS[1] (p)	Average share price for the final quarter (p)
2016	**481,286**	**55.0**	**37.7**	**13.3**	**252.5**
2015	418,568	44.4	50.0	11.1	344.3
2014	439,452	44.0	66.0	10.7	237.8
2013	270,687	–	24.8	8.0	182.4
2012	490,715	62.0	84.0	11.8	202.2
2011	572,969	33.3	88.7	11.8	121.1
2010	367,970	46.2	54.9	10.2	136.7
2009	177,562	29.8	–	6.8	90.4

1 Basic, pre exceptional items.

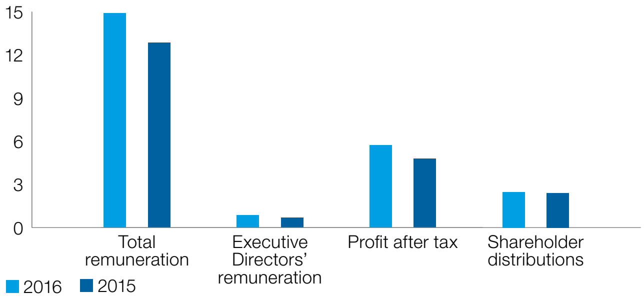
Relative importance of spend on pay (unaudited)

The below table and chart illustrate the year-on-year change in total Executive Directors' remuneration and Executive Directors' remuneration compared to profit after tax and distributions to shareholders for 2016 and 2015.

	2016	2015
Total remuneration[1] £000	**14,903**	12,841
Executive Directors' remuneration £000	**859**	694
Profit after tax £000 (including exceptional items)	**5,724**	4,797
Shareholder distributions[2] £000	**2,474**	2,400

1 Social security costs paid by the Group have been excluded from this figure.
2 Shareholder distributions refer to the dividends paid during the year.

Relative importance of spend on pay (unaudited) (£m)



Committee role and advisers (unaudited)
The Group has established a Remuneration Committee which is constituted in accordance with the recommendations of the UK Corporate Governance Code. A C Bromfield, R J Clowes, M-L Clayton and S P Good were members of the Committee throughout 2016 to the date of this report. N G Howard was also a member until he retired on 31 March 2016. All the members are independent Non-Executive Directors, with the exception of both N G Howard and S P Good, who were both independent on appointment as Chairmen of the Group. The Committee was chaired by R J Clowes until 18 May 2016 and A C Bromfield took over as being Chair the following day. The Committee's Terms of Reference were last updated in March 2014 and may be found on the Group's website.

None of the Committee members have any personal financial interest (other than fees paid as disclosed on page 54 and as shareholders) in the Company, nor do they have any interests that may conflict with those of the Group, such as cross directorships. None of the Committee members are involved in the day-to-day management of the business. The Committee makes recommendations to the Board on remuneration matters. No Director is involved in any decision concerning his or her own remuneration.

The Remuneration Committee met eight times in 2016 and, at the invitation of the Committee, the Group CEO attended three of those meetings to give background information on remuneration matters. The Committee was also advised by the Finance Director as regards the level of completion of the performance targets. The secretary to the Committee is the Company Secretary.

In 2016, the Remuneration Committee considered the following matters:
- the Directors' remuneration report for 2015 and relevant matters;
- the annual bonuses for the Executive Team and the employees;
- the grant of HMRC Approved Share Options;
- the grant of awards under the Long-Term Incentive Plan and the Deferred Bonus Share Plan and the vesting of awards made in 2013 under the Long-Term Incentive Plan and Deferred Bonus Share Plan;
- the salary review of the Executive Team and the Company Secretary;
- evaluating its effectiveness;
- setting the scope and undertaking a tendering process for selecting a remuneration consultant, appointing the preferred candidate and setting the brief for the consulting services to be provided;
- undertaking a wholesale review of the remuneration strategy for the Executive Team and creating a new Directors' Remuneration Policy; and
- considering pension and life insurance matters, including the lifetime pension limit and establishing an excepted life insurance policy.

As mentioned above, after undertaking a tendering process, Deloitte LLP was appointed in 2016 to provide remuneration consulting services to the Remuneration Committee. In 2015, the Remuneration Committee did not use the services of an independent firm of remuneration consultants. Deloitte LLP is a member of the Remuneration Consultants Group and adheres to its Code on executive remuneration consulting in the UK.

Total fees for advice provided to the Committee amounted to the following:

	2016 £	2015 £
Deloitte LLP	28,550	nil
Total:	28,550	nil

Shareholder voting (unaudited)
The table below sets out the results of the votes on the 2015 remuneration report at the 2016 AGM:

	Annual report on remuneration	%
Votes in favour	25,983,337	96.99
Votes against	255,660	0.95
Discretion	552,208	2.06
Total votes	26,791,205	–
Votes withheld	431,221	–

Audit Committee report

Dear Shareholder

I am pleased to present my report on the activities of the Audit Committee for 2016.

The main focus in 2016 for the Audit Committee was to ensure there were smooth transition processes in place from C G Hurst, the retiring Finance Director, to his successor, G C McGrath, and, similarly, with the External Auditors, from S Wootten, as Senior Statutory Auditor, to his successor, M Jones. There have also been several other key changes in the Finance Department during 2016, about which the Audit Committee was kept informed to ensure that knowledge and expertise were retained in the department.

The internal audit in 2016 was a review of the Group's fixed assets in Croydon and the USA in order to ensure they were being treated correctly in accordance with Group policy and relevant accounting standards. This was of importance to the Committee given the Group's significant investment programme currently underway. There was also a follow-up on the completion of the actions from the previous year's internal audit.

The Committee considered the requirements of gender pay gap reporting and the steps being taken by management to be able to report on the matter.

The Committee also considered the recording of stock on the Group's enterprise resource planning system at the Croydon site and at MuCell Extrusion LLC ('MEL') and the financial controls in general at MEL.

As part of agreeing the scope of the audit work, the Committee requested that the External Auditors undertake a review at MEL due to its increasing importance.

With the significant investment being made by the Group in Kentucky, USA, the Committee was kept informed on the Group's financing facilities and net debt forecast, to ensure that the Group had sufficient cash to complete this investment and future planned investments and to continue its other operations.

The Committee was kept informed on the work that commenced in 2016, and which continues, to develop further the Group's risk management framework to meet the business needs for the Group as it grows in scale and geographical reach.

As a result of the Committee's work during the year, the Audit Committee has concluded that it has acted in accordance with its Terms of Reference and has ensured the independence and objectivity of the External Auditors. I will be available at the AGM to answer any questions about the work of the Committee.

M-L Clayton
Chair of the Audit Committee
20 March 2017

Summary of the role of the Audit Committee

The main responsibilities of the Audit Committee are:

- monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgements contained therein;
- reviewing the External Auditors' management letter and management responses to any findings and recommendations made from the external audit;
- reviewing the Group's internal controls and risk management systems;
- reviewing the arrangements by which staff may, in confidence, raise concerns about possible improprieties ('the Whistleblowing policy');
- reviewing the arrangements put in place by the Group to prevent bribery and to receive reports of non-compliance;
- annually assessing the need for an internal audit function, monitoring and reviewing the effectiveness of the application of the internal audit function to the Group, monitoring and reviewing management's responses to any findings and reviewing any recommendations made from Internal Audit;
- reviewing and monitoring the External Auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements, and their appointment and remuneration;
- developing and implementing a policy on the engagement of the External Auditors to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm; and
- reporting to the Board on how it has discharged its responsibilities, including making recommendations, when necessary, on any actions or improvements required.

The Audit Committee's Terms of Reference, which are available on the Group's website, include all matters indicated by the Disclosure and Transparency Rule 7.1 and the UK Corporate Governance Code. The Terms of Reference are reviewed regularly by the Audit Committee to ensure they remain appropriate and reflect best practice and, if amended, are then referred to the Board for approval. The Terms of Reference were last reviewed and updated in December 2016 and reflect the changes brought in by the UK Corporate Governance Code published in April 2016.

Composition of the Audit Committee

The Committee comprises the independent Non-Executive Directors and two members constitute a quorum.

The members of the Audit Committee during 2016 were the independent Non-Executive Directors of the Company: A C Bromfield; M-L Clayton; and R J Clowes. S P Good was also a member of the Committee until 1 April 2016. The Committee was chaired by M-L Clayton, who is a Fellow of the Association of Chartered Certified Accountants and has, in the opinion of the Board, significant, recent and relevant financial experience to fulfil the requirements of the role. All Audit Committee members are expected to be financially literate and further training is provided if required or requested.

The Committee's membership, as a whole, has competence relevant to the sector in which the Group operates. Whilst M-L Clayton is the only member of the Committee with a financial qualification, the other members are financially literate: A C Bromfield has an MBA and R J Clowes is a Chartered Engineer. In addition, all three members have held positions, either executive or non-executive, in industries (oil, manufacturing and construction) that have a strong focus on health and safety and customer delivery.

Meetings

The Audit Committee has a planned calendar linked to events in the Group's financial calendar, causing it to meet at least three times in the year. Each meeting agenda is predominantly based around these events and is approved by the Audit Committee Chair on behalf of the other members, although other members have the right to require reports on matters of interest in addition to standard agenda items. The Audit Committee met four times in 2016.

The Company Secretary acts as secretary to the Audit Committee. The Company Chairman, Group CEO, Finance Director, Group Financial Controller and senior representatives of the External and Internal Auditors are invited to attend relevant meetings of the Committee, although the Committee reserves the right to request any of these individuals to withdraw. At each meeting, the External Auditors are given the opportunity to raise matters without the management being present. Other senior management may be invited to present such reports as are required for the Committee to discharge its duties. During the year, on an informal basis, the Audit Committee Chair meets senior representatives of both the External Auditors and Internal Auditors to discuss matters ahead of the formal Committee meetings.

Overview of the actions taken by the Audit Committee to discharge its duties

Since the beginning of 2016 the Audit Committee has:

- reviewed the financial statements in the 2015 Annual Report and Accounts and the interim report issued in August 2016. As part of this review the Committee received reports from the External Auditors on the audit of the Annual Report and the review of the interim report;
- reviewed the Group's policies on ethics, anti-bribery and corruption, fraud and whistleblowing;
- reviewed the appropriateness of the Group's UK subsidiary companies to rely upon the exemption from audit as permitted by section 479A of the Companies Act 2006;
- considered the output from the Group-wide process used to identify, evaluate and mitigate high-level business risks, including reviewing the Group's high-level business risk matrix;
- agreed a programme of work for 2016 to be performed by the internal auditors and received the Internal Auditors' reports on the work undertaken and management's responses to the proposals made in the reports;
- reviewed the effectiveness of the Group's internal controls (including, but not limited to, financial controls and measures for detecting fraud) to ensure that they remain appropriate and adequate as the Group grows;
- reviewed and agreed the scope of the audit work to be undertaken by the External Auditors;
- considered the views of both the External Auditors and Internal Auditors on the effectiveness of the Group's internal financial controls;
- agreed the fees to be paid to the External Auditors for their audit and work on the accounts and interim report;
- undertaken an evaluation of the independence, objectivity and effectiveness of the External Auditors, including reviewing the amount of non-audit services provided by the External Auditors;
- set a new Group policy on the provision of non-audit services provided by the External Auditors;
- considered the requirements for gender pay gap reporting;
- considered revenue recognition on certain customer contracts; and
- reviewed its own effectiveness.

Financial reporting and significant financial issues

The Audit Committee assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. The Committee reviews accounting papers prepared by management which provide details on the main financial reporting judgements. The Committee reviews reports by the External Auditors on the full year and half-year results which highlight any issues with respect to the work undertaken on the audit or review.

An area of significant focus considered by the External Auditors and the Audit Committee was whether the £2.49m of goodwill on the Consolidated Statement of Financial Position, which arose on the acquisition of MuCell Extrusion LLC in 2011, remained appropriate in view of past year losses and management's expectations of future cash flows.

In 2016, the value of the Company's defined benefit pension scheme continued to be an area of key focus by the External Auditors, due to the liability of the scheme being one of the significant liabilities of the Group. The matter was specifically reviewed following the decline in bond yields and the immediate aftermath of the UK's decision to leave the European Union. The External Auditors have kept the Audit Committee fully informed of their review of the scheme.

External audit tender

The Audit Committee is aware of the requirement for FTSE 350 companies to put to tender their external audits at least once every ten years (as set out in the Competition and Markets Authority's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014) and for audit committees to state their plans for when they are likely to consider a tender process if the external audit has not been put to tender in the past five years.

A tender process for the external audit for the Group was last undertaken in 2012, following which PricewaterhouseCoopers LLP ('PwC') was selected as the External Auditors. This is PwC's fifth annual audit for the Group and, whilst the Group is not within the FTSE 350 and hence not subject to the above-mentioned requirement, the Audit Committee has no current plans in the medium term to retender the external audit, but will keep the matter under review.

Effectiveness of the external auditors

The Audit Committee assesses the effectiveness of the external audit process in a number of ways. The External Auditors are invited to and normally attend all the scheduled meetings of the Committee during the year. At least annually, the External Auditors present a report, which includes an assessment and confirmation of their independence, as well as the activities that the External Auditors are undertaking to ensure compliance with best practice and regulation. At the conclusion of the annual audit, the Audit Committee undertakes an assessment of the External Auditors in relation to their fulfilment of the agreed audit plan, the robustness and perceptiveness of the External Auditors in handling key accounting and audit judgements and the thoroughness of the External Auditors' review of internal financial controls. As part of this assessment, management's opinions on the External Auditors are also considered.

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. In order to ensure that the External Auditors' objectivity and independence were not compromised, the Audit Committee set a Group policy in 2012 on the provision of non-audit services by the External Auditors, where there was a cap of £30,000 pa for non-audit services and approval was required from the Chair of the Audit Committee to exceed that amount. At each meeting of the Audit Committee in 2016, the Company Secretary presented a report on the amount of spend by the Group for the year to date on non-audit services.

Audit Committee report continued

In light of the European Audit Regulation and Directive, the Audit Committee decided, with effect from 1 January 2017, to revoke the above-mentioned policy on the provision of non-audit services by the External Auditors and has implemented a new Group policy that no non-audit services will be provided by the External Auditors without the prior approval of the Audit Committee. The new policy has been communicated throughout the Group. The Committee's intention is not to utilise the services of the External Auditors on non-audit matters unless it is to conclude an already open matter.

In 2016, the Group spent £5,050 on non-audit services, which related to advice on tax in connection with Zotefoams plc research and development costs, the branch in Thailand of Zotefoams Operations Limited and the Group's activities in the Far East. The External Auditors were chosen to do this work as they are an international firm with knowledge of the Group's business, allowing the matters to be dealt with expediently without compromising the independence of the external audit. Details of the External Auditors' fees may be found in note 4 to the financial statements.

The Audit Committee, having conducted a review of the External Auditors, concluded that the External Auditors have performed in a satisfactory manner and continue to be objective and independent and, therefore, has recommended to the Board that a resolution be put to the shareholders at the 2017 AGM to re-appoint the External Auditors.

Internal audit function

Each year the Audit Committee reviews the need for an internal audit function and, given the size of the Group, continues to be of the opinion that the internal audit function is best performed by an external audit firm, which complements the services provided by the External Auditors. Following a tender process in 2015, Grant Thornton UK LLP has been used to provide internal audit services in 2016. The Audit Committee agreed the scope for the internal audit, reviewed the report received and discussed the proposals made with management. Grant Thornton UK LLP has provided no other work for the Group and, therefore, the Audit Committee has considered them to be independent.

Nominations Committee report

Dear Shareholder

I am pleased to present my report on the activities of the Nominations Committee for 2016.

After a particularly busy year for the Nominations Committee in 2015 with the appointments of the new Finance Director and the Chairman Designate, 2016 was a quieter year. The Committee's main focus in 2016 has been on succession planning for the Board.

S P Good
Chair of the Nominations Committee
20 March 2017

Composition and operation of the Nominations Committee

The Nominations Committee currently comprises the Chairman, S P Good (who is its Chair), and the three independent Non-Executive Directors. N G Howard Chaired the Committee until he retired on 31 March 2016. The quorum for meetings of the Committee is two independent Non-Executive Directors.

The Nominations Committee operates within a defined set of Terms of Reference from the Board and is responsible for putting in place succession plans for the Board, reviewing the continuation in office of the Directors and managing the recruitment of new Board members within a specification set by the Board. The Committee met twice in 2016 to perform its duties as set out in its Terms of Reference. The Terms of Reference were last updated in March 2014 and may be found on the Company's website.

Search for a Non-Executive Director

In October 2016, the Nominations Committee commenced a search for an independent Non-Executive Director to succeed R J Clowes when he retires from the Board. Rather than using the traditional route of a search consultant, the Committee decided to advertise the position directly online. Several candidates have been interviewed and the process is still continuing.

Senior Independent Non-Executive Director

In last year's Report, it was reported that the Nominations Committee had considered the continuation in office of the Senior Independent Non-Executive Director, R J Clowes, as he had reached nine years of service on the Board in July 2016. With the retirements of both N G Howard and C G Hurst, the Board, upon the recommendation of the Nominations Committee, had agreed for Mr Clowes to remain on the Board for a period not to go beyond 30 June 2017 to provide continuity as the membership of the Board transitioned. As the search for an independent Non-Executive Director is continuing, the Board, upon the recommendation of the Nominations Committee, has agreed for Mr Clowes to remain on the Board for a further period not to go beyond 30 June 2018.

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

Independent auditors' report
To the members of Zotefoams plc

Report on the financial statements
Our opinion
In our opinion:
- Zotefoams plc's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2016 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited
The financial statements, included within the Annual Report, comprise:
- the Consolidated Statement of Financial Position and the Company Statement of Financial Position as at 31 December 2016;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Cash Flows and the Company Statement of Cash Flows for the year then ended;
- the Consolidated Statement of Changes in Equity and the Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

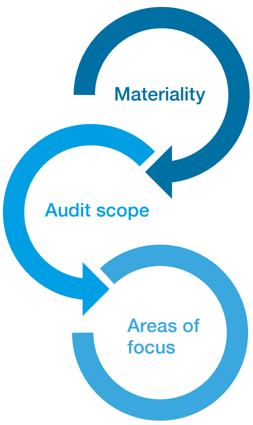
Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006, and applicable law.

Our audit approach
Context
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates. All the work was performed by the Group engagement team.

Of the eight trading companies (including joint ventures), three of these are considered to be significant components of the Group, Zotefoams plc in the UK, Zotefoams Inc. and MuCell Extrusion LLC in the USA, on which we have performed full-scope audits, all of which are 100%-owned subsidiaries of the Group.

Overview



Overall Group materiality: £350,000, which represents 5% of profit before tax.

There are eight trading companies (including joint ventures) within the Zotefoams plc consolidated accounts, two based in the UK, three in the USA and three in Asia. All these companies operate internationally.

We conducted an audit of full year financial information on three trading companies, Zotefoams plc in the UK and Zotefoams Inc. and MuCell Extrusion LLC in the USA.

The trading companies where we performed full audit procedures accounted for 97% of Group revenue and 98% of Group profit before tax.

Impairment of goodwill in respect of MuCell Extrusion LLC.

Actuarial assumptions of the defined benefit pension scheme.

The scope of our audit and our areas of focus
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Independent auditors' report continued
To the members of Zotefoams plc

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Impairment of goodwill in respect of MuCell Extrusion LLC The Group holds £2.5m of goodwill on its consolidated statement of financial position which arose on the acquisition of MuCell in a previous accounting period. The carrying value of goodwill is contingent on future cash flows. There is risk that, if these cash flows do not meet the Group's expectations, this intangible asset will be impaired. It is noted at this time that MuCell continues to be loss making. The impairment reviews performed by management contain a number of significant judgements and estimates including revenue growth, profit margins and long-term growth and discount rates. Changes in these assumptions can have a significant impact on the headroom available in the impairment calculations. There is therefore a risk that the goodwill balance relating to MuCell could be misstated.	We assessed the appropriateness of the methodology used by management including the key assumptions used in the discounted cash flow model. We assessed the mathematical accuracy of management's cash flow model. The forecast period was found to be in line with the Group's budget and strategic outlook. We agreed the underlying forecasts to Board-approved budgets and assessed how these budgets were compiled. We considered the appropriateness of the 14% discount rate assumption used for the discounted cash flow model by reference to our internally developed benchmarks. We have performed a sensitivity analysis, changing multiple assumptions in unison, on the model received from management. We have recalculated the movement in foreign exchange. No material exceptions were identified as part of our testing of the assumptions outlined above.
Actuarial assumptions of the defined benefit pension scheme The Group's closed defined benefit pension scheme represents one of the largest liabilities in the statement of financial position at £7.4m (2015: £5.2m). The valuation of the scheme's liabilities requires the Directors to apply their judgement in making a number of key assumptions, being the rates of inflation (Consumer Price Index and Retail Price Index), the discount rate and the life expectancy of scheme members. There is a risk of material misstatement if there are small changes in the assumptions, as the liability is highly sensitive.	We assessed the appropriateness of the methodology used by management, including the key assumptions used to value the pension liabilities. Discount rate: We considered the appropriateness of the 2.7% discount rate assumption used for the UK scheme by reference to our internally developed benchmarks. Inflation rate: We agreed the rates used by management against our internally developed benchmarks. Mortality: We considered the appropriateness of the base tables selected for use by management against our internally developed benchmarks. No material exceptions were identified as part of our testing of the assumptions outlined above and we consider the assumptions used to be in line with recognised market practices. We also compared the methodology used in calculating the assumptions against the methodology used in the prior year, given that there have been no substantive changes to the scheme (notably, as it is closed to new members) and did not identify any changes that would have a material impact on the value of the scheme liabilities.

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates. All the work was performed by the Group engagement team.

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table above. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Of the eight trading companies (including joint ventures) noted above, three of these are considered to be significant components of the Group, Zotefoams plc in the UK and Zotefoams Inc. and MuCell Extrusion LLC in the USA. We have performed full-scope audit procedures on these three trading entities which contributed 97% to Group revenue and 98% to Group profit before tax.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£350,000 (2015: £300,500).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £18,000 (2015: £15,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 22, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' report. We have nothing to report in this respect.

Independent auditors' report continued
To the members of Zotefoams plc

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
• information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
• the statement given by the Directors on page 66, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on pages 62 to 64, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
• the Directors' confirmation on page 38 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the Directors' explanation on page 23 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.
Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.	

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion
In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate governance statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors
As explained more fully in the Statement of Directors' responsibilities in respect of the Annual Report set out on page 66, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.

Michael Jones (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick

20 March 2017

Consolidated Income Statement
For the year ended 31 December 2016

	Note	2016 £000	2015* £000
Group revenue	2	57,376	53,869
Cost of sales		(36,838)	(36,602)
Gross profit		20,538	17,267
Distribution costs		(5,551)	(5,228)
Administrative expenses pre exceptional item		(7,341)	(5,714)
Exceptional item	3	(242)	–
Total administrative expenses	4	(7,583)	(5,714)
Operating profit		7,404	6,325
Operating profit pre exceptional item		7,646	6,325
Finance income	6	–	2
Finance costs		(393)	(306)
Net finance costs		(393)	(304)
Share of loss from joint venture		(21)	(11)
Profit before income tax		6,990	6,010
Profit before income tax pre exceptional item		7,232	6,010
Income tax expense	7	(1,294)	(1,213)
Profit for the year		5,696	4,797
Profit for the year pre exceptional item		5,890	4,797
Attributable to:			
Equity holders of the Parent		5,795	4,824
Non-controlling interest		(99)	(27)
		5,696	4,797
Earnings per share:			
Basic (p)	8	13.25	11.10
Diluted (p)	8	13.07	10.90

* In preparing the Annual Report the Directors have considered the classification of certain costs within the Consolidated Income Statement and, based upon this review, have reallocated certain balances between cost of sales and distribution and administrative expenses, further details of which can be found in Note 2.

All activities of the Group are continuing.

The notes on pages 80 to 109 form part of these consolidated financial statements.

Company number: 2714645

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Profit for the year		**5,696**	4,797
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss			
Foreign exchange translation gains on investment in foreign subsidiaries		4,319	814
Actuarial (losses)/gains on defined benefit schemes	23	(2,707)	443
Tax relating to items that will not be reclassified		514	(84)
Total items that will not be reclassified to profit or loss		**2,126**	1,173
Items that may be reclassified subsequently to profit or loss			
Effective portion of changes in fair value of cash flow hedges	21	(159)	(46)
Tax relating to items that may be reclassified		29	6
Total items that may be reclassified subsequently to profit or loss		**(130)**	(40)
Other comprehensive income for the year, net of tax		**1,996**	1,133
Total comprehensive income for the year		**7,692**	5,930
Attributable to:			
Equity holders of the Parent		7,783	5,952
Non-controlling interest		(91)	(22)
Total comprehensive income for the year		**7,692**	5,930

The notes on pages 80 to 109 form part of these consolidated financial statements.

Consolidated Statement of Financial Position
As at 31 December 2016

	Note	2016 £000	2015 £000
Non-current assets			
Property, plant and equipment	11	47,500	35,372
Intangible assets	12	7,547	6,868
Investment in joint ventures	10	142	163
Deferred tax assets	19	709	574
Total non-current assets		55,898	42,977
Current assets			
Inventories	14	12,307	9,862
Trade and other receivables	15	20,404	17,219
Cash and cash equivalents	16	2,868	6,148
Total current assets		35,579	33,229
Total assets		91,477	76,206
Current liabilities			
Trade and other payables	17	(10,587)	(10,445)
Current tax liability		(1,035)	(726)
Interest-bearing loans and borrowings	18	(9,156)	(1,102)
Bank overdraft	16	(805)	(879)
Total current liabilities		(21,583)	(13,152)
Non-current liabilities			
Interest-bearing loans and borrowings	18	(5,464)	(5,758)
Deferred tax liabilities	19	(608)	(938)
Post employment benefits	23	(7,439)	(5,238)
Total non-current liabilities		(13,511)	(11,934)
Total liabilities		(35,094)	(25,086)
Total net assets		56,383	51,120
Equity			
Issued share capital	20	2,221	2,221
Share premium		24,340	24,340
Own shares held		(31)	(38)
Capital redemption reserve		15	15
Translation reserve		5,947	1,636
Hedging reserve		(319)	(189)
Retained earnings		24,210	22,997
Total equity attributable to the equity holders of the Parent		56,383	50,982
Non-controlling interest		–	138
Total equity		56,383	51,120

The notes on pages 80 to 109 form part of these consolidated financial statements.

These consolidated financial statements on pages 72 to 109 were authorised for issue by the Board of Directors on 20 March 2017 and were signed on its behalf by:

G C McGrath
Finance Director
Company number: 2714645

Company Statement of Financial Position
As at 31 December 2016

	Note	2016 £000	2015 £000
Non-current assets			
Property, plant and equipment	11	26,477	24,971
Intangible assets	12	2,026	1,987
Investment in subsidiaries	13	13,460	13,265
Total non-current assets		41,963	40,223
Current assets			
Inventories	14	9,281	7,879
Trade and other receivables	15	22,536	16,121
Total current assets		31,817	24,000
Total assets		73,780	64,223
Current liabilities			
Trade and other payables	17	(6,964)	(8,568)
Current tax liability		(1,075)	(727)
Interest-bearing loans and borrowings	18	(8,594)	(700)
Bank overdraft	16	(805)	(879)
Total current liabilities		(17,438)	(10,874)
Non-current liabilities			
Interest-bearing loans and borrowings	18	–	(790)
Deferred tax liabilities	19	(608)	(938)
Post employment benefits	23	(7,439)	(5,238)
Total non-current liabilities		(8,047)	(6,966)
Total liabilities		(25,485)	(17,840)
Total net assets		48,295	46,383
Equity			
Issued share capital	20	2,221	2,221
Share premium		24,340	24,340
Own shares held		(31)	(38)
Capital redemption reserve		15	15
Hedging reserve		(319)	(189)
Retained earnings as at 1 January		20,034	16,592
Profit for the year		6,493	5,297
Other comprehensive income for the year		(1,984)	545
Dividends		(2,474)	(2,400)
Retained earnings as at 31 December		22,069	20,034
Total equity attributable to the equity holders of the Company		48,295	46,383

The notes on pages 80 to 109 form part of these consolidated financial statements.

These consolidated financial statements on pages 72 to 109 were authorised for issue by the Board of Directors on 20 March 2017 and were signed on its behalf by:

G C McGrath
Finance Director
Company number: 2714645

Consolidated Statement of Cash Flows
For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Cash flows from operating activities			
Profit for the year		5,696	4,797
Adjustments for:			
Depreciation, amortisation and impairment		3,595	3,476
Finance income		–	(2)
Finance costs		393	306
Share of loss from joint venture		21	11
Equity-settled share-based payments		269	223
Taxation		1,294	1,213
Operating profit before changes in working capital and provisions		11,268	10,024
Increase in trade and other receivables		(1,686)	(3,546)
Increase in inventories		(2,121)	(471)
(Decrease)/increase in trade and other payables		(412)	3,065
Employee benefit contributions		(692)	(660)
Cash generated from operations		6,357	8,412
Interest paid		(187)	(97)
Income tax paid		(1,000)	(782)
Net cash generated from operating activities		5,170	7,533
Cash flows from investing activities			
Interest received		–	2
Investment in non-controlling interest		(195)	–
Purchases of intangibles		(443)	(422)
Purchases of property, plant and equipment		(12,140)	(8,683)
Net cash used in investing activities		(12,778)	(9,103)
Cash flows from financing activities			
Proceeds from options exercised and issue of share capital		30	126
Repurchase of own shares		–	(127)
Repayment of borrowings		(1,319)	(741)
Proceeds from borrowings		7,894	5,356
Investment in subsidiary by non-controlling interest		–	160
Dividends paid		(2,474)	(2,400)
Net cash generated from financing activities		4,131	2,374
Net (decrease)/increase in cash and cash equivalents		(3,477)	804
Cash and cash equivalents at 1 January		5,269	4,628
Exchange gains/(losses) on cash and cash equivalents		271	(163)
Cash and cash equivalents at 31 December	16	2,063	5,269

Cash and cash equivalents comprise cash at bank, short-term highly liquid investments with a maturity date of less than three months and bank overdraft.

The notes on pages 80 to 109 form part of these consolidated financial statements.

Company Statement of Cash Flows
For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Cash flows from operating activities			
Profit for the year		6,493	5,297
Adjustments for:			
Depreciation, amortisation and impairment		2,599	2,654
Finance income		–	(2)
Finance costs		393	306
Equity-settled share-based payments		245	223
Taxation		1,429	1,260
Operating profit before changes in working capital and provisions		11,159	9,738
Increase in trade and other receivables		(6,415)	(5,620)
Increase in inventories		(1,403)	(463)
(Decrease)/increase in trade and other payables		(1,806)	2,907
Employee benefit contributions		(692)	(660)
Cash generated from operations		843	5,902
Interest paid		(179)	(96)
Income tax paid		(1,000)	(758)
Net cash (used in)/generated from operating activities		(336)	5,048
Cash flows from investing activities			
Interest received		–	2
Investment in subsidiaries		(195)	(3,117)
Purchases of intangibles		(428)	(413)
Purchases of property, plant and equipment		(3,506)	(2,725)
Net cash used in investing activities		(4,129)	(6,253)
Cash flows from financing activities			
Proceeds from issue of share capital		30	126
Repurchase of own shares		–	(127)
Repayment of borrowings		(724)	(718)
Proceeds from borrowings		7,894	–
Dividends paid		(2,474)	(2,400)
Net cash generated/(used) from financing activities		4,726	(3,119)
Net increase/(decrease) in cash and cash equivalents		261	(4,324)
Cash and cash equivalents at 1 January		(879)	3,476
Exchange losses on cash and cash equivalents		(187)	(31)
Cash and cash equivalents at 31 December	16	(805)	(879)

Cash and cash equivalents comprise cash at bank, short-term highly liquid investments with a maturity date of less than three months and bank overdraft.

The notes on pages 80 to 109 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
For the year ended 31 December 2016

	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 as at 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 pension scheme		–	–	–	–	–	–	443	–	443
Tax relating to actuarial gain on defined benefit pension scheme		–	–	–	–	–	–	(84)	–	(84)
Profit for the year		–	–	–	–	–	–	4,824	(27)	4,797
Total comprehensive income/(expenditure) for the year		–	–	–	–	809	(40)	5,183	(22)	5,930
Transactions with owners of the Parent:										
Shares issued and options exercised		30	10	–	–	–	–	86	–	126
Shares acquired		–	(31)	–	–	–	–	(96)	–	(127)
Equity-settled share-based payments net of tax		–	–	–	–	–	–	197	–	197
Dividends paid	8	–	–	–	–	–	–	(2,400)	–	(2,400)
Total transactions with owners of the Parent		30	(21)	–	–	–	–	(2,213)	–	(2,204)
Non-controlling interest on acquisition		–	–	–	–	–	–	–	160	160
Balance as at 31 December 2015 and 1 January 2016		2,221	(38)	24,340	15	1,636	(189)	22,997	138	51,120
Foreign exchange translation gains on investment in subsidiaries		–	–	–	–	4,311	–	–	8	4,319
Effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	–	(159)	–	–	(159)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	–	29	–	–	29
Actuarial loss on defined benefit pension scheme		–	–	–	–	–	–	(2,707)	–	(2,707)
Tax relating to actuarial loss on defined benefit pension scheme		–	–	–	–	–	–	514	–	514
Profit/(loss) for the year		–	–	–	–	–	–	5,795	(99)	5,696
Total comprehensive income/(expenditure) for the year		–	–	–	–	4,311	(130)	3,602	(91)	7,692
Transactions with owners of the Parent:										
Options exercised		–	7	–	–	–	–	23	–	30
Purchase of non-controlling interest		–	–	–	–	–	–	(148)	(47)	(195)
Equity-settled share-based payments net of tax		–	–	–	–	–	–	210	–	210
Dividends paid	8	–	–	–	–	–	–	(2,474)	–	(2,474)
Total transactions with owners of the Parent		–	7	–	–	–	–	(2,389)	(47)	(2,429)
Balance as at 31 December 2016		**2,221**	**(31)**	**24,340**	**15**	**5,947**	**(319)**	**24,210**	**–**	**56,383**

The aggregate current and deferred tax relating to items that are credited to equity is £426,000 (2015: a debit of £79,000).

The notes on pages 80 to 109 form part of these consolidated financial statements.

Company Statement of Changes in Equity
For the year ended 31 December 2016

	Note	Share capital £000	Own shares held £000	Share premium £000	Capital redemption reserve £000	Hedging reserve £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2015		2,191	(17)	24,340	15	(149)	16,592	42,972
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 losses on defined benefit pension scheme		–	–	–	–	–	443	443
Tax relating to actuarial losses on defined benefit pension scheme		–	–	–	–	–	(84)	(84)
Profit for the year		–	–	–	–	–	5,297	5,297
Total comprehensive (expenditure)/income for the year		–	–	–	–	(40)	5,656	5,616
Transactions with owners of the Parent:								
Shares issued and options exercised		30	10	–	–	–	86	126
Shares acquired		–	(31)	–	–	–	(96)	(127)
Equity-settled share-based payments net of tax		–	–	–	–	–	197	197
Dividends paid	8	–	–	–	–	–	(2,400)	(2,400)
Total transactions with owners of the Parent		30	(21)	–	–	–	(2,213)	(2,204)
Balance as at 31 December 2015 and 1 January 2016		2,221	(38)	24,340	15	(189)	20,034	46,383
Effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	(159)	–	(159)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	29	–	29
Actuarial loss on defined benefit pension scheme		–	–	–	–	–	(2,707)	(2,707)
Tax relating to actuarial loss on defined benefit pension scheme		–	–	–	–	–	514	514
Profit for the year		–	–	–	–	–	6,493	6,493
Total comprehensive (expenditure)/ income for the year		–	–	–	–	(130)	4,300	4,170
Transactions with owners of the Parent:								
Shares issued		–	7	–	–	–	23	30
Equity-settled share-based payments net of tax		–	–	–	–	–	186	186
Dividends paid	8	–	–	–	–	–	(2,474)	(2,474)
Total transactions with owners of the Parent		–	7	–	–	–	(2,265)	(2,258)
Balance as at 31 December 2016		**2,221**	**(31)**	**24,340**	**15**	**(319)**	**22,069**	**48,295**

The aggregate current and deferred tax relating to items that are credited to equity is £426,000 (2015: a debit of £79,000).

The notes on pages 80 to 109 form part of these consolidated financial statements.

Notes

1. Accounting policies

Zotefoams plc (the 'Company') is a company incorporated in Great Britain. The registered office of the Company is 675 Mitcham Road, Croydon CR9 3AL.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

The consolidated financial statements of Zotefoams plc have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and IFRS Interpretations Committee ('IFRS IC'), which are interpretations applicable to companies reporting under IFRS, in accordance with the Companies Act 2006. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 26.

On publishing the Parent Company financial statements here, together with the Group financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual Income Statement or Statement of Comprehensive Income and related notes that form part of these approved financial statements.

These financial statements were approved by the Board on 20 March 2017.

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Group CEO's review on pages 14 to 17. The Finance Director's review on pages 20 to 23 describes the financial position of the Group, its cash flows and liquidity position. In addition, note 21 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, borrowing facilities and its exposure to credit risk and liquidity risk. As a consequence, the Directors believe that the Group is well placed to manage its business risks.

The Group meets its day-to-day working capital requirements through its banking facilities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. Having assessed the principal risks and the other matters discussed in connection with the viability statement, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing its consolidated financial statements. Further information on the Group's borrowings is given in note 18.

The principal accounting policies adopted in the preparation of the Group's consolidated financial statements and the Company's individual financial statements are set out below. The policies have been consistently applied to all of the statements presented.

a) Measurement convention

The consolidated financial statements are prepared on the historical cost basis with the following exception:
- derivative financial instruments are stated at their fair value.

b) Basis of consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii) Transactions eliminated on consolidation

Intra-Group balances and transactions, including any unrealised gains and losses or income and expenses arising from such transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

iii) Accounting for business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value re-measured at acquisition date of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre existing relationships. Such amounts are generally recognised in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree employees (acquiree awards) and relate to past services, then all or a portion of the amount of the acquirer replacement awards are included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree awards and the extent to which the replacement awards relate to past and/or future service.

iv) Acquisitions and disposals of non-controlling interests

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the Parent.

c) Foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate prevailing at the time of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are translated to sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including fair value adjustments arising on consolidation, are translated to sterling at foreign exchange rates ruling at the Statement of Financial Position date. The revenues and expenses of foreign operations are translated to sterling at the average rate of exchange ruling during the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from the translation of foreign operations are taken directly to translation reserve through Other Comprehensive Income. They are released into the Income Statement upon disposal.

d) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement is recognised immediately in the Income Statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy (e)).

The fair value of forward exchange contracts is their quoted market price at the Statement of Financial Position date, being the present value of the quoted forward price.

e) Cash flow hedging

When a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or of a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in Other Comprehensive Income. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains or losses that were recognised directly in Other Comprehensive Income are reclassified into the Income Statement in the same period or periods during which the asset acquired or liability assumed affects the Income Statement.

The ineffective part of any gain or loss is recognised immediately in the Income Statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Income Statement.

f) Investments in subsidiaries

Investments in subsidiaries are stated at cost less provision for impairment.

Notes continued

1. Accounting policies continued

g) Property, plant and equipment

i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses (see accounting policy (l)).

When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

The cost of assets under construction includes the cost of materials and direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

ii) Depreciation

Depreciation is charged to the Income Statement on a straight-line basis over the estimated useful lives of each part of the item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Buildings	20 years
Plant and equipment	5–15 years
Fixtures and fittings	3–5 years

Assets under construction are not depreciated until after the end of the quarter that the asset is in the location and condition necessary for its intended use.

h) Intangible assets

i) Research and development

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the Income Statement as an expense as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development.

ii) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's interest in the identifiable assets, liabilities and contingent liabilities acquired in a business combination. Goodwill is stated at the amount recognised on acquisition date less any accumulated impairment losses. Goodwill is tested annually for impairment or more frequently if there are indications that goodwill may be impaired.

iii) Software

The cost of a purchased intangible asset is the purchase price plus any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

iv) Other intangible assets

Intangible assets acquired from a business combination are capitalised at fair value as at the date of acquisition and amortised over their estimated useful economic life. Their carrying value is the fair value at acquisition less cumulative amortisation and any impairment. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

Other intangible assets, including patents that are purchased by the Group and have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. The cost is the purchase price of the asset. Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful lives of the assets. Expenditure on internally generated goodwill and brands is recognised in the Income Statement as an expense as incurred.

v) The estimated useful lives of the intangible assets are as follows:

Marketing-related	5–15 years
Customer-related	2–10 years
Technology-related	5–20 years
Software-related	3–10 years
Capitalised development	3–10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

i) Trade and other receivables

Trade and other receivables are stated at their nominal amounts less impairment losses (see accounting policy (l)).

j) Inventories
Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods manufactured by the Group, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

k) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the Statement of Cash Flows.

l) Impairment
The carrying amounts of the Group's assets, other than inventories (see accounting policy (j)), employee benefits (see accounting policy (p)) and deferred tax assets (see accounting policy (u)), are reviewed at each Statement of Financial Position date where there is an indication that the asset may be impaired. If any such indication exists, the asset's recoverable amount is estimated (see below).

For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ('CGU') exceeds its estimated recoverable amount.

i) Calculation of recoverable amount
The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

ii) Impairment losses
Impairment losses are recognised in the Income Statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

iii) Reversals of impairment
An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

m) Joint ventures
Interests in joint ventures are accounted for using the equity method (see below), after initially being recognised at cost in the consolidated Statement of Financial Position.

i) Equity method
Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in Other Comprehensive Income of the investee in Other Comprehensive Income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note (l).

Notes continued

1. Accounting policies continued

n) Dividends
Final dividends are recognised as a liability in the period in which they are approved. Interim dividends are recognised when they are paid.

o) Interest-bearing borrowings
Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any differences between cost and redemption values being recognised in the Income Statement over the period of the borrowings on an effective interest basis where material.

p) Employee benefits
i) Defined contribution plans
Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income Statement as incurred.

ii) Defined benefits plans
The Group's net obligation in respect of defined benefit post employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that the employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the Statement of Financial Position date on AA credit rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The Group recognises all actuarial gains and losses that arise through Other Comprehensive Income.

The current service cost of the defined benefit plan, recognised in the Income Statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from service in the current year, benefit changes, curtailments and settlements.

iii) Share-based payment transactions
The share option programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the options. Options granted since 1 January 2006 are valued using a Black-Scholes model. Fair value measurements take into account the terms and conditions upon which the options were granted.

iv) Own shares held by Employees' Benefit Trust ('EBT')
Transactions of the Company-sponsored EBT are treated as being those of the Company and are therefore reflected in the Parent Company and Group financial statements. In particular, the EBT's purchases and sales of shares in the Company are debited and credited directly to equity.

q) Trade and other payables
Trade and other payables are stated at cost.

r) Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised costs; any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility it relates to.

s) Revenue
Revenue from the sale of goods is recognised in the Income Statement at the point of despatch, when significant risks and rewards of ownership are deemed to have been transferred to the buyer. MuCell Extrusion LLC recognises licence revenue upon transfer of the MuCell® technology, provided that no significant company obligations remain, the licence amount is determinable, and the collection of the related receivable is probable. Royalty income is based on the terms of the licence agreements and is recorded when amounts are determinable and collection of the related receivable is probable. Revenue from equipment sales is recognised upon either shipment or delivery as specified in the contract terms. Revenue from consulting services is recognised either as the services are performed or upon the achievement of a specific milestone. Payments received under these arrangements prior to the completion of the related work are recorded as deferred income.

t) Expenses
i) Operating lease payments
Payments made under operating leases are recognised in the Income Statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Income Statement as an integral part of the total lease expenses.

ii) Finance lease payments
The finance charge, where material, is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

u) Taxation
Taxation in the Income Statement for the periods presented comprises current and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in Other Comprehensive Income or directly in equity, in which case it is recognised in Other Comprehensive Income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year and any adjustments to the tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the Statement of Financial Position date.

A deferred tax asset is recognised only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional tax that arises from the distribution of dividends is recognised at the same time as the liability to pay the related dividend.

v) Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income tax) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

w) Exceptional items
Items which are significant by virtue of their size or nature, which are considered non-recurring and which are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 3), are classified as exceptional items. During the period, an exceptional item was recorded related to redundancy costs as a result of an efficiency improvement programme, totalling £242,000, which would otherwise have been included in the Income Statement as an operating exceptional cost.

x) New standards and interpretations not yet adopted
The IASB and IFRS Interpretations Committee have issued the following standards and interpretations with an effective date of implementation for accounting periods beginning after the date on which the Group's financial statements for the current year commenced. The Directors are still considering the full impact that these new standards will have in the period of initial application on the Group consolidated financial statements:

Effective after 31 December 2016	Effective for accounting periods beginning on or after	Endorsed by the EU
New standards		
IFRS 9 Financial Instruments	1 January 2018	No
IFRS 15 Revenue from Contracts with Customers	1 January 2018	No
IFRS 16 Leases	1 January 2019	No
IFRS 2 Share based Payments	1 January 2018	No

	Effective for accounting periods beginning on or after	Endorsed by the EU
Amendments		
IAS 1 Presentation of Financial Statements	1 January 2016	No
IAS 16 Property Plant & Equipment (PPE) and IAS 38 Intangible Assets	1 January 2016	1 January 2016
IFRS 11 Joint Arrangements	1 January 2016	1 January 2016
IAS 27 Separate Financial Statements	1 January 2016	No
Investment entities: applying the consolidation exemption	1 January 2016	No
Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016	No
IFRS 14 Regulatory Deferral Accounts	1 January 2016	No

Notes continued

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 Group 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:

- Polyolefin foams: these foams are made from olefinic homopolymer and copolymer resin. The most common resin used is polyethylene.
- High-Performance Products ('HPP'): these foams exhibit high-performance on certain key properties, such as improved chemical, flammability, temperature or energy management performance. Turnover in the segment is currently mainly derived from products manufactured from three main polymer types: PVDF fluoropolymer, polyamide (nylon) and polyether block amide (PEBA). Foams are sold under the brand names ZOTEK® while technical insulation products manufactured from certain materials are branded as T-FIT®.
- MuCell Extrusion LLC ('MEL'): licenses microcellular foam technology and sells related machinery.

	Polyolefin foams		HPP		MEL		Eliminations		Consolidated	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Group revenue	44,729	43,040	9,988	8,274	2,733	2,621	(74)	(66)	57,376	53,869
Segment profit/(loss) pre amortisation	8,003	7,601	2,483	816	(396)	(497)	–	–	10,090	7,920
Amortisation of acquired intangible assets	(48)	(47)	–	–	(419)	(304)	–	–	(467)	(351)
Segment profit/(loss)	7,955	7,553	2,483	816	(815)	(801)	–	–	9,623	7,568
Foreign exchange (losses)/gains	–	–	–	–	–	–	–	–	(33)	213
Unallocated central costs	–	–	–	–	–	–	–	–	(1,944)	(1,456)
Operating profit	–	–	–	–	–	–	–	–	7,646	6,325
Net financing costs	–	–	–	–	–	–	–	–	(393)	(304)
Share of loss from joint venture	(21)	–	–	–	–	–	–	–	(21)	(11)
Taxation (pre exceptional items)	–	–	–	–	–	–	–	–	(1,342)	(1,213)
Profit for the year (pre exceptional items)									5,890	4,797
Segment assets	68,610	59,423	11,607	8,989	10,409	7,057	–	–	90,626	75,469
Unallocated assets	–	–	–	–	–	–	–	–	851	737
Total assets									91,477	76,206
Segment liabilities	(30,643)	(20,318)	(980)	(2,420)	(1,828)	(684)	–	–	(33,451)	(23,422)
Unallocated liabilities	–	–	–	–	–	–	–	–	(1,643)	(1,664)
Total liabilities									(35,094)	(25,086)
Depreciation	2,626	2,606	122	178	37	43	–	–	2,785	2,827
Amortisation	391	345	–	–	419	304	–	–	810	649
Capital expenditure:										
Tangible fixed assets	10,996	8,800	1,162	456	–	12	–	–	12,158	9,268
Intangible fixed assets	245	413	198	–	–	9	–	–	443	422

Unallocated assets and liabilities are made up of Corporation Tax and deferred tax assets and liabilities and, in 2015, investments in joint ventures.

Following a reassessment of cost classifications, certain costs at the Group's subsidiaries, previously recognised as cost of sales, have been reclassified to distribution and administrative costs of £1,342,000 and £919,000 respectively, impacting the Group's gross margin percentage.

Geographical segments
Polyolefin foams, 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 and Eire £000	Continental Europe £000	North America £000	Rest of the world £000	Total £000
For the year ended 31 December 2016					
Group revenue from external customers	10,008	21,864	19,940	5,564	57,376
Non-current assets	29,399	–	25,648	–	55,047
Capital expenditure	3,708	–	7,593	857	12,158
For the year ended 31 December 2015					
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

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

Major customer
Revenues from one customer of the Group represent approximately £4.61m (2015: £4.90m) of the Group's revenue.

3. Exceptional item
On 24 June 2016 the Group and the Company incurred redundancy costs totalling £242,000, as a result of an efficiency improvement programme, which have been included in the Income Statement as an operating exceptional item.

	2016 £000	2015 £000
Restructuring costs	242	–

4. Expenses and auditors' remuneration

	2016 £000	2015 £000
Included in profit for the year are:		
Operating lease charges	135	139
Amortisation	810	649
Depreciation and impairment	2,785	2,827
Research and development costs expensed	803	839
Research and development costs capitalised	(198)	–
Net exchange losses/(gains)	33	(213)
External auditors' remuneration:		
Group – Fees payable to the Company's external auditors and its associates for the audit of the Parent Company and consolidated financial statements	65	62
Fees payable to the external auditors and its associates in respect of other services:		
– audit-related assurance services	17	17
– audit work relating to subsidiaries	37	26
– advisory services	5	5
	124	110

Notes continued

5. Staff numbers and expenses

The average number of people employed by the Group and Company (including Executive Directors) during the year, analysed by category, was as follows:

	Number of employees			
	Group		Company	
	2016	2015[1]	2016	2015[1]
Production	172	170	147	158
Maintenance	21	20	16	15
Distribution and marketing	57	60	39	42
Administration and technical	89	84	66	55
	339	334	268	270

1 Following a reassessment, 2015 staff numbers from administration and technical have been reclassified to production.

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Wages and salaries	13,804	11,871	10,909	9,667
Social security costs	1,650	1,197	1,110	1,049
Share options granted to Directors and employees	285	223	233	223
Other pension costs	814	748	751	695
	16,553	14,039	13,003	11,634

Details of individual Directors' emoluments, pension costs and share options are dealt with in the remuneration report on pages 40 to 61.

6. Finance income and costs

Finance income

	2016 £000	2015 £000
Interest on bank deposits	–	2

Finance costs

	2016 £000	2015 £000
On bank loans and overdrafts	207	97
Interest on defined benefit pension obligation	186	209
	393	306

7. Taxation

	Note	2016 £000	2015 £000
UK Corporation Tax		1,422	989
Overseas taxation		43	124
Adjustment in respect of prior years		(132)	10
Current taxation		1,333	1,123
Deferred taxation	19	(39)	90
Total tax charge		1,294	1,213

Factors affecting the tax charge
The weighted average applicable tax rate for the Group is similar to the standard rate of Corporation Tax in the UK of 20.00% (2015: 20.25%). The differences are explained below:

	2016 £000	2015 £000
Tax reconciliation		
Profit before tax	6,990	6,010
Tax at 20.00% (2015: 20.25%)	1,398	1,217
Effects of:		
Research and development tax credits and other allowances less expenses not deductible for tax purposes	(110)	(114)
Overseas losses not recognised	118	135
Differences in overseas tax rates	20	–
Re-measurement of deferred tax	–	(35)
Adjustments to prior year UK Corporation Tax charge	(132)	10
Total tax charge	1,294	1,213

Changes to the UK Corporation Tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the Statement of Financial Position date have been measured using these enacted tax rates and reflected in these consolidated financial statements.

8. Dividends and earnings per share

	2016 £000	2015 £000
Final dividend prior year of 3.80p (2014: 3.70p) per 5.0p ordinary share	1,664	1,615
Interim dividend of 1.85p (2015: 1.80p) per 5.0p ordinary share	810	785
Dividends paid during the year	2,474	2,400

The proposed final dividend for the year ended 31 December 2016 of 3.90p per share (2015: 3.80p) is subject to approval by shareholders at the AGM and has not been recognised as a liability in these consolidated financial statements. The proposed dividend would amount to £1,732,163 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 £5.80m (2015: £4.82m) 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 2016 was 628,979 (2015: 768,911). Distribution of shares from the trust is at the discretion of the trustees. Diluted earnings per ordinary share adjusts for the potential dilutive effect of share option schemes in accordance with IAS 33 Earnings per share.

	2016	2015
Weighted average number of ordinary shares in issue	43,750,811	43,595,921
Deemed issued for no consideration	590,974	599,401
Diluted number of ordinary shares issued	44,341,785	44,195,323

9. Profit for the financial year

The Group financial statements do not include a separate Income Statement for Zotefoams plc (the Parent undertaking) as permitted by Section 408 of the Companies Act 2006. The Parent Company profit after tax for the financial year is £6.49m (2015: £5.30m).

Notes continued

10. Investments in joint venture

During 2013 the Group entered into joint-venture arrangements with INOAC Corporation. As a result, the Group has a 50% interest in Azote Asia Limited (a private company incorporated in Hong Kong) and Inoac Zotefoams Korea Limited (incorporated in South Korea). Azote Asia Limited commenced trading in 2014 and is the exclusive distributor of Zotefoams' AZOTE® products in the Far East. The registered address is 15/F OTB Building, 160 Gloucester Road, Hong Kong. Inoac Zotefoams Korea Limited remains non-trading. As at the end of the period there are no contingent liabilities relating to the Group's interest in the joint venture.

Information of the joint venture:

	2016 £000	2015 £000
The Group's share of loss from continuing operations	(21)	(11)
The Group's share of total comprehensive income	(21)	(11)

11. Property, plant and equipment – Group

	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Under construction £000	Total £000
Cost					
Balance at 1 January 2015	15,142	52,845	4,270	7,954	80,211
Additions	2,267	–	512	6,489	9,268
Reclassifications from under construction	–	99	1,820	(1,919)	–
Effect of movement in foreign exchange	301	401	24	–	726
Balance at 31 December 2015	17,710	53,345	6,626	12,524	90,205
Balance at 1 January 2016	17,710	53,345	6,626	12,524	90,205
Reclassification of opening balance	(2,308)	–	–	2,308	–
Additions	128	1,435	151	10,444	12,158
Reclassifications from under construction	17	187	138	(342)	–
Effect of movement in foreign exchange	1,040	1,094	200	2,077	4,411
Balance at 31 December 2016	**16,587**	**56,061**	**7,115**	**27,011**	**106,774**
Depreciation					
Balance at 1 January 2015	9,104	39,232	3,314	–	51,650
Depreciation charge for the year	573	1,998	256	–	2,827
Effect of movement in foreign exchange	124	211	21	–	356
Balance at 31 December 2015	9,801	41,441	3,591	–	54,833
Balance at 1 January 2016	9,801	41,441	3,591	–	54,833
Depreciation charge for the year	519	1,966	300	–	2,785
Effect of movement in foreign exchange	615	934	107	–	1,656
Balance at 31 December 2016	**10,935**	**44,341**	**3,998**	**–**	**59,274**
Net book value					
At 1 January 2015	6,038	13,613	956	7,954	28,561
At 31 December 2015 and 1 January 2016	7,909	11,904	3035	12,524	35,372
At 31 December 2016	**5,652**	**11,720**	**3,117**	**27,011**	**47,500**

The Group has commenced a number of programmes to construct and also refurbish plant and equipment and fixtures and fittings. Costs incurred in the year up to the Statement of Financial Position date totalled £10.44m (2015: £6.49m) for the Group.

Property, plant and equipment – Company

	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Under construction £000	Total £000
Cost					
Balance at 1 January 2015	10,590	48,252	3,847	6,899	69,588
Additions	–	–	501	2,223	2,724
Reclassifications from under construction	–	99	1,820	(1,919)	–
Balance at 31 December 2015	10,590	48,351	6,168	7,203	72,312
Balance at 1 January 2016	10,590	48,351	6,168	7,203	72,312
Additions	–	169	43	3,496	3,708
Reclassifications from under construction	–	187	138	(325)	–
Balance at 31 December 2016	**10,590**	**48,707**	**6,349**	**10,374**	**76,020**
Depreciation					
Balance at 1 January 2015	6,691	35,398	2,945	–	45,034
Depreciation charge for the year	374	1,713	220	–	2,307
Balance at 31 December 2015	7,065	37,111	3,165	–	47,341
Balance at 1 January 2016	7,065	37,111	3,165	–	47,341
Depreciation charge for the year	285	1,665	252	–	2,202
Balance at 31 December 2016	**7,350**	**38,776**	**3,417**	**–**	**49,543**
Net book value					
At 1 January 2015	3,899	12,854	902	6,899	24,554
At 31 December 2015 and 1 January 2016	3,525	11,240	3,003	7,203	24,971
At 31 December 2016	**3,240**	**9,931**	**2,932**	**10,374**	**26,477**

Notes continued

12. Intangible assets – Group

	Capitalised development £000	Marketing-related £000	Customer-related £000	Technology-related £000	Software-related £000	Goodwill £000	Total intangible £000
Cost							
Balance at 1 January 2015	–	204	281	3,976	1,820	1,949	8,230
Additions	–	–	–	9	413	–	422
Effect of movement in foreign exchange	–	11	8	205	–	100	324
Balance at 31 December 2015	–	215	289	4,190	2,233	2,049	8,976
Balance at 1 January 2016	–	215	289	4,190	2,233	2,049	8,976
Additions	198	–	–	9	236	–	443
Effect of movement in foreign exchange	–	48	51	928	–	441	1,468
Balance at 31 December 2016	**198**	**263**	**340**	**5,127**	**2,469**	**2,490**	**10,887**
Accumulated amortisation							
Balance at 1 January 2015	–	91	142	1,146	–	–	1,379
Charge for the year	–	20	86	245	298	–	649
Effect of movement in foreign exchange	–	3	2	50	–	24	79
Balance at 31 December 2015	–	114	230	1,441	298	24	2,107
Balance at 1 January 2016	–	114	230	1,441	298	24	2,107
Charge for the year	–	25	94	348	343	–	810
Effect of movement in foreign exchange	–	21	16	410	–	(24)	423
Balance at 31 December 2016	**–**	**160**	**340**	**2,199**	**641**	**–**	**3,340**
Net book value							
At 1 January 2015	–	113	139	2,830	1,820	1,949	6,851
At 31 December 2015 and 1 January 2016	–	101	59	2,749	1,935	2,025	6,869
At 31 December 2016	**198**	**103**	**–**	**2,928**	**1,828**	**2,490**	**7,547**

Amortisation is included in cost of sales.

The Group tests annually for impairment or more frequently if there are indications that goodwill may be impaired.

Goodwill arising on acquisition is allocated to the cash generating unit ('CGU') that is expected to benefit, being MEL. The recoverable amount of the MEL CGU is determined using value-in-use calculations which use cash flow projections based on financial budgets and forecasts approved by management over the next five years. For periods beyond this, cash flows are extrapolated using long-term growth rates.

Other assumptions such as market growth and margins are based on past experience and management's expectations.

Key assumptions:

Long-term growth rate 2.5%

This growth rate is based on a prudent assessment of past experience and future estimations of market expectations.

Discount rate 14%

The pre tax discount rate applied to the cash flow forecasts for the MEL CGU are derived from the pre tax weighted average cost of capital for the Group adjusted for local economic and political risks.

The goodwill of £2.49m is measured against the discounted future cash flow projections of MEL.

Sensitivity to changes in assumptions

There is sufficient headroom for the MEL CGU so that management believes that no reasonable change in any of the above assumptions would cause the carrying value of MEL goodwill to exceed its recoverable amount.

Intangible assets – Company

	Capitalised development £000	Customer-related £000	Software-related £000	Total £000
Cost				
Balance at 1 January 2015	–	121	1,820	1,941
Additions	–	–	413	413
Balance at 31 December 2015	–	121	2,233	2,354
Balance at 1 January 2016	–	121	2,233	2,354
Additions	198	–	236	434
Balance at 31 December 2016	**198**	**121**	**2,469**	**2,788**
Accumulated amortisation				
Balance at 1 January 2015	–	21	–	21
Charge for the year	–	48	298	346
Balance at 31 December 2015	–	69	298	367
Balance at 1 January 2016	–	69	298	367
Charge for the year	–	52	343	395
Balance at 31 December 2016	**–**	**121**	**641**	**762**
Net book value				
At 31 December 2015 and 1 January 2016	–	52	1,935	1,987
At 31 December 2016	**198**	**–**	**1,828**	**2,026**

Notes continued

13. Investment in subsidiaries
Company

	2016 £000	2015 £000
Shares in Group undertakings – at cost	16,754	16,559
Provision against the value of investment in subsidiary	(3,294)	(3,294)
	13,460	13,265

During the year the Company increased its investment in KZ Trading and Investments Limited by £0.2m, resulting in 100% ownership.

The following is a complete list of the subsidiary undertakings of the Company:

	Registered office	Ownership	Incorporated in:
Zotefoams International Limited	675 Mitcham Road, Croydon CR9 3AL	100%	Great Britain
Zotefoams Pension Trustees Limited	675 Mitcham Road, Croydon CR9 3AL	100%	Great Britain
Zotefoams Inc. (indirectly owned)	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, Delaware	100%	USA
Zotefoams Midwest LLC (indirectly owned)	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, Delaware	100%	USA
MuCell Extrusion LLC (indirectly owned)	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, Delaware	100%	USA
Zotefoams Operations Limited (indirectly owned)	675 Mitcham Road, Croydon CR9 3AL	100%	Great Britain
Zotefoams Technology Limited (indirectly owned)	675 Mitcham Road, Croydon CR9 3AL	100%	Great Britain
KZ Trading and Investment Limited (indirectly owned)	15/F OTB Building, 160 Gloucester Road, Hong Kong	100%	Hong Kong
Kunshan Zotek King Lai Limited (indirectly owned)	181 Huanlou Road, Kunshan, Jiangsu	100%	China

The principal activities of the subsidiary undertakings are as follows: Zotefoams Inc. purchases, manufactures and distributes cross-linked block foams. Zotefoams International Limited is a holding company. MuCell Extrusion LLC holds and develops microcellular foam technology which it licenses to customers. Zotefoams Pension Trustees Limited and Zotefoams Technology Limited are currently inactive. Zotefoams Operations Limited is a trading company and has a branch in Thailand. KZ Trading and Investment Limited is a holding and trading company for the joint venture with the King Lai Group, and during the period the remaining 49% shareholding was acquired. In 2016 Zotefoams MidWest, based in Oklahoma, USA, was formed to supply specialist materials, based on AZOTE® foams, for the construction industry. In the opinion of the Directors the investments in the Company's subsidiary undertakings are worth at least the amount at which they are stated in the Statement of Financial Position.

Zotefoams International Limited, Zotefoams Technology Limited and Zotefoams Operations Limited are relying upon the exemption from audit of individual financial statements as permitted by section 479A of the Companies Act 2006. All outstanding liabilities as at 31 December 2016 of these companies have been guaranteed by the Company and no liability is expected to arise under this guarantee.

The Company has a representative office in China and a branch in Germany.

14. Inventories

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Raw materials and consumables	5,948	4,152	4,920	4,032
Work in progress	3,719	2,791	2,520	2,205
Finished goods	2,640	2,919	1,841	1,642
	12,307	9,862	9,281	7,879
Inventories are shown net of:				
Provision for impairment losses	1,797	–	1,334	–

The carrying amount of inventories subject to retention of title clauses is £1,386,000 (2015: £2,687,000).

In 2016 the value of inventory recognised by the Group as an expense in cost of goods sold was £35,451,000 (2015: £37,272,000).

15. Trade and other receivables

	Note	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Amounts falling due within one year:					
Trade receivables	21	18,643	16,163	11,394	10,295
Fair value derivatives	21	38	–	38	–
Amounts owed by Group undertakings	25	–	–	10,552	4,872
Other receivables		667	876	392	793
Prepayments and accrued income		1,056	180	160	161
		20,404	17,219	22,536	16,121
Trade receivables are shown net of:					
Provision for impairment losses		250	255	195	203

Amounts owed by Group undertakings are payable on demand and attract no interest.

16. Cash and cash equivalents/bank overdraft

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Cash and cash equivalents	2,868	6,148	–	–
Bank overdraft	(805)	(879)	(805)	(879)
Cash and equivalents per cash flow statements	2,063	5,269	(805)	(879)

17. Trade and other payables

	Note	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Trade payables		4,791	4,787	3,461	3,755
Other creditors including taxation and social security:					
Other taxation and social security		348	275	314	255
Fair value derivatives	21	392	195	392	195
Amounts owed to Group undertakings	25	–	–	69	67
Other payables		3,348	1,975	1,597	1,152
Accruals and deferred income		1,708	3,213	1,131	3,144
		10,587	10,445	6,964	8,568

Amounts owed to Group undertakings are payable on demand and attract no interest.

18. Interest-bearing loans and borrowings

	Note	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Bank loans amounts falling due within one year		9,156	1,102	8,594	700
Bank loans amounts falling due in more than one year		5,464	5,758	–	790
	21	14,620	6,860	8,594	1,490

Collateralised borrowings are secured by the property, plant and equipment of the Group (note 11) and are limited to the value of the debt.

Notes continued

19. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities – Group

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Property, plant and equipment	–	–	1,465	1,460	1,465	1,460
Rolled-over gain	–	–	613	613	613	613
Inventories	(350)	(226)	–	–	(350)	(226)
Financial instruments	–	–	67	38	67	38
Defined benefit pension scheme	(1,413)	(995)	–	–	(1,413)	(995)
Share option charges	(124)	(178)	–	–	(124)	(178)
Tax value of recognised losses carried forward	(359)	(348)	–	–	(359)	(348)
Tax (assets)/liabilities	(2,246)	(1,746)	2,145	2,111	(101)	364
Set off tax	1,537	1,173	(1,537)	(1,173)	–	–
Net tax (assets)/liabilities	(709)	(574)	608	938	(101)	364

Unrecognised deferred tax assets

The Group has approximately $2.81m (2015: $2.60m) of tax losses carried forward in the USA, which expire between 2022 and 2026 under current tax legislation. At year-end exchange rates these tax losses have a value of £2.20m (2015: £1.75m). The Group has only recognised £1.02m (2015: £0.99m) of these tax losses as a deferred tax asset, representing what the Board considers to be a reasonable estimate of the expected US tax utilisation in the near future, based on discounted projections. During the year no losses were utilised and additional losses were recognised of £0.55m. At a 35% tax rate these tax losses are £0.81m (2015: £0.61m), of which £0.36m has been recognised (2015: £0.35m).

Movement in deferred tax during the year

	Balance 01-Jan-16 £000	Recognised in income £000	Recognised in equity £000	Balance 31-Dec-16 £000
Property, plant and equipment	1,460	5	–	1,465
Rolled-over gain	613	–	–	613
Inventories	(226)	(124)	–	(350)
Financial instruments	38	–	29	67
Defined benefit pension scheme	(995)	96	(514)	(1,413)
Share option charges	(178)	(5)	59	(124)
Tax value of recognised losses carried forward	(348)	(11)	–	(359)
	364	(39)	(426)	(101)

Movement in deferred tax during the prior year

	Balance 01-Jan-15 £000	Recognised in income £000	Recognised in equity £000	Balance 31-Dec-15 £000
Property, plant and equipment	1,407	53	–	1,460
Rolled-over gain	645	(32)	–	613
Inventories	(143)	(83)	–	(226)
Financial instruments	30	–	8	38
Defined benefit pension scheme	(1,226)	147	84	(995)
Share option charges	(158)	(7)	(13)	(178)
Tax value of recognised losses carried forward	(359)	11	–	(348)
	196	90	79	364

Deferred tax assets and liabilities – Company
Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Property, plant and equipment	–	–	1,465	1,460	1,465	1,460
Rolled-over gain	–	–	613	613	613	613
Financial instruments	–	–	67	38	67	38
Defined benefit pension scheme	(1,413)	(995)	–	–	(1,413)	(995)
Share option charges	(124)	(178)	–	–	(124)	(178)
Tax (assets)/liabilities	(1,537)	(1,173)	2,145	2,111	608	938
Set off tax	1,537	1,173	(1,537)	(1,173)	–	–
Net tax liabilities	–	–	608	938	608	938

Movement in deferred tax during the year

	Balance 01-Jan-16 £000	Recognised in income £000	Recognised in equity £000	Balance 31-Dec-16 £000
Property, plant and equipment	1,460	5	–	1,465
Rolled-over gain	613	–	–	613
Financial instruments	38	–	29	67
Defined benefit pension scheme	(995)	96	(514)	(1,413)
Share option charges	(178)	(5)	59	(124)
	938	96	(426)	608

Movement in deferred tax during the prior year

	Balance 01-Jan-15 £000	Recognised in income £000	Recognised in equity £000	Balance 31-Dec-15 £000
Property, plant and equipment	1,407	53	–	1,460
Rolled-over gain	645	(32)	–	613
Financial instruments	30	–	8	38
Defined benefit pension scheme	(1,226)	147	84	(995)
Share option charges	(158)	(7)	(13)	(178)
	698	161	79	938

20. Share capital

	2016 £	2015 £
Allotted, called up and fully paid		
At 31 December		
Equity: 44,414,442 (2015: 44,414,442) ordinary shares of 5.0p each	2,220,722	2,220,722

Details of share options are provided in note 24 to the consolidated financial statements.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled, on a poll, to one vote per share at meetings of the Company.

Notes continued

21. Financial instruments and financial risk management

Policy

The Group's and Company's principal financial instruments include bank loans, cash and short-term deposits, the main purpose of which is to provide finance for the Group's and Company's operations. Foreign exchange derivatives are used to help manage the Group's and Company's currency exposure. It is, and has been throughout the year under review, the Group's and Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's and Company's financial instruments are credit risk, interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained fundamentally unchanged throughout the year.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group and Company do not require collateral in respect of financial assets.

In 2016 and 2015, the Group and Company had credit insurance to mitigate this risk. However, the uninsured exposure as at 31 December 2016 for the Group was £6.89m (2015: £4.73m) and for the Company was £3.39m (2015: £2.76m), so elements of risk remain.

At the Statement of Financial Position date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the Statement of Financial Position.

Trade receivables can be analysed as follows:

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Amounts neither past due nor impaired	14,207	10,046	8,435	5,120
Amounts past due but not impaired:				
Less than 60 days	2,683	2,273	1,958	1,279
More than 60 days	1,125	1,163	478	1,163
Total past due but not impaired	3,808	3,436	2,436	2,442
Amounts impaired	827	2,936	689	2,936
Impairment allowance	(199)	(255)	(166)	(203)
Carrying amount of impaired receivables	628	2,681	523	2,733
Trade receivables net of allowances	18,643	16,163	11,394	10,295

The normal terms of trade are in the range of 30–90 days from the end of the month of invoice.

The Group and the Company make provisions against trade and other receivables, such provisions being based on the previous credit history of the debtor and if the debtor is in receivership or liquidation.

The credit quality of trade receivables that are neither past due nor impaired is assessed on an individual basis, based on credit ratings and experience. The Directors believe an adequate provision has been made for trade receivables.

Interest rate risk

The Group and the Company finance their operations through a mixture of retained profits and bank borrowings. The interest rate profile of the Group's and Company's borrowings at 31 December was:

Group

	2016			2015		
	Effective interest rate %	Fixed rates £000	Variable rates £000	Effective interest rate %	Fixed rates £000	Variable rates £000
Dollar – mortgage	3.95	6,027	–	3.95	5,370	–
Sterling – mortgage	3.50	766	–	3.50	1,474	–
Total		6,793	–		6,844	–

The interest rate payable on the bank overdraft is determined by LIBOR plus a bank margin.

Liquidity risk
The following are the contractual maturities of financial liabilities, including estimated payments and excluding the effect of netting agreements:

Group	2016 Carrying amount £000	2016 Contractual cash flows £000	2016 1 year or less £000	2016 1 to 2 years £000	2016 2 to 10 years £000	2015 Carrying amount £000	2015 Contractual cash flows £000	2015 1 year or less £000	2015 1 to 2 years £000	2015 2 to 10 years £000
Non-derivative financial liabilities										
Secured bank loans	(14,620)	(14,620)	(9,446)	(796)	(4,378)	6,860	6,860	1,102	1,392	4,366
Trade and other payables	(8,139)	(8,139)	(8,139)	–	–	6,762	6,762	6,762	–	–

Company	2016 Carrying amount £000	2016 Contractual cash flows £000	2016 1 year or less £000	2016 1 to 2 years £000	2016 2 to 10 years £000	2015 Carrying amount £000	2015 Contractual cash flows £000	2015 1 Year or less £000	2015 1 to 2 years £000	2015 2 to 10 years £000
Non-derivative financial liabilities										
Secured bank loans	(8,594)	(8,594)	(8,594)	–	–	1,490	1,490	700	790	–
Trade and other payables	(5,127)	(5,127)	(5,127)	–	–	4,907	4,907	4,907	–	–

The Group's and Company's objective is to maintain a balance of continuity of funding and flexibility through the use of overdrafts, loans and other financing facilities as applicable. The maturity profile of the Group's and Company's borrowings is shown above.

The Group and the Company have a short-term multi-currency bank overdraft facility of £2.0m (2015: £4.9m), which is freely transferable. This facility is repayable on demand and is utilised by the Group and the Company under a cross-guarantee structure.

In December 2012 the Company took out a £3.5m mortgage, repayable over five years in equal quarterly instalments. This facility is secured over specific plant assets. At 31 December 2016 £0.7m of this mortgage was outstanding and £2.8m had been repaid. This loan has no major financial operating covenants. In December 2015 the Group took out an $8.0m mortgage, repayable over ten years in equal monthly instalments. This facility is secured over assets of Zotefoams Inc. During 2016 a multi-currency revolving credit facility ('RCF') of £8m was taken out and the bank overdraft facility reduced to £2.0m. Subsequent to the year ended 2016, the RCF limit has been increased by a further £2.0m. Please refer to note 27 for further details.

Cash flow forecasts are produced to monitor the expected cash flow requirements of the Group and the Company against the available facilities.

Notes continued

21. Financial instruments and financial risk management continued

Foreign currency risk

The Group and the Company are exposed to foreign currency risk on sales, purchases, assets and liabilities which are denominated in a currency other than sterling. The currencies giving rise to this risk are primarily the euro and the US dollar.

The euro and US dollar rates used in preparing the consolidated financial statements are as follows:

	2016		2015	
	Average	Closing	Average	Closing
Euro/sterling	0.82	0.85	0.72	0.74
US dollar/sterling	0.75	0.82	0.65	0.68

The Group and the Company hedge a proportion of their estimated cash exposure in respect of trade and other receivables, trade and other payables and forecast sales receipts and purchase payments. The Group and the Company use forward exchange contracts to hedge their foreign currency risk. As at 31 December 2016 these forward currency contracts covered approximately two-thirds of the estimated net cash foreign exchange exposure for the euro for the next nine months and approximately two-thirds of the estimated Income Statement exposure for the US dollar for the next twelve months.

In respect of other monetary assets and liabilities held in currencies other than the euro and the US dollar, the Group and the Company ensure that the net exposure is kept to a manageable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Where possible the Group tries to hold the majority of its cash and cash equivalent balances in the local currency of the respective entity or, for borrowings, in a currency which provides an offset, albeit often partial, against monetary working capital net assets in that currency.

The table below shows financial instruments not in the domestic currency of the Group and Company:

Group – 2016	Euro £000	US dollar £000	Other £000	Total £000
Cash and cash equivalents	(1,174)	325	(6)	(855)
Trade receivables	4,066	9,193	488	13,747
Trade payables	(2,111)	(1,533)	(60)	(3,704)

Group – 2015	Euro £000	US dollar £000	Other £000	Total £000
Cash and cash equivalents	240	(557)	9	(308)
Trade receivables	3,703	8,030	1,359	13,092
Trade payables	(2,536)	(1,237)	(97)	(3,870)

Company – 2016	Euro £000	US dollar £000	Other £000	Total £000
Cash and cash equivalents	(1,174)	(2,527)	(23)	(3,724)
Trade receivables	4,060	1,815	338	6,213
Trade payables	(2,110)	(345)	(2)	(2,457)

Company – 2015	Euro £000	US dollar £000	Other £000	Total £000
Cash and cash equivalents	240	(557)	9	(308)
Trade receivables	3,698	8,030	1,359	13,087
Trade payables	(2,535)	(1,237)	–	(3,772)

Forecast transactions

The Group and the Company classify their forward exchange contracts used as hedges of forecast transactions, as cash flow hedges and state them at fair value. The net fair value of forward exchange contracts used as hedges of forecast transactions at 31 December 2016 was a net liability of £354,000 (2015: net liability of £195,000), comprising assets of £38,000 (2015: £nil) and liabilities of £392,000 (2015: £195,000).

Recognised assets and liabilities

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the Income Statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of administrative expenses (see note 4).

The maturity profile of the forward contracts as at 31 December is as follows:

	2016				2015			
Group and Company:	Foreign currency `000	Contract value £000	Transaction fair value £000	Contract fair value £000	Foreign currency `000	Contract value £000	Transaction fair value £000	Contract fair value £000
Sell EUR	€ 3,175	2,682	2,725	(43)	€ 4,100	2,941	3,035	(94)
Buy EUR	€ 1,500	(1,319)	(1,285)	(34)	–	–	–	–
Sell USD	$16,344	12,943	13,222	(279)	–	–	–	–
Buy USD	$500	(404)	(406)	2	$16,225	10,842	10,943	(101)

Sensitivity analysis

In managing currency risks the Group and the Company aim to reduce the impact of short-term fluctuations on their earnings. Over the longer-term, however, changes in foreign exchange and interest rates would have an impact on earnings.

Short-term fluctuations in interest rates are not hedged as the Group and the Company, at present, do not consider them material. At 31 December 2016 it is estimated that a general increase of one percentage point in interest rates would decrease the Group's and the Company's profit before tax by approximately £12,000 (2015: £9,000).

At 31 December 2016 it is estimated that an increase of one percentage point in the value of sterling against the euro would decrease the Group's profit before tax by approximately £74,000 (2015: £73,000) before forward exchange contracts and £47,000 (2015: £42,000) after forward exchange contracts are included.

At 31 December 2016 it is estimated that an increase of one percentage point in the value of sterling against the US dollar would decrease the Group's profit before tax by approximately £180,000 (2015: £116,000) before forward exchange contracts and £102,000 (2015: £7,000) after forward exchange contracts are included.

The Group and the Company have significant undertakings in the USA and Asia, where revenue and expenses are denominated in US dollars. They also make a significant proportion of their sales to customers in continental Europe and these revenues are predominantly in euros, together with many of the raw materials purchased by the Company. It was the Group's and the Company's policy in 2016 to hedge the profit and loss of foreign currency cash flows of invoiced sales net of expected foreign currency expenditure. Hedging is achieved by the use of foreign currency contracts expiring in the month of expected cash flow.

Fair values

The fair values together with the carrying amounts shown in the Statement of Financial Position are as follows:

	2016		2015	
Group	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Trade and other receivables	19,310	19,310	17,039	17,039
Cash and cash equivalents	2,868	2,868	6,148	6,148
Bank overdraft	(805)	(805)	(879)	(879)
Forward exchange contracts – assets	38	38	–	–
– liabilities	(392)	(392)	(195)	(195)
Secured bank loans	(14,620)	(14,620)	(6,860)	(6,860)
Trade and other payables	(8,139)	(8,139)	(6,762)	(6,762)

	2016		2015	
Company	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Trade and other receivables	22,338	22,338	15,960	15,960
Cash and cash equivalents	(805)	(805)	(879)	(879)
Forward exchange contracts – assets	38	38	–	–
– liabilities	(392)	(392)	(195)	(195)
Secured bank loans	(8,594)	(8,594)	(1,490)	(1,490)
Trade and other payables	(5,127)	(5,127)	(4,974)	(4,974)

Notes continued

21. Financial instruments and financial risk management continued

Estimation of fair values

The following summarises the major methods and assumptions used in estimating fair values of financial instruments reflected in the table above. They are classified according to the following fair value hierarchy:

- Level 1: quoted process (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted process included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Group's and Company's financial instruments that are measured at fair value at 31 December 2016.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets				
Forward exchange contracts	–	38	–	38
Total assets	–	38	–	38
Liabilities				
Forward exchange contracts	–	(392)	–	(392)
Total liabilities	–	(392)	–	(392)

The following table presents the Group's and Company's financial instruments that are measured at fair value at 31 December 2015.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Liabilities				
Forward exchange contracts	–	(195)	–	–
Total liabilities	–	(195)	–	–

The forward exchange contracts have been fair valued using forward exchange rates that are quoted in an active market.

Derivatives are valued at fair value using Barclays mid-market rate at the Statement of Financial Position date.

Trade and other receivables are valued at fair value which is estimated as the present value of future cash flows, discounted at the market rate of interest at the Statement of Financial Position date if the effect is material.

Cash and cash equivalents are valued at fair value which is estimated as its carrying value where cash is repayable on demand.

Interest-bearing borrowings are valued at fair value which is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the Statement of Financial Position date.

Capital management

The Group and the Company define the capital that they manage as the Group's and the Company's total equity. The Group's and the Company's policy for managing capital is to maintain a strong Statement of Financial Position with the objective of maintaining customer, supplier and investor confidence in the business and to ensure that the Group and the Company have sufficient resources to be able to invest in future development and growth of the business. The Board of Directors monitors the return on capital which the Group and the Company define as profit before tax excluding exceptional items, divided by average net assets. Goodwill, acquired intangible assets and any associated amortisation are excluded from this calculation. The Board of Directors also monitors the level of dividends paid to ordinary shareholders. The Group and the Company are primarily financed by ordinary shares, borrowings and retained profits.

22. Commitments – Group

		2016 £000	2015 £000
(i)	Capital contracts at the end of the financial year for which no provision has been made	4,752	7,413
(ii)	The Group has non-cancellable operating lease rentals, which are payable as follows:		
	– within one year	56	70
	– between two and five years	195	–

During the year ended 31 December 2016 £135,000 was recognised as an expense in the Income Statement in respect of operating leases (2015: £139,000).

23. 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 set 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; and
- Pensioner members: in receipt of pension.

The defined benefit obligation is valued by projecting the best estimate of future benefit outgoings (allowing for revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the Statement of Financial Position date. The majority of benefits received increases in line with inflation (subject to a cap of no more than 5% pa). The valuation method is known as the Projected Unit Method. The approximate overall duration of the Scheme's defined benefit obligation as at 31 December 2016 was 19 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 three years. The last actuarial valuation of the Scheme was performed by the Scheme Actuary for the Trustees as at 5 April 2014, and the next valuation is expected to be performed in 2017. 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 pa until 5 April 2020. In addition, the Company will pay £127,200 pa to cover administration expenses. The Company therefore expects to pay £619,200 to the Scheme during the accounting year beginning 1 January 2017, until an updated valuation is performed.

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.

Notes continued

23. Post employment benefits continued

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 2016 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	As at 31 December 2016	As at 31 December 2015
Discount rate	2.70%	3.80%
RPI inflation (before retirement)	3.30%	2.70%
CPI inflation (before retirement)	2.30%	1.70%

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:

	2016	2015
For an individual aged 65 in 2016		
– Male	22.4	22.4
– Female	24.5	24.4
At age 65 for an individual aged 45 in 2016		
– Male	24.1	24.1
– Female	26.4	26.3

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

	2016 £000	2015 £000
Statement of Financial Position obligations for:		
– Defined pension benefits	(7,439)	(5,238)
Income Statement charge included in operating profit for:		
– Defined pension benefits	(186)	(209)
Actuarial (losses)/gains recognised in Other Comprehensive Income:		
– Defined pension benefits	(2,707)	443

The amounts recognised in the Statement of Financial Position are determined as follows:

	2016 £000	2015 £000
Market value of assets	25,617	22,989
Present value of defined benefit obligation	(33,056)	(28,227)
Funded status	(7,439)	(5,238)
Liability in the Statement of Financial Position	(7,439)	(5,238)

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

	2016 £000	2015 £000
Value of defined benefit obligation at start of year	28,227	28,951
Interest cost	1,044	1,023
Benefits paid	(1,502)	(1,078)
Actuarial gains: experience differing from that assumed	(399)	(186)
Actuarial losses/(gains): changes in financial assumptions	5,686	(483)
Value of defined benefit obligation at end of year	33,056	28,227

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

	2016 £000	2015 £000
Market value of assets at start of year	22,989	22,819
Interest income	858	814
Actual gain/(loss)	2,580	(226)
Employer contributions	692	660
Benefits paid	(1,502)	(1,078)
Market value of assets at end of year	25,617	22,989

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%/–0.5% pa	–8%/+9%
RPI inflation	+0.5% pa/–0.5% pa	+7%/–7%
Assumed life expectancy	+1 year	+3%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the other assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the Statement of Financial Position. The assets of the Scheme are invested as follows:

	Year ended 31 December 2016		Year ended 31 December 2015	
Asset class	Market value £000	% of total Scheme assets	Market value £000	% of total Scheme assets
Equities	16,187	63%	15,120	66%
Corporate bonds	4,849	19%	3,967	17%
Gilts	2,958	12%	2,597	11%
Cash	1,034	4%	873	4%
Insured pensioners	589	2%	432	2%
Total	25,617	100%	22,989	100%
Actual return on assets over the year:	3,438		588	

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 2016 were £404,000 (2015: £390,000).

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 2016 were £204,000 (2015: £228,000).

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 2016 were £141,000 (2015: £76,000).

For certain non UK-based employees of the Company, the Company makes contributions into individual schemes. The contributions paid by the Company in 2016 were £nil (2015: £2,000).

For USA-based employees, Zotefoams Inc. operates a 401(k) plan. The contributions paid by Zotefoams Inc. in 2016 were £65,000 (2015: £52,000).

Notes continued

24. Share-based payments

The Company has a share option scheme that entitles senior management personnel to purchase shares in the Company. Options are exercisable at a price equal to the average quoted closing market price of the Company's shares on the day before or on the three dealing days before the option is granted. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Depending on the circumstances options are normally forfeited if the employee leaves the Group before the options vest.

In 2007 the Company introduced a LTIP scheme for senior management personnel. Shares are awarded in the Company and vest after three years to the extent performance conditions are met. Dependent on the circumstances awards are normally forfeited if the employee leaves the Group before the award vests.

In 2007 the Company introduced a Deferred Bonus Plan. Originally under the Plan executive bonuses over 40% of bonusable salary were held as deferred shares for three years. In 2014 the Remuneration Committee amended the Deferred Bonus Plan for bonuses awarded since 2014, where 25% of executive bonuses are held as deferred shares for three years. Depending on the circumstances awards are normally forfeited if the employee leaves the Group before the award vests.

Details of the vesting conditions for the share, share option and LTIP awards are given in the remuneration report on pages 40 to 61.

Movements in shares options during the year are as follows:

	2016		2015	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the year	177,949	205.2	291,360	128.4
Exercised during the year	(28,116)	106.7	(118,809)	80.7
Granted during the year	79,304	290.0	75,348	292.2
Forfeited during the year	(47,985)	260.5	(69,950)	190.6
Outstanding at the end of the year	181,152	118.7	177,949	205.2
Exercisable at the end of the year	42,174	106.7	70,290	106.7

The options outstanding at 31 December 2016 have an exercise price of between 106.7p and 301.7p (2015: 106.7p and 301.7p) and a weighted contractual life of 10 years (2015: 9 years).

The fair value received in return for share options granted are measured by reference to the fair value of share options granted using a Black-Scholes model. The contractual life of the option (10 years) is used as an input into this model. No allowance is made for early leavers.

Movements in LTIP awards during the year are as follows:

	2016		2015	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the year	429,153	–	426,503	–
Released during the year	(59,351)	–	(76,430)	–
Granted during the year	176,062	–	174,181	–
Forfeited during the year	(36,121)	–	(95,101)	–
Outstanding at the end of the year	509,743	–	429,153	–

Movement in Deferred Bonus Plan awards during the year are as follows:

	2016		2015	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the year	61,459	–	44,568	–
Released in the year	(49,290)	–	–	–
Granted during the year	12,220	–	16,891	–
Outstanding at the end of the year	24,389	–	61,459	–

Fair value of share options and assumptions
The expected volatility is based on historic volatility for a three-year period prior to the award.

	07 April 2014	07 April 2014	21 August 2014	30 March 2015	30 March 2015	17 August 2015	05 April 2016
Share price (p)	229.8	229.8	245.7	285.0	285.0	310.0	290.0
Exercise price (p)	229.8	nil	245.7	285.0	nil	301.7	290.0
Expected volatility	35%	35%	35%	35%	35%	35%	35%
Option life	Five years	Five years	Five years	Five years	Five years	Five years	Five years
Expected dividends (p) (assumed to be increasing at 2.5% pa)	5.4	5.4	5.4	5.5	5.5	5.5	5.6
Risk-free interest rate (based on national government bonds)	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Fair value at grant date (p)	61.0	229.8	66.0	80.0	260.0	90.0	80.0

The share option awards are granted under a service condition and a performance condition. The LTIP awards are granted under a service condition and a performance condition, part of which is a market condition. The Deferred Bonus Plan awards are granted under a service condition.

The amounts recognised in the Income Statement for equity-settled share-based payments are as follows:

	Group	
	2016 £000	2015 £000
Within administrative expenses – share-based payment charge	285	223
– related National Insurance	16	64
Element of the above relating to Directors of Zotefoams plc	189	140

Notes continued

25. 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:

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
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
	860	718	860	718

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)		Investment in	
	2016 £000	2015 £000	2016 £000	2015 £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.

26. Accounting estimates and judgements for the Group and Company

In the application of the Group's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities which are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other facts that are considered relevant. Actual amounts may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the Statement of Financial Position date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

i) Intangible assets

The determination of goodwill and intangible assets requires judgements made by the Directors. Goodwill is reviewed annually to assess the requirement for impairment. Other intangible assets are assessed on an ongoing basis to determine whether circumstances exist that could lead to the conclusion that the carrying value of such assets is not supportable. Such calculations require judgement relating to the appropriate discount factors and long-term growth prevalent in particular markets as well as short-term business performance. The Directors also draw upon experience in making these judgements.

ii) Pensions assumptions

The valuation of pension scheme liabilities is calculated in accordance with Group policy. The valuation is prepared by an independent qualified actuary but significant judgements are required in relation to the assumptions for pension increases, inflation, the discount rate applied, investment returns and member longevity which underpin the valuations. Note 23 contains information about the assumptions relating to retirement benefit obligations.

Key judgements

i) Development costs

Under IAS 38 development costs must be capitalised when specified criteria have been met. Following a review of the Company's research and development expenditure, it was concluded that £198,000 of development costs met the IAS 38 criteria require for capitalisation.

ii) Joint ventures

Under IFRS 11 'Joint Arrangements', management is required to assess the contractual terms of joint-venture agreements to determine the Group's and Company's rights and obligations under such agreements, to make a judgement on the type of arrangement such agreements constitute, and to apply the provisions of the accounting standard accordingly. It was concluded that the contracts entered into for a sales and a manufacturing joint venture with INOAC Corporation constituted joint-venture agreements, and therefore these investments have been accounted for under the equity method.

27. Post balance sheet event

On 16 March 2017 the Group and Company increased its multi-currency revolving credit facility ('RCF') by a further £2m, secured on the property and book debts of the Company. This facility has financial covenants on net debt/EBITDA and EBIT/gross financing costs ratios.

Notice of the 2017 Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION
If you are in any doubt as to the action you should take, you are recommended to seek your own personal advice from your stockbroker, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all of your ordinary shares in Zotefoams plc, you should forward this document and other documents enclosed (except the personalised form of proxy) as soon as possible to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Notice is hereby given that the Annual General Meeting (the 'AGM') of Zotefoams plc (the 'Company') will be held at the registered office of the Company, 675 Mitcham Road, Croydon CR9 3AL on 17 May 2017 at 10.00 am for the following purposes:

Ordinary business
To consider and, if thought fit, pass resolutions numbered 1 to 12 below as ordinary resolutions:
1. To receive the Annual Report of the Company for the year ended 31 December 2016.
2. To approve the New Directors' Remuneration Policy set out on pages 41 to 52 (inclusive) in the Annual Report.
3. To approve the Annual Statement by the Chair of the Remuneration Committee and the Annual Report on Remuneration for the year ended 31 December 2016 set out on pages 40 and 41 and 52 to 61 (inclusive) in the Annual Report.
4. To declare a final dividend for the year ended 31 December 2016 of 3.9 pence per ordinary share, such dividend to be payable on 25 May 2017 to shareholders who are on the register of members of the Company at the close of business on 21 April 2017.
5. To re-elect A C Bromfield as a Director who retires by rotation.
6. To re-elect M-L Clayton as a Director who retires by rotation.
7. To re-elect R J Clowes as a Director who retires by rotation.
8. To re-elect S P Good as a Director who retires by rotation.
9. To re-elect G C McGrath as a Director who retires by rotation.
10. To re-elect D B Stirling as a Director who retires by rotation.
11. That PricewaterhouseCoopers LLP be and is hereby re-appointed as Auditors of the Company to hold office from the conclusion of the AGM until the conclusion of the next general meeting at which accounts are laid before the Company.
12. To authorise the Audit Committee to determine the Auditors' remuneration.

Special business
To consider and, if thought fit, to pass the following resolutions of which resolutions 13, 17 and 18 will be proposed as ordinary resolutions and resolutions 14, 15, 16 and 19 will be proposed as special resolutions:

13. That, in substitution for any equivalent authorities and powers granted to the Directors prior to the passing of this resolution, the Directors be and they are generally and unconditionally authorised pursuant to Section 551 of the Companies Act 2006 (the 'Act'):

    (a) to exercise all powers of the Company to allot shares in the Company, and grant rights to subscribe for or to convert any security into shares of the Company (such shares, and rights to subscribe for or to convert any security into shares of the Company being 'relevant securities') up to an aggregate nominal amount of £740,240 (such amount to be reduced by the nominal amount of any allotments or grants made under paragraph (b) below in excess of £740,240); and further

    (b) to allot equity securities (as defined in Section 560 of the Act) up to an aggregate nominal amount of £1,480,481 (such amount to be reduced by the nominal amount of any allotments or grants made under paragraph (a) above) in connection with an offer by way of rights issue:

        (i) in favour of holders of ordinary shares in the capital of the Company, where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as practicable) to the respective number of ordinary shares in the capital of the Company held by them; and

        (ii) to holders of any other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

    but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with treasury shares, fractional entitlements or legal, regulatory or practical problems arising under the laws or requirements of any overseas territory or by virtue of shares being represented by depository receipts or the requirements of any regulatory body or stock exchange or any other matter whatsoever;

    (c) provided that, unless previously revoked, varied or extended, this authority shall expire on the earlier of 30 June 2018 and the conclusion of the next Annual General Meeting of the Company, except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if this authority had not expired.

14. That if resolution 13 is passed, the Directors be authorised to allot equity securities (as defined in Section 560 of the Act) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if Section 561 of the Act did not apply to any such allotment or sale, such authority to be limited:

    (a) in favour of holders of ordinary shares in the capital of the Company, where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as practicable) to the respective number of ordinary shares in the capital of the Company held by them; and

(b) to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (a) above) up to a nominal amount of £111,036,

such authority to expire at the conclusion of the next Annual General Meeting of the Company (or, if earlier, on 30 June 2018) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

15. That if resolution 13 is passed, the Directors be authorised in addition to any authority granted under resolution 14 to allot equity securities (as defined in Section 560 of the Act) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if Section 561 of the Act did not apply to any such allotment or sale, such authority to be:

(a) limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £111,036; and

(b) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice,

such authority to expire at the conclusion of the next Annual General Meeting of the Company (or, if earlier, on 30 June 2018) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

16. That the Company be and is hereby unconditionally and generally authorised for the purposes of Section 701 of the Act to make market purchases (within the meaning of Section 693(4) of the Act) of its ordinary shares of 5 pence each (‘ordinary shares’) provided that:

(a) the maximum number of ordinary shares authorised to be purchased is 4,441,444;

(b) the minimum price which may be paid for any such ordinary share is 5 pence;

(c) the maximum price which may be paid for an ordinary share shall be an amount equal to 105% of the average middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; and

(d) this authority shall, unless previously renewed, revoked or varied, expire on the earlier of 30 June 2018 and the conclusion of the next Annual General Meeting, but the Company may enter into a contract for the purchase of ordinary shares before the expiry of this authority which would or might be completed (wholly or partly) after its expiry.

17. That the rules of the Zotefoams plc Long-Term Incentive Plan 2017 (the ‘2017 LTIP’), described in the circular of which the notice containing this resolution forms part and in the form produced in draft to the meeting and for the purposes of identification initialled by the Chairman of the meeting, be and are hereby approved and adopted and that the Directors be and are hereby authorised to do all such other acts and things as they may consider appropriate to implement the 2017 LTIP.

18. That the rules of the Zotefoams plc Deferred Bonus Share Plan 2017 (the ‘2017 DBSP’), described in the circular of which the notice containing this resolution forms part and in the form produced in draft to the meeting and for the purposes of identification initialled by the Chairman of the meeting, be and are hereby approved and adopted and that the Directors be and are hereby authorised to do all such other acts and things as they may consider appropriate to implement the 2017 DBSP.

19. That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days’ notice.

Dated: 5 April 2017

By order of the Board

Registered Office:
675 Mitcham Road
Croydon
CR9 3AL

J W Kindell
Company Secretary

Notice of the 2017 continued Annual General Meeting

Notes

(i) Pursuant to Part 13 of the Companies Act 2006 and to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only those members registered in the register of members of the Company at the close of business on 15 May 2017 (or if the AGM is adjourned, 48 hours before the time fixed for the adjourned AGM) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time. In each case, changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the AGM.

(ii) If you wish to attend the AGM in person please bring some form of identification (such as driver's licence or bankcard) and present this to the Company's reception desk on arrival.

(iii) A member who is entitled to attend, speak and vote at the AGM may appoint a proxy to attend, speak and vote instead of him or her. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A proxy need not be a member of the Company but must attend the AGM in order to represent you. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. Appointing a proxy will not prevent a member from attending in person and voting at the AGM (although voting in person at the AGM will terminate the proxy appointment). A proxy form is enclosed or has been sent to you separately. The notes to the proxy form include instructions on how to appoint the Chairman of the AGM or another person as a proxy. You can only appoint a proxy using the procedures set out in these notes and in the notes to the proxy form.

(iv) To be valid, a proxy form, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, should reach the Company's registrars, Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, by no later than 10.00 am on 15 May 2017.

(v) The proxy form includes details on how to vote electronically. The notes to the proxy form also include instructions on how to appoint a proxy by using the CREST proxy appointment service. You may not use any electronic address provided either in this notice of AGM or in any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

(vi) In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.

(vii) The following information is available at www.zotefoams.com: (1) the matters set out in this notice of AGM; (2) the total numbers of shares in the Company, and shares in each class, in respect of which members are entitled to exercise voting rights at the AGM; (3) the totals of the voting rights that members are entitled to exercise at the AGM, in respect of the shares of each class; and (4) members' statements, members' resolutions and members' matters of business received by the Company after the first date on which notice of the AGM was given.

(viii) If you are a person who has been nominated by a member to enjoy information rights in accordance with Section 146 of the Companies Act 2006, notes (iii) to (v) above do not apply to you (as the rights described in these notes can only be exercised by members of the Company) but you may have a right under an agreement between you and the member by whom you were nominated to be appointed or to have someone else appointed, as a proxy for the meeting. If you have no such right or do not wish to exercise it, you may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.

(ix) A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways: either by the appointment of a proxy (described in notes (iii) to (v) above) or of a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the Company's Articles of Association and the relevant provision of the Companies Act 2006.

(x) Members attending the AGM have the right to ask, and, subject to the provisions of the Companies Act 2006, the Company must cause to be answered, any questions relating to the business being dealt with at the AGM.

(xi) As at the close of business on 4 April 2017, the Company's issued share capital comprised 44,414,442 ordinary shares of 5 pence each. Each ordinary share carries the right to one vote at a general meeting of the Company. No ordinary shares were held in treasury and accordingly the total number of voting rights in the Company as at the close of business on 4 April 2017 is 44,414,442.

(xii) Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with the auditors of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's Auditors not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.

(xiii) Copies of the Executive Directors' service contracts with the Company and any of its subsidiary undertakings, deeds of indemnity in favour of the Directors and letters of appointment of the Non-Executive Directors are available for inspection at the registered office of the Company during the usual business hours on any weekday (Saturday, Sunday or public holidays excluded) from the date of this notice until the conclusion of the AGM.

Explanatory notes to the resolutions

Ordinary business

Resolution 1 – Receiving the Annual Report

Shareholders will be asked to receive the Company's Annual Report for the financial year ended 31 December 2016, as required by law.

Resolutions 2 and 3 – Directors' Remuneration Policy and Remuneration Report

Resolution 2 seeks Shareholder approval for the new Directors' Remuneration Policy, which can be found on pages 41 to 52 (inclusive) of the Annual Report. The new Directors' Remuneration Policy will replace the current Directors' Remuneration Policy which was approved at the AGM held on 20 May 2014. The new Directors' Remuneration Policy sets out the Company's future policy on Directors' remuneration, including the setting of the Directors' pay and the granting of share awards. Details on how the policy will be applied in practice in 2017 are set out in the Annual Report on Remuneration on pages 52 and 53 of the Annual Report. If Resolution 2 is approved, the new Directors' Remuneration Policy will become effective immediately.

Resolutions 3 seeks shareholder approval of the remuneration report for the year ended 31 December 2016 which can be found on pages 40 and 41, and 52 to 61 (inclusive) of the Annual Report.

The Company's Auditors, PricewaterhouseCoopers LLP, have audited those parts of the Directors' remuneration report that are required to be audited and their report may be found on pages 67 to 71 of the Annual Report.

Resolution 4 – Declaration of dividend

This resolution concerns the Company's final dividend payment. The Directors are recommending a final dividend of 3.9 pence per ordinary share in respect of the year ended 31 December 2016 which, if approved, will be payable on 25 May 2017 to the shareholders on the register of members on 21 April 2017.

Resolutions 5 to 10 – Re-election of Directors

The UK Corporate Governance Code requires all directors of FTSE 350 companies to stand for annual re-election. Whilst the Company is not within the FTSE 350, best practice for listed companies is to follow this requirement and, therefore, the Board has decided for this year that all the Directors will stand for annual re-election. Resolutions 5 to 10 concern the re-election of A C Bromfield, M-L Clayton, R J Clowes, S P Good, G C McGrath and D B Stirling.

Biographies for the Directors are set out on pages 32 and 33 of the report and accounts for the year ended 31 December 2016. The Chairman having undertaken performance reviews of the Directors and the Non-Executive Directors of the Chairman, the Board is satisfied that each Director continues to be effective and demonstrates commitment to the role and recommends that each Director should be re-elected.

Resolutions 11 and 12 – Re-appointment of Auditors and their remuneration

Resolution 11 concerns the re-appointment of PricewaterhouseCoopers LLP as the Company's Auditors, to hold office until the conclusion of the Company's next general meeting where accounts are laid.

Resolution 12 authorises the Audit Committee to determine the Auditors' remuneration.

Special Business

Resolution 13 – Power to allot shares

This resolution grants the Directors authority to allot shares in the capital of the Company and other relevant securities up to an aggregate nominal value of £740,240, representing approximately one-third (33.33%) of the nominal value of the issued ordinary share capital of the Company as at 4 April 2017, being the latest practicable date before publication of this notice. In addition, in accordance with the latest institutional guidelines issued by the Investment Association, paragraph (b) of resolution 13 grants the Directors authority to allot further equity securities up to an aggregate nominal value of £1,480,481, representing approximately two-thirds (66.67%) of the nominal value of the issued ordinary share capital of the Company as at 4 April 2017 being the latest practicable date before publication of this notice. This additional authority may be only applied to fully pre-emptive rights issues.

The intention of the authority granted pursuant to paragraph (b) of resolution 13 is to preserve maximum flexibility and if the Directors do exercise this authority, they intend to follow best practice as regards its use.

The Company does not currently hold any shares as treasury shares within the meaning of Section 724 of the Companies Act 2006 ('Treasury Shares').

The Directors do not have any present intention of exercising the authorities conferred by resolution 13 but they consider it desirable that the specified amount of authorised but unissued share capital is available for issue so that they can more readily take advantage of possible opportunities.

Unless revoked, varied or extended, this authority will expire at the conclusion of the next AGM of the Company or 30 June 2018, whichever is the earlier.

Resolutions 14 and 15 – Authority to allot shares disregarding pre-emption rights

These resolutions authorise the Directors in certain circumstances to allot equity securities for cash other than in accordance with the statutory pre-emption rights (which require a company to offer all allotments for cash first to existing shareholders in proportion to their holdings). Resolution 14 authorises the Directors to issue shares either where the allotment takes place in connection with a rights issue or the allotment is limited to a maximum nominal amount of £111,036, representing approximately 5% of the nominal value of the issued ordinary share capital of the Company as at 4 April 2017 being the latest practicable date before publication of this notice. Resolution 15 authorises the Directors to issue a further 5% of the issued ordinary share capital of the Company, but only to be used to raise finance for an acquisition or a specified capital investment (within the meaning given in the Pre–Emption Group's Statement of Principles) which is announced contemporaneously with the allotment, or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

Unless revoked, varied or extended, these authorities will expire at the conclusion of the next AGM of the Company or 30 June 2018, whichever is the earlier.

The Directors consider that the powers proposed to be granted by these resolutions are necessary to retain flexibility, although they do not have any intention at the present time of exercising them.

Resolution 16 – Authority to purchase shares (market purchases)

This resolution authorises the Board to make market purchases of up to 4,441,444 ordinary shares (representing approximately 10% of the Company's issued ordinary shares as at 4 April 2017, being the latest practicable date before publication of this notice). Shares so purchased may be cancelled or held as Treasury Shares. The authority will expire at the end of the next AGM of the Company or 30 June 2018, whichever is the earlier. The Directors intend to seek renewal of this authority at subsequent AGMs.

The minimum price that can be paid for an ordinary share is 5 pence being the nominal value of an ordinary share. The maximum price that can be paid is 5% over the average of the middle market prices for an ordinary share, derived from the Daily Official List of the London Stock Exchange, for the five business days immediately before the day on which the share is contracted to be purchased.

The Directors intend to exercise this right only when, in light of the market conditions prevailing at the time and taking into account all relevant factors (for example, the effect on earnings per share), they believe that such purchases are in the best interests of the Company and shareholders generally. The overall position of the Company will be taken into account before deciding upon this course of action. The decision as to whether any such shares bought back will be cancelled or held in treasury will be made by the Directors on the same basis at the time of the purchase.

As at 4 April 2017, being the latest practicable date before publication of this notice, there were outstanding awards under the Company's long-term incentive schemes (excluding the Share Incentive Plan) in respect of 650,501 ordinary shares in the capital of the Company representing 1.5% of the Company's issued ordinary share capital. If the authority to purchase the Company's ordinary shares were exercised in full, such awards would represent 1.6% of the Company's issued ordinary share capital.

Resolutions 17 and 18 – Share Plans

Resolutions 17 and 18 are to authorise the adoption of the following new employee share plans:

- the Zotefoams plc Long-Term Incentive Plan 2017 (the '2017 LTIP');
- the Zotefoams plc Deferred Bonus Share Plan 2017 (the '2017 DBSP');

(together the 'New Share Plans').

The New Share Plans replace the Company's existing LTIP that will expire in 2017 and the Deferred Bonus Share Plan ('Old Share Plans'). Shareholder approval is sought for the approval of the New Share Plans at the AGM to ensure that the Company has the appropriate share incentives and that they operate consistently with the Directors' Remuneration Policy. No new awards will be made under the Old Share Plans after the date of the Annual General Meeting, provided shareholder approval is obtained for the New Share Plans.

The New Share Plans reflect the Directors' Remuneration Policy as set out in the Directors' remuneration report and for which shareholder approval is sought (see resolution 2 above). The principal terms of the New Share Plans are set out in the Appendix to this document on pages 115 to 118.

There are no material differences between the Old Share Plans and the New Share Plans, save for the following:

- Awards granted under the New Share Plans shall be conditional awards of shares, granting the holder the future right to receive shares providing that the relevant performance conditions have been met (in the case of the 2017 LTIP) and, where relevant, the relevant holding period has expired.
- The 2017 LTIP will have the provision to allow the Remuneration Committee to impose an additional holding period of up to two years after the end of the performance period, which might include a phased release of the vested Shares during that period.
- Addition of revised leaver and change of control provisions.

The rules of the New Share Plans will be available for inspection during normal business hours on Monday to Friday (excluding bank holidays) at the Company's registered office and on its website from the date notice of the AGM is given and until the close of the AGM and at the place of the AGM for at least 15 minutes before the AGM and during the AGM.

Notice of the 2017 continued Annual General Meeting

Resolution 19 – Notice period for general meetings

Under the Companies Act 2006, a listed company must give at least 21 days' notice of its general meetings. However, this Act enables general meetings (other than AGMs) to be held on shorter notice of not less than 14 days provided the shareholders have given their consent at the previous AGM or a general meeting held since the last AGM. Resolution 19 seeks such approval similar to the resolution that was passed last year. The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed. The Directors will always endeavour to give as much notice as possible of general meetings, but would like to have the flexibility to call a general meeting on the shorter permitted notice period for time sensitive matters that are clearly in the shareholders' interests. If the authority is used, the Company will offer the ability, as required by the Companies Act 2006, to vote electronically.

Recommendation

The Directors consider that the proposals being put to the shareholders at the AGM are in the best interests of the Company and of the shareholders as a whole. Accordingly, the Directors recommend that you vote in favour of the resolutions set out in the Notice of the AGM, as they intend to do in respect of their own beneficial holdings of ordinary shares.

Appendix
(which summarises the rules of the New Share Plans)

1. SUMMARY OF THE PRINCIPAL FEATURES OF THE ZOTEFOAMS PLC LONG-TERM INCENTIVE PLAN 2017 (2017 LTIP)

Eligibility
The 2017 LTIP will be operated and administered by the Remuneration Committee of the Board of Directors of the Company (the 'Remuneration Committee'). The Remuneration Committee will determine who may participate in the 2017 LTIP and this will extend to any employee (including an Executive Director) of the Company or any of the Company's subsidiaries.

Forms of Awards
Awards under the 2017 LTIP will be in the form of a conditional right to acquire ordinary shares ('Shares') in the Company ('Awards').

Performance conditions
Awards for Executive Directors of the Company will be subject to the satisfaction of a performance condition measured over a performance period of at least three financial years, which will determine the proportion (if any) of the Award which will be capable of vesting.

Performance conditions may be amended or substituted if one or more events occur which cause the Remuneration Committee to consider that an amended or substituted performance condition would be more appropriate. Any amended or substituted performance condition that would not be materially less difficult to satisfy than the original condition was intended to be.

The performance conditions applicable to Awards granted in any one year will be fully disclosed in the Company's Annual Report for that year.

In relation to the testing of the performance condition and the ultimate number of Shares that vest, the Remuneration Committee will have the right, in its absolute discretion, to reduce (down to zero, if appropriate) the number of Shares that would vest, taking account of the performance of the Group and the contribution of the participant over the performance period.

Individual limits
The maximum Award that may be granted to a participant under the 2017 LTIP will be the limit as set out in the Directors' Remuneration Policy that is in force at the date of grant of the Award.

Grant of Awards
Awards may only be granted within the period of 42 days following the approval of the 2017 LTIP by the Company's shareholders, the announcement of the Company's results for any period, from the date on which an individual becomes an eligible employee under the rules of the 2017 LTIP or any day on which the Remuneration Committee determines that exceptional circumstances exist. If, during such period, the Company is restricted from granting Awards, Awards may be made immediately following such restrictions ceasing to apply.

Holding period
At the time of the grant of an Award, the Remuneration Committee may also determine whether the Award will be subject to an additional holding period of up to two years following the end of the performance period, which might include a phased release of the vested Shares during that period.

Dividends
The Remuneration Committee may determine that on the vesting of an Award a participant shall receive an amount in cash and/or Shares equivalent to the value of some or all of the dividends (and special dividends at the discretion of the Remuneration Committee) that would have been paid on the vested Shares between the date of grant and the date of vesting and, if applicable, between the date of vesting and the date of release of the Shares.

Reduction for malus and clawback
The Remuneration Committee may, in its absolute discretion, determine at any time within five years of the grant of an Award to:
- reduce the number of Shares to which an Award relates;
- cancel an Award;
- impose further conditions on an Award; or
- require the participant to transfer to the Company (or the Employees' Benefit Trust) a number of Shares or a cash amount,

in circumstances where:
- the financial statements or results for the Group are materially restated (other than restatement due to a change in accounting policy or to rectify a minor error);
- if in the reasonable opinion of the Board of Directors of the Company and following consultation with the relevant Group member:
  - a participant has deliberately misled the management of the Company and/or the market and/or the Company's shareholders regarding the financial performance of any part of the Group;
  - the participant's actions have caused the Group company and/or the participant's business unit reputational damage;
  - a participant's actions amount to serious misconduct or conduct which causes significant financial loss for the Group and/or the participant's business unit; or
  - there have been overpayments, including any vesting under the 2017 LTIP, to the participant at a level higher than would have otherwise been the case due to material abnormal write-offs affecting any Group company on an exceptional basis.

Appendix continued
(which summarises the rules of the New Share Plans)

Vesting of Awards
The extent to which the performance conditions have been achieved and the level at which an Award consequently vests will normally be determined as soon as practicable after the end of any performance period (or on such later date as the Remuneration Committee determines).

Any Shares that are to be released to a participant in respect of a vested Award will be released as soon as practicable after the date of vesting and normally within 30 days unless the Remuneration Committee has determined that an additional holding period of up to two years shall apply to the vested Award.

Cessation of employment
Where the participant ceases to be employed by any member of the Group prior to the vesting of an Award by reason of death, ill health, injury, disability, retirement, a sale or transfer out of the Group of the participant's employing company or business, redundancy or for any other reason at the Remuneration Committee's discretion (a 'Good Leaver'), a participant's unvested Award will vest at the end of the normal performance period on a proportionate basis, dependent on the time elapsed between the date of grant and the date of cessation of employment and taking account of the extent to which any performance conditions have been met during that period, and shall be released following the expiry of the normal holding periods, unless the Committee determines that the Award shall vest on such other date as the Committee may specify at the date of cessation.

Where an additional holding period applies and the participant ceases to be employed by any member of the Group after the determination of the performance condition but prior to the expiry of any holding period, due to any reason other than gross misconduct on the part of the participant, the vested Award shall be released to the former employee on the original holding period release date.

A participant whose employment ceases due to voluntary resignation will not be entitled to receive any unvested LTIP Awards , but will be entitled to retain Awards that have vested and/or are in the holding period; any such vested Awards will be released on the original holding period release dates.

In the case of participants who are not Good Leavers the Remuneration Committee shall determine the extent to which (if any) and when their Award(s) shall vest or lapse.

Corporate events
On a change of control of the Company, the number of Shares in respect of which Awards vest shall be determined by the Remuneration Committee, subject to the extent to which any performance condition has been satisfied at the date of change of control and, unless the Remuneration Committee determines otherwise, pro-rating to reflect the period from the start of the performance period to the date of the relevant event (or such other relevant period).

Alternatively, the Remuneration Committee may permit or, in the case of an internal reorganisation or if the Remuneration Committee determines any other event, require Awards to be exchanged for equivalent awards which relate to Shares in a different company.

If other corporate events occur such as a demerger, special dividend or other event which, in the opinion of the Remuneration Committee, may affect the value of Shares to a material extent, the Remuneration Committee may determine that Awards will vest conditional upon the event occurring. The number of Shares in respect of which Awards vest shall be determined by the Committee, having regard to the extent to which any performance condition has been satisfied and, unless the Remuneration Committee determines otherwise, pro-rating to reflect the period from the start of the performance period to the date of the relevant event (or such other relevant period). If the event does not occur, Awards will continue on their original terms.

Adjustments
In the event of any rights issue or capitalisation, sub-division, consolidation, reduction or other variation of the ordinary share capital, the Remuneration Committee may make such adjustments as it considers appropriate to the number of Shares subject to Awards.

2. SUMMARY OF THE PRINCIPAL FEATURES OF THE ZOTEFOAMS PLC DEFERRED BONUS SHARE PLAN 2017 (2017 DBSP)

Eligibility
The 2017 DBSP will be operated and administered by the Remuneration Committee. The Remuneration Committee will determine who may participate in the 2017 DBSP and this will extend to any Executive Director or employee designated a senior executive of the Company or any of the Company's subsidiaries by the Remuneration Committee.

Forms of Awards
Awards under the 2017 DBSP are in the form of a conditional right to acquire ordinary shares ('Shares') in the Company ('Awards').

Value of Awards
Employees selected to participate will be required to defer a percentage of any annual bonus earned and will receive an Award over the number of Shares equivalent to the amount of bonus so deferred. The percentage of any bonus deferred into an Award shall not normally be less than 25%.

The number of Shares awarded shall be not more than the number of the Company's issued Shares having a market value as at the date of grant equivalent to the value of the percentage of the bonus deferred.

Grant of Awards
In any financial year of the Company, the Remuneration Committee shall decide whether the DBSP is to operate in respect of that year.

Awards may only be made within the period of 42 days following the announcement of the Company's results for any period, from the date on which an individual is selected to participate in the 2017 DBSP or any day on which the Remuneration Committee determines that exceptional circumstances exist. If, during such period, the Company is restricted from awarding Shares, Awards may be made immediately following such restrictions ceasing to apply.

Dividends
The Remuneration Committee may determine that on the vesting of an Award a participant shall receive an amount in cash and/or Shares equivalent in value to some or all of the dividends (and special dividends at the discretion of the Remuneration Committee) that would have been paid on the vested Shares between the date of award and the date of vesting and, if applicable, between the date of vesting and the date of release of the Shares.

Reduction for malus and clawback
The provisions dealing with reduction for malus and clawback are materially the same as outlined above for the 2017 LTIP.

Vesting of Awards
The release date of Awards shall normally be the third anniversary of the date of the award. A later date may be specified by the Remuneration Committee at the date of grant.

Any Shares that are to be released to a participant in respect of a vested Award will be released as soon as practicable after the date of vesting and normally within 30 days.

Cessation of employment
Where the participant ceases to be employed by any member of the Group due to gross misconduct on the part of the participant, his or her Awards will lapse. Where the participant ceases to be employed for any other reason, except voluntary resignation, unless the Remuneration Committee decides otherwise, the Awards shall be released to the former employee on the original release dates. Awards may be released to an employee who voluntarily resigns at the discretion of the Remuneration Committee.

Corporate events
On a change of control, all Awards shall vest immediately.

If other corporate events occur such as a demerger, special dividend or other event which, in the opinion of the Remuneration Committee, may affect the value of Shares to a material extent, the Remuneration Committee may determine that Awards will vest conditional upon the event occurring. If the event does not occur, Awards will continue.

Adjustments
If there is a variation in the Company's share capital before any release date of an award, the Remuneration Committee shall notify each participant who may give irrevocable directions as to the action to be taken, save that on a rights issue no action shall be taken unless the participant has provided the full amount payable or made funds available out of another part of the rights attributable to the participant's Shares.

3. SUMMARY OF THE PRINCIPAL FEATURES COMMON TO THE 2017 LTIP AND 2017 DBSP
Each of the following features are common to each of the 2017 LTIP and 2017 DBSP (together 'New Share Plans').

Terms of Awards
Awards may be granted over newly issued Shares, Treasury Shares or Shares purchased in the market. Awards are not transferable (other than on death). No payment will be required from participants for the grant of any Awards.

Limits on the issue of Shares
The New Share Plans are subject to the following overall limits:
- On any date, the number of Shares which may be issued or issuable pursuant to rights granted in the preceding ten-year period under the New Share Plans and under any other employees' share plan adopted by the Company may not exceed 10% of the issued ordinary share capital of the Company on that date; and
- on any date, the number of Shares which may be issued or issuable pursuant to rights granted in the preceding ten-year period under the 2017 LTIP, 2017 DBSP and any other discretionary employees' share plan adopted by the Company may not exceed 7.5% of the Company's issued ordinary share capital on the day preceding that date.

Treasury Shares will be treated as newly issued for the purpose of these limits until such time as guidelines published by institutional investor representative bodies determine otherwise. Shares purchased in the market are not subject to these limits.

The above limits may be varied by the Remuneration Committee to take into account any variation in the Company's share capital from time to time.

Rights attaching to Shares
All Shares provided under the New Share Plans will rank pari passu with all other Shares of the Company for the time being in issue (save as regards any rights attaching to such Shares by reference to a record date prior to the date of issue or transfer to the participant).

Appendix continued
(which summarises the rules of the New Share Plans)

Amendments and termination
The Remuneration Committee may amend the New Share Plans at any time, provided that prior approval of the Company's shareholders in a general meeting will be required for amendments to the advantage of employees relating to eligibility, limits, the basis for determining a participant's entitlement to, and the terms of, the Shares comprised in an award and the impact of any variation of capital.

However, any minor amendment to benefit administration, or any amendment to take account of legislative changes, or to obtain or maintain favourable tax, exchange control or regulatory treatment in any jurisdiction, may be made by the Remuneration Committee without shareholder approval.

No further awards may be made under the New Share Plans on or after the tenth anniversary of the approval by shareholders of the New Share Plans, but the rights of existing participants will not be affected by any termination.

Overseas plans
The Remuneration Committee may establish such sub-plans or schedules to the New Share Plans, modified to take account of local tax, exchange controls or securities laws if required to do so or if it is beneficial to do so in any overseas jurisdiction, provided that any Shares made available under such plans are treated as counting against the limits on individual and overall participation in the New Share Plans.

Pension benefits
Benefits under the New Share Plans are non-pensionable.

Five-year trading summary

	2016 £m	2015 £m	2014 £m	2013 £m	2012 restated £m
Group revenue	57.4	53.9	48.9	44.6	47.2
Operating profit (excluding exceptional items)	7.6	6.3	5.6	4.2	6.0
Profit before tax (excluding exceptional items)	7.2	6.0	5.3	3.9	5.8
Profit before tax (including exceptional items)	7.0	6.0	4.0	3.9	5.8
Profit after tax (including exceptional items)	5.7	4.8	3.3	3.2	4.6
Capital expenditure (including intangibles)	12.6	9.1	7.6	4.2	3.7
Cash generated from operations	6.4	8.4	6.0	6.6	6.3
Basic earnings per share excluding exceptional items (p)	13.7	11.1	10.7	8.0	11.8
Basic earnings per share including exceptional items (p)	13.2	11.1	8.2	8.0	11.8
Dividends per ordinary share (p)	5.75	5.60	5.45	5.30	5.20

Company information

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Registrars
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The Pavilions
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Financial calendar

AGM	17 May 2017
Payment of final dividend	25 May 2017 to shareholders on the register at the close of business on 21 April 2017
Announcement of 2017 interim results	8 August 2017
Payment of interim dividend	12 October 2017
Announcement of 2017 results	March 2018

Registrars
Enquiries concerning the holding of ordinary shares in the Company should be addressed to the registrars who should also be notified of any changes in a holder's address.

The registrars are: Computershare Investor Services Plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ.

Telephone: 0370 707 1424

www.investorcentre.co.uk/contactus

Website
The Company has a website (www.zotefoams.com) which provides information on the business and products.

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