ZOTEFOAMS

Annual Report and Accounts 2011

Zotefoams is a world leader in cellular material technology. Using a unique manufacturing process with environmentally friendly nitrogen expansion, Zotefoams produces lightweight foams in Croydon, UK and Kentucky, USA for diverse markets worldwide through its global sales force. Zotefoams also owns and licenses patented MuCell® microcellular foam technology from a base in Massachusetts, USA to customers worldwide and sells T-Tubes® advanced insulation systems made from its patented ZOTEK® fluoropolymer foams.

Overview and Business Review

The key strategic, financial and operational developments during the year.

Overview

Business Review

Directors and Governance

The report from the Directors, our governance and remuneration reports.

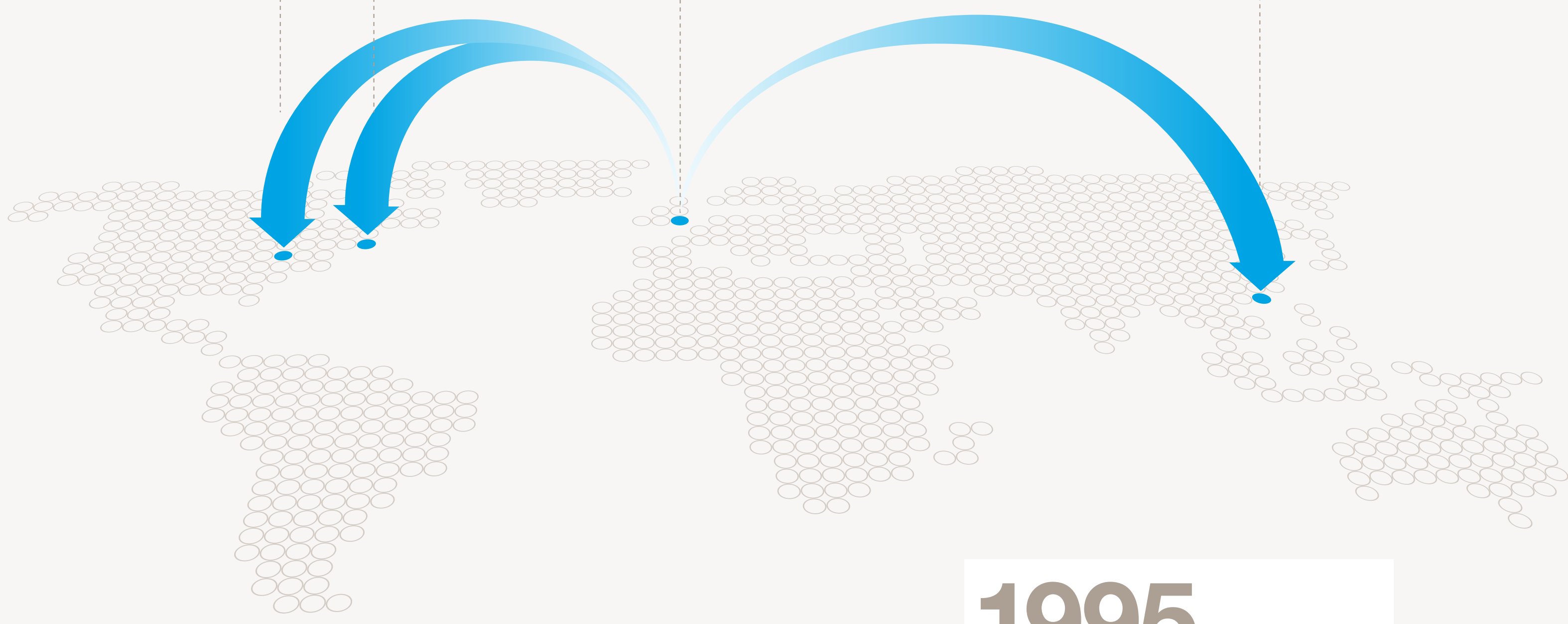
Corporate Information

Financials

Financial Statements

Foam is our world

Zotefoams operates and sells globally, offering materials with unique attributes and solutions backed by significant investment in technology.



Zotefoams' timeline showing the historical development of the Group

75yrs

A proud history

2011 was a landmark year as Zotefoams and its predecessor companies celebrated 75 years of continuous production on our site in Croydon, UK. The business has evolved from manufacturing foam rubbers to the high-performance products valued in today's world.

Zotefoams plc, 675 Mitcham Road, Croydon, Surrey CR9 3AL, England

1995

Zotefoams plc

Zotefoams was floated on the London Stock Exchange in February 1995. This transformation, via a management buy-out of the UK Polyolefin Foams business of BXL Plastics Ltd (a subsidiary of BP plc), has allowed the business to flourish as an independent entity and provided finance to invest in the Croydon site.

For more information visit our website: www.zotefoams.com

10yrs

Zotefoams Inc., USA

Zotefoams Inc. began producing foams in Walton, Kentucky in 2001. Operating as a 'satellite factory', with solid materials shipped from Croydon and expanded in USA, allows cost-effective access to the North American market. Since we began expanding material in Walton we have manufactured 326,000 cubic metres of foam. Shipping these in solid form and expanding locally has saved approximately 7,400 containers making a transatlantic journey.

Walton was chosen primarily for its excellent transport links and business-friendly approach and Zotefoams purchased sufficient land to allow for future expansion of this site which now supports over 20% of our global polyolefin foams turnover.

Zotefoams Inc., 55 Precision Drive, Walton, Kentucky, 41094, USA

3yrs

MuCell Extrusion LLC, USA

Zotefoams understands the value of injecting high-pressure gas into polymer to create foam blocks, and in 2008 we found complementary technology suitable for manufacturing thin rolls of foam. Our initial interest was to license the MuCell® technology, however we saw value in other applications and bought a 30% stake in the business to develop it further.

Along with this 30% share, Zotefoams acquired an option to purchase the full 100% shareholding which we exercised in 2011. Based in Massachusetts, USA, MuCell Extrusion LLC ('MEL') licenses technology globally to plastic extrusion companies seeking to reduce their polymer usage. Using MEL's patented processes, licensees operate in fields as diverse as automotive, packaging, electronics and leisure, replacing polymer with environmentally friendly gas 'micro-bubbles' in plastic sheet, tube, films and speciality products.

With the technology well developed, MEL is now investing in additional resources to support the strong interest from potential licensees across the world. Zotefoams' global reach and financial strength, as well as our understanding of polymer markets and foaming technology, allows MEL to access a wide range of customers with confidence that we can support and deliver the opportunity created.

For more information see page 17

2011

Zotefoams Hong Kong

For many years Zotefoams has been considering a factory in Asia, on similar principles to our American operation. Shipping solid materials and expanding into foam near to the customer is a more cost-effective and environmentally sustainable operating model. We now have six directly employed sales staff in Asia and the foam market there is becoming more sophisticated, developing on a path where our high-end Azote® foams are increasingly valued.

We supply to a variety of industries across the region, with Japan our major geographic market currently. The ability to supply our full product range, with shorter lead times, opens up a much wider variety of applications for our foams. The combination of existing customers, who have expressed an interest in local supply, and the opportunity to seek new customers and applications gives us a good deal of confidence about our prospects in this area. We estimate that once a decision to proceed has been made it will take approximately two years to finalise the factory location, obtain permits and build the plant. We would plan a certain capacity utilisation to optimise our return on investment and therefore the final decision on timing of investment is dependent on our growth expectations over the coming years.

In 2011 the Zotefoams Board agreed to set up an office in Hong Kong as a first step to investing in production facilities in Asia. We are currently assessing the opportunity in detail, with major decisions to be made about location, optimal timing and the involvement of any local partner. Operating the 'satellite factory model' protects the significant manufacturing intellectual property in high-pressure gassing which would remain in the factory in the UK.

Highlights

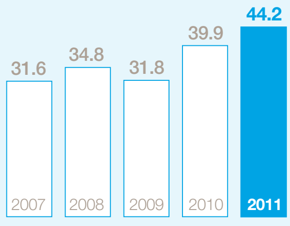
Highlights as follows:

- Profit before tax and exceptional items up 16% to £5.47m (2010: £4.70m)
- Basic earnings per share excluding exceptional items up 16% to 11.8p (2010: 10.2p)[1]
- Revenue up 11% to £44.21m (2010: £39.88m)
- Ownership of MuCell Extrusion LLC ('MEL') increased to 100%
- Successful placement of 1.5m shares (additional 4% of share capital) at 150p per share in March 2011
- Net cash of £1.92m (31 December 2010: £1.86m)[2]
- 5% increase in proposed final dividend to 3.30p per share (2010: 3.15p)[3]

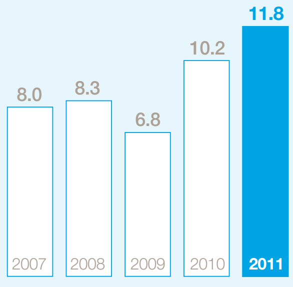
1 Basic earnings per share including exceptional items is 11.8p (2010: 11.8p)
2 Net cash is defined as cash less bank overdrafts and other bank borrowings
3 Per 5.0p share

Financial highlights

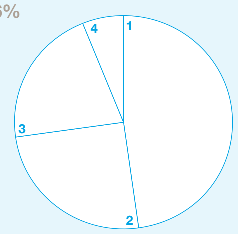
Revenue
(£m)



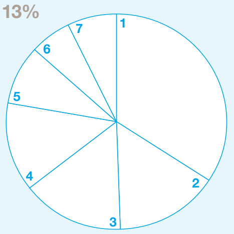
Earnings per share
(excluding exceptional items)
(pence)



Revenue by region
1. Continental Europe **48%**
2. North America **25%**
3. UK and Eire **21%**
4. Rest of the World **6%**



Revenue by market
1. Packaging **35%**
2. Industrial **15%**
3. Transportation **15%**
4. Sports and Leisure **13%**
5. Building and Construction **9%**
6. Medical **6%**
7. Other **7%**



Strategy

Zotefoams' strategy is to grow our existing business in polyolefin foams while developing a portfolio of High-Performance Polymers ('HPP').

Key objectives:

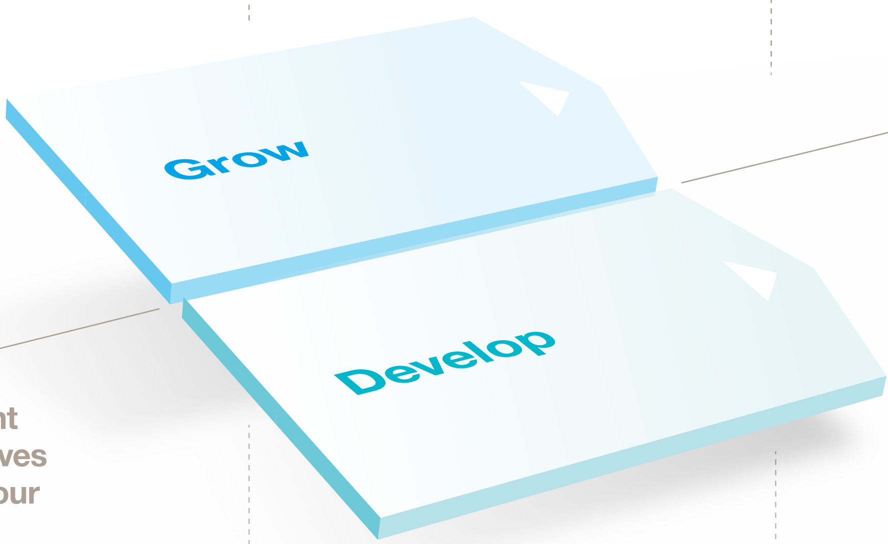
Zotefoams measures its development and performance on four key objectives that represent the core elements of our strategy. We intend to:

Invest and create:

Grow

Grow sales in our polyolefin business

Action:
Turnover in our Azote® polyolefin business grew by 10% in 2011. Our objective is for growth in this business to exceed twice the rate of global GDP growth. With a balance of sales across diversified regional markets and applications we see good potential from this business.

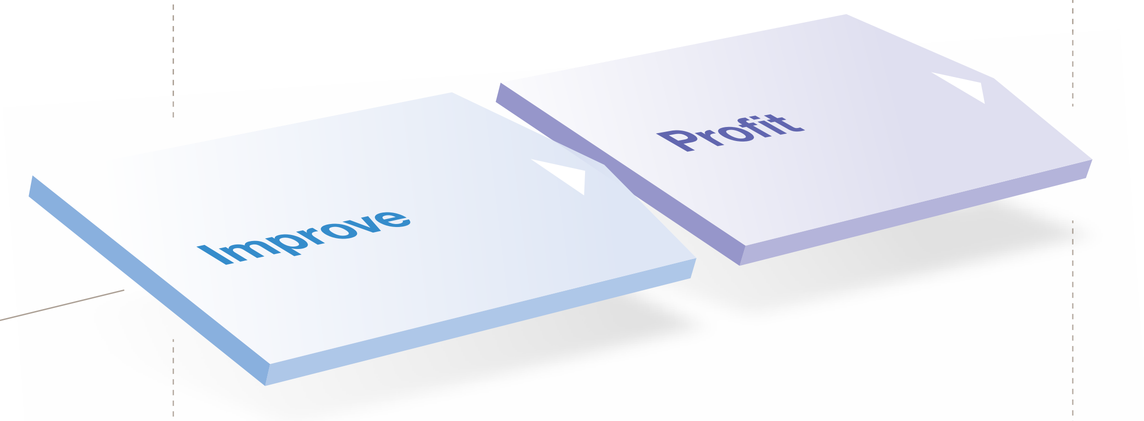


Develop

Develop a HPP portfolio to deliver enhanced margins

Action:
HPP sales in 2011 were at similar levels to 2010, but our development pipeline is set to deliver a very strong performance in 2012 with our current order book at record high levels.

Deliver:



Improve

Improve our operating margins

Action:
Group operating margins, excluding exceptional items, increased to 12.6% of sales, up from 12.1% in 2010.

Profit

Improve our return on capital employed

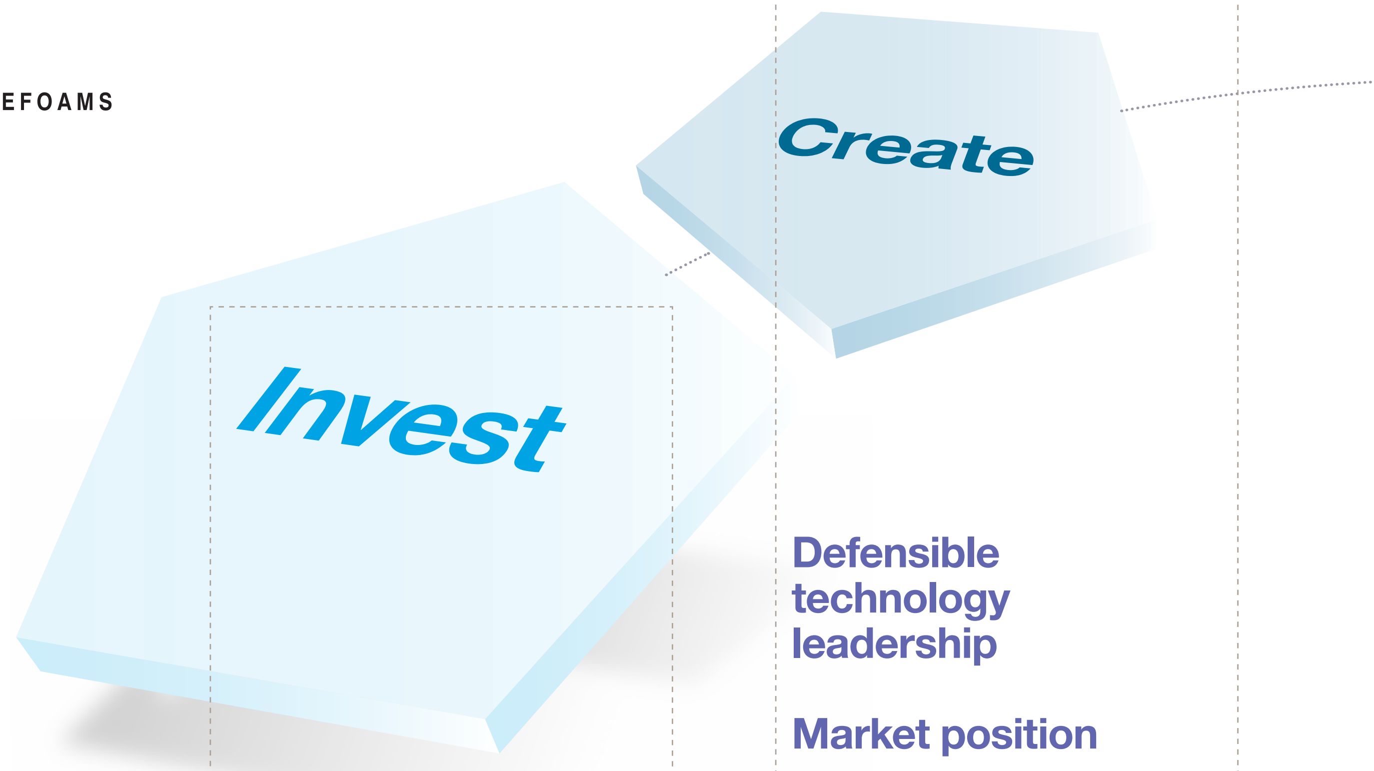
Action:
Pre-tax return on average capital employed was 15.6% (2010: 15.0%).

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 these and other risks and uncertainties is contained in the Business Review under the section entitled 'Risks and Uncertainties'. These forward-looking statements are based on knowledge and information available to the Directors at the date the Directors' Report was prepared, and are believed to be reasonable at the time of preparation of the Directors' Report, though they are inherently uncertain and difficult to predict. Actual results or experience could differ materially from the forward-looking statements.

Our business model

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

ZOTEFOAMS



People

Products

Processes

Zotefoams invests in a balance of people, business processes and products, that together are the foundation of our business.

Defensible technology leadership

Market position

Unique attributes

Our investments seek to deliver defensible technology leadership and we understand how to create a strong market position with the unique attributes of our materials and technology.

Accelerated growth

Customer value

Sustainable margin

The delivery of customer value is at the heart of our business. Through a strong market position and unique product attributes we can create sustainable margin and accelerated growth for Zotefoams.

We work closely with specifiers, users and converters in functional and geographic markets, where we are able to identify opportunities at an early stage, tapping into global trends.

Our premium polyolefin block foam business is reinforced by a portfolio of products based on advanced polymers and roll foam materials.

The complementary intellectual property embraced in our portfolio of manufacturing technologies offers exciting prospects for future growth.

Managing Director's
Discussion on Strategy

David Stirling
Managing Director

We have a consistent business strategy aiming to deliver customer value and sustainable margin from our unique technology.

Q: What makes Zotefoams different?
A: Zotefoams operates a unique nitrogen gas process giving product characteristics significantly different from other foams. We own patents and intellectual property, using these to enhance value across our business. We operate globally with end users in many markets and applications. However the real difference is that we have consistently invested in our processes, intellectual property and people and believe that together this is what brings value to the customer and to Zotefoams.

Q: What are the long-term drivers of value in Azote® foams? Are these different from the other business segments?
A: Zotefoams produces the lightest and purest cross-linked polyolefin foams in the world using a pure nitrogen gas expansion process. Marketed under our Azote® brand, these foams are widely used with their key attributes of purity and optimal physical performance at light weight particularly suited to longer-term industrial trends of better energy efficiency and reduction of chemicals in our environment.

High-Performance Polymers ('HPP') and MuCell Extrusion LLC ('MEL') are also aligned to these trends. Our HPP foams are manufactured using the same process as our Azote® foams, and offer additional benefits such as enhanced fire retardency or temperature stability. MEL offers licensees the technology to reduce the polymer content of their product using an environmentally friendly process.

Q: What has changed over the past 12 months?
A: We have a consistent business strategy. The purchase of a 100% stake in MEL and further investment in HPP sales and marketing reflects the underlying opportunity for growth outside our traditional block foams market. We experienced very strong performance from Azote® polyolefin foams sales with growth in 2011 in excess of our long-term targets in all areas except the 'Rest of the World' segment. Asian sales were affected by the Japanese earthquake and tsunami, and in the coming years we expect a return to robust growth.

Q: Does Zotefoams file patents?
A: Zotefoams invests in research and development for new foams and foaming processes. Intellectual property of all kinds is particularly important to MEL who license technology, including purchased and developed patents, to plastic processors. ZOTEK® fluoropolymer and nylon foams are patented, but the stronger barriers to entry in the Azote® and HPP businesses are the capital intensity of our nitrogen gas process, the know-how embodied in our products and our strong market position.

Q: How do you deal with raw materials volatility?
A: Our major raw material is low-density polyethylene ('LDPE'), a plastic derived from oil. Its price can be volatile and we experience rises or falls in pricing on a monthly basis. Zotefoams' strategy is to offer our customers price stability, and therefore we do not change our prices based on short-term movements in the price of LDPE. We do however recognise that our margins depend on maintaining pricing relative to LDPE and we consider the current price and likely trends in LDPE pricing when setting prices with customers, usually on an annual basis.

Q: What is Zotefoams' strategy for Asia?
A: We believe that the foam market in Asia is changing, with increasing demand for higher quality foams. We currently sell into Asia through our direct sales team, and are experiencing high levels of interest for our products. However foam is bulky and expensive to transport and foam manufacturers need to locate close to their markets. A factory in Asia is under detailed consideration, either as a direct investment or in joint venture. We plan this to operate in the same manner as our plant in Kentucky, USA which foams material sent from UK. This investment would allow cost-effective access to the fast-growing Asian market while protecting our know-how which remains substantially in the UK.

Q: Is further investment required for growth?
A: In 2012 we are significantly increasing our capital investment programme. There are three major elements to this: completion of our low-pressure expansion capacity vessel, construction of additional factory space (which will involve some minor re-organisation) and investment in further extrusion capacity. The additional factory building is required to support our growth expectations, within HPP and in advance of any investment in Asia. In total we expect to see a significant increase in capital expenditure up to approximately £7m in 2012, not including any capital required for a factory in Asia.

Extending our global reach

During 2011 we sold directly to customers in 42 countries.

Aircraft galley insulation

Aircraft need robust insulation for technical reasons as well as passenger comfort. In many cases ZOTEK® F foams are the optimal material, meeting insulation as well as fire and smoke release requirements. Easy to install and moisture resistant, ZOTEK® F foam is used to insulate chillers, heaters, ovens, lavatories and aircraft doors.

Aircraft carpet underlay

ZOTEK® F fluoropolymer foam is super lightweight and passes all FAA fire, smoke and toxicity test requirements. Its exceptional flammability properties and compression performance make it ideal for carpet underlay applications in aircraft.

Aircraft interior wall panel

ZOTEK® F is being used by Aero Plastics & Structures in their wall panels for aircraft in the larger commuter and regional airline category. The benefits of using ZOTEK® F are excellent flammability and an impressive weight saving of up to 49% over previous materials. In addition to the excellent finish, acoustic value is improved by dampening the noise normally associated with hardwall panels.

Window insulation

Azote® foams are ideal for sealing applications in building and construction. Their closed cell nature makes them highly resistant to moisture ingress and when split and slit into tapes and backed with pressure sensitive adhesive they are suitable for many applications where the foam accommodates the differential thermal expansion of dissimilar materials. Our Plastazote® polyethylene foam is used as a window backer in industrial construction in Japan.

Pioneering foam technology

Our HPP block foams are targeted at some of the most demanding and technical applications.

MRI scanner

ZOTEK® F fluoropolymer foam is being used for cable conduit in MRI scanners to reduce dust and dirt bacteria build up on cables, helping to give a clean environment, whilst protecting the cables from damage and offering flammability protection.

Clean room insulation

T-Tubes® advanced insulation system is the only foam piping insulation system in the world that is compliant with Factory Mutual ('FM') Approvals 4910 standard for clean room materials. T-Tubes® have been installed at Guy's and St Thomas' Hospital in London.

Site-Scrub® IPA Device

Site-Scrub® IPA Device from C. R. Bard, Inc. is the universal cleaning device for all intravascular access sites. This device uses a patent-pending foam 'fingers' design with 70% isopropyl alcohol to scrub and disinfect IV injection ports and female luer hubs. Plastazote® foams were chosen for their purity, ability to hold up to sterile alcohol exposure and ease of cutting.

X-ray machine

ZOTEK® N nylon foam is used in the assembling of X-ray machines as a component holder keeping cables and electronic components in place. As well as its high temperature resistance, the material's purity is essential in such a clean environment.

Chairman’s Statement

Nigel Howard

Nigel Howard
Chairman

The Zotefoams businesses are performing well and we are looking to continue our record of investing for the future.

Results

I am pleased to report our 2011 profit before tax increased by 16% to £5.47m (2010: £4.70m excluding exceptional items), which means that this profit measure has doubled in the last five years, equating to a compound annual growth rate of 15%. Moreover, we have achieved this whilst maintaining a strong balance sheet, with net funds of £1.92m at the end of 2011 (2010: net funds of £1.86m). Sales increased by 11% to £44.21m (2010: £39.88m) including a full year’s contribution from MuCell Extrusion LLC (‘MEL’) which was consolidated from 1 July 2010. Like-for-like sales, excluding MEL, increased by 9%, driven by strong volume growth in North America and Europe.

Strategy and objectives

We are committed to building on our position as a market-leading foam technology company. Our strategy is to expand through a combination of profitable organic growth and partnerships or acquisitions in related technologies, products or markets for the benefit of all our stakeholders.

Our objectives include achieving sales growth in our core polyolefin business exceeding twice the average rate of increase in GDP and at the same time developing a portfolio of High-Performance Polymers (‘HPP’) to deliver enhanced margins. We intend this growth to deliver improvement in operating margins and improvement in return on capital employed.

To achieve these objectives we continue to introduce new and unique foam products from HPP which offer significant advantages in demanding applications. As part of this strategy in 2011 we acquired full ownership of MEL, the world-leading licensing company in microcellular foaming technology for plastic extrusion.

Dividend

Although the Company is entering a year of increased capital expenditure to expand capacity, the Board proposes an increase in the Company’s final dividend to 3.30p per ordinary share (2010: 3.15p) which would make a total of 4.90p per ordinary share for the year (2010: 4.65p), an increase of 5.4%. At this level, the dividend would be covered 2.3 times by post-tax earnings. If approved, the dividend will be paid on 23 May 2012 to shareholders on the register at the close of business on 27 April 2012.

People

I am pleased to welcome the employees of MEL into the Group and, on behalf of the Board, would like to thank all of our employees whose talent, dedication and effort have made 2011 such a successful year.

Board

Our Board composition provides a balance of experience and independence, all aligned to our business needs and objectives. Effective from 1 July 2011, we appointed two additional independent non-executive Directors: Marie-Louise Clayton and Alex Walker.

Marie-Louise Clayton was previously a non-executive Director and Chair of the Audit Committee at Forth Ports plc and is currently a non-executive Director of Geoffrey Osborne Ltd. She was Group Finance Director of Venture Production plc, a FTSE 250 company in the oil and gas sector and has held senior positions in Alstom and GEC.

Alex Walker is currently Chairman of Spirent Communications plc and prior to that was Chief Executive of Yule Catto & Co plc where he spent most of his career. He has also been a non-executive Director of Rotork plc and Chair of the Remuneration Committees at both Spirent Communications plc and Rotork plc.

Marie-Louise is a Fellow of the Association of Chartered Certified Accountants and has now replaced Roger Lawson as Chair of the Audit Committee. Richard Clowes, who has been on the Board for four years, replaces Roger Lawson as Senior Independent non-executive Director with effect from 5 March 2012. Roger will retire from the Board on 31 March 2012 having completed a nine year term and I would like to add my personal thanks to those of the Board to Roger for his invaluable contribution to the Company over that period.

To provide additional support to the Board James Kindell has joined us as Company Secretary. James is an experienced Company Secretary, a barrister and a member of the Institute of Chartered Secretaries and Administrators.

Outlook

We begin 2012 with a strong order book for both Azote® polyolefin foams and our portfolio of HPP products. Following on from a record sales year in 2011, orders for Azote® foams for the first quarter are well ahead of the comparable period last year. The outlook for our HPP foams is even more promising. Particularly pleasing at this time is the forward visibility for ZOTEK® F fluoropolymer foams, with confirmed orders for 2012 already ahead of total sales of all HPP products in 2011. Our largest customer for ZOTEK® F, supplying to the aviation industry, has also placed orders for 2013 which exceed those of 2012. The market development of T-Tubes® advanced insulation systems has also been very encouraging with orders from repeat, as well as new, customers and enquiries running at record levels. We believe that the newer products within our HPP portfolio have significant potential: ZOTEK® N nylon foams, microZOTE® roll foams and Pebaxfoam® will all accelerate their market acceptance in 2012. Although development timelines for all HPP products are long and assessing the outcome can be uncertain, we are pleased that the current 2012 order book already comfortably exceeds sales made in 2011.

MEL has begun the year with high levels of interest from potential licensees, in particular from manufacturers of film and high-density flat sheet, and we are increasing staff levels to support this activity. The MuCell® brand is now well known in many fields of plastic extrusion, representing deliverable, raw material savings from a clean and environmentally friendly process. MEL's patent portfolio is growing strongly from a combination of internal developments and licensing of external patents in specific areas.

Following the weaker polymer prices experienced in late 2011, prices for LDPE, our main raw material, have increased recently towards the levels seen in the first half of 2011. Currency rates now are not materially different from last year's average rates. However, energy prices have risen significantly since 2011 and we continue to work to improve our energy efficiency to mitigate the impact of increased prices. Energy costs in 2011 were 4% of sales.

The Zotefoams businesses are performing well and we are looking to continue our record of investing for the future. We are now at the latter stages of assessment of the viability of a foam-expansion facility in Asia, either directly or as a joint venture. To support the opportunities evident across our business, 2012 will also see a significant increase in capital expenditure, to approximately £7m, to restructure our Croydon site, adding a new factory building and investing in extrusion capacity which is expected to be operational during 2012.

Zotefoams is an international business, operating across a wide variety of industries and serving many end use markets with a growing variety of speciality products and solutions. We are of course influenced by global economic factors as well as the uncertainty associated with developing new products and markets. However, we enter 2012 with an exceptionally strong order book, a robust cash position, and the benefits of our considerable investments made in people and products in recent years. The Board is therefore very confident about the prospects for our business and expects 2012 to be another year of further progress.

Nigel Howard
Chairman
5 March 2012

Business Review

David Stirling and Clifford Hurst

David Stirling
Managing Director

Clifford Hurst
Finance Director

In 2011 sales increased by 11% while profit before tax and exceptional items increased by 16% to £5.47m.

Zotefoams is the world leader in cellular material technology. Using a unique manufacturing process with environmentally friendly nitrogen expansion, Zotefoams produces lightweight foams in Croydon, UK and Kentucky, USA for diverse markets worldwide through its global sales force. Zotefoams also owns and licenses patented MuCell® microcellular foam technology from a base in Massachusetts, USA to customers worldwide and sells T-Tubes® advanced insulation systems made from its patented ZOTEK® fluoropolymer foams.

Business overview

Zotefoams is a business built around foam technology. During 2011 we sold directly to customers in 42 countries and we supply to industries as diverse as semiconductor manufacturing, beauty products, football boot manufacturers and aircraft makers. We consistently invest in research and development and spend a significant amount of time and money in commercial support of new materials that we believe will provide accelerated growth for our business in the future. On 30 March 2011 the Group acquired the remaining interest in MuCell Extrusion LLC ('MEL') that it did not own, securing 100% ownership of a business whose patented technology delivers material and cost savings to licensees using an environmentally friendly system.

In 2011 sales increased by 11% to £44.21m (2010: £39.88m). Sales of Azote® polyolefin foams increased by 10%, with higher growth rates experienced in some of our more established markets in Western Europe. North America also performed well, with 11% growth in constant currency. In Asia, which represents 6% of Group turnover, sales declined by 21% in constant currency (excluding MEL), following a 79% increase in 2010, partly as a result of the disruption caused by the tsunami in Japan. Sales of High-Performance Polymer ('HPP') products, measured in constant currency, were at a similar level to last year consolidating the 51% growth delivered in 2010. Turnover from MEL, whose primary business is the licensing of technology for foaming using extrusion processes, was £1.33m (2010: £0.61m) with a strong performance from licence and royalty fees while lower-margin equipment sales declined compared to 2010.

Zotefoams' block foam products are manufactured by a unique production process which uses environmentally friendly nitrogen gas to foam plastics. Operating at pressures up to 670 bar (a typical car tyre is 2 bar pressure) and temperatures up to 250°C, nitrogen gas is first dissolved in a plastic slab. The internal pressure of the gas is then utilised to expand the slab into a sheet of foam, either in our Croydon, UK facility or at our factory in Kentucky, USA. Our production process was developed internally and has been enhanced in scope and scale over many years of development and investment, resulting in a flexible proprietary technology with high barriers to entry.

Azote® polyolefin foams, currently over 90% of sales, are very versatile. To the basic insulation, buoyancy, impact protection and cushioning properties of polyolefin foams, our Azote® materials additionally offer consistency, purity, performance at light weight and durability which are valued across many applications. Foam blocks are often processed by cutting, welding, moulding or routing into finished or semi-finished parts and Zotefoams offers a wide range of sizes, base polymers, foam density, colours and specialty materials such as fire retarding additives to meet specific customer needs. Most of our polyolefin foams are made with LDPE or, to a lesser extent, EVA, both of which are commodity polymers. During late 2010 and the first half of 2011 we experienced rising prices along with interruptions in the supply of these bulk polymers as well as difficulty sourcing some specialty additives. These disruptions reduced our productive capacity and increased operating costs and lead times to our customers. In 2011 we experienced strong sales demand from most countries in Western Europe and North America, driven mainly by industrial markets such as automotive and performance packaging. Demand from the UK, France and the USA was particularly strong while longer lead times affected some development projects in Asia and other emerging markets resulting in a fall in sales despite high levels of interest in our products. Supply conditions eased in the latter part of 2011 and the average price of LDPE for 2011 as a whole was 13% higher than in 2010. During the year we increased sales prices and devoted a significant amount of management time and effort to manage these operational issues.

Operating margins for our Azote® business increased to 15.4% (2010: 14.4%) as higher raw material costs were offset by price increases and the benefits of the higher level of sales. Operating profit for this segment rose to £6.25m (2010: £5.29m).

Our HPP block foams have been developed to offer unique attributes over and above the core Azote® range: inherently non-flammable, high-temperature stability, specific chemical resistance or high levels of energy preservation are some of the selling points of our ZOTEK® and Pebaxfoam® materials. These products are truly unique, targeted at some of the most demanding and technical applications. The fire and chemical resistance of ZOTEK® F fluoropolymer foam is critical in the performance of T-Tubes®, sold by Zotefoams for insulation in clean room processes such as biotech and semiconductor manufacturing. This fire resistance combined with light weight makes our ZOTEK® F of great interest to the aviation industry, currently the largest market for our HPP foams. Other products in this segment include ZOTEK® N nylon foams and microZOTE® products, made using the patented MuCell® CO_2 foaming process, both of which are making promising progress from low levels of sales.

In 2010 HPP sales included completion of a large project with the European Space Agency for packaging materials for the international space station. In 2011 the underlying growth on our HPP business, excluding this project, was driven by applications with longer-term repeat potential. Currently most HPP sales are to the aviation industry and indications from this market are positive following a relatively flat 2011, reflecting the timing of adoption of specific parts and launch plans of new aircraft models. HPP products are aimed at markets where performance is critical and therefore development lead times are long, with the upside of stability of sales for many years where a part meets these demanding criteria. The timing of initial revenue generation from these types of development is inherently difficult to predict, however we do have significantly more visibility with existing business and this is reflected in our current order book, which is already in excess of the 2011 HPP sales value. Our nylon foams typify the

Business Review

David Stirling and Clifford Hurst continued

significant potential from these materials, with many exciting opportunities under evaluation, none of which are generating more than developmental-scale revenues at the moment. Gross margins from products which are commercially available are approximately twice the margins compared to our polyolefin business, although overall the HPP segment posted an operating loss of £707,000 (2010: operating loss of £427,000) as commercial costs significantly exceed revenues at this time, with expenditure reflecting our assessment of the prospects for this segment. Expenditure on research and development, which is primarily related to our HPP segment, was £897,000 (2010: £875,000).

Zotefoams' ownership of MEL allows us to invest in the accelerated growth of this business. We have now completed the process of moving from MEL's previous premises and operate from a new site in Massachusetts, USA. The business strategy, of licensing technology for microcellular foam extrusion, is being complemented by involving strategic partners for certain types of extrusion and the licensing in of key patents to broaden the scope of our activity. MEL licensees are often targeting relatively small reductions in polymer content, creating 'foams' with microcellular bubbles, which will reduce costs by 10–30% and improve their environmental footprint. Other licensees are interested in creating fully recyclable, light density foams using environmentally friendly naturally occurring gases. A MEL licensee will typically purchase equipment which can often be fitted to existing process machinery and sign a licence sharing the benefits gained through a licence fee and a royalty percentage. Although MEL can be involved in the equipment sale its real expertise is in applying its know-how, both patented and trade craft, and in working closely with the customer to apply the technology and create a successful product. This stage can take many iterations before a commercial licence is signed. Licence fees often begin as a small value payment, to allow licensee companies to scale-up their processes, and can take many years to reach maturity as the new product reaches the market. MEL's success depends on converting customer interest to trials and to commercially launched products using our technology. As our licence portfolio grows we become more able to help customers to move quickly to commercialisation. Recurring revenue from licence fees and royalties are the core of our business and we are investing in people to increase the number of projects we can manage simultaneously and to widen the scope of our ability to deliver. In 2011 reported sales increased to £1.33m (2010: £0.61m) as we consolidated 100% of MEL results for the period from 1 July 2010. Like-for-like licence fees and royalties, which represented 73% of sales in 2011, increased by 19% while lower margin equipment and engineering revenues fell linked to the timing and type of project starts.

In 2011 Group capital expenditure was £2.74m (2010: £2.67m), the majority of which was at our Croydon site in relation to our Azote® polyolefin foams business. Modifications to improve the flexibility of our new low pressure expansion vessel pushed some planned capital expenditure into 2012 and this vessel will now begin commissioning in the first quarter of this year. 2012 will therefore see a significant increase in capital expenditure to approximately £7.0m on our Croydon site as we complete this project, add a new factory building and invest in extrusion capacity to support future growth, including the ability to support an investment in production capacity in Asia which is currently under consideration.

Strategy and objectives

Zotefoams' strategy is to grow its existing business in polyolefin foams while developing a portfolio of High-Performance Polymers. In 2011 we had a record sales year, grew operating profit by 16% and ended the year with a positive cash balance while continuing to invest both capital and revenue in areas which we believe will further increase the long-term future prospects of our business.

Our specifically stated objectives are:

1. Sales growth in our polyolefin business to exceed twice the average rate of GDP growth.
2. Develop a HPP portfolio to deliver enhanced margins.
3. Improve our operating margins.
4. Improve our return on capital employed.

Performance against these objectives was as follows:

1. Sales of polyolefin foams grew by 10% clearly exceeding twice average GDP growth in the countries in which we operate.
2. HPP sales were relatively flat measured at constant currency. Underlying sales, excluding the major project completed in 2010, grew strongly and at the time of writing this report we have sales orders which exceed 2011 sales. Gross margins on HPP products which are commercially launched are approximately twice the levels achieved in the polyolefin business.
3. Group operating margins, excluding exceptional items, increased to 12.6% (2010: 12.1%).
4. Pre-tax return on average capital employed, excluding exceptional items, was 15.6% (2010: 15%) following the acquisition of MEL. MEL is currently below that level but recognise that MEL is a growth business at early stages of development and may take some time to reach target levels of return against the acquisition cost. However, the MEL business is highly cash generative and has a very good growth potential. We therefore expect this acquisition will increase our operating margins and return on capital employed in due course.

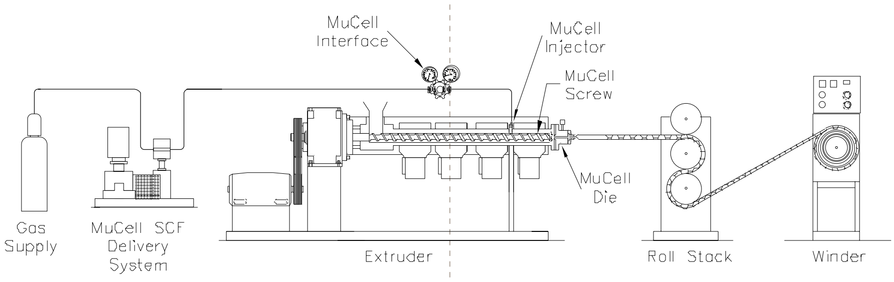
In 2012 we intend to focus on the same four key objectives in our business, although it is inevitable that the high levels of capital expenditure planned will reduce return on capital employed until these assets can reach an appropriate level of utilisation.

Financial results

Group turnover increased by 11% from £39.88m to £44.21m in 2011. On a like-for-like basis excluding MEL turnover grew by 9% reflecting strong volume growth in developed markets. The average price of low density polyethylene, our largest raw material, increased by 13%: from £1,068 per tonne in 2010 to £1,203 per tonne in 2011. This was offset by sales price increases and the operational gearing benefit of the additional sales volumes so that like-for-like gross margin remained constant at 29%. Underlying distribution costs and administrative expenses excluding MEL increased by 7% to support

MuCell
Evolving our technology

EDV Packaging Solutions, S.A. is a licensee of MuCell Extrusion LLC. EDV is now producing foamed polypropylene barrier sheets for food packaging applications throughout Europe. MuCell Extrusion's technology is recyclable, environmentally friendly and produces clean foams which allows for significant lower densities thereby reducing material cost.



Zotefoams' 100% ownership of MEL allows us to invest in the accelerated growth of this business.

The MuCell advantage
MuCell Extrusion offers licensees know-how and specialised engineering services as well as rights to a wide patent portfolio. This end-to-end solution is unique in the industry and can deliver superior foaming solutions with environmentally friendly systems.

Business Review

David Stirling and Clifford Hurst continued

the sales growth and investment in HPP. Profit before tax and exceptional items increased by 16% from £4.70m to £5.47m. Profit before tax after exceptional items was £5.47m (2010: £5.32m).

The effective tax charge is 17%, (2010: 21% pre-exceptional items) which is lower than the UK corporation tax rate in the period of 26.5%. This is principally due to the lower tax charges incurred in our USA operations where we have brought forward tax losses and UK research and development tax credits. The cash impact of the tax charge is higher at 21% (2010: 24% pre-exceptional items) because of a deferred tax credit of £0.22m (2010: £0.15m) reflecting the difference in timing between tax allowances and accounting charges.

MEL

On 30 March 2011 we purchased the remaining 70% shareholding in MEL that we did not already own together with further patent rights for a total cash consideration of $7.50m. $4.00m of this sum was paid at the time of acquisition, $2.00m in January 2012 and the remaining payment of $1.50m is payable on or before 30 July 2012. The former owner of these shares has been granted security over all of the intellectual property of MEL until the deferred consideration is settled. This price represents a reduction of $2.38m from the original option price offset by an additional $0.50m for the acquisition of further patents. The acquisition of those patents has been accounted for separate to the business combination as a 2011 capital investment.

The reduction in consideration of $2.38m, which has a cash benefit to the Group, has resulted in a non-cash prior period adjustment to the goodwill associated with the deemed acquisition of MEL, the non-controlling interest and the exceptional (non-cash) profit arising from the deemed disposal of the associate interest in MEL on 1 July 2010, as reflected in the Company's accounts for the 12 months ended 31 December 2010.

As indicated in its acquisition announcement on 31 March 2011 the reduction in consideration has led the Board to review the accounting for the acquisition and, in particular, whether an adjustment is required. The Board has concluded that this purchase provides new information about the acquisition date fair values that formed part of the original acquisition accounting. Consequently the Board has applied an adjustment in preparing these financial statements and has restated the 2010 comparative results to reflect this change. The impact of this adjustment is to reduce the goodwill previously recognised from £3.60m to £2.01m, reduce the non-controlling interest previously recognised from £5.38m to £4.27m and reduce the exceptional profit previously recognised from £1.10m to £0.62m. £0.06m of legal and other external costs were incurred on the acquisition and these have been taken as a one-off cost in the Income Statement.

Earnings per share and dividend

Group earnings per share were 11.8p (2010: 10.2p before and 11.8p after exceptional items). The Directors are recommending an increased final dividend of 3.30p per share, and, subject to shareholder approval, payable on 23 May 2012 to shareholders on the Company register at 27 April 2012. This would bring the total dividend to 4.90p per ordinary share for the year (2010: 4.65p).

Cash flow

Earnings before interest, tax, depreciation and amortisation ('EBITDA') and exceptional items were £8.80m (2010: £8.09m) reflecting the higher operating profit. Cash generated from operations at £6.08m (2010: £7.23m) was lower than last year due to increased working capital reflecting the 2011 sales growth and a planned build-up of inventories to meet demand in early 2012. Capital expenditure of £2.74m (2010: £2.67m) was similar to last year. On 30 March 2011, the Group acquired the remaining shares of MEL that it did not already own and additional patents at an initial cost of £2.49m. This was largely funded by a placing of 1.53 million shares representing c. 4% of the share capital of Zotefoams plc which raised net proceeds of £2.23m. After tax payments of £1.05m and the payment of dividends of £1.84m the Group was left with net funds of £1.92m, a similar level to 2010 (net funds of £1.86m).

Pensions

There was minimal change in the gross IAS19 deficit on the Company's Defined Benefit Pension Scheme (the 'Scheme') of £4.94m (2010: £4.96m). The principal movements were a lower than expected return on assets offset by a £1.14m reduction in liabilities due to a change in inflation measures from RPI to CPI for revaluing deferred pensions. Company contributions to the Scheme in 2011 were £0.66m as agreed by the Company and the Trustees following the 2008 triennial review to reduce the deficit. This is being reviewed following the April 2011 triennial review.

Risks and uncertainties

Zotefoams' business and share price may be affected by a number of risks, not all of which are in our control. Zotefoams has a process by which such risks are identified, assessed and managed and this is set out in the Corporate Governance report. Sections of the Annual Report contain forward-looking statements, including statements relating to future demand for the Group's products, research and development, liquidity and cash resources. These forward-looking statements involve risks and uncertainties because they relate to events that may or may not occur in the future. Zotefoams' management believe the specific risks which are set out below are the principal risks, as identified under our risk management process, which could affect our profits, assets and reputation. However, other risks may also adversely affect the Group. Accordingly, actual results may differ materially from anticipated results because of a variety of risk factors including: changes in global, political, economic, business, competitive and market forces; changes in legislation and tax rates; future business combinations or disposals; relations with customers and customers' credit risk; events affecting international security, including global health issues and terrorism; changes in the regulatory and safety environment and the outcome of litigation.

Operational disruption

Zotefoams' business is dependent on the ongoing operation of manufacturing facilities. Any significant operational disruption could impact our ability to manufacture and supply products.
The Directors consider the Company's extensive Safety, Health and Environment ('SHE') policies and procedures to be the

PEBAXFOAM®
Ultra-lightweight high performance foam

Pelé Sports, the new global football brand, used Pebaxfoam® as a superior sockliner material in their ultra light Trinity 3E boot. Pebaxfoam possesses lightweight, advanced physical properties and allowed Pelé Sports to save over 30% mass whilst achieving an improved comfort. The Trinity 3E boot won the ISPO BrandNew Award for Footwear.

main mitigating controls around these risks. These are described in more detail in the Corporate and Social Responsibility Report on page 33. The Group also holds insurance which is designed to cover capital reinstatement and loss of profits in the event of operational disruption caused by certain events. We use pressure equipment which is operated under the Pressure Systems Safety Regulations 2000 and SAFed ('best practice' system) which requires systematic internal and frequent external inspections.

Supply chain disruption
Certain raw materials are currently only available from single sources. Inability to source these materials may result in an inability to supply products to our customers. Zotefoams seeks wherever practical to purchase materials from more than one source but the highly specified nature of our product lines means this is not always possible. We therefore monitor the situation closely and maintain 'desktop' studies of alternative materials which may be offered to our customers as substitutes. Currently high levels of demand for polymer products and changes in availability of supply from some suppliers is requiring us to adopt more flexible production schedules and utilise some of these alternative sources of supply.

Technological change and competitor activity
Market demand for our products depends, in part, on availability of suitable alternatives. Any significant change in competitor activity or a technological change which brings new or enhanced products to the market may result in a change in demand for our products. Zotefoams maintains close contacts with existing customers and end users to understand market activity and trends and has a constant flow of product variants developed for specific projects to maintain and enhance our position with our customers. We are developing a portfolio of High-Performance Polymers which together with the MuCell® technology are unique and protected by both patents and process capability. We believe these products will open up new markets with a significant and lasting differential advantage for the Group.

Pension liabilities
Zotefoams operates a Defined Benefit Pension Scheme with retirement benefits being based on final salary. The value of scheme liabilities and assets, along with the assumptions used in this valuation, are disclosed in note 23 of the financial statements. Any change in the assumptions used or where the actual outcome varies from these assumptions may have a significant effect on the liabilities or assets which, ultimately, may be the responsibility of the Company. We have taken steps to minimise the risk to the Company by closing the Scheme to new members in 2001 and closing it to future accrual of benefits in 2005.

Foreign exchange
Zotefoams mainly sells in the local currencies of the customer and in 2011 approximately 80% of our revenue was in currencies other than sterling, particularly US dollars and euros. We do have US dollar costs associated with MEL and our facility in Kentucky, USA while the majority of our raw material purchases are denominated in euros. However, most of our manufacturing assets and costs, including capital expenditure, are substantially in the UK and therefore sterling denominated. The net impact of this is that we generate surpluses in US dollars and euros which we convert to sterling. We manage this risk firstly by converting purchases to either US dollars or euros wherever sensible. This reduces our net exposure and transaction costs of converting from one currency to another. The Group hedging policy to deal with the remaining risk is set out in note 21 of the financial statements.

Financing
The Company finances its activities partly through the use of bank overdraft and loan facilities, the utilisation of which fluctuates during the year. The Company has a £4.90m overdraft facility which is repayable on demand and a £3.30m loan. This loan is repayable over five years, has no operating covenants and is secured against certain items of plant and equipment. At 31 December 2011 £1.82m of this loan had been repaid. We finished the year with net funds at 31 December 2011 of £1.92m (2010: net funds of £1.86m).

David Stirling
Managing Director

Clifford Hurst
Finance Director

5 March 2012

Directors and Advisers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Corporate Brokers
Investec Bank plc
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London EC2V 7QP

1. Nigel Howard BSC ARCS*#
Non-executive Chairman and Chair of the Nominations Committee
Joined the Board in January 2006 and was appointed Chairman in January 2007. Previously he was a Director of Morgan Crucible Plc, where he worked for over 36 years in a number of roles including Interim Chief Executive. Nigel is a non-executive Director of Alliance One International Inc. which is listed on the New York Stock Exchange and is a graduate of Harvard Business School ISMP Program.

2. David Stirling BSC CA MBA MSC
Managing Director
Joined Zotefoams plc in September 1997 as Finance Director. Appointed Managing Director in May 2000. Previously with BICC plc, Price Waterhouse in USA and Poland and KPMG. David is a graduate of Warwick and London Business Schools.

3. Clifford Hurst BA FCA MCT
Finance Director
Joined Zotefoams plc in October 2000 from Thermos Limited where he was Commercial Director and prior to that Finance Director. Previously with Caradon plc, ICI plc and Ernst & Young.

4. Roger Lawson FCA*†#
Non-executive Director
Appointed to the Board in December 2002. Previously a Director of 3i plc and a former President of the Institute of Chartered Accountants in England and Wales. Roger is a non-executive Director of a number of unlisted companies and a Trustee of the Thalidomide Trust. Roger was previously Senior Independent non-executive Director and Chair of the Audit Committee and retires from the board on 31 March 2012.

5. Richard Clowes BSC C.ENG M.I.MECH.E*†#
Senior Independent non-executive Director and Chair of the Remuneration Committee
Appointed to the Board in July 2007. Previously worked for GKN plc and before that TI Group plc. He has wide operations and general management experience at both companies and whilst at GKN he was a Divisional Managing Director for their Powder Metallurgy, Offhighway and Autocomponents Divisions. He was a main Board Director of GKN plc from 2001 to 2005.

6. Marie-Louise Clayton LLB FCCA*†#
Non-executive Director and Chair of the Audit Committee
Appointed to the Board in July 2011. Previously a non-executive Director and Chair of the Audit Committee of Forth Ports plc. Prior to that she was Group Finance Director of Venture Production plc, a FTSE 250 company in the oil and gas sector, and has held senior positions in Alstom and GEC. Marie-Louise is a qualified accountant and a non-executive Director of Geoffrey Osborne Ltd.

7. Alex Walker*†#
Non-executive Director
Appointed to the Board in July 2011. Alex is Chairman of Spirent Communications plc. Before that he was Chief Executive of Yule Catto & Co plc where he spent most of his career. Alex has also been a non-executive Director of Rotork plc and Chair of the Remuneration Committees at both Spirent Communications plc and Rotork plc.

* Member of the Remuneration Committee
† Member of the Audit Committee
\# Member of the Nominations Committee

Directors' Report

The Directors present their Annual Report and audited financial statements for the year ended 31 December 2011.

Principal activity
The Group's principal activity is the manufacture and sale of cross-linked block foams.

Business review
The Company is required by the Companies Act 2006 to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2011 and of the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group. The information that fulfils this requirement can be found within the Business Review on pages 14 to 19.

Results and dividends
Profit attributable to shareholders for the year amounted to £4.50m (2010: £4.35m). An interim dividend of 1.60p (2010: 1.50p) per share was paid on 13 October 2011. The Directors recommend that a final dividend of 3.30p (2010: 3.15p) per share be paid on 23 May 2012 to shareholders who are on the Company's register at the close of business on 27 April 2012. This makes a total dividend of 4.90p per share for the year (2010: 4.65p).

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

All of the current Directors named on pages 20 to 21 served throughout the year with the exception of M-L Clayton and A Walker who were appointed on 1 July 2011. The Company's Articles of Association (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 appointment and at least every three years thereafter. Ordinarily this would mean M-L Clayton, A Walker, N G Howard and C G Hurst would be standing for election at this year's AGM. However the Board has taken note of the UK Corporate Governance Code requiring Directors of FTSE 350 companies to be subject to annual election. Although the Company is not in the FTSE 350 emerging best practice for listed companies is for all Directors to stand for annual re-election. Accordingly the Board has decided for this year that all the Directors will stand for annual re-election apart from R H Lawson who will retire from the Board on 31 March 2012.

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

The Company has granted indemnities in favour of Directors under Deeds of Indemnity. These Deeds were in force during the year ended 31 December 2011 and remain in force as at the date of this report. These Deeds, 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 the Company. On an annual basis, the Company Secretary seeks confirmation from the Directors of their interests, which are reviewed by the Nominations Committee and 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 conflict 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 35 to 38 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. It 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) approvals.

Further details of the Group's employment policies, including its policy regarding the employment of disabled people, are set out in the Corporate Social Responsibility Report on page 33.

Substantial shareholdings
As at 5 March 2012, the Company had received notice 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
BlackRock Inc.	5,365,824	13.47%
Schroder Investment Management	4,591,612	11.53%
Henderson Global Investors	3,907,575	9.81%
Sekisui Alveo AG	3,814,762	9.58%
Marc and Claire Downes	1,454,823	3.65%
Nicholas Adrian Beaumont-Dark	1,418,000	3.56%

The holding held by BlackRock Inc. includes notified holdings on behalf of BlackRock Emerging Companies Hedge Fund (2,740,941 shares, 7.16%) and BlackRock UK Smaller Companies Fund (1,919,285 shares, 5.01%).

Directors' shareholdings are shown in the Directors' Remuneration Report.

Research and development
The amount spent by the Group on R&D in the year was £897,000 (2010: £875,000). This included work on nylon and microZOTE® as well as potential longer-term products in the development pipeline. In the opinion of the Directors none of this expenditure met the requirements for capitalisation in IAS38 and it was consequently all expensed in the Consolidated Income Statement.

Creditor payment policy
It is not Group policy to follow any standard or code of payment practice. Payment terms are agreed with suppliers when negotiating contracts or transactions. The Group aims to ensure that subject to any necessary variations which may result from supplier-related problems, the agreed payment terms are adhered to. At 31 December 2011, trade creditors of the Company represented 24 days of purchases (2010: 27 days).

Share capital and reserves
The Company has one class of ordinary shares which carries no right to fixed income. Each share carries the right 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 2011 the Zotefoams Employee Benefit Trust ('EBT') held 1,160,954 shares (approximately 2.9% of the issued share capital) (2010: 1,389,861 shares, approximately 3.6% of the issued share capital at 31 December 2010) 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 it issued 309,355 shares in respect of these share plans and bought 80,448 shares at an average price of 143p to satisfy future share awards.

At the AGM held on 12 May 2011 authority was given to the Directors to allot unissued shares in the Company up to a maximum amount equivalent of approximately two thirds of the issued share capital of the Company. In addition, a special resolution was passed that granted authority to the Directors to allot equity securities in the Company for cash, without regard to the pre-emption provisions of the Companies Act 2006. Both these authorities expire at the 2012 AGM to be held on 10 May 2012 and the Directors propose to renew them for a further year.

Directors' Report continued

The authority to allot shares for cash was used on 31 March 2011 when the Company placed with certain new and existing institutional shareholders and the Directors 1,534,129 new ordinary shares of 5p each (total nominal value: £76,706.45) at a price of 150p per share realising net proceeds of £2.23m. This price represented a discount of 4.2% to the closing middle market price of the Company's shares on 30 March 2011 of 156.5p, when the terms were fixed. This placement was to finance partially the acquisition of the remaining 70% interest in MuCell Extrusion LLC ('MEL') and also to provide additional working capital for the Company.

At the AGM held on 12 May 2011 the Company was given authority to purchase up to 3,829,709 of its ordinary shares. This authority will expire at the 2012 AGM 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 renew the authority to make market purchases up to a maximum of 10% of the issued share capital of the Company.

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 on page 19 and in note 21 to the financial statements.

Pension scheme
The Company closed its Defined Benefit Pension Scheme to future accrual of benefit in December 2005. Employees are offered membership of a Defined Contribution Pension Scheme.

Charitable and political donations
The Group made charitable contributions of £300 (2010: £800) and no political contributions (2010: nil) in the year.

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.

Auditors
A resolution to reappoint KPMG Audit Plc as the Company's auditor will be proposed at the forthcoming AGM.

By order of the Board

J W Kindell
Company Secretary

5 March 2012

Directors' Remuneration Report

This report has been prepared in accordance with the Companies Act 2006 (the 'Act'). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to Directors' remuneration. As required by the Act, a resolution to approve this report will be proposed at the AGM of the Company at which the approval of the financial statements will be proposed.

The Act requires the auditor to report to the Company's members on certain parts of the Directors' Remuneration Report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Act. The report has therefore been divided into separate sections for audited and unaudited information.

Information not subject to audit

Remuneration Committee

The Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the UK Corporate Governance Code. R J Clowes, N G Howard and R H Lawson were members of this Committee throughout 2011 to the date of this report. M-L Clayton and A Walker were members of the Committee from 1 July 2011 to the date of this report. All the members are independent non-executive Directors apart from N G Howard, who was independent on appointment as Chairman of the Company. The Committee was chaired throughout by R J Clowes.

None of the Committee members has any personal financial interest (other than as shareholders), conflicts of interest from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No Director is involved in any decision about his or her own remuneration.

In determining aspects of the Directors' remuneration for the year, the Committee consulted D B Stirling (Managing Director) about its proposals.

Remuneration policy for the Executive Directors

Executive remuneration packages are prudently designed to attract, motivate and retain Directors of the high calibre needed to maintain the Group's position as a market leader and to reward them for enhancing value to shareholders.

The performance measurement of the Executive Directors and key members of senior management and the determination of their annual remuneration package are undertaken by the Committee.

There are five main elements of the remuneration package for Executive Directors and senior management:
- basic annual salary;
- benefits;
- annual bonus plan;
- long-term incentive schemes; and
- pension arrangements.

The Committee's policy is that a substantial proportion of the remuneration of the Executive Directors should be performance related. As described below, Executive Directors may earn annual incentive payments which are capped as a percentage of basic salary together with the benefits of participation in long-term incentive arrangements.

Basic annual salary

An Executive Director's basic annual salary is reviewed by the Committee at the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels the Committee considers the Executive Team as a whole, individual performance and independent surveys of Directors' remuneration. The Committee's policy is to set basic annual salaries at a level below what it believes is the average market rate for the individual concerned while setting the incentive potential at a consequently higher rate. Basic annual salaries were last increased on 1 April 2011.

The Company operates a salary sacrifice scheme under which employees can change their contract of employment with a consequent reduction in salary in exchange for an additional Company contribution to the employees' pension scheme. In these cases bonuses and other incentive arrangements are calculated on salary prior to the reduction (bonusable salary). The reductions in salary made were 7% for C G Hurst and for D B Stirling. Details of the contributions made by the Company into the Defined Contribution Pension Scheme for these individuals are shown in this report within the Information Subject to Audit.

Benefits

The Executive Directors are entitled to receive certain benefits, principally a car allowance and private medical insurance.

Directors' Remuneration Report continued

Annual bonus
The Committee's normal policy on bonuses is that it establishes the objectives that must be met for each financial year if a bonus is to be paid. In setting appropriate bonus levels the Committee refers to independent surveys of Directors' remuneration. The Committee believes that any incentive compensation awarded should be tied to the interests of the Company's shareholders and that the principal measure of those interests is profit before taxation excluding exceptional items. The bonus award is normally capped at 100% of bonusable salary. That element of the bonus payment over 40% of bonusable salary is paid in restricted shares which will normally only be capable of release if the executive is still employed by the Company three years later.

Long-term incentives and share options
The Company currently does not operate any long-term incentive schemes other than the schemes described below.

The main long-term incentive scheme operated by the Company is the Long-Term Incentive Plan ('LTIP') award to the Executive Directors and senior management. The LTIP awards are subject to performance conditions on Total Shareholder Return and EPS (excluding exceptional items) over a three year period. These performance criteria, which applied to all Executive Directors to whom options have been granted under the Scheme, were chosen because the Committee believed it best aligned this incentive with shareholders' interests.

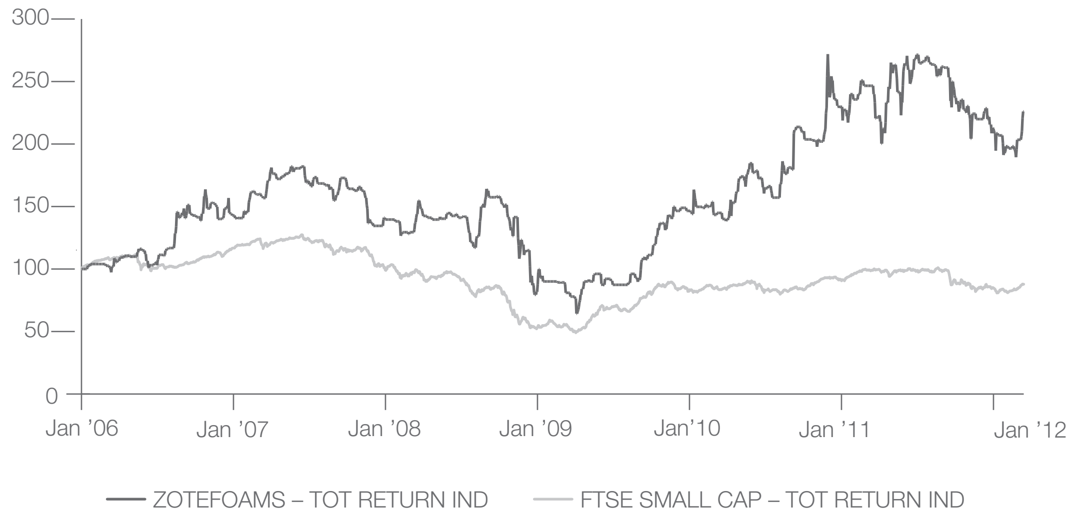
UK based Executive Directors and senior management have also been granted share options under a Her Majesty's Revenue and Customs Approved Share Option Scheme. These options are not exercisable unless the Group's normalised earnings per share, excluding exceptional items, increases by at least three percentage points per annum in excess of the increase in the Retail Price Index over the same period. The exercise price of the options granted under the above schemes is equal to the market value of the Company's share price at the time when the options are granted. The Executive Directors are entitled to participate provided they meet the eligibility requirements of the Scheme.

The Company also has an Executive Share Option Scheme. This was replaced as the main long-term incentive scheme in 2007 by the LTIP award and no awards under this Scheme have therefore been made since then.

Pension arrangements
The Executive Directors are members of the Zotefoams Defined Contribution Alternative Pension Plan. Prior to 31 December 2005 the Executive Directors were active members of the Zotefoams Defined Benefit Pension Scheme (the 'Scheme'). However, this Scheme closed to future accrual of benefit on 31 December 2005 and after this date the Executive Directors became deferred members of this Scheme.

Performance graph
The following graph charts the total cumulative shareholder return (share price movements plus dividends reinvested) of the Company since January 2006. It is compared to the FTSE Small Cap Index which the Board believes is the most relevant comparison for a company of Zotefoams' size.

Zotefoams and FTSE Small Cap Total Return Index ('TRI') rebased to 100 (January 2006 to December 2011).



Service contracts
The Executive Directors have service contracts with the Company which are terminable on 12 months' written notice from the Company or the respective Director.

The non-executive Directors and the Chairman have three year contracts which can be terminated by the Director or the Company on six months' written notice.

A summary of the service contracts is as follows:

Director	Commencement date	Date of termination	Unexpired period	Notice period
M-L Clayton	1 July 2011	1 July 2014	27 months	6 months
R J Clowes	23 July 2010	22 July 2013	16 months	6 months
N G Howard	3 December 2011	31 December 2014	33 months	6 months
C G Hurst	1 October 2000	Not Applicable	Not Applicable	12 months
R H Lawson	3 December 2011	31 March 2012	25 days	6 months
D B Stirling	1 September 1997	Not Applicable	Not Applicable	12 months
A Walker	1 July 2011	1 July 2014	27 months	6 months

The service agreements between each of the Directors and the Company do not entitle the respective Director to payment of compensation on termination other than statutory compensation. None of the Directors' or employees' service contracts contain provisions providing for compensation for loss of office or employment that occurs because of a takeover.

Non-executive Directors
All independent non-executive Directors and the Chairman have specific terms of engagement and their remuneration is determined by the Board within the limits set by the Articles of Association and based on independent surveys of fees paid to non-executive Directors of similar companies. Independent non-executive Directors and the Chairman cannot participate in any of the Company's share options schemes and are not eligible to join the Company's pension scheme.

Information subject to audit
Directors' emoluments

Remuneration in £	Basic salary/fees	Operational bonus	Car allowance	Other benefits[1]	Company pension contributions[2]	**Total 2011**	Total 2010
D A Campbell	–	–	–	–	–	**–**	23,457
M-L Clayton	14,000	–	–	–	–	**14,000**	–
R J Clowes	27,615	–	–	–	–	**27,615**	23,627
N G Howard	52,125	–	–	–	–	**52,125**	48,873
C G Hurst	119,407	42,893	10,561	1,197	26,637	**200,695**	203,334
R H Lawson	27,500	–	–	–	–	**27,500**	25,624
D B Stirling	171,557	61,845	11,640	1,129	37,553	**283,724**	285,112
A Walker	13,000	–	–	–	–	**13,000**	–
	425,204	104,738	22,201	2,326	64,190	**618,659**	610,027

1 Other benefits are calculated in terms of taxable values in the UK.
2 The Company operates a Defined Contribution ('DC') Pension Plan. Individuals can opt to change their contract of employment under a salary sacrifice arrangement, under which their salary is reduced and the Company makes a corresponding contribution into their DC Pension Plan. Both the Executive Directors have opted for the salary sacrifice scheme and the total contributions made by the Company to each individual's pension plan are shown above. None of the Executive Directors made any employee contributions to the DC Pension Plan.

Directors' Remuneration Report continued

Directors' shareholdings

The beneficial and non-beneficial interests of the Directors (including persons connected with them within the meaning of Section 252 of the Companies Act 2006) in the ordinary shares of the Company are set out below:

Number of ordinary 5.0p shares	**31 December 2011**	31 December 2010
M-L Clayton	**10,000**	–
R J Clowes	**47,250**	45,000
N G Howard	**63,000**	60,000
C G Hurst	**163,974**	124,811
R H Lawson	**5,250**	5,000
D B Stirling	**186,935**	144,445
A Walker	**5,000**	–
	481,409	379,256

There have been no changes to Directors' interests between the end of the financial year and the date of this report.

Share options and awards

Options over ordinary shares granted:

	Scheme	As at 31 December 2010	Granted	Exercised	Lapsed	Cancelled	**As at 31 December 2011**	Exercise price	Exercisable	Expiry date
C G Hurst	Executive SOS	59,631	–	–	–	–	**59,631**	72.5p	7.04.2007	6.04.2014
C G Hurst	Executive SOS	115,909	–	–	–	–	**115,909**	77.0p	22.12.2008	21.12.2015
C G Hurst	LTIP	28,426	–	(28,426)	–	–	**–**	nil	n/a	n/a
D B Stirling	LTIP	40,687	–	(40,687)	–	–	**–**	nil	n/a	n/a
C G Hurst	2007 Deferred Bonus	7,358	–	(7,358)	–	–	**–**	nil	n/a	n/a
D B Stirling	2007 Deferred Bonus	14,201	–	(14,201)	–	–	**–**	nil	n/a	n/a
C G Hurst	HMRC SOS	28,116	–	–	–	–	**28,116**	106.7	12.08.2011	11.08.2018
D B Stirling	HMRC SOS	28,116	–	–	–	–	**28,116**	106.7	12.08.2011	11.08.2018
C G Hurst	LTIP	116,413	–	–	(13,155)	–	**103,258**	nil	16.03.2012	n/a
D B Stirling	LTIP	166,630	–	–	(18,829)	–	**147,801**	nil	16.03.2012	n/a
C G Hurst	2009 Deferred Bonus	6,408	–	–	–	–	**6,408**	nil	11.03.2013	n/a
D B Stirling	2009 Deferred Bonus	9,173	–	–	–	–	**9,173**	nil	11.03.2013	n/a
C G Hurst	LTIP	54,090	–	–	–	–	**54,090**	nil	19.03.2013	n/a
D B Stirling	LTIP	77,424	–	–	–	–	**77,424**	nil	19.03.2013	n/a
C G Hurst	LTIP	–	40,717	–	–	–	**40,717**	nil	31.03.2014	n/a
D B Stirling	LTIP	–	58,632	–	–	–	**58,632**	nil	31.03.2014	n/a
C G Hurst	2010 Deferred Bonus	–	4,967	–	–	–	**4,967**	nil	31.03.2014	n/a
D B Stirling	2010 Deferred Bonus	–	7,153	–	–	–	**7,153**	nil	31.03.2014	n/a

Executive Share Option Scheme ('Executive SOS')

These options were granted under the Zotefoams Executive Share Option Scheme. This scheme was replaced by LTIP awards in 2007.

There were no options awarded under the Executive SOS in 2011 and there have been no changes in options granted between the end of the year and the date of this report.

The middle market quoted share price at 31 December 2011 was 114p and the high and low prices during the year were 158p and 110p respectively.

Long-term Incentive Plans ('LTIP')

The LTIP awards made are subject to performance and service conditions. 50% of the award is subject to growth in Total Shareholder Return ('TSR') and 50% subject to EPS growth. Performance is measured over a three year period and the proportion of restricted shares will be released to the participant, to the extent to which TSR and EPS targets over the period have been met.

In 2011 an award of 50% of salary was made with the following TSR and EPS criteria:

	Threshold		Maximum	
	Performance target	% of award vesting	Performance target	% of award vesting
TSR goal	10% pa growth	12.5	20% pa growth	50
EPS goal	10.0p	12.5	15.0p	50

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

The market value of the 2011 LTIP shares granted was 153.5p on the date of the grant.

The LTIP awards made in March 2009 are subject to TSR and EPS thresholds for the year ended 31 December 2011. Based on the performance of the Company as at 31 December 2011 and the average share price in the final quarter of 2011, 88.7% of the shares will vest under this award.

HMRC Approved Share Option Scheme ('HMRC SOS')

These options have been granted under a HMRC Approved Share Option Scheme. These options are not exercisable unless EPS increases over a three year period by at least three percentage points pa in excess of the increase in the Retail Price Index over the same period.

Annual bonus deferred payments

Bonus awards over 40% of salary are in restricted shares which will normally only be capable of release if the executive is still employed by the Company three years later. In 2011 the bonus award under the executive bonus scheme was 33.3% all of which will be paid in cash. Profit before tax and exceptional items increased by 16% in 2011.

Directors' pension entitlements

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

The following serving Directors were members of the Zotefoams Pension Scheme during the year.

	Accrued pension in scheme at year end[1] £	Gross increase in pension £	Increase in accrued pension net of CPI inflation £	Value of accrued pension at year end[2] £	Value of accrued pension at start of year[3] £
C G Hurst	8,945	312	–	123,557	90,116
D B Stirling	17,576	614	–	220,520	159,973

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 Scheme was closed to future accrual) and excluding any future increases under the Rules of the Scheme.
2 Transfer values have been calculated in accordance with Section 93A of the Pension Schemes Act 1993 and have been calculated in accordance with the Occupational Pension Schemes (Transfer Value) Regulations 1996 on the basis agreed with the Trustees of the Scheme.
3 The change in the transfer value over the year includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors, such as changes in financial conditions.

Directors' Remuneration Report continued

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

a) Before the Scheme closed, members of the Scheme 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 date 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 surrendered for cash at retirement.
d) Members' Guaranteed Minimum Pensions increase at statutory rates. Pensions increase at 5% per annum or the increase in the Retail Price Index if less.
e) From 1 January 2006, active employees were able to pay contributions to a defined contribution scheme set up by the Company in order to receive retirement benefits. The Company also contributes to this arrangement. Details of this arrangement and the value of any contributions paid to this arrangement are not included in the above disclosures.

The Executive Directors are members of the Zotefoams Defined Contribution Alternative Pension Plan. Under a salary sacrifice agreement all contributions to this pension plan are paid by the Company and the contributions made by the Company in 2011 are shown in the table of Directors' Emoluments.

Approval
The report was approved by the Board of Directors on 5 March 2012 and signed on its behalf by:

R J Clowes
Non-executive Director and Chairman of the Remuneration Committee

Company number: 2714645

Audit Committee Report

Summary of the role of the Audit Committee
The Audit Committee is appointed by the Board from the independent non-executive Directors of the Company. The Audit Committee's terms of reference include all matters indicated by the Disclosure and Transparency Rule 7.1 and the Combined Code. The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval.

The Audit Committee is responsible for:
- 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 auditor's management letter and management responses;
- 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');
- assessing the need for an internal audit function and when used monitoring and reviewing its effectiveness;
- making recommendations to the Board, for a resolution to be put to the shareholders for their approval in general meeting, in relation to the appointment of the external auditor and the approval of the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- developing and implementing a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

The Audit Committee is required to report its findings to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and make recommendations as to the steps to be taken.

Composition of the Audit Committee
The members of the Audit Committee in 2011 were the independent non-executive Directors of the Company, R H Lawson and R J Clowes throughout the year and M-L Clayton and A Walker from 1 July 2011 onwards. R H Lawson was Chairman of the Committee until 6 December 2011 when he was replaced as Chair by M-L Clayton. R H Lawson is a Fellow of the Institute of Chartered Accountants in England and Wales and M-L Clayton is a Fellow of the Association of Chartered Certified Accountants. For the period from 4 December until his retirement on 31 March 2012 R H Lawson will have served over nine years on the Board and therefore is not independent under the provisions of the UK Corporate Governance Code. However the Board believes, that his continuity over this brief period will enable a smooth succession between himself and M-L Clayton.

The Committee normally comprises three members, with a minimum of two members at any time. Two members constitute a quorum.

The Audit Committee structure requires the inclusion of one financially qualified member with relevant financial experience. Currently both M-L Clayton and R H Lawson fulfil this requirement. All Audit Committee members are expected to be financially literate. The Company provides training if required.

Meetings
The Audit Committee is required to meet at least twice per year and has an agenda linked to events in the Company's financial calendar. The agenda is predominantly based around these events and is therefore approved by the Audit Committee Chair on behalf of the other members. Each Audit Committee member has the right to require reports on matters of interest in addition to standard agenda items.

The Audit Committee invites the Company Chairman, Managing Director, Finance Director, Financial Controller and senior representatives of the external and internal auditors to attend relevant meetings, although it reserves the right to request any of these individuals to withdraw. For part of a meeting each year it meets with senior representatives of the external auditor without anyone else being present. Other senior management may be invited to present such reports as are required for the Committee to discharge its duties.

Overview of the actions taken by the Audit Committee to discharge its duties
Since the beginning of 2011 the Audit Committee has:
- reviewed the financial statements in the 2010 and 2011 report and accounts and the interim report issued in August 2011. As part of this review the Committee received reports from the external auditor on the audit of the annual reports and accounts and the review of the interim report;
- considered the output from the Group-wide process used to identify, evaluate and mitigate high level business risks;
- undertaken an assessment of the need for an internal audit function; and
- following this assessment appointed an internal auditor and agreed a programme of work for 2011;
- received reports from the internal auditor on the work it had undertaken and management responses to proposals made in the internal audit report;
- reviewed the effectiveness of the Group's internal controls (including, but not limited to, financial controls) and disclosures made in the annual report on this matter;

Audit Committee Report continued

- reviewed and agreed the scope of the audit work to be undertaken by the external auditor;
- considered the views of the external auditor on the effectiveness of the Group's internal financial controls;
- agreed the fees to be paid to the external auditor for their audit and work on the accounts and interim report;
- undertaken an evaluation of the independence and effectiveness of the external auditor; and
- reviewed its own effectiveness.

External auditor
The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. Although the external auditor is allowed to provide non-audit services the Committee monitors the extent of these services to ensure that they do not compromise the auditor's objectivity. It also assesses the effectiveness of the external auditor in relation to their fulfilment of the agreed audit plan, the robustness and perceptiveness of the auditor in handling key accounting and audit judgements and the thoroughness of the auditor's review of internal financial controls. As a consequence of its satisfaction with the results of these activities the Audit Committee has recommended to the Board that the external auditor should be reappointed.

Emerging best practice is to review the selection of the external auditor by a tender process on a regular basis. The Audit Committee therefore intends to do this after the 2012 AGM.

Internal audit function
The Audit Committee reviewed the need for an internal audit function. Although it concluded that given the size of the Group the creation of a separate internal audit function was not necessary it did appoint an external accountancy firm, Mazars, to carry out an internal audit review of some of the Company's and subsidiaries' financial controls in 2011. Mazars carries out no other work for the Group and the Audit Committee considers them independent.

The Audit Committee agreed with Mazars their terms of reference, reporting lines and their planned activity. It then reviewed the outcome of this work with Mazars and the findings and proposals made with management.

Overview
As a result of its 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 auditor. The Chair of the Audit Committee will be available at the AGM to answer any questions about the work of the Committee.

Approval
This report was approved by the Audit Committee and signed on its behalf by:

M-L Clayton
Non-executive Director and Chair of the Audit Committee

5 March 2012

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 page 37.

Safety, Health and Environment ('SHE')
The Board has separate policies in place relating to SHE. In line with best practice, the Company is certified to accredited standards OHSAS 18001 on Health and Safety and ISO 14001, the International Standard for Environmental Management Systems.

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

In 2011 the Managing Director was directly responsible to the Board for SHE performance. Site Committees meet at least quarterly to consider all SHE matters and Steering Committees, chaired by the Managing Director (or appropriate responsible person in subsidiary companies), meet quarterly to consider overall performance and the impact of current and impending legislation. A Health and Safety Adviser and an Environmental Adviser support these groups.

Senior managers are responsible for ensuring that SHE policies are implemented in their departments, all employees are informed of the departmental requirements and training on environmental issues and safe working practices takes place. Regular audits are conducted to ensure policy and procedure implementation is appropriate. All employees are made aware that primary responsibility for safety lies with the employee.

We take reporting of all incidents very seriously, including 'near misses' and plant or equipment damage not resulting in personal injury. All events are investigated by appropriate levels of management to establish root cause and to eliminate reoccurrence wherever possible. There were no prosecutions, fines or enforcement action taken as a result of non-compliance with safety, health or environmental legislation in the year (2010: none).

Health and safety performance
The operational environment at Zotefoams contains few controlled substances and our manufacturing plant involves mainly manual handling and materials processing. The risks to our process are assessed whenever new or altered equipment or materials are introduced and at regular periods thereafter. The most strictly controlled parts of our sites are where high pressure gas is used.

Operating vessels at high pressures, Zotefoams is subject to the Pressure Systems Safety Regulations 2000 in the UK and OSHA in the US. Tightly defined procedures and operational controls are in place to manage the safety of our pressure systems. Fail-safe mechanisms known as Pressure Relief Valves ('PRVs') and bursting disks (which are the equivalent of fuses in an electrical system) are designed and installed into our pressure systems. Failure of a PRV or bursting disk leads to depressurisation of sections of our system releasing nitrogen gas into the atmosphere and mitigating any further risks.

In 2011 there were eight reportable lost time injuries in the Group. These were six manual handling, one slip and one cut injury. All have been fully investigated and appropriate corrective actions are being taken.

Year	**2011**	2010	2009
Reportable lost time injuries	**8**	5	2

Environmental performance
The Board considers the processes used by Zotefoams to be among the most, if not the most, environmentally friendly way to manufacture cross-linked polymer foams. Our process uses pure nitrogen gas to expand the foams. The common peroxide cross-linking agent, which enhances foam properties, is completely utilised during processing and, importantly, no other chemical additives are present in our basic foam products. The result is that our basic foam products have no toxic or volatile chemicals (such as solid chemical residues, CFC, HCFC or volatile hydrocarbons) remaining in the material structure. Such substances are present in competitive products.

During 2011 the Group had 13 internally recorded environmental incidents (2010: 15). Six of these were noise or other complaints (2010: 5). All were investigated and actions taken. Four were minor chemical or oil spills (2010: 5) which were dealt with appropriately and had no significant environmental impact. Three were releases of nitrogen gas into the air from bursting disks which are an essential part of our statutory equipment safety regime (2010: 5). While Zotefoams records this as an environmental incident principally on the grounds of utility loss and noise, we consider that the safety of our plant is of primary importance and regard these incidents as evidence that our safety processes are functioning as designed.

Corporate Social Responsibility Report continued

The vast majority of all waste produced by Zotefoams plc is either solid or foamed polyolefin. Neither are easily melt-processed (the major recycling route for most plastics) due to our essential step of cross-linking our polymers during manufacture.

In 2011 the waste sent to landfill for our main site in Croydon was 757 tonnes, higher than 2010 (687 tonnes) reflecting both higher production volumes, increased scrap linked to raw material changes and the impact of our site-wide clean-up under our lean manufacturing initiative.

We continue to improve our monitoring and measurement of water consumption.

Energy consumption is monitored and reviewed regularly. There are continuing efforts across the site to improve energy efficiency and in 2011 we improved our energy consumption per kg produced by 6%. In October 2009 Zotefoams entered into a Climate Change Levy ('CCL') agreement. This involves the Company meeting specific targets to reduce energy consumption. Providing Zotefoams 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.

Croydon site: Year	**2011**	2010	2009
Internally recorded environmental incidents	**13**	15	13
Waste sent to landfill (tonnes)	**757**	687	432
Water consumption (000s m^3)	**38**	48	57
Energy consumption (Kwhr/kg)	**11.7**	12.5	13.8

Employees

Zotefoams regards its workforce as a key part of the business. It operates an equal opportunities policy and believes that a wide array of diversity (in ethnicity, age, gender, language, sexual orientation, religion, socio-economic status, personality and ability) promotes innovation and business success. Applications for employment by disabled persons are always fully considered. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group 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 employees and continues to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Business ethics

Zotefoams is committed to high standards of business conduct and seeks to maintain these standards across all of its operations throughout the world. Guidance on business ethics is included in the employee handbook and incorporated into an induction process which employees complete. Anti-bribery, anti-trust (anti non-competitive trading practices) and whistleblowing (for the reporting of possible improprieties) policies are also included in the employee handbook.

Corporate Governance

The Company is committed to the principles of corporate governance contained in the UK Corporate Governance Code (the 'Code') for which the Board is accountable to shareholders. The Code is available from the Financial Reporting Council's website (www.frc.org.uk).

Statement of compliance with the UK Corporate Governance Code
Throughout the year ended 31 December 2011 the Company has been in compliance with the provisions set out in the Code apart from paragraph B1.1 due to R H Lawson, a non-executive Director, having completed his nine year term of office on 3 December 2011. He will remain on the Board until 31 March 2012 in order to ensure a smooth succession and in this brief period he will be considered by the Code not to be independent.

Statement about applying the principles of the Code
The Company has applied the principles set out in the Code, including both the main principles and the supporting principles, by complying with the Code as reported above. Further explanation of how the principles and supporting principles have been applied is set out below and in the Directors' Remuneration Report and the Audit Committee Report.

Board effectiveness
The Board's role is to provide the entrepreneurial leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board sets the strategic aims of the Company, ensures that the necessary resources are in place to achieve the Company's objectives and reviews management performance. The Board's role is to act as representative of the shareholders, who are the Company's owners, and focuses on the governance of the Company. 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 Company.

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 major 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 Company's website www.zotefoams.com and in paper form, on request, from the Registered Office of the Company.

Attendance details for 2011 by the Directors for meetings of the Board and these Committees are shown below:

Attendance at meetings	Formal Board meetings		Audit Committee meetings		Remuneration Committee meetings		Nominations Committee meetings	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
M-L Clayton	4	4	1	1	1	1	1	1
R J Clowes	7	7	2	2	3	3	3	3
N G Howard	7	7	n/a	n/a	3	3	3	3
C G Hurst	7	7	n/a	n/a	n/a	n/a	n/a	n/a
R H Lawson	7	7	2	2	3	3	3	3
D B Stirling	7	7	n/a	n/a	n/a	n/a	n/a	n/a
A Walker	4	4	1	1	1	1	1	1

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

Corporate Governance continued

Board balance and independence
Upon the retirement of R H Lawson, who has completed nine years in office, in March 2012, the Board structure will comprise, in addition to Executive Directors, three independent non-executive Directors and a non-executive Chairman. The Board appointed two independent non-executive Directors, M-L Clayton and A Walker, in July 2011.

The Chairman, N G Howard, is also Chairman of the Nominations Committee and a member of the Remuneration Committee. N G Howard was independent on his appointment as Chairman. 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 without the executive Directors present and the non-executive Directors met without the Chairman being present.

Appointments to the Board
Appointments to the Board are proposed by the Nominations Committee and approved by the Board. The Nominations Committee comprises the Chairman N G Howard (who is Chairman of the Nominations Committee) and the independent non-executive Directors. N G Howard was independent on his appointment as Chairman.

The Nominations Committee operates within a defined set of terms of reference from the Board and is responsible for managing the recruitment of new Board members within a specification set by 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. Search consultants are briefed of these criteria and are encouraged to cast their search sufficiently wide to identify the best candidates. Care is taken to ensure that appointees have enough time to devote to the role. In 2011 the Nominations Committee oversaw the selection and appointment of the two new independent non-executive Directors.

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 available subsequently in order to fulfil the requirements of being a Director of a listed company. All the Directors have access to the Company Secretary and independent professional advice at the Company's expense if required for the furtherance of their duties.

Board evaluation
A formal review of Board and Committee performance is carried out annually. The Chairman's performance is reviewed by 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. Executive Directors' performance is evaluated by the Remuneration Committee in conjunction with the Managing Director (except in the case of the Managing Director, when the Managing Director is not present).

The evaluation of the Board 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. From the 2011 evaluation, the Board had identified benefits from segregating the role of the Finance Director and Company Secretary. All the evaluations were completed satisfactorily.

Re-election
Re-election of Board members is required by the Articles at the first AGM following appointment and at least every three years thereafter. However the UK Corporate Governance Code requires all Directors of FTSE 350 companies to stand for annual re-election. Although the Company is not within the FTSE 350, emerging best practice for listed companies is for all Directors to stand for annual re-election. Accordingly the Board has decided for this year that all the Directors will stand for annual re-election.

Remuneration
The principles and details of remuneration policy are set out in the Directors' Remuneration Report.

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 auditor.

Going concern
The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 14 to 19. This also describes the financial position of the Company, its cash flows and liquidity position. In addition, note 21 to the financial statements includes the Company'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 Company is well placed to manage its business risks.

The Directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Relations with shareholders
The Company is always ready, where practicable, to enter into a dialogue with shareholders to promote mutual understanding of objectives. Meetings with institutional shareholders are held twice a year following announcement of the Group's interim and final results. Other meetings may be held at institutional shareholder request. To ensure that the Board, particularly the non-executive Directors, understand the views of major shareholders, the Company's corporate brokers provided a summary of feedback from the meetings following the interim and final results announcements. The Chairman is available to meet institutional shareholders. On 5 March 2012 R J Clowes replaced R H Lawson as Senior Independent Director and he and other non-executive Directors will attend meetings with major shareholders if requested.

The Board considers the Annual Report and financial statements and AGM to be the primary vehicles for communication with private investors. The Chairs of the Audit and Remuneration Committee will normally be present to speak at the AGM. The corporate website www.zotefoams.com contains information on the Company.

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 revised guidance on internal control published in October 2005 (the Turnbull Guidance). 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. 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 Audit Committee assists the Board in discharging its review responsibilities.

During the course of its review of the system of internal control, 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 including control breakdowns, disruption in information systems or the Company's commercial supply chain, competition, natural catastrophe and regulatory requirements.

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, and forecasts are presented to the Board quarterly.

Corporate Governance continued

Through these mechanisms, Group performance 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, 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 Group operations 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 meets at least twice a year and, within its remit, reviews the effectiveness of the Group's system of internal financial controls. The Committee receives reports from external auditors, internal auditors and management.

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

Statement of Directors' Responsibilities in respect of the Annual Report

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

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 Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report includes a fair review of the development and performance of the business and position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors of Zotefoams plc are detailed on pages 20 to 21.

By order of the Board

C G Hurst
Finance Director

Independent Auditor's Report
to the members of Zotefoams plc

We have audited the financial statements of Zotefoams plc for the year ended 31 December set out on pages 41 to 84. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 39, 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 International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements
In our opinion:
- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the company.

Under the Listing Rules we are required to review:
- the directors' statement, set out on page 39, in relation to going concern;
- the part of the Corporate Governance Statement on pages 35 to 38 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review and
- certain elements of the report to shareholders by the Board on directors' remuneration.

D A Bowen (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Crawley
5 March 2012

Consolidated Income Statement
for the year ended 31 December 2011

	Note	**2011 £000**	Pre-exceptional items 2010 £000	Exceptional items restated (see notes 4 and 12) 2010 £000	Total restated (see notes 4 and 12) 2010 £000
Revenue	2	**44,208**	39,879	–	39,879
Cost of sales		**(31,624)**	(28,430)	–	(28,430)
Gross profit		**12,584**	11,449	–	11,449
Distribution costs		**(3,114)**	(3,220)	–	(3,220)
Administrative expenses		**(3,880)**	(3,403)	–	(3,403)
Operating profit		**5,590**	4,826	–	4,826
Financial income	6	**1,135**	1,116	–	1,116
Finance costs	6	**(1,260)**	(1,329)	–	(1,329)
Deemed disposal of associate interest		**–**	–	623	623
Share of profit from associate		**–**	88	–	88
Profit before tax		**5,465**	4,701	623	5,324
Taxation	7	**(911)**	(995)	–	(995)
Profit for the year	3	**4,554**	3,706	623	4,329
Attributable to:					
Equity holders of the Parent		**4,497**	3,729	623	4,352
Non-controlling interest		**57**	(23)	–	(23)
		4,554	3,706	623	4,329
Earnings per share Basic (p)	8	**11.8**			11.8
Diluted (p)	8	**11.5**			11.5

Notes on pages 51 to 84 form part of these financial statements.

Company number: 2714645

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2011

	2011 £000	Restated (see notes 4 and 12) 2010 £000
Profit for the year	**4,554**	4,329
Other comprehensive income		
Foreign exchange translation differences on investment in foreign subsidiary/associate	**(10)**	(402)
Effective portion of changes in fair value of cash flow hedges net of recycling	**18**	(33)
Actuarial (losses)/gains on defined benefit schemes	**(1,705)**	308
Effect of revaluation of defined benefit scheme under CPI	**1,140**	–
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling	**(4)**	9
Tax relating to actuarial (losses)/gains on defined benefit schemes	**426**	(86)
Tax relating to effect of revaluation of defined benefit scheme under CPI	**(285)**	–
Other comprehensive income/(expenditure) for the period, net of tax	**(420)**	(204)
Total comprehensive income for the year	**4,134**	4,125
Attributable to:		
Equity holders of the Parent	**4,018**	4,369
Non-controlling interest	**116**	(244)
Total comprehensive income for the year	**4,134**	4,125

Notes on pages 51 to 84 form part of these financial statements.

Consolidated Statement of Financial Position
as at 31 December 2011

	Note	2011 £000	Restated (see notes 4 and 12) 2010 £000
Non-current assets			
Property, plant and equipment	10	**25,433**	25,597
Intangible assets	11	**5,729**	5,585
Deferred tax assets	19	**490**	352
Total non-current assets		**31,652**	31,534
Current assets			
Inventories	14	**5,927**	4,134
Trade and other receivables	15	**10,533**	9,463
Cash and cash equivalents	16	**3,403**	4,716
Total current assets		**19,863**	18,313
Total assets		**51,515**	49,847
Current liabilities			
Interest-bearing loans and borrowings	18	**(660)**	(660)
Bank overdraft	16	**–**	(711)
Tax payable		**(787)**	(709)
Trade and other payables	17	**(7,887)**	(4,989)
Total current liabilities		**(9,334)**	(7,069)
Non-current liabilities			
Interest-bearing loans and borrowings	18	**(820)**	(1,488)
Employee benefits	23	**(4,944)**	(4,959)
Deferred tax liabilities	19	**(1,165)**	(1,317)
Total non-current liabilities		**(6,929)**	(7,764)
Total liabilities		**(16,263)**	(14,833)
Total net assets		**35,252**	35,014
Equity			
Issued share capital	20	**1,992**	1,915
Own shares held		**(58)**	(69)
Share premium		**16,090**	13,941
Capital redemption reserve		**15**	15
Translation reserve		**790**	859
Hedging reserve		**(51)**	(69)
Retained earnings		**16,474**	14,155
Total equity attributable to the equity holders of the Parent		**35,252**	30,747
Non-controlling interest		**–**	4,267
Total equity		**35,252**	35,014

Notes on pages 51 to 84 form part of these financial statements.

These financial statements were approved by the Board of Directors on 5 March 2012 and signed on its behalf by:

C G Hurst
Finance Director

Company number: 2714645

Company Statement of Financial Position
as at 31 December 2011

	Note	2011 £000	2010 £000
Non-current assets			
Property, plant and equipment	10	**21,098**	21,023
Intangible assets	11	**–**	25
Investment in subsidiaries	12	**6,352**	8,015
Total non-current assets		**27,450**	29,063
Current assets			
Inventories	14	**4,713**	3,172
Trade and other receivables	15	**11,479**	8,989
Cash and cash equivalents	16	**1,611**	3,998
Total current assets		**17,803**	16,159
Total assets		**45,253**	45,222
Current liabilities			
Interest-bearing loans and borrowings	18	**(982)**	(4,035)
Bank overdraft	16	**–**	(711)
Tax payable		**(782)**	(696)
Trade and other payables	17	**(5,141)**	(4,559)
Total current liabilities		**(6,905)**	(10,001)
Non-current liabilities			
Interest-bearing loans and borrowings	18	**(820)**	(1,488)
Employee benefits	23	**(4,944)**	(4,959)
Deferred tax liabilities	19	**(1,165)**	(1,317)
Total non-current liabilities		**(6,929)**	(7,764)
Total liabilities		**(13,834)**	(17,765)
Total net assets		**31,419**	27,457
Equity			
Issued share capital	20	**1,992**	1,915
Own shares held		**(58)**	(69)
Share premium		**16,090**	13,941
Capital redemption reserve		**15**	15
Hedging reserve		**(51)**	(69)
Retained earnings		**13,431**	11,724
Total equity attributable to the equity holders of the Company		**31,419**	27,457

Notes on pages 51 to 84 form part of these financial statements.

These financial statements were approved by the Board of Directors on 5 March 2012 and signed on its behalf by:

C G Hurst
Finance Director

Company number: 2714645

Consolidated Statement of Cash Flows
for the year ended 31 December 2011

	Note	2011 £000	Restated (see notes 4 and 12) 2010 £000
Cash flows from operating activities			
Profit for the year		**4,554**	4,329
Adjustments for:			
Depreciation, amortisation and impairment		**3,213**	3,260
Gain on deemed sale of interest in MuCell Extrusion LLC		**—**	(623)
Loss on sale of plant and equipment		**—**	10
Financial income		**(1,135)**	(1,116)
Finance costs		**1,260**	1,329
Share of income from associate		**—**	(88)
Equity-settled share-based payments		**125**	170
Taxation		**911**	995
Operating profit before changes in working capital and provisions		**8,928**	8,266
Increase in trade and other receivables		**(1,040)**	(1,314)
(Increase)/decrease in inventories		**(1,778)**	312
Increase in trade and other payables		**634**	622
Employee benefit contributions		**(660)**	(660)
Cash generated from operations		**6,084**	7,226
Interest paid		**(52)**	(83)
Tax paid		**(1,053)**	(986)
Net cash from operating activities		**4,979**	6,157
Interest received		**5**	16
Acquisition of MuCell		**(2,179)**	—
Acquisition of MuCell patents		**(311)**	—
Cash deemed to have been acquired		**—**	332
Proceeds from disposal of plant and equipment		**—**	12
Acquisition of property, plant and equipment		**(2,744)**	(2,668)
Distribution from associate		**—**	82
Net cash used in investing activities		**(5,229)**	(2,226)
Proceeds from issue of share capital		**2,376**	430
Repurchase of own shares		**(114)**	(334)
Repayment of borrowings		**(660)**	(660)
Distribution by subsidiary to non-controlling interest		**(25)**	(134)
Dividends paid		**(1,835)**	(1,653)
Net cash used in financing activities		**(258)**	(2,351)
Net (decrease)/increase in cash and cash equivalents		**(508)**	1,580
Cash and cash equivalents at 1 January		**4,005**	2,364
Effect of exchange rate fluctuations on cash held		**(94)**	61
Cash and cash equivalents at 31 December	16	**3,403**	4,005

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

Notes on pages 51 to 84 form part of these financial statements.

Company Statement of Cash Flows
for the year ended 31 December 2011

	Note	2011 £000	2010 £000
Cash flows from operating activities			
Profit for the year		**3,885**	3,274
Adjustments for:			
Depreciation, amortisation and impairment		**2,482**	2,648
Foreign exchange losses/(gains)		**105**	(125)
Loss on sale of plant and equipment		**–**	10
Financial income		**(1,163)**	(1,199)
Finance costs		**1,285**	1,385
Equity-settled share-based payments		**125**	170
Taxation		**1,012**	1,069
Operating profit before changes in working capital and provisions		**7,731**	7,232
Increase in trade and other receivables		**(2,480)**	(1,056)
(Increase)/decrease in inventories		**(1,541)**	383
Increase in trade and other payables		**562**	570
Employee benefit contributions		**(660)**	(660)
Cash generated from operations		**3,612**	6,469
Interest paid		**(77)**	(139)
Tax paid		**(1,008)**	(970)
Net cash flow from operating activities		**2,527**	5,360
Interest received		**33**	99
Investment in subsidiary		**(2,489)**	–
Repayment of intercompany loan		**4,058**	–
Proceeds from disposal of plant and equipment		**–**	11
Acquisition of property, plant and equipment		**(2,524)**	(2,610)
Net cash used in investing activities		**(922)**	(2,500)
Proceeds from issue of share capital		**2,376**	430
Purchase of own shares		**(114)**	(334)
Intercompany loan paid		**(3,291)**	–
Intercompany loan received		**322**	527
Repayment of borrowings		**(660)**	(660)
Dividends paid		**(1,835)**	(1,653)
Net cash used in financing activities		**(3,202)**	(1,690)
Net (decrease)/increase in cash and cash equivalents		**(1,597)**	1,170
Cash and cash equivalents at 1 January		**3,287**	2,107
Effect of exchange fluctuations on cash held		**(79)**	10
Cash and cash equivalents at 31 December	16	**1,611**	3,287

Notes on pages 51 to 84 form part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2011

	Note	Share capital £000	Own shares held £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Hedging reserve £000	Retained earnings £000	Attributable to owners of the Parent £000	Non-controlling interest £000	Total equity £000
Balance at 1 January 2010		1,915	(95)	13,941	15	1,040	(36)	10,902	27,682	–	27,682
Profit for year		–	–	–	–	–	–	4,827	4,827	(23)	4,804
Other comprehensive income:											
Foreign exchange translation differences on investment in foreign subsidiary/associate		–	–	–	–	(181)	–	–	(181)	(221)	(402)
Effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	–	(33)	–	(33)	–	(33)
Actuarial gains on defined benefit scheme		–	–	–	–	–	–	308	308	–	308
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	–	–	9	9	–	9
Tax relating to actuarial gains on defined benefit scheme		–	–	–	–	–	–	(86)	(86)	–	(86)
Total other comprehensive (expenditure)/income		–	–	–	–	(181)	(33)	231	17	(221)	(204)
Total comprehensive (expenditure)/income for the year		–	–	–	–	(181)	(33)	5,058	4,844	(244)	4,600
Transactions with owners of the Parent											
Non-controlling interest on deemed acquisition		–	–	–	–	–	–	–	–	5,753	5,753
Shares issued/options exercised		–	39	–	–	–	–	391	430	–	430
Shares acquired		–	(13)	–	–	–	–	(321)	(334)	–	(334)
Equity-settled share-based payment transactions net of tax		–	–	–	–	–	–	253	253	–	253
Dividends	8	–	–	–	–	–	–	(1,653)	(1,653)	(134)	(1,787)
Total transactions with owners of the Parent		–	26	–	–	–	–	(1,330)	(1,304)	5,619	4,315
Balance at 31 December 2010 – as originally reported		1,915	(69)	13,941	15	859	(69)	14,630	31,222	5,375	36,597

Consolidated Statement of Changes in Equity continued

	Note	Share capital £000	Own shares held £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Hedging reserve £000	Retained earnings £000	Attributable to owners of the Parent £000	Non-controlling interest £000	Total equity £000
Restatement (see notes 4 and 12)		–	–	–	–	–	–	(475)	(475)	(1,108)	(1,583)
Balance at 31 December 2010 and 1 January 2011 restated		1,915	(69)	13,941	15	859	(69)	14,155	30,747	4,267	35,014
Profit for year		–	–	–	–	–	–	4,497	4,497	57	4,554
Other comprehensive income:											
Foreign exchange translation differences on investment in foreign subsidiary/associate		–	–	–	–	(69)	–	–	(69)	59	(10)
Effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	–	18	–	18	–	18
Actuarial losses on defined benefit scheme		–	–	–	–	–	–	(1,705)	(1,705)	–	(1,705)
Effect of revaluation of defined benefit scheme under CPI		–	–	–	–	–	–	1,140	1,140	–	1,140
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	–	–	(4)	(4)	–	(4)
Tax relating to actuarial losses on defined benefit scheme		–	–	–	–	–	–	426	426	–	426
Tax relating to effect of revaluation of defined benefit scheme under CPI		–	–	–	–	–	–	(285)	(285)	–	(285)
Total other comprehensive (expenditure)/income		–	–	–	–	(69)	18	(428)	(479)	59	(420)
Total comprehensive (expenditure)/ income for the year		–	–	–	–	(69)	18	4,069	4,018	116	4,134

	Note	Share capital £000	Own shares held £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Hedging reserve £000	Retained earnings £000	Attributable to owners of the Parent £000	Non-controlling interest £000	Total equity £000
Transactions with owners of the Parent											
Shares issued/options exercised		77	15	2,149	–	–	–	135	2,376	–	2,376
Shares acquired		–	(4)	–	–	–	–	(110)	(114)	–	(114)
Equity-settled share-based payment transactions net of tax		–	–	–	–	–	–	60	60	–	60
Acquisition of non-controlling interest		–	–	–	–	–	–	–	–	(4,358)	(4,358)
Dividends	8	–	–	–	–	–	–	(1,835)	(1,835)	(25)	(1,860)
Total transactions with owners of the Parent		77	11	2,149	–	–	–	(1,750)	487	(4,383)	(3,896)
Balance at 31 December 2011		**1,992**	**(58)**	**16,090**	**15**	**790**	**(51)**	**16,474**	**35,252**	**–**	**35,252**

The aggregate current and deferred tax relating to items that are credited to equity is £70,000 (2010: a credit of £10,000).

Company Statement of Changes in Equity
for the year ended 31 December 2011

	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 at 1 January 2010		1,915	(95)	13,941	15	(36)	9,549	25,289
Profit for year		–	–	–	–	–	3,274	3,274
Other comprehensive income:								
Effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	(33)	–	(33)
Actuarial gains on defined benefit scheme		–	–	–	–	–	308	308
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	–	9	9
Tax relating to actuarial gains on defined benefit scheme		–	–	–	–	–	(86)	(86)
Total other comprehensive (expenditure)/income		–	–	–	–	(33)	231	198
Total comprehensive (expenditure)/income for the year		–	–	–	–	(33)	3,505	3,472
Transactions with owners of the Parent								
Shares issued/options exercised		–	39	–	–	–	391	430
Shares acquired		–	(13)	–	–	–	(321)	(334)
Equity-settled share-based payment transactions net of tax		–	–	–	–	–	253	253
Dividends	8	–	–	–	–	–	(1,653)	(1,653)
Total transactions with owners of the Parent		–	26	–	–	–	(1,330)	(1,304)
Balance at 31 December 2010		1,915	(69)	13,941	15	(69)	11,724	27,457
Balance at 1 January 2011		1,915	(69)	13,941	15	(69)	11,724	27,457
Profit for year		–	–	–	–	–	3,885	3,885
Other comprehensive income:								
Effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	18	–	18
Actuarial losses on defined benefit scheme		–	–	–	–	–	(1,705)	(1,705)
Effect of revaluation of defined benefit scheme under CPI		–	–	–	–	–	1,140	1,140
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	–	(4)	(4)
Tax relating to actuarial losses on defined benefit scheme		–	–	–	–	–	426	426
Tax relating to effect of revaluation of defined benefit scheme under CPI		–	–	–	–	–	(285)	(285)
Total other comprehensive income/(expenditure)		–	–	–	–	18	(428)	(410)
Total comprehensive income for the year		–	–	–	–	18	3,457	3,475
Transactions with owners of the Parent								
Shares issued/options exercised		77	15	2,149	–	–	135	2,376
Shares acquired		–	(4)	–	–	–	(110)	(114)
Equity-settled share-based payment transactions net of tax		–	–	–	–	–	60	60
Dividends	8	–	–	–	–	–	(1,835)	(1,835)
Total transactions with owners of the Parent		77	11	2,149	–	–	(1,750)	487
Balance at 31 December 2011		**1,992**	**(58)**	**16,090**	**15**	**(51)**	**13,431**	**31,419**

The aggregate current and deferred tax relating to items that are credited to equity is £70,000 (2010: a credit of £10,000).

Notes

1. Accounting policies

Zotefoams plc (the 'Company') is a Company incorporated in Great Britain.

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

Both Parent Company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRS').

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 and related notes that form part of these approved financial statements.

These financial statements were approved by the Board on 5 March 2012.

Judgements made by the Directors, in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year, are discussed in note 26.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 14–19. This also describes the financial position of the Company, its cash flows and liquidity position. In addition, note 21 to the financial statements includes the Company'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 Company is well placed to manage its business risks.

The Directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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. The positioning of Current liabilities and Non-current liabilities has been amended to reflect the presentation of the Group's interim accounts and the intention to present this information in this format in the future.

a) Measurement convention

The financial statements are prepared on the historical cost basis with the following exceptions:

- 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) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total recognised income and expense and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence (or joint control) ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

iii) 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 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.

Notes continued

1. Accounting policies continued

iv) 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 remeasured 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 remeasured 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 is 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.

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.

Prior to the adoption of IAS27 (2008), goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

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 balance sheet 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 balance sheet 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 this translation of foreign operations since 1 January 2004 are taken directly to translation reserve. They are released into the Income Statement upon disposal.

1. Accounting policies continued

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 remeasurement 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 balance sheet 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 equity. 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 equity 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.

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) Leased assets

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Lease payments are accounted for as described in accounting policy (r).

iii) 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

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 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.

Notes continued

1. Accounting policies continued

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.

iii) 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. 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

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

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.

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 completing 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 comprises 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 (o)) and deferred tax assets (see accounting policy (t)), are reviewed at each balance sheet 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 CGU. 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.

1. Accounting policies continued
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 periods 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) Dividends
Final dividends are recognised as a liability in the period in which they are approved. Interim dividends are recognised when they are paid.

n) 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.

o) 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 balance sheet 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 the Statement of Comprehensive Income.

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. The fair value of the options granted before 2006 were measured using a Monte Carlo simulation method. 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 Employee Benefit Trust
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 trust's purchases and sales of shares in the Company are debited and credited directly to equity.

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

Notes continued

1. Accounting policies continued

q) 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 ('MEL') 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 shipment. 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.

r) 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.

s) Exceptional items

Exceptional items are those significant items which in management's judgement are highlighted by virtue of their size and/or incidence to enable a full understanding of the Group's financial performance. Such items are included within the Income Statement caption to which they relate.

t) Taxation

Tax on 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 equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, 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 balance sheet 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.

u) Adopted IFRS not yet applied

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these consolidated financial statements. Out of those standards that have been adopted by the EU none are expected to have a significant effect on the consolidated financial statements of the Group. The Group does not plan to adopt any of these standards early and the extent, if any, of their impact has not yet been determined.

v) Standards effective in the year

Improvements to IFRS (issued in May 2010) have been reflected in these financial statements for the first time. The most significant impact has been from the 'IAS1 Presentation of Financial Statements' improvement which has led to changes in the presentation of the Statement of Changes in Equity for both the Group and Parent Company.

2. Segment reporting

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

- Polyolefins: these foams are made from olefinic homopolymer and copolymer resin. The most common resin used is polyethylene.
- High-Performance Polymers ('HPP'): these foams exhibit high-performance on certain key properties, such as improved chemical, flammability or temperature performance, due to the resins on which they are based. Turnover in the segment is currently mainly derived from our ZOTEK® F foams and T-Tubes® insulation both made from PVDF fluoropolymer. Other products either commercially launched or being assessed in development include foams made from polyamide (nylon) and Pebax®. Also included in this segment is microZOTE® closed-cell roll foams. Currently developed microZOTE® products are made using polyolefin resins. However management consider the markets, products and stage of business development sufficiently different from the Azote® polyolefin business to classify this development as part of the HPP business segment at present.
- MEL: licenses microcellular foam technology and sells related machinery.

Due to our unique manufacturing technology Zotefoams can produce polyolefin foams with superior performance to other manufacturers. Our strategy is to use the capabilities of our technology to produce foams from other materials in addition to polyolefins. The development of a portfolio of foams from high-performance polymers is currently in its early stages with portfolio costs (including the technical and marketing costs to develop these materials) exceeding revenues.

There are no transactions between reportable segments apart from the sale of minor equipment and a $50,000 licence fee from MEL to microZOTE®, within our HPP segment.

	Polyolefins		HPP		MEL		Eliminations		Consolidated	
	2011 £000	2010 £000	**2011 £000**	2010 £000	**2011 £000**	2010 £000	**2011 £000**	2010 £000	**2011 £000**	2010 £000
Revenue	**40,498**	36,784	**2,413**	2,485	**1,329**	610	**(32)**	–	**44,208**	39,879
Segment profit/(loss)	**6,214**	5,285	**(707)**	(427)	**143**	(32)	**–**	–	**5,650**	4,826
Acquisition costs	**–**	–	**–**	–	**–**	–	**–**	–	**(60)**	–
Pre-exceptional operating profit	**–**	–	**–**	–	**–**	–	**–**	–	**5,590**	4,826
Exceptional items	**–**	–	**–**	–	**–**	–	**–**	–	**–**	623
Net financing costs	**–**	–	**–**	–	**–**	–	**–**	–	**(125)**	(213)
Profit from associate	**–**	–	**–**	–	**–**	88	**–**	–	**–**	88
Taxation	**–**	–	**–**	–	**–**	–	**–**	–	**(911)**	(995)
Profit for the year	**–**	–	**–**	–	**–**	–	**–**	–	**4,554**	4,329
Segment assets	**38,951**	38,580	**5,472**	4,746	**6,602**	6,169	**–**	–	**51,025**	49,495
Unallocated assets	**–**	–	**–**	–	**–**	–	**–**	–	**490**	352
Total assets									**51,515**	49,847
Segment liabilities	**(11,302)**	(12,626)	**(581)**	(111)	**(2,428)**	(70)	**–**	–	**(14,311)**	(12,807)
Unallocated liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**(1,952)**	(2,026)
Total liabilities									**(16,263)**	(14,833)
Depreciation	**2,655**	2,868	**256**	235	**26**	8	**–**	–	**2,937**	3,111
Capital expenditure	**2,364**	1,952	**264**	711	**116**	5	**–**	–	**2,744**	2,668

Notes continued

2. Segment reporting continued

Geographical segments

Polyolefins, HPP and MEL are managed on a worldwide basis but operate from UK and US locations. In presenting information on the basis of geographical segments, segmental revenue is based on the geographical location of customers. Segment assets are based on the geographical location of assets.

	United Kingdom £000	Europe £000	North America £000	Rest of the world £000	Total £000
For the year ended 31 December 2011					
Revenue from external customers	**9,185**	**21,288**	**10,886**	**2,849**	**44,208**
Non-current assets	**21,098**	**–**	**10,064**	**–**	**31,162**
Capital expenditure	**2,492**	**–**	**252**	**–**	**2,744**
For the year ended 31 December 2010					
Revenue from external customers	7,721	19,277	9,765	3,116	39,879
Non-current assets	21,048	–	10,134	–	31,182
Capital expenditure	2,572	–	96	–	2,668

Non-current assets do not include financial instruments, deferred tax assets or post-employment assets.

Major customer

Revenues from one customer of the Group represent approximately £5,843k (2010: £5,198k) of the Group's total revenues.

3. Expenses and auditors' remuneration

	2011 £000	Restated 2010 £000
Included in profit for the year are:		
Research and development costs expensed	**897**	875
Net exchange gains	**53**	77
Auditors' remuneration:		
Group – audit of these financial statements	**83**	85
– fees receivable by the auditors and their associates in respect of other services:		
– other services pursuant with legislation	**40**	30
– audit work relating to subsidiaries	**14**	9
– other services relating to taxation	**36**	15
– other services relating to acquisition of associate	**7**	4
	180	143

4. Exceptional item and restatement

The Company classified the following as an exceptional item in 2010:

Acquisition of MEL – refer to notes 12 and 13

From 2008 Zotefoams Inc. owned 30% of the ownership units of MEL and therefore accounted for this interest as an associate holding – refer to note 13. From 1 July 2010 Zotefoams had an option to increase its shareholding in MEL and was deemed to have a controlling interest under IFRS3 (revised). MEL was therefore treated as a subsidiary from 1 July 2010 in the Zotefoams Group accounts and the associate interest was restated at fair value and disposed of.

The remeasurement to fair value on 1 July 2010 of the Group's existing 30% interest in MEL resulted in a gain of £650,000. This, together with £448,000 of exchange movements on the associate interest which had previously been taken to translation reserves, was transferred to the Income Statement on the deemed disposal of the associate interest and was recognised in profit before tax in the Statement of Comprehensive Income as an exceptional Item.

This gain was then restated following a re-assessment of the original business combination accounting due to the remaining 70% interest in MEL being actually acquired on 30 March 2011. This is described in note 12.

4. Exceptional item and restatement continued

Restatement of 2010 consolidated statement of cash flows

An additional restatement of the 2010 Consolidated Statement of Cash Flows was recognised to move the cash deemed to have been acquired with the subsidiary from financing activities to investing activities.

5. Staff numbers and expenses

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

	Number of employees			
	Group		Company	
	2011	2010	**2011**	2010
Production	**130**	115	**123**	108
Maintenance	**18**	16	**15**	14
Distribution and marketing	**49**	45	**40**	37
Administration and technical	**76**	65	**64**	56
	273	241	**242**	215

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Wages and salaries	**8,574**	7,877	**7,215**	6,731
Social security costs	**978**	804	**815**	720
Share-based payments	**125**	206	**125**	206
Other pension costs	**602**	549	**555**	500
	10,279	9,436	**8,710**	8,157

Details of individual Directors' emoluments, pension costs and share options are dealt with on pages 27 to 30 in the Directors' Remuneration Report.

6. Finance income and costs

Financial income

	2011 £000	2010 £000
Interest on bank deposits	**5**	16
Expected return on assets of defined benefit pension fund	**1,130**	1,100
	1,135	1,116

Finance costs

	2011 £000	2010 £000
On bank loans and overdrafts	**50**	85
Interest on defined benefit pension obligation	**1,210**	1,244
	1,260	1,329

Notes continued

7. Taxation

	Note	2011 £000	2010 £000
UK corporation tax		**1,153**	1,118
Overseas taxation		**37**	29
Adjustment to prior year UK tax charge		**(59)**	1
Current taxation		**1,131**	1,148
Deferred taxation	19	**(220)**	(153)
Total tax charge		**911**	995

Factors affecting the tax charge

The tax charge for the year is lower (2010: lower) than the standard rate of corporation tax in the UK of 26.5% (2010: 28.0%). The differences are explained below:

	2011 £000	2010 £000
Tax reconciliation		
Profit before tax	**5,465**	5,324
Tax at 26.5% (2010: 28.0%)	**1,448**	1,491
Effects of:		
Deemed disposal of associate interest not liable for tax	**–**	(174)
Research and development tax credits and other allowances less expenses not deductible for tax purposes	**(155)**	(111)
Overseas earnings and effect of US tax losses	**(225)**	(212)
Change in deferred tax rate to 25%	**(98)**	–
Adjustments to UK corporation tax charge in respect of previous periods	**(59)**	1
Total tax charge	**911**	995

8. Dividends and earnings per share

	2011 £000	2010 £000
Final dividend prior year of 3.15p (2009: 3.0p) net per 5.0p ordinary share	**1,216**	1,100
Interim dividend of 1.6p (2010: 1.5p) net per 5.0p ordinary share	**619**	553
Dividends paid during the year	**1,835**	1,653

The proposed final dividend for the year ended 31 December 2011 of 3.30p per share (2010: 3.15p) is subject to approval by shareholders at the AGM and has not been recognised as a liability in these financial statements. The proposed dividend would amount to £1,314,000 if paid to all the shares in issue.

Earnings per ordinary share

Earnings per ordinary share is calculated by dividing profit after tax attributable to equity holders of the Parent Company of £4,497,000 (2010: £4,352,000) 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 2011 was 1,160,954 (2010: 1,389,861). Distribution of shares from the trust is at the discretion of the trustees. Diluted earnings per ordinary share adjusts for the potential dilutive effect of share option schemes in accordance with IAS33.

	2011	2010
Average number of ordinary shares issued	**38,231,656**	36,727,932
Deemed issued for no consideration	**898,078**	982,816
Diluted number of ordinary shares issued	**39,129,734**	37,710,748

8. Dividends and earnings per share continued

Shares deemed issued for no consideration have been calculated based on the potential dilutive effect of the Executive Share Option Scheme, options granted under the HMRC Approved Share Option Scheme, Long-Term Incentive Plans and the Deferred Bonus Plan:

Date from which exercisable	Exercise price	Number of shares under option 2011	2010
7 April 2007	72.5p	**59,631**	59,631
22 December 2008	77.0p	**115,909**	213,311
20 March 2011	nil	**–**	128,005
12 August 2011	106.7p	**145,266**	249,998
16 March 2012	nil	**363,311**	465,355
11 March 2013	nil	**20,368**	25,484
19 March 2013	nil	**188,184**	214,093
19 March 2013	95.0p	**47,367**	47,367
31 March 2014	nil	**164,013**	–
		1,104,049	1,403,244

The average fair value of one ordinary share during the year was considered to be 134.0p (2010: 123.5p).

9. Profit for the financial year

The Group accounts 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 £3,885,000 (2010: £3,274,000).

Notes continued

10. Property, plant and equipment
a) Group

	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Under construction £000	Total £000
Cost					
Balance at 1 January 2010	14,929	42,173	2,383	1,730	61,215
Additions	–	56	50	2,596	2,702
Acquired on deemed acquisition of MEL	–	33	10	–	43
Disposals	–	(85)	(1)	–	(86)
Reclassifications	–	2,468	75	(2,543)	–
Effect of movement in foreign exchange	136	136	7	–	279
Balance at 31 December 2010	15,065	44,781	2,524	1,783	64,153
Balance at 1 January 2011	15,065	44,781	2,524	1,783	64,153
Additions	57	191	263	2,242	2,753
Disposals	–	(569)	234	(3)	(338)
Reclassifications	–	443	139	(582)	–
Effect of movement in foreign exchange	35	50	8	–	93
Balance at 31 December 2011	**15,157**	**44,896**	**3,168**	**3,440**	**66,661**
Depreciation and impairment					
Balance at 1 January 2010	6,050	27,318	2,018	–	35,386
Depreciation charge for the year	604	2,204	122	181	3,111
Disposals	–	(63)	(1)	–	(64)
Reclassifications	–	173	8	(181)	–
Effect of movement in foreign exchange	42	76	5	–	123
Balance at 31 December 2010	6,696	29,708	2,152	–	38,556
Balance at 1 January 2011	6,696	29,708	2,152	–	38,556
Depreciation charge for the year	602	2,172	163	–	2,937
Disposals	–	(346)	11	–	(335)
Effect of movement in foreign exchange	18	47	5	–	70
Balance at 31 December 2011	**7,316**	**31,581**	**2,331**	**–**	**41,228**
Net book value					
At 1 January 2010	8,879	14,855	365	1,730	25,829
At 31 December 2010 and 1 January 2011	8,369	15,073	372	1,783	25,597
At 31 December 2011	**7,841**	**13,315**	**837**	**3,440**	**25,433**

Included in plant and machinery for both the Company and the Group are assets of £1,485,000 (2010: £2,145,000) pledged as security for a bank loan.

During the year both the Company and the Group commenced a number of programmes to construct and refurbish plant and equipment and fixtures and fittings. Costs incurred up to the balance sheet date totalled £3,440,000 (2010: £1,783,000) for the Group.

10. Property, plant and equipment continued

b) Company

	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Under construction £000	Total £000
Cost					
Balance at 1 January 2010	10,590	37,812	2,166	1,730	52,298
Additions	–	2	45	2,596	2,643
Disposals	–	(85)	(1)	–	(86)
Reclassifications	–	2,468	75	(2,543)	–
Balance at 31 December 2010	10,590	40,197	2,285	1,783	54,855
Balance at 1 January 2011	10,590	40,197	2,285	1,783	54,855
Additions	–	104	157	2,242	2,503
Disposals	–	(569)	234	(3)	(338)
Reclassifications	–	443	139	(582)	–
Balance at 31 December 2011	**10,590**	**40,175**	**2,815**	**3,440**	**57,020**
Depreciation and impairment					
Balance at 1 January 2010	4,634	24,813	1,851	–	31,298
Depreciation charge for the year	421	1,896	100	181	2,598
Disposals	–	(63)	(1)	–	(64)
Reclassifications	–	173	8	(181)	–
Balance at 31 December 2010	5,055	26,819	1,958	–	33,832
Balance at 1 January 2011	5,055	26,819	1,958	–	33,832
Depreciation charge for the year	421	1,861	143	–	2,425
Disposals	–	(346)	11	–	(335)
Balance at 31 December 2011	**5,476**	**28,334**	**2,112**	**–**	**35,922**
Net book value					
At 1 January 2010	5,956	12,999	315	1,730	21,000
At 31 December 2010 and 1 January 2011	5,535	13,378	327	1,783	21,023
At 31 December 2011	**5,114**	**11,841**	**703**	**3,440**	**21,098**

Notes continued

11. Intangible assets
Group

	MuCell license held by Zotefoams plc £000	Marketing related £000	Customer related £000	Technology related £000	MEL goodwill £000	Total intangibles £000
Cost						
Balance at 1 January 2010	150	–	–	–	–	150
Adjustment on consolidation of MEL	(150)	211	167	3,610	3,595	7,433
Effect of movement in foreign exchange	–	(8)	(6)	(139)	(138)	(291)
Balance at 31 December 2010	–	203	161	3,471	3,457	7,292
Balance at 1 January 2011 as originally reported	–	203	161	3,471	3,457	7,292
Restatement (See notes 4 and 12)	–	–	–	–	(1,583)	(1,583)
Balance at 1 January 2011 restated	–	203	161	3,471	1,874	5,709
Additions	–	–	–	311	–	311
Effect of movement in foreign exchange	–	1	1	38	81	121
Balance at 31 December 2011	**–**	**204**	**162**	**3,820**	**1,955**	**6,141**
Amortisation						
Balance at 1 January 2010	75	–	–	–	–	75
Charge for the year	25	10	13	101	–	149
Adjustment on consolidation of MEL	(100)	–	–	–	–	(100)
Balance at 31 December 2010	–	10	13	101	–	124
Balance at 1 January 2011	–	10	13	101	–	124
Charge for the year	–	20	26	230	–	276
Effect of movement in foreign exchange	–	1	1	10	–	12
Balance at 31 December 2011	**–**	**31**	**40**	**341**	**–**	**412**
Net book value						
At 1 January 2010	75	–	–	–	–	75
At 1 January 2011 as restated	–	193	148	3,370	1,874	5,585
At 31 December 2011	**–**	**173**	**122**	**3,479**	**1,955**	**5,729**

The main intangible assets are described in more detail in note 12.

The former owner of the 70% shareholding in MEL purchased on 30 March 2011 has been granted security over all of the intellectual property of MEL including the technology related intangibles included above until the deferred consideration is settled.

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 seven 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.

11. Intangible assets continued

Discount rate 14%

The pre-tax discount rates 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 £1.96 million is measured against the discounted future cash flow projections of MEL. The long-term average growth rate used was 2.5% pa and the risk adjusted pre-tax discount rate was 14%. The impairment test has greater than 30% headroom to cover the value in use.

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.

Company	MuCell licence £000
Cost	
Balance at 1 January 2010	150
Additions	–
Disposal	–
Balance at 31 December 2010	150
Balance at 1 January 2011	150
Additions	32
Disposal	(150)
Balance at 31 December 2011	**32**
Amortisation	
Balance at 1 January 2010	(75)
Charge for the year	(50)
Balance at 31 December 2010	(125)
Balance at 1 January 2011	(125)
On disposals	150
Charge for the year	(57)
Balance at 31 December 2011	**(32)**
Net book value	
At 1 January 2010	75
At 31 December 2010 and 1 January 2011	25
At 31 December 2011	**–**

12. Investments in subsidiaries

	Company	
	2011 £000	2010 £000
Shares in Group undertakings – at cost	**7,157**	7,157
Provision against the value of investment in subsidiary	**(3,294)**	(3,294)
Loan to Group undertakings	**2,489**	4,152
	6,352	8,015

The investments consist of the entire ordinary share capital of Zotefoams International Limited and a £2,489,000 loan to Zotefoams International Ltd which was made in March 2011. Investments in the prior year included a $6,500,000 loan to Zotefoams Inc. which was repaid in 2011.

Notes continued

12. Investments in subsidiaries continued

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

	Ownership
Zotefoams International Limited	100%
Zotefoams Inc.	100%
MuCell Extrusion LLC (indirectly owned)	100%

Zotefoams International Limited is incorporated in Great Britain. Zotefoams Inc. and MuCell Extrusion LLC are incorporated in the USA.

The principal activities of the subsidiary undertakings are as follows: Zotefoams Inc. purchases, manufactures and distributes cross-linked block foams and Zotefoams International Limited is a holding company. MuCell Extrusion LLC holds and develops microcellular foam technology which it licenses to customers. 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 Balance Sheet.

Business combinations

In 2008 Zotefoams Inc. was granted an option by Trexel Inc. to increase its shareholding in MuCell Extrusion LLC ('MEL') from 30% to 100%. The option was exercisable between 1 July 2010 and 30 June 2011 and the Company was deemed to control MEL from 1 July 2010. MEL was therefore treated as a subsidiary from 1 July 2010 in the Zotefoams Group accounts. On 30 March 2011 Zotefoams Inc. completed the acquisition of the remaining 70% non-controlling interest ('NCI') in MEL and acquired further patent rights for a total cash consideration of $7.50m. $4.00m of this consideration was paid at the time of acquisition of the 70% NCI with the remaining payments of $2.00m and $1.50m payable on or before 20 January 2012 and 30 July 2012 respectively. Trexel Inc. has been granted a security interest in all of the intellectual property of MEL until the deferred consideration is settled. This price represented a reduction of $2.38m from the original option price offset by an additional $0.50m for further patents acquired. The acquisition of these additional patents has been recorded in 2011 separate to the business combination as this was distinct from the acquisition of the NCI.

The reduction in consideration led the Board to review the accounting for the acquisition. The Board concluded that the exercise of the option provided new information about the acquisition date fair values that formed part of the original acquisition accounting. Specifically, the Directors concluded that the purchase of the 70% NCI gave better information about the fair values of the NCI and the previously held interest as at the acquisition date than the option price negotiated some years previously on which the 2010 provisional fair values were based. Consequently, in preparing these financial statements, the Board has adjusted the amounts recognised on the acquisition in July 2010 and has restated the 2010 comparative results to reflect these changes.

The Directors note that the decision as to whether to revise the value of the NCI and the Group's previously existing equity interest at the date of acquisition involved significant judgement.

For a security for which there is no active market, the most reliable evidence of fair value is given by a recent actual market transaction between a willing buyer and willing seller with adequate time to negotiate (not a forced sale). At the time of signing the 2010 accounts, no such evidence was available as the Group had not yet commenced negotiations to acquire the remaining 70%. The Directors therefore considered the option strike price as the next best source of information notwithstanding the concerns noted below.

In 2011, the Group acquired the 70% NCI. The price agreed for that transaction provided evidence of the fair value of the NCI and the Group's previously held interest at 1 July 2010. In the Directors' judgement, the valuation at 1 July 2010 would have been immaterially different from the price negotiated in 2011. At 1 July 2010, the Board was considering whether to exercise its option to purchase the 70% NCI. However, the weakness in the global economy as well as other factors meant that the Board had some concerns that the option strike price (based on the negotiations in 2008) may have overvalued the business. The Board was therefore considering whether to negotiate to purchase the business for less than the option price or whether to exercise the option. The market and business issues that applied in 2010 were the same in 2011. For example, the Directors could not identify any intervening event after 1 July 2010 that changed those issues. Rather, the changes in the market and business value occurred between the inception of the option and 1 July 2010. The Directors therefore adjusted the fair value of the NCI and of the previously held interest to reflect the new information about the fair values at 1 July 2010.

The impact of this adjustment is to reduce the previously recorded goodwill from £3.60m to £2.01m, reduce the previously recorded NCI recognised on acquisition from £5.38m to £4.27m and reduce total net assets from £36.60m to £35.01m. The adjustment also reduced the previously recorded exceptional profit from £1.10m to £0.62m, reduced profit for the year from £4.80m to £4.33m, reduced basic earnings per share from 13.1p to 11.8p and reduced diluted earnings per share from 12.8p to 11.5p. £0.06m of legal and other costs were incurred on the acquisition of the NCI and these have been taken as a one-off cost in the Income Statement in 2011 and are included in Administrative Expenses.

12. Investments in subsidiaries continued

The fair value assets and liabilities acquired as at 1 July 2010 were:

	£000
Property, plant and equipment	43
Intangible assets	3,988
Inventories	40
Trade receivables	263
Other receivables and prepayments	164
Cash at bank	332
Trade and other payables	(207)
Total identifiable net assets	4,623

The trade and other receivables are of a short-term nature and are all expected to be recovered. Their fair value therefore is the same as the contractual amount receivable.

The fair value of intangible assets has been determined by an independent valuation. These have been determined as follows:

Marketing related intangible assets

Those assets acquired which are primarily used in the marketing or promotion of products and services. This includes the following assets (or right to use the following assets): trademarks, trade names, service marks, collective marks, certification marks, unique trade dress and internet domain names. These were valued by means of the royalty savings (relief from royalty) method of the income approach. Employing this concept the marketing related intangible assets are valued on the basis of the incremental after tax savings accruing to the owner because they do not have to pay a royalty to someone else for its use. A 16% discount rate has been used to calculate an after tax present value. A useful economic life of 10 years has been used.

Customer related intangible assets

Those assets consisting of customer lists, order or production backlogs, customer contracts and relationships and non-contractual customer relationships. These have been valued by calculating the present value of income, using a 16% discount rate, attributable to relationships with customers of the Company across the equipment and engineering business of MEL. A useful economic life of six years has been used.

Technology related intangible assets

Those assets acquired relate to innovations or technological advances. Such assets include computer software, patented and unpatented technology, databases and trade secrets. These have been valued using an income approach by calculating a present value using a 14% discount rate on the after tax cash flow derived from the licensing activity of MEL. A useful economic life of 17 years has been used.

Goodwill

Goodwill recognised as a result of the acquisition is as follows:

	£000 (restated)
Fair value of previously held 30% interest	1,990
Non-controlling interest (recorded at fair value)	4,645
	6,635
Fair value of identifiable net assets	(4,623)
Goodwill at 1 July 2010	2,012

The goodwill is attributable mainly to non-contractual or non-separable assets such as market share, the skills and technical talent of MEL's work force and the synergies expected to be achieved from integrating the Company into the Group's existing foam business.

Notes continued

12. Investments in subsidiaries continued

Movements in goodwill in the year can be summarised:

	£000
Goodwill as reported at 31 December 2010	3,595
Revision of fair values above	(1,583)
Restated goodwill at 1 July 2010	2,012
Foreign exchange movement	(57)
Goodwill at 31 December 2011	**1,955**

Non-controlling interest acquisition

On the date of completing the non-controlling interest acquisition the cash flow was as follows:

	£000
Non-controlling interest acquired	4,358
Satisfied by:	
Cash	2,179
Deferred consideration	2,252
Foreign exchange movement	(73)
	4,358

Comparative information for the acquisition of MEL in 2010

Summary aggregated financial information on MEL

The summary aggregated income statements for MEL for the six months ending 31 December 2010 was as follows:

For the period: 100% of MEL	6 months ended 31 December 2010 £000
Revenue	610
Amortisation	(124)
Loss after amortisation	(32)

Impact of deemed acquisition on Group Income Statement

If the deemed acquisition of MEL had occurred on 1 January 2010 the impact on the Group Income Statement excluding exceptional items would have been as follows:

	Including MEL as a subsidiary for the full year ended 31 December 2010 £000	As reported: year ended 31 December 2010 £000
Revenue	40,796	39,879
Operating profit	5,128	4,826
Financial income	1,116	1,116
Finance costs	(1,329)	(1,329)
Share of profit from associate	–	88
Profit before tax	4,915	4,701
Taxation	(995)	(995)
Profit for the year	3,920	3,706
Non-controlling interest	(171)	23
Profit attributable to equity holders of the Parent	3,749	3,729

13. Investments in associates

From 1 July 2010 MEL was treated as a subsidiary in the Zotefoams Group accounts (see note 12).

At 31 December 2011 and 31 December 2010 MEL was held as a subsidiary by the Group.

Reconciliation of movement in MEL valuation:

	2010 £000
Initial cost of investment including expenses	
Cost brought forward as at 1 January 2010	1,687
Share of result for period	88
Distribution received	(82)
Effect of movement in foreign exchange	123
Deemed disposal of associate interest at 30 June 2010	(1,816)
Investment in associate as at 31 December 2010, 1 January 2011 and 31 December 2011	–

14. Inventories

	Group		Company	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Raw materials and consumables	**2,622**	1,978	**2,198**	1,568
Work in progress	**1,397**	762	**1,341**	758
Finished goods	**1,908**	1,394	**1,174**	846
	5,927	4,134	**4,713**	3,172

The carrying amount of inventories subject to retention of title clauses is £201,000 (2010: £174,000).

In 2011 the value of inventory recognised by the Group as an expense in cost of goods sold was £28,122,000 (2010: £25,149,000).

15. Trade and other receivables

		Group		Company	
	Note	**2011 £000**	2010 £000	**2011 £000**	2010 £000
Amounts falling due within one year:					
Trade receivables		**9,654**	8,846	**7,370**	7,118
Fair value derivatives	21	**49**	39	**49**	39
Amounts owed by Group undertakings	25	**–**	–	**3,273**	1,329
Other receivables		**452**	268	**452**	268
Prepayments and accrued income		**378**	310	**335**	235
		10,533	9,463	**11,479**	8,989
Trade receivables are shown net of: impairment losses		**241**	166	**157**	137

16. Cash and cash equivalents/bank overdrafts

	Group		Company	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Cash and cash equivalents per balance sheet	**3,403**	4,716	**1,611**	3,998
Bank overdrafts	**–**	(711)	**–**	(711)
Cash and equivalents per cash flow statements	**3,403**	4,005	**1,611**	3,287

Notes continued

17. Trade and other payables

	Note	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Trade payables		**1,615**	1,554	**1,459**	1,480
Deferred consideration		**2,252**	–	**–**	–
Other creditors including taxation and social security:					
Other taxation and social security		**249**	221	**244**	212
Fair value derivatives	21	**100**	108	**100**	108
Amounts owed to Group undertakings	25	**–**	–	**21**	–
Other payables		**577**	491	**437**	384
Accruals and deferred income		**3,094**	2,615	**2,880**	2,375
		7,887	4,989	**5,141**	4,559

18. Interest-bearing loans and borrowings

	Note	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Bank loans		**660**	660	**660**	660
Amounts due to Group undertakings	25	**–**	–	**322**	3,375
Amounts falling due within one year		**660**	660	**982**	4,035
Bank loans		**820**	1,488	**820**	1,488
Amounts falling due in more than one year		**820**	1,488	**820**	1,488
	21	**1,480**	2,148	**1,802**	5,523

19. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities – Group

Deferred tax assets and liabilities are attributable to the following:

	Assets 2011 £000	Assets 2010 £000	Liabilities 2011 £000	Liabilities 2010 £000	Net 2011 £000	Net 2010 £000
Property, plant and equipment	**–**	–	**1,742**	2,050	**1,742**	2,050
Rolled-over gain	**–**	–	**806**	902	**806**	902
Inventories	**(140)**	(91)	**–**	–	**(140)**	(91)
Financial instruments	**(13)**	(19)	**–**	–	**(13)**	(19)
Defined benefit scheme and share option charges	**(1,370)**	(1,616)	**–**	–	**(1,370)**	(1,616)
Tax value of recognised losses carried forward	**(350)**	(261)	**–**	–	**(350)**	(261)
Tax (assets)/liabilities	**(1,873)**	(1,987)	**2,548**	2,952	**675**	965
Set off tax	**1,383**	1,635	**(1,383)**	(1,635)	**–**	–
Net tax (assets)/liabilities	**(490)**	(352)	**1,165**	1,317	**675**	965

IAS12.47 requires that deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on rates that have been enacted or substantively enacted by the balance sheet date. On 1 April 2011 the UK corporation tax rate reduced from 28% to 26%, resulting in a headline UK corporation tax rate for the year of 26.5%. The UK government has reduced the UK corporation tax rate to 25% with effect from 1 April 2012 and this reduction has been reflected in the measurement of deferred tax balances. The UK government has proposed further reductions of 1% per annum effective 1 April 2013 and 1 April 2014. However, these rate reductions have not been substantively enacted at the balance sheet date and their effects are not included in these financial statements. The enactment of these changes is not expected to have a material impact on the deferred tax assets and liabilities of the Group.

19. Deferred tax assets and liabilities continued

Unrecognised deferred tax assets

The Group has $3.7m (2010: $4.5m) 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 £2.4m (2010: £2.9m). The Group has only recognised £1.0m (2010: £0.7m) 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. During the year losses of £0.3m were used and additional losses of £0.6m were recognised. At a 35% tax rate these tax losses are £0.8m (2010: £1m) of which £0.4m has been recognised (2010: £0.2m).

Movement in deferred tax during the year

	Balance 1 January 2011 £000	Recognised in income £000	Recognised in equity £000	**Balance 31 December 2011 £000**
Property, plant and equipment	2,050	(308)	–	**1,742**
Rolled-over gain	902	(96)	–	**806**
Inventories	(91)	(49)	–	**(140)**
Financial instruments	(19)	–	6	**(13)**
Defined benefit scheme and share option charges	(1,616)	322	(76)	**(1,370)**
Tax value of recognised losses carried forward	(261)	(89)	–	**(350)**
	965	(220)	(70)	**675**

Movement in deferred tax during the prior year

	Balance 1 January 2010 £000	Recognised in income £000	Recognised in equity £000	Balance 31 December 2010 £000
Property, plant and equipment	2,285	(235)	–	2,050
Rolled-over gain	902	–	–	902
Inventories	(92)	1	–	(91)
Financial instruments	(10)	–	(9)	(19)
Defined benefit scheme and share option charges	(1,800)	185	(1)	(1,616)
Tax value of recognised losses carried forward	(157)	(104)	–	(261)
	1,128	(153)	(10)	965

Deferred tax assets and liabilities – Company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011 £000	2010 £000	**2011 £000**	2010 £000	**2011 £000**	2010 £000
Property, plant and equipment	**–**	–	**1,742**	2,050	**1,742**	2,050
Rolled-over gain	**–**	–	**806**	902	**806**	902
Financial instruments	**(13)**	(19)	**–**	–	**(13)**	(19)
Defined benefit scheme and share option charges	**(1,370)**	(1,616)	**–**	–	**(1,370)**	(1,616)
Tax (assets)/liabilities	**(1,383)**	(1,635)	**2,548**	2,952	**1,165**	1,317
Set off tax	**1,383**	1,635	**(1,383)**	(1,635)	**–**	–
Net tax liabilities	**–**	–	**1,165**	1,317	**1,165**	1,317

Notes continued

19. Deferred tax assets and liabilities continued

Movement in deferred tax during the year

	Balance 1 January 2011 £000	Recognised in income £000	Recognised in equity £000	**Balance 31 December 2011 £000**
Property, plant and equipment	2,050	(308)	–	**1,742**
Rolled-over gain	902	(96)	–	**806**
Financial instruments	(19)	–	6	**(13)**
Defined benefit scheme and share option charges	(1,616)	322	(76)	**(1,370)**
	1,317	(82)	(70)	**1,165**

Movement in deferred tax during the prior year

	Balance 1 January 2010 £000	Recognised in income £000	Recognised in equity £000	Balance 31 December 2010 £000
Property, plant and equipment	2,285	(235)	–	2,050
Rolled-over gain	902	–	–	902
Financial instruments	(10)	–	(9)	(19)
Defined benefit scheme and share option charges	(1,800)	185	(1)	(1,616)
	1,377	(50)	(10)	1,317

20. Share capital

	2011 £	2010 £
Allotted, called-up and fully paid		
At 31 December		
Equity: 39,831,312 (2010: 38,297,093) ordinary shares of 5.0p each	**1,991,566**	1,914,855

Details of share options are provided in note 24 to the accounts on page 80.

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

21. Financial instruments

Policy

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

The main risks arising from the Company's and Group'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 overleaf. 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 Company and Group do not require collateral in respect of financial assets.

In 2011 and 2010, the Company and Group had credit insurance to mitigate this risk. However, the uninsured exposure as at 31 December 2011 was £2,461,000 (2010: £1,844,000) so elements of risk remain.

At the balance sheet 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 Balance Sheet.

21. Financial instruments continued

Trade receivables can be analysed as follows:

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Amounts neither past due or impaired	**7,583**	7,129	**5,490**	5,480
Amounts past due but not impaired				
Less than 60 days	**1,102**	1,287	**911**	1,208
More than 60 days	**–**	–	**–**	–
Total past due but not impaired	**1,102**	1,287	**911**	1,208
Amounts impaired	**1,210**	596	**1,126**	567
Impairment allowance	**(241)**	(166)	**(157)**	(137)
Carrying amount of impaired receivables	**969**	430	**969**	430
Trade receivables net of allowances	**9,654**	8,846	**7,370**	7,118

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

The Company and the Group 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. Management believes adequate provision has been made for trade receivables.

Interest rate risk

The Company and Group finance their operations through a mixture of retained profits and bank borrowings. The Company and Group borrow in the desired currency generally at a variable rate of interest.

The interest rate profile of the Company's and Group's borrowings at 31 December was:

	2011				2010			
	Effective interest rate	**Fixed rates £000**	**Variable rates £000**	**Total £000**	Effective interest rate	Fixed rates £000	Variable rates £000	Total £000
Sterling – mortgage	**2.0**	**–**	**1,480**	**1,480**	2.0	–	2,148	2,148
Sterling – overdraft	**2.9**	**–**	**–**	**–**	2.9	–	711	711
Total	**2.0**	**–**	**1,480**	**1,480**	2.2	–	2,859	2,859

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

In addition to the above the Company owes amounts to Group undertakings of £322,000 on which interest of 2.25% was charged (2010: £3,375,000 and 2.25%).

Notes continued

21. Financial instruments continued

Liquidity risk

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

Group	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000
					2011					2010
Non-derivative financial liabilities										
Secured bank loans	**1,480**	**1,480**	**660**	**660**	**160**	2,148	2,148	660	660	828
Trade and other payables	**4,444**	**4,444**	**4,444**	**–**	**–**	2,045	2,045	2,045	–	–

Company	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000
					2011					2010
Non-derivative financial liabilities										
Secured bank loans	**1,480**	**1,480**	**660**	**660**	**160**	2,148	2,148	660	660	828
Trade and other payables	**1,917**	**1,917**	**1,917**	**–**	**–**	1,864	1,864	1,864	–	–

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

The Company and Group have a short-term facility of £4.9m which is freely transferable. This facility is repayable on demand and is utilised by Zotefoams plc and its subsidiary undertakings under a cross-guarantee structure.

In January 2009 Zotefoams plc borrowed £3.3m under a five year mortgage, repayable in equal quarterly instalments. This facility is secured over specific plant assets. At 31 December 2011 £1.5m of this mortgage was outstanding and £1.8m had been repaid. This loan has no operating covenants.

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

Foreign currency risk

The Company and Group 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 accounts are as follows:

	2011 Average	**2011 Closing**	2010 Average	2010 Closing
Euro/sterling	**1.15**	**1.20**	1.17	1.17
US dollar/sterling	**1.61**	**1.55**	1.55	1.57

21. Financial instruments continued

The Company and Group 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 for the next nine months. The Company and Group use forward exchange contracts to hedge their foreign currency risk. As at 31 December 2011 these forward currency contracts covered approximately two thirds of the estimated net cash foreign exchange exposure for the next nine months. Further details are shown below.

In respect of other monetary assets and liabilities held in currencies other than the euro and the US dollar, the Company and Group 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. The table below shows financial instruments not in the domestic currency of the individual company they are held by:

Group – 2011	**Euro £000**	**US dollar £000**	**Other £000**	**Total £000**
Cash and cash equivalents	**(363)**	**10**	**(20)**	**(373)**
Trade receivables	**3,774**	**330**	**288**	**4,392**
Secured bank loans	**–**	**–**	**–**	**–**
Trade payables	**(1,041)**	**(11)**	**–**	**(1,052)**

Group – 2010	Euro £000	US dollar £000	Other £000	Total £000
Cash and cash equivalents	(670)	816	(41)	105
Trade receivables	3,563	380	528	4,471
Secured bank loans	–	–	–	–
Trade payables	(768)	(18)	–	(786)

Company – 2011	**Euro £000**	**US dollar £000**	**Other £000**	**Total £000**
Cash and cash equivalents	**(363)**	**10**	**(20)**	**(373)**
Trade receivables	**3,774**	**330**	**288**	**4,392**
Secured bank loans	**–**	**–**	**–**	**–**
Trade payables	**(1,041)**	**(11)**	**–**	**(1,052)**

Company – 2010	Euro £000	US dollar £000	Other £000	Total £000
Cash and cash equivalents	(670)	816	(41)	105
Trade receivables	3,563	380	528	4,471
Secured bank loans	–	–	–	–
Trade payables	(768)	(18)	–	(786)

Forecast transactions

The Company and Group classify their forward exchange contracts hedging 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 2011 was a net liability of £51,000 (2010: net liability of £69,000) comprising assets of £49,000 (2010: £39,000) and liabilities of £100,000 (2010: £108,000).

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 3).

Notes continued

21. Financial instruments continued

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

Company and Group:

	2011				2010			
	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	**€2,130**	**1,837**	**1,793**	**44**	€4,400	3,731	3,801	(70)
Sell USD	**$4,450**	**2,791**	**2,886**	**(95)**	$5,100	3,299	3,298	1

Sensitivity analysis

In managing currency risks the Company and Group 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 Company and Group, at present, do not consider them material. At 31 December 2011 it is estimated that a general increase of one percentage point in interest rates would decrease the Company's and Group's profit before tax by approximately £15,000 (2010: £28,000).

At 31 December 2011 it is estimated that an increase of one percentage point in the value of sterling against the euro and US dollar would decrease the Company's and Group's profit before tax by approximately £73,000 (2010: £88,000) before forward exchange contracts and £55,000 (2010: £50,000) after forward exchange contracts are included for the euro and £89,000 (2010: £77,000) for the US dollar before forward exchange contracts and £60,000 (2010: £44,000) after forward exchange contracts are included.

The Company and Group have significant undertakings in the USA whose revenue and expenses are denominated in US dollars. They also make a significant proportion of their sales to European customers and these revenues are predominantly in euros. It was the Company's and Group's policy in 2011 to hedge the 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 Balance Sheet are as follows:

Group

	2011		2010	
	Carrying amount £000	**Fair value £000**	Carrying amount £000	Fair value £000
Trade and other receivables	**10,106**	**10,106**	9,114	9,114
Cash and cash equivalents	**3,403**	**3,403**	4,005	4,005
Forward exchange contracts – assets	**49**	**49**	39	39
– liabilities	**(100)**	**(100)**	(108)	(108)
Secured bank loans	**(1,480)**	**(1,485)**	(2,148)	(2,156)
Trade and other payables	**(4,444)**	**(4,444)**	(2,045)	(2,045)

21. Financial instruments continued

Company

	2011		2010	
	Carrying amount £000	**Fair value £000**	Carrying amount £000	Fair value £000
Trade and other receivables	**11,095**	**11,095**	8,715	8,715
Cash and cash equivalents	**1,611**	**1,611**	3,287	3,287
Forward exchange contracts – assets	**49**	**49**	39	39
– liabilities	**(100)**	**(100)**	(108)	(108)
Secured bank loans	**(1,480)**	**(1,485)**	(2,148)	(2,156)
Trade and other payables	**(1,917)**	**(1,917)**	(1,864)	(1,864)

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).

Derivatives are valued at fair value using exchange rates and market interest rates at the balance sheet 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 balance sheet 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 balance sheet date.

Capital management

The Company and Group define the capital that they manage as the Company's and Group's total equity. The Company's and Group's policy for managing capital is to maintain a strong balance sheet with the objective of maintaining customer, supplier and investor confidence in the business and to ensure that the Company and Group 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 Company and Group define as profit before tax excluding exceptional items divided by average net assets. Goodwill, 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 Company are primarily financed by ordinary shares and retained profits.

22. Commitments

	2011 £000	2010 £000
(i) Capital contracts at the end of the financial year for which no provision has been made	**1,029**	404
(ii) The Group has non-cancellable operating lease rentals, which are payable as follows:		
– within one year	**41**	92
– between two and five years	**17**	57

During the year ended 31 December 2011 £92,000 was recognised as an expense in the Income Statement in respect of operating leases (2010: £93,000).

The above amounts apply to both the Company and the Group.

Notes continued

23. Employee benefits

The Group and Company operate one defined benefit scheme in the UK which offers both pensions in retirement and death benefits to members. Pension benefits are related to the members' final salary at retirement and their length of service. Since 1 October 2001 the scheme has been closed to new members.

From 31 December 2005 future accrual of benefits for existing members of the scheme ceased.

Contributions to the plan for the year from the Company were £55,000 per month, a rate agreed with the Company and the Trustees following the triennial review in April 2008 to apply from January 2009 until June 2016.

The Company has opted to recognise all actuarial gains and losses immediately in Other Comprehensive Income. An actuarial valuation of the scheme was carried out as at 5 April 2011 and the results have been updated to 31 December 2011 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009
Discount rate	**4.90%**	5.30%	5.70%
Expected return on plan assets	**5.75%**	6.21%	6.72%
Rate of salary increase	**n/a**	n/a	n/a
Rate of increase to pensions in payment	**3.60%**	3.70%	3.90%
Rate of inflation	**2.00%**	3.20%	3.70%
Mortality assumption	**S1PA CMI**	PCA00 MC	PCA00 MC
Life expectancy from age 65 of current male pensioners	**21.9 years**	21.7 years	21.7 years
Commutation assumption	**75% of members take maximum cash**	75% of members take maximum cash	75% of members take maximum cash

The mortality tables used above are those published by the Institute and Faculty of Actuaries, with allowance for improvements in member longevity in line with the 'CMI model' with a long-term improvement rate of 1.0% per annum. These rates suggest that a man aged 65 retiring at 31 December 2011 could expect to live, on average, until age 87. A 5% change in this life expectancy would increase the IAS19 liability by approximately £0.7m (£0.5m after deferred tax), all other things being equal.

The overall expected return on assets assumption of 5.75% as at 31 December 2011 has been derived by calculating the weighted average of the expected rate of return for each asset class. The following approach has been used to determine the expected rate of return for each asset class:

- Equities – allowance for an additional return of 4.50% above that available on UK government securities.
- Fixed interest securities – current market yields.
- Cash – based on the Bank of England base rate.

23. Employee benefits continued

Following the government announcement in July 2010 to change from RPI to CPI the Group has obtained legal advice during 2011 to resolve the uncertainties over the application of rate that were still remaining as at 31 December 2010. The Group is using CPI instead of RPI for certain groups within the scheme as at 31 December 2011 which has resulted in a gain in Other Comprehensive Income.

Present value of scheme assets:

	Year ended 31 December 2011		Year ended 31 December 2010		Year ended 31 December 2009	
	Long-term rate of return expected	**Market value £000**	Long-term rate of return expected	Market value £000	Long-term rate of return expected	Market value £000
Equities	**7.0%**	**12,345**	7.3%	13,624	7.8%	12,069
Bonds	**3.6%**	**3,989**	4.0%	3,262	4.5%	3,443
Other	**0.5%**	**1,301**	0.5%	1,198	0.5%	750
Insured pensioners		**179**		172		166
		17,814		18,256		16,428

Present value of defined obligation:

Funded plans	**22,758**	23,215
Total	**22,758**	23,215
Deficit in the scheme	**(4,944)**	(4,959)
Related deferred tax asset	**1,236**	1,389
Net pension liability	**(3,708)**	(3,570)

Reconciliation of opening and closing balances of the present value of the defined benefit obligation:

Benefit obligation at beginning of year	**23,215**	22,211
Interest cost	**1,210**	1,244
Actuarial (gains)/losses	**(891)**	529
Benefits and expenses paid	**(776)**	(769)
Benefit obligation at end of year	**22,758**	23,215

Reconciliation of opening and closing balances of the fair value of plan assets:

Fair value of plan assets at beginning of year	**18,256**	16,428
Expected return on plan assets	**1,130**	1,100
Actuarial (losses)/gains	**(1,456)**	837
Contributions by employer	**660**	660
Benefits and expenses paid	**(776)**	(769)
Fair value of plan assets at end of year	**17,814**	18,256

The amounts recognised in the Income Statement are:

Interest on obligation	**1,210**	1,244
Expected return on plan assets	**(1,130)**	(1,100)
Total expense	**80**	144

The expense/(income) is recognised in the following line items in the Income Statement:

	Group and Company	
	2011 £000	2010 £000
Financial income	**(1,130)**	(1,100)
Finance costs	**1,210**	1,244
	80	144

Notes continued

23. Employee benefits continued

Actuarial (losses)/gains shown in Other Comprehensive Income since 1 January 2007:

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Balance as at 1 January	**(2,259)**	(2,567)	131	1,789	648
Actuarial (losses)/gains	**(1,705)**	308	(2,698)	(1,658)	1,141
Effect of revaluation of defined benefit scheme under CPI	**1,140**	–	–	–	–
Balance as at 31 December	**(2,824)**	(2,259)	(2,567)	131	1,789

History of scheme assets, obligations and experience adjustments

	As at 31 December 2011 £000	As at 31 December 2010 £000	As at 31 December 2009 £000	As at 31 December 2008 £000	As at 31 December 2007 £000
Present value of defined benefit obligation	**22,758**	23,215	22,211	17,396	19,707
Fair value of scheme assets	**17,814**	18,256	16,428	13,869	17,242
Deficit in the scheme	**(4,944)**	(4,959)	(5,783)	(3,527)	(2,465)
Experience adjustments arising on scheme liabilities	**(739)**	30	650	(518)	(39)
Experience item as a percentage of scheme liabilities	**(3)%**	0%	3%	(3)%	0%
Experience adjustments arising on scheme assets	**(1,456)**	837	1,840	(4,410)	266
Experience item as a percentage of scheme assets	**(8)%**	5%	11%	(32)%	2%

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 scheme. The contributions paid by the Company in 2011 were £447,000 (2010: £404,000).

In addition to this scheme, Zotefoams plc operates a stakeholder scheme which is open to employees who joined after 1 October 2001. The contributions paid by the Company in 2011 were £108,000 (2010: £96,000).

For US based employees Zotefoams Inc. operates a 401(k) plan. The contributions paid by Zotefoams Inc. in 2011 were $74,000 (2010: $76,000).

24. Share-based payments

The Company has share option schemes that entitle 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 10 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 also introduced a Deferred Bonus Plan. Executive bonuses over 40% of salary 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.

For 2009 only the Company replaced the Executive Bonus Scheme with a share-based bonus plan. Shares were awarded in March 2010 based on performance against set objectives.

Details of the vesting conditions for the share, share option and LTIP awards are given in the Directors' Remuneration Report on page 28.

24. Share-based payments continued

Details of the options outstanding during the year are as follows:

	2011 Number of share options	**2011** Weighted average exercise price (p)	2010 Number of share options	2010 Weighted average exercise price (p)
Outstanding at beginning of the period	**570,307**	**91.0**	1,090,091	83.3
Exercised during the period	**(159,960)**	**88.6**	(564,105)	76.3
Granted during the period	**–**	**–**	47,367	95.0
Forfeited during the period	**(42,174)**	**106.7**	–	–
Cancelled during the period	**–**	**–**	(3,046)	106.7
Outstanding at the end of the period	**368,173**	**90.3**	570,307	91.0
Exercisable at the end of the period	**320,806**	**89.7**	272,942	76.0

The options outstanding at 31 December 2011 have an exercise price of between 72.5p and 106.7p (2010: 72.5p and 106.7p) and a weighted contractual life of eight years (2010: nine years).

The weighted average share price at the date of exercise for share options exercised in 2011 was £1.49 (2010: £1.07).

The fair value received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of fair value of the services received measured is based on 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.

Details of the LTIP awards outstanding during the year are as follows:

	2011 Number of share options	**2011** Weighted average exercise price (p)	2010 Number of share options	2010 Weighted average exercise price (p)
Outstanding at beginning of the period	**775,800**	**–**	715,038	–
Exercised during the period	**(96,352)**	**–**	–	–
Granted during the period	**167,415**	**–**	237,805	–
Forfeited during the period	**(100,529)**	**–**	(97,891)	–
Lapsed during the period	**(46,284)**	**–**	(79,152)	–
Outstanding at the end of the period	**700,050**	**–**	775,800	–
Exercisable at the end of the period	**–**	**–**	–	–

Details of the Deferred Bonus Plan awards outstanding during the year are as follows:

	2011 Number of share options	**2011** Weighted average exercise price (p)	2010 Number of share options	2010 Weighted average exercise price (p)
Outstanding at beginning of the period	**57,137**	**–**	61,818	–
Exercised in the period	**(31,653)**	**–**	(4,681)	–
Granted during the period	**19,293**	**–**	–	–
Forfeited during the period	**(8,951)**	**–**	–	–
Outstanding at the end of the period	**35,826**	**–**	57,137	–
Exercisable at the end of the period	**–**	**–**	–	–

Notes continued

24. Share-based payments continued

Details of the 2009 Share Bonus Plan awards outstanding at the end of the year are as follows:

	2011		2010	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the period	**–**	**–**	217,775	–
Exercised in the period	**–**	**–**	(217,775)	–
Granted during the period	**–**	**–**	–	–
Outstanding at the end of the period	**–**	**–**	–	–
Exercisable at the end of the period	**–**	**–**	–	–

Fair value of share options and assumptions

The expected volatility is based on historic volatility for a three year period prior to the award.

	16 March 2009	7 May 2009	19 March 2010	19 March 2010	**31 March 2011**
Share price (p)	46.0	60.5	99.0	95.0	**153.5**
Exercise price (p)	nil	nil	nil	95.0	**nil**
Expected volatility	30%	30%	35%	35%	**35%**
Option life	Five years	Five years	Five years	Five years	**Five years**
Expected dividends (p) (assumed to be increasing at 2.5% per annum)	nil	nil	nil	4.5	**nil**
Risk-free interest rate (based on national government bonds)	4.8%	4.8%	1.3%	1.3%	**1.3%**
Fair value at grant date (p)	46.0	60.5	99.0	19.0	**153.5**

The share option awards are granted under a service condition and a performance condition. There are no market conditions associated with the share options. 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 and Company	
	2011 £000	2010 £000
Within administrative expenses – share-based payment charge	**125**	170
– related National Insurance	**(5)**	36
Element of the above relating to Directors of Zotefoams plc	**108**	110

25. Related parties

Directors

The Directors of the Company as at 31 December 2011 and their immediate relatives control 1% of the voting shares of the Company. Details of Directors' pay and remuneration are given in the Directors' Remuneration Report on page 27. The Executive Directors are considered to be the only key management personnel.

Transactions with key management personnel

The compensation of key management personnel is as follows:

	Group		Company	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Key management emoluments including social security costs	**478,000**	495,000	**478,000**	495,000
Company contributions to money purchase pension plan	**64,190**	49,426	**64,190**	49,426
Share related awards	**108,000**	110,000	**108,000**	110,000
	650,190	654,426	**650,190**	654,426

Subsidiaries

Zotefoams plc owns 100% of the shares of Zotefoams International Ltd, which is incorporated in the UK. Zotefoams International Ltd owns 100% of the shares in Zotefoams Inc., which is incorporated in the USA. Common control exists between Zotefoams plc and Zotefoams Employee Benefit Trust ('EBT') and Zotefoams EBT has therefore been consolidated as described in note 1b.

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

Transactions between Zotefoams plc and these subsidiaries are as follows:

Income Statement

	Sales to/(from)		Service fees to		Interest charged to		Interest charged from	
	2011 £000	2010 £000	**2011 £000**	2010 £000	**2011 £000**	2010 £000	**2011 £000**	2010 £000
MuCell Extrusion LLC	**–**	–	**58**	26	**–**	–	**–**	–
Zotefoams Inc.	**6,337**	5,298	**72**	74	**32**	95	**29**	68

Balance Sheet

	Loan owed to		Loan owed by		Payables owed to		Receivables owed by		Investment in	
	2011 £000	2010 £000	**2011 £000**	2010 £000	**2011 £000**	2010 £000	**2011 £000**	2010 £000	**2011 £000**	2010 £000
Zotefoams Inc.[1]	**322**	3,375	**–**	4,151	**–**	–	**3,273**	1,329	**–**	–
MuCell Extrusion LLC	**–**	–	**–**	–	**21**		**–**	–	**–**	–
Zotefoams International	**–**	–	**2,489**	–	**–**	–	**–**	–	**3,863**	3,863

1 Loans with Zotefoams Inc. are interest bearing.

In addition there is a net payable balance of £315k owed by Zotefoams Inc. to MuCell Extrusion LLC.

Notes continued

26. Accounting estimates and judgements

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 balance sheet 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) Property, plant and equipment

In relation to the Group's property, plant and equipment, useful economic lives and residual values of assets have been established using historical experiences and an assessment of the nature of the assets involved. Assets are assessed on an ongoing basis to determine whether circumstances exist that could lead to a potential impairment of the carrying value of such assets. No circumstances have been identified to suggest that this is the case.

ii) 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.

iii) 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) Business combinations

The restatement of the MEL acquisition was a key judgement as set out in note 12.

ii) Development costs

Under IAS38 development costs must be capitalised when specified criteria have been met. Following a review of the Company's research and development expenditure, because of the uncertainties which still exist on the development of new products, it was concluded that no material development costs met the IAS38 criteria required for capitalisation and therefore all development costs have been expensed.

Notice of the 2012 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 10 May 2012 at 10.00 a.m. for the following purposes:

Ordinary business

To consider and, if thought fit, pass resolutions numbered 1 to 11 below as ordinary resolutions:

1. To receive the audited annual accounts of the Company for the year ended 31 December 2011, together with the Directors' Report, the Directors' Remuneration Report and the auditor's report on those annual accounts, the Directors' Report and that section of the remuneration report subject to audit.
2. To approve the Directors' Remuneration Report for the year ended 31 December 2011 in accordance with Section 439 of the Companies Act 2006.
3. To declare a final dividend for the year ended 31 December 2011 of 3.30 pence per ordinary share, such dividend to be payable on 23 May 2012 to shareholders who are on the register of members of the Company at the close of business on 27 April 2012.
4. To elect M-L Clayton as a Director who was appointed since the last Annual General Meeting.
5. To elect A Walker as a Director who was appointed since the last Annual General Meeting.
6. To re-elect R J Clowes as a Director who retires by rotation.
7. To re-elect N G Howard as a Director who retires by rotation.
8. To re-elect C G Hurst as a Director who retires by rotation.
9. To re-elect D B Stirling as a Director who retires by rotation.
10. That KPMG Audit plc be and is hereby reappointed as auditor 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.
11. To authorise the Directors to determine the auditor's remuneration.

Special business

To consider and, if thought fit, to pass the following resolutions of which resolution 12 will be proposed as an ordinary resolution and resolutions 13, 14 and 15 will be proposed as special resolutions:

12. 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 £663,855 (such amount to be reduced by the nominal amount of any allotments or grants made under paragraph (b) below in excess of £663,855); and further

    (b) to allot equity securities (as defined in Section 560 of the Act) up to an aggregate nominal amount of £1,327,710 (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;

Notice of the 2012 Annual General Meeting continued

(c) provided that, unless previously revoked, varied or extended, this authority shall expire on the earlier of 30 June 2013 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.

13. That the Directors be and they are empowered pursuant to Section 570(1) of the Act to allot equity securities (as defined in Section 560(1) of the Act) of the Company wholly for cash pursuant to the authority of the Directors under Section 551 of the Act conferred by resolution 12 above, and/or by way of a sale of treasury shares for cash (by virtue of Section 573 of the Act), in each case as if Section 561(1) of the Act did not apply to such allotment provided that:

(a) the power conferred by this resolution shall be limited to:

(i) the allotment of equity securities and sale of treasury shares for cash in connection with an offer of, or invitation to apply for, equity securities (but in the case of the authority granted under paragraph (b) of resolution 12, by way of a rights issue only):

(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 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; and

(ii) in the case of the authority granted under paragraph (a) of resolution 12 and/or in the case of any sale of treasury shares for cash, the allotment, otherwise than pursuant to sub-paragraph (i) above, of equity securities or sale of treasury shares up to an aggregate nominal value equal to £99,578; and

(b) unless previously revoked, varied or extended, this power shall expire on the earlier of 30 June 2013 and the conclusion of the next Annual General Meeting of the Company except that the Company may before the expiry of this power make an offer or agreement which would or might require equity securities to be allotted (and treasury shares to be sold) after such expiry and the Directors may allot equity securities (and sell treasury shares) in pursuance of such an offer or agreement as if this power had not expired.

14. 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 5p each ('ordinary shares') provided that:

(a) the maximum number of ordinary shares authorised to be purchased is 3,983,131;

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

(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 2013 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.

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

By order of the Board

Dated: 28 March 2012

Registered Office:
675 Mitcham Road
Croydon
CR9 3AL

J W Kindell
Company Secretary

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 8 May 2012 (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 the accompanying attendance card 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. 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. 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 a.m. on 8 May 2012.

(v) 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 27 March 2012, the Company's issued share capital comprised 39,831,312 ordinary shares of 5p 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 27 March 2012 is 39,831,312.

(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 auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor 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 auditor 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 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.

Notice of the 2012 Annual General Meeting continued

Explanatory notes to the resolutions
Ordinary Business
Resolution 1 – Receiving the accounts and reports
All quoted companies are required by law to lay their annual accounts and reports before a general meeting of the Company, together with the Directors' Report, Directors' Remuneration Report, and Auditor's Report on the accounts, the Directors' Report and the section of the Directors' Remuneration Report subject to audit. At the AGM, the Directors will present these documents to the shareholders for the financial year ended 31 December 2011.

Resolution 2 – Remuneration report
All quoted companies are required by law to produce for each financial year a Directors' Remuneration Report which sets out the Remuneration Committee's policy in relation to Directors' remuneration, together with the remuneration and benefits paid to Directors during the year. The Company is also required to put an ordinary resolution to shareholders approving the report at the meeting at which the Company's report and accounts for that year are laid. Accordingly, resolution 2 seeks the approval of the Directors' Remuneration Report which is set out on pages 25 to 30 of the report and accounts for the financial year ended 31 December 2011.

The vote is advisory in nature and will have no effect on the remuneration of individual Directors for the year under review. It will, however, provide shareholders with the means to express their opinion concerning remuneration matters and promote dialogue in respect of policy.

Resolution 3 – Declaration of dividend
This resolution concerns the Company's final dividend payment. The Directors are recommending a final dividend of 3.30 pence per ordinary share in respect of the year ended 31 December 2011 which, if approved, will be payable on 23 May 2012 to the shareholders on the register of members on 27 April 2012.

Resolutions 4 to 9 – Re-election and election of Directors
The Company's Articles of Association require any director who was appointed since the last annual general meeting to retire at the next AGM. M-L Clayton and A Walker were both appointed on 1 July 2011 and, hence, are retiring at this year's AGM and offering themselves for election. Resolutions 4 and 5 concern their respective elections.

In addition, 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, emerging best practice for listed companies is to follow this requirement and, therefore, the Board has decided for this year that all the Directors will also stand for annual re-election. Resolutions 6 to 9 concern the re-election of R J Clowes, N G Howard, C G Hurst and D B Stirling.

Biographies for the Directors are set out on page 21 of the report and accounts for the year ended 31 December 2011. 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 elected or re-elected as the case may be.

Resolutions 10 and 11 – Re-appointment of auditor and their remuneration
Resolution 10 concerns the re-appointment of KPMG Audit plc as the Company's auditor, to hold office until the conclusion of the Company's next AGM where accounts are laid. Resolution 11 authorises the Directors to determine the auditor's remuneration.

Special Business
Resolution 12 –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 £663,855, representing approximately one third (33.33%) of the nominal value of the issued ordinary share capital of the Company as at 27 March 2012, being the latest practicable date before publication of this notice. In addition, in accordance with the latest institutional guidelines issued by the Association of British Insurers ('ABI'), paragraph (b) of resolution 12 grants the Directors authority to allot further equity securities up to an aggregate nominal value of £1,327,710, representing approximately two thirds (66.67%) of the nominal value of the issued ordinary share capital of the Company as at 27 March 2012, 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 12 is to preserve maximum flexibility and if the Directors do exercise this authority, they intend to follow best practice as regards its use (including the Directors standing for re-election in certain cases), as recommended by the ABI.

The Company does not currently hold any shares as treasury shares within the meaning of Section 724 of the Companies Act 2006.

Save in respect of the issue of new ordinary shares pursuant to the share incentive schemes, the Directors do not have any present intention of exercising the authorities conferred by resolution 12 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 2013, whichever is the earlier.

Resolution 13 – Authority to allot shares disregarding pre-emption rights
This resolution authorises 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). The relevant circumstances are either where the allotment takes place in connection with a rights issue or the allotment is limited to a maximum nominal amount of £99,578, representing approximately 5% of the nominal value of the issued ordinary share capital of the Company as at 27 March 2012 being the latest practicable date before publication of this notice. Unless revoked, varied or extended, this authority will expire at the conclusion of the next AGM of the Company or 30 June 2013, whichever is the earlier.

The Directors consider that the power proposed to be granted by resolution 13 is necessary to retain flexibility, although they do not have any intention at the present time of exercising such power.

Resolution 14 – Authority to purchase shares (market purchases)
This resolution authorises the Board to make market purchases of up to 3,983,131 ordinary shares (representing approximately 10% of the Company's issued ordinary shares as at 28 March 2012, 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 2013, 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 5p 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 27 March 2012, being the latest practicable date before publication of this notice, there were outstanding awards under the Company's long-term incentive schemes in respect of 1,080,618 ordinary shares in the capital of the Company representing 2.70% of the Company's issued ordinary share capital. If the authority to purchase the Company's ordinary shares were exercised in full, such options would represent 3.01% of the Company's issued ordinary share capital.

Resolution 15 – 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, the 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 15 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 Act, 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 shares.

Five Year Trading Summary

	2011 £m	2010 restated £m	2009 £m	2008 £m	2007 £m
Turnover	**44.2**	39.9	31.8	34.8	31.6
Operating profit (excluding exceptional items)	**5.6**	4.8	3.4	4.0	3.5
Profit before tax (excluding exceptional items)	**5.5**	4.7	3.2	3.9	3.4
Profit before tax (including exceptional items)	**5.5**	5.3	2.7	3.9	3.4
Profit after tax (including exceptional items)	**4.6**	4.3	2.2	3.0	2.9
Capital expenditure	**2.7**	2.7	3.4	1.4	2.7
Cash generated from the operations	**6.1**	7.2	7.0	5.8	4.8
Basic earnings per share excluding exceptional items (p)	**11.8**	10.2	6.8	8.3	8.0
Basic earnings per share including exceptional items (p)	**11.8**	11.8	5.9	8.3	8.0
Dividends per ordinary share (p)	**4.90**	4.65	4.50	4.50	4.50

Notes

Notes

Financial Calendar

Financial Calendar

AGM	10 May 2012
Payment of final dividend	23 May 2012 to shareholders on the register at the close of business on 27 April 2012
Announcement of 2012 interim results	August 2012
Payment of interim dividend	October 2012
Announcement of 2012 results	March 2013

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: 0870 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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