Zotefoams plc Annual Report 2013

ZOTEFOAMS

Cellular materials for global markets

Zotefoams plc Annual Report 2013

Zotefoams plc

Foam is our world

Zotefoams is a world leader in cellular material technology. Zotefoams operates and sells globally, offering materials with unique attributes and solutions backed by significant investment in 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.

Strategic Report

Governance

Financial

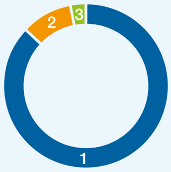
2013
Revenue by market

1. Packaging **34%**
2. Industrial **15%**
3. Transportation **20%**
4. Sport & Leisure **10%**
5. Building & Construction **8%**
6. Medical **7%**
7. Other **6%**

2012
Revenue by market

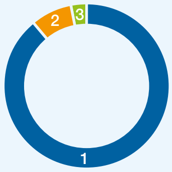
1. Packaging **32%**
2. Industrial **17%**
3. Transportation **16%**
4. Sport & Leisure **11%**
5. Building & Construction **11%**
6. Medical **8%**
7. Other **5%**

2013
Revenue by business unit



1. Polyolefins **87%**
2. HPP **10%**
3. MEL **3%**

2012
Revenue by business unit



1. Polyolefins **89%**
2. HPP **8%**
3. MEL **3%**

Highlights

High-Performance Products ('HPP')

– Revenue increase of 20% to £4.31m (2012: £3.60m)

– First full-year segment profit of £0.42m (2012: loss of £0.08m)

MuCell Extrusion LLC ('MEL')

– Increased sales by 17%, with an underlying growth rate of 44%

Polyolefin foams

– Sales down 8% with customer destocking particularly in Continental Europe

– Strong levels of order intake in 2014 to date

Overall Group revenue £44.63m (2012: £47.19m)

Adjusted[1] profit before tax of £4.18m (2012: £6.08m[2])

Profit before tax of £3.86m (2012: £5.78m[2])

Strong balance sheet with gearing under 3%

Increase in proposed final dividend to 3.6p per ordinary 5p share (2012: 3.5p)

1 Before amortisation of intangible assets.
2 Restated following adoption of revised IAS 19 Employee Benefits standard.

For more information visit:
www.zotefoams.com

Chairman's Statement

Nigel Howard
Chairman

Results

Group sales were £44.63m (2012: £47.19m) while profit before tax was £3.86m (2012: £5.78m) with Basic Earnings per Share of 8.0p (2012: 11.8p). As set out in our trading update in January 2014, Group revenues and results were adversely impacted by revenue in Polyolefin foams which fell to £38.83m (2012: £42.30m) with customer destocking particularly in Continental Europe impacting performance. Sales in our High-Performance Products ('HPP') segment increased by 20% to £4.31m (2012: £3.60m), building on a 51% revenue increase the previous year, and I am pleased to say in 2013 generated a full-year segment profit for the first time. MuCell Extrusion LLC ('MEL') sales grew 17% to £1.56m (2012: £1.33m), with a 44% underlying growth rate masked by one of our earlier licensees making its final contractual payment in 2012.

Strategy

Zotefoams' strategy is to expand through a combination of profitable organic growth of our Polyolefin and HPP businesses, new customers for our MEL technology licensing business, and through partnerships or acquisitions in related technologies, products or markets.

Objectives

We target sales growth in our core polyolefin business in excess of twice the average rate of increase in GDP. Our largest markets are Europe and North America, served by factories in Croydon, UK and Kentucky, USA. Outside these regions our largest market is in Asia and in mid-2013 we signed a joint-venture agreement with INOAC Corporation of Japan to develop the Asian market further and build a factory in South Korea to supply this region. We are also committed to developing a portfolio of unique foam products from high-performance polymers with significant competitive advantages over rival materials. This will allow us to command higher margins and affirm our position as a leading foam technology company. We intend to achieve this growth while continuing to improve our operating margins and return on capital employed.

Corporate Governance

At Zotefoams, we recognise the importance of being a well managed business, not only for the interests of our shareholders, but for other stakeholders as well. The Board and I are committed to the highest standards of corporate governance and regularly monitor our compliance with the UK Corporate Governance Code.

People

On behalf of the Board I would like to thank all of our people whose skills and dedication are critical to the success of the business.

Dividend

In 2010 the Board adopted a progressive dividend policy subject to profit growth, investment requirements and the other needs of the business. I am pleased to say we intend to retain this policy and, based on our expectations for the future, the Board therefore proposes to increase its final dividend to 3.6p per ordinary share (2012: 3.5p) which, if approved by the shareholders, would make a total of 5.3p per ordinary share for the year (2012: 5.2p), an increase of 2%. If approved, the dividend will be paid on 28 May 2014 to shareholders on the register on 25 April 2014.

Outlook

So far in 2014 we have experienced good growth in Polyolefin foams, with demand levels in Europe and North America reflecting improved levels of activity in the marketplace and sales to Asia well up on early 2013. Levels of order intake are strong and, as planned, we are commissioning additional capacity early in the second quarter of this year. The outlook for our HPP foams and MEL licensing businesses remains positive and we are already seeing the benefit of the higher levels of business development activities in 2013, which we expect to translate into growth in 2014 and beyond. Sterling is currently stronger against our major trading currencies than last year and this is unfavourable for our business as the majority of our sales are in local currencies to markets outside the UK and the majority of our costs are sterling denominated. Raw material prices are at similar levels to 2013. The wide scope of Zotefoams' business means we are influenced by global economic conditions while the timing of sales from new products and markets, where higher growth rates are anticipated, can be somewhat difficult to predict. While being mindful of near-term economic conditions, the Board anticipates a return to growth and improvement in performance in 2014 and remains confident about the long-term prospects for our business.

Nigel Howard
Chairman
17 March 2014

For more information visit:
www.zotefoams.com

With a market leading presence in each of its business segments, Zotefoams operates and sells globally.

International success

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

Business Segments

Polyolefin

Lightweight foams produced in Croydon, UK and Kentucky, USA. The most common resin used is polyethylene.

Capital investment in capacity and infrastructure.

Joint-venture agreement signed in 2013 to develop the business in Asia.

Revenue
- Sales down 8% with customer destocking particularly in Continental Europe
- Strong levels of order intake in 2014 to date

Result
- Operating margin of 11%

Business Segment Revenue

£38.8M

For more information on Polyolefin see page 11.

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.

Revenue
- Growth of 20%
- Driven by strong performance of ZOTEK® F fluoropolymer foams in aerospace
- ZOTEK® F fluoropolymer foams accounts for c. 80% of segment sales
- Other products: T-Tubes®, Nylon and PEBA foams in earlier stages of market development

Result
- Generated a profit of £0.42m (2012: £0.08m loss)

Business Segment Revenue

£4.3M

For more information on HPP see page 12.

MEL

MEL technology injects high-pressure inert gases such as carbon dioxide or nitrogen into plastic extruders. The output is microcellular foam reducing the plastic content, and the cost, of the extruded part. MEL receives royalties usually based on the savings made by licensees.

Revenue
- Sales growth of 17%
- Underlying growth of 44% excluding a legacy licence paid up in 2012
- Equipment sales grew 63%

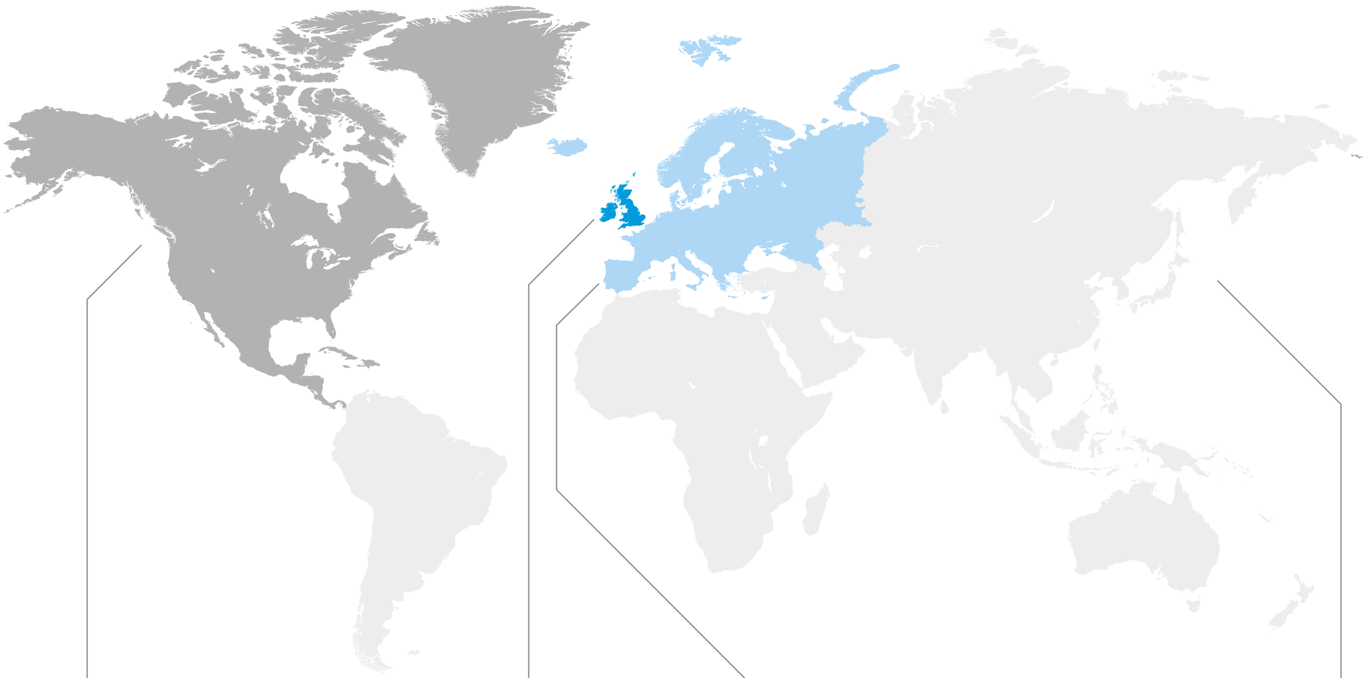
Result
- Generated a small loss (£0.14m) pre amortisation

Business Segment Revenue

£1.6M

For more information on MEL see page 14.

Sales by region



North America 28%

Polyolefin foams expanded in Kentucky, USA and MEL, which licenses its technology globally, based in Boston, Massachusetts.

Europe 42%

Served by foams produced in our UK manufacturing plant.

United Kingdom 21%

Polyolefin and HPP foams produced at Croydon which is the international headquarters of the business.

Rest of World 9%

Agreement signed with INOAC Corporation in 2013 to establish a sales JV in Hong Kong and a manufacturing JV in South Korea, which will be supplied from the UK.

Forward-looking statements

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

For more information visit:
www.zotefoams.com

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.

Our Business Model

Zotefoams is a speciality material and technology company. We are a world leader in cellular material technology and make foams for the most demanding applications within the markets in which we operate for our global portfolio of clients. Many of our products are highly differentiated based on our proprietary technology and some of our newer foams are truly unique. In addition, MuCell Extrusion LLC ('MEL'), our technology licensing business, has a powerful combination of patents and know-how around the creation of microcellular plastic foams.

Invest

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

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

We invest in our business processes, to improve operating efficiencies, to increase capacity to meet future demands and to reduce operating costs.

Create

We create value for our shareholders by differentiating ourselves from our competitors. Central to our competitive advantage are our proprietary processes for expanding extruded polymers into foam without the use of chemicals and our ability to provide products with specific attributes. We are active in many markets, both geographical and across industries. Our Polyolefin foams business is the backbone of our business. High-Performance Products ('HPP') and MEL are growing and taking us into other markets and will become additional value generators in the future.

Investing in operations overseas, we are creating further value for our shareholders by being able to produce our products locally to our customers and thus reducing shipping costs and improving our service.

Deliver

Delivering customer value is core to our business. We charge the right price to our customers to give a sustainable margin. We have a well established and loyal customer base that is global. Our customers value the benefits of our products and, for many we are the supplier of choice.

Our Strategy and Objectives

Zotefoams' strategy is to expand through a combination of profitable organic growth of our Polyolefin and High-Performance Products ('HPP') foams businesses, new customers for our MuCell Extrusion LLC ('MEL') technology licensing business, and through partnerships or acquisitions in related technologies, products or markets.

Key objectives

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

Grow
Grow sales in our Polyolefin business

Our objective is to grow sales in excess of twice GDP growth. Unfortunately, this was not achieved in 2013 with our sales of Polyolefin products (£38.83m) down by 8% from 2012 (£42.30m). This follows strong growth in recent years giving a compound annual growth rate of 7% pa from 2009 to 2013.

Develop
Develop a HPP portfolio and MEL customer base to deliver enhanced margins

HPP sales grew by 20% to £4.31m (2012: £3.60m) and generated a segment operating profit for the first time, building on a 51% revenue increase in 2012. MEL sales grew by 17% to £1.56m (2012: £1.33m), with a 44% underlying growth rate excluding a final contractual payment in 2012 by one of the larger licensees. We continue to invest in both businesses as we see potential for enhanced overall margins.

Improve
Improve our return on capital employed

In 2013 our return on average pre-tax capital employed ('ROCE') decreased to 12.9% (2012: 20.3%) (excluding intangible assets and their amortisation costs). Zotefoams is a capital intensive business and additional capacity is often added in single large investments. However, the Group's profitability performance is the main reason for the decline in this metric.

Profit
Increase our operating margins

Overall Group operating profit margin declined to 9.3% of sales (2012: 12.8%) primarily as a result of lower polyolefin sales.

Zotefoams focuses on making products which are lighter than competitive products and therefore use less plastic.

Managing Director's Q&A

David Stirling
Managing Director

Your Business Model talks about creating "defensible technology leadership" and "products with unique attributes". Can you explain this in more detail?
The manufacture of foam starts with a base polymer or plastic. This plastic is then subject to a foaming process to create a product with specific attributes or characteristics. These attributes are dependent on both the raw materials used and our unique foaming process. Zotefoams uses two proprietary foaming processes using high-pressure gas, typically nitrogen or carbon dioxide. Our autoclave process, with its main factory in Croydon, UK, is used to produce blocks of foam for sale to customers. Our MuCell Extrusion business, based in Woburn, Massachusetts, USA, licenses technology for plastic extrusion of items such as food packaging, automotive parts etc. These proprietary technologies, applied to readily available plastics, create foams with unique attributes valued by our customers.

Can you explain the markets served by Zotefoams block foams?
Block foams are sold worldwide but, as foam is bulky and expensive to transport, our largest markets are in Europe and North America, geographically close to the factories in Croydon, UK and in Walton, Kentucky, USA. Being close to our customers is beneficial, but not essential in all cases as can be seen by our limited presence in markets such as Japan, Australia and China which are supplied from the UK factory. In Walton we operate a 'satellite' process, with intermediate, non-foamed, material being shipped from Croydon for final expansion closer to the customer base, saving freight and thus ensuring our product is cost effective. In 2013 we signed an agreement to build a factory in South Korea, to supply the Asian market on the same basic principles that have been successful in developing our business in North America.

We primarily sell our block foams to foam converters who supply a wide variety of markets. High-end packaging (for example 'permanent' tool control, luxury packaging for consumer goods and long-term storage for museums), automotive, aerospace, sports and leisure, marine, industrial parts, building and construction are all significant markets for Zotefoams.

What products are sold to these markets?
Our Azote® polyolefin foams are sold into all these markets, and more. These products are made from a variety of polyolefin materials, such as LDPE, HDPE and variants thereof, which are widely available commodity polymers. From a small range of basic polymers we can vary end-product

> **"In 2013 we signed an agreement to build a factory in South Korea, to supply the Asian market on the same basic principles that have been successful in developing our business in North America."**

characteristics such as density and size by control of our foaming process, and colour, fire performance, electrical properties etc through the use of additives. Density is a critical factor in foaming and we typically work with foams that are between 2% and 5% solid material, although our lightest foams are about 1.5% solid material (ie almost 99% air). These products are then sold to foam converters who select them for their particular attributes depending on the end use.

Our ZOTEK® HPP ('High-Performance Products') block foams are made using the same high-pressure gas process. However their base polymers are chosen for specific properties such as physical performance, temperature, chemical and/or fire-resistance. These foams are truly unique and therefore Zotefoams works more closely with customers and end-users in the development of applications, where we compete with many different materials and complex composite systems.

Why does your technology create "value for your customer"?

Zotefoams' customers mainly value our materials for two reasons. Firstly, because they are more consistent than other similar foams, the foam converter can rely on this consistency to optimise their processes and material yield. Secondly, our customer sees value in selling our core attributes (such as better physical performance, lighter-weight, purity, consistency in colour and performance, chemical resistance, etc) to their customer.

Our MuCell Extrusion business operates differently. The value for customers is created mainly from reducing raw material use. Imagine a yoghurt pot which is typically made from thin, extruded plastic sheet which is then formed into a pot. MuCell has technology to add gas to the initial plastic extrusion, resulting in plastic sheet with two outer 'skin' layers and a foamed core. Properly designed to meet the specific requirements of the end use these sheets can reduce raw material content by over 20%, although 12-18% is more common. MuCell charges an ongoing royalty, typically a percentage of material cost savings, for our intellectual property. Occasionally MuCell licenses technology for other purposes and our business model is different, but in the main we are focused on material usage reduction in bottles, films and plastic sheet in the consumer packaging industry.

What market trends do you anticipate and how are you preparing Zotefoams to face these?

I see the main trends impacting our business as increased environmental awareness and increasing regulation on safety.

Zotefoams focuses on making products which are lighter than competitive products and therefore use less plastic. Whilst not all of our products are recyclable due to the cross-linking used in the extrusion process, we believe that it is better to manufacture a product that uses fewer resources, which is also durable and reusable, than to make a product that might be capable of being recycled, but uses more resources and has a short life expectancy. Most of our foams are used in demanding industrial applications where the foams are expected to perform for many years: aerospace, automotive and marine applications are typical examples. Even our packaging foams are mainly used for 'permanent' packaging, such as in a tool box where the foam is actually part of the product, or returnable packaging, as in the automotive industry where packaging is reused multiple times.

MuCell's business is focused in reducing raw material use. This is how we make our money. Everyone benefits from packaging which uses less plastic, costs less and is recyclable. We have been and will continue to invest in people resources in MuCell and add to our know-how and patented technology to ensure we are supporting industry in reducing the use of oil-based polymers.

Our HPP foams were developed to meet increasingly demanding technical applications, often driven by regulation. A good example of this is our ZOTEK® F fluoropolymer foam range, which meets stringent aviation standards for fire safety while being less than 2% solid polymer. These foams have since been adopted by NASA and the Federal Aviation Authority as well as used in our T-Tubes® insulation products in clean rooms for biotech and pharmaceutical companies, all driven by increasingly stringent regulation.

We continue to invest in process capability, in technology and in people to ensure our products are known, understood and available globally. Serving these trends and staying ahead of competition are key parts of our strategy to deliver sustainable margin and accelerated growth.

Strategic Report

David Stirling
Managing Director

Clifford Hurst
Finance Director

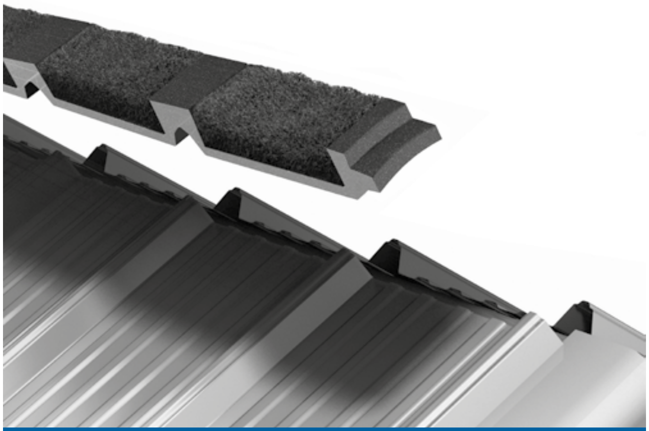
Zotefoams is the world leader in cellular materials technology. Using a unique manufacturing process with environmentally friendly nitrogen-gas expansion, Zotefoams produces lightweight foams in Croydon, UK and Kentucky, USA which it then sells through its global sales force to diverse markets worldwide.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

Business overview

Zotefoams' main business is as a value-added processor of plastics, using unique, high-pressure nitrogen gas technology to manufacture blocks of foam which are then sold through a network of customers who process those foams into parts for a wide variety of industries globally. We compete primarily through superior foam properties created by our technology. Our process offers significant barriers to entry due to capital cost, know-how and, in our HPP business, patents. Zotefoams block foams are sold, and often specified, under the Azote® and ZOTEK® brand names which are well-known in the industries we serve: automotive, aerospace, packaging, industrial parts, marine, building and construction, military and sports and leisure. The same basic high-pressure gas principles are core to our MuCell Extrusion business, where we have significant Intellectual Property ('IP'), including both know-how and patents, which is licensed to customers extruding plastic parts. The main benefit of the MuCell® technology is the reduction of polymer content of these parts, giving cost and environmental benefits to the users, and MuCell typically shares in these benefits by receiving a licence fee for IP and/or royalty on parts made.

Our foam blocks are manufactured at our Croydon facility where we operate autoclave technology to saturate polymer sheets. These 'gas-filled' sheets can then be expanded into foams with as little as 1.5% polymer by volume. This final expansion process is most economically done close to our customers so, in addition to capacity in Croydon, Zotefoams operates a foam expansion facility in Kentucky, USA to serve the North American market.

"Zotefoams' strategy is to expand through a combination of profitable organic growth of our Polyolefin and HPP foams businesses, new customers for our MuCell Extrusion technology licensing business, and through partnerships or acquisitions in related technologies, products or markets."



In the foam industry, where products are bulky and relatively costly to transport, operating close to the customer is important and competition from imports is more limited. In 2013, over 92% of Azote® and HPP sales were to Europe and North America. However approximately 8% of sales, mainly in more technically complex and valuable products in specific markets, were sold outside these territories with Asia, and Japan in particular, being important markets for Zotefoams, both now and in the future. In 2013 we signed an agreement with INOAC Corporation of Japan to accelerate and support development of the market in Asia for our Azote® Polyolefin foams. We are creating two 50:50 joint venture companies, one for sales and the other to invest in a foam expansion factory in South Korea which will be supplied from Zotefoams' factory in the UK and we are proceeding with obtaining the various planning and regulatory approvals.

Group sales were £44.63m (2012: £47.19m) while profit before tax was £3.86m (2012: £5.78m). The decline in sales was attributable to the Polyolefin foams segment, with our largest customer accounting for the majority of the impact as they reduced inventory levels. Growth in sales from MEL and HPP, along with a slightly more favourable exchange rate, was insufficient to offset the operational gearing impact from the sales decline in Polyolefin foams and increases in raw material and energy costs. The euro-denominated price of LDPE, our main raw material, was relatively stable throughout the year and the average price was 2% higher than in 2012, although the stronger euro meant that this translated, before hedging, to an increase of approximately 7% in sterling.

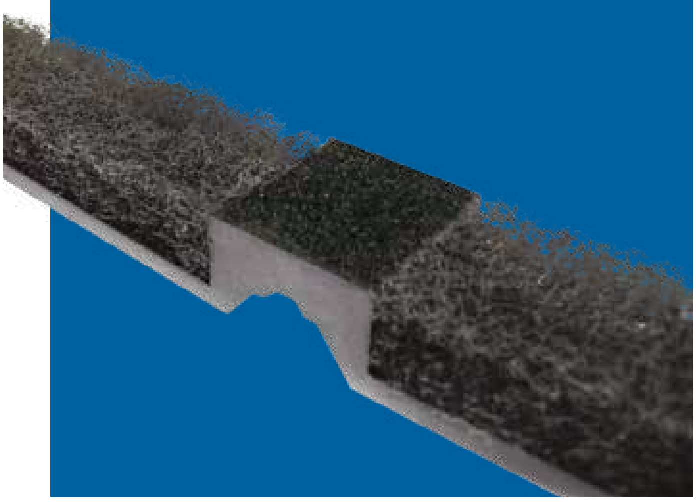
Zotefoams manages and reports its business in three main segments: Polyolefin foams, HPP foams and MEL.

Polyolefin foams sales were £38.83m (2012: £42.30m) generating a segment profit of £4.20m (2012: £6.43m). Volumes sold to UK customers reduced by approximately 4% with certain segments of the market being weaker than last year, while in North America we experienced a similar performance, although this was related more specifically to government sequestrations particularly in military and medical markets. Continental Europe saw the largest decline, with sales volumes decreasing by approximately 16%, mainly due to customer destocking in Germany where our largest customer built inventory during 2012 and reduced this in 2013.

Plastazote®
Marco Industries

Marco Industries, North America's leading supplier of closure materials for commercial and residential roofing systems is a proud customer of Zotefoams. Marco Industries has enjoyed significant growth in North America due to the success of LP2, a revolutionary and patented ventilation system developed to improve temperature control in metal roofing construction. The LP2 system eliminates the need for fans, turbines and louvers through its brilliant design.

LP2 is successful in part due to the usage of Plastazote® foam, specifically designed to complement a flame and tear-resistant recycled, fibre based polyester, also made by Marco Industries. The Plastazote® material was made in a thicker, two inch, dimension to provide the platform for the unique polyester product. The support and ease-of-handling characteristics provided by the Zotefoams material make for a highly desired product in the construction industry.



ZOTEK® Nylon Foam
Technoform Bautec

Technoform Bautec specialises in developing and producing high-precision polyamide insulation profiles for aluminium window and door frames and facades. They selected ZOTEK® nylon foam for these insulation profiles due to its high insulation values and ability to resist high temperature during the powder coating process of the frames and facades, thus enabling the insulation to be inserted prior to the powder coating process and thereby reducing the amount of fabrication work required and hence costs.

The Russian and Italian markets have been quick to realise the advantages offered by the use of ZOTEK® nylon foam in Technoform Bautec's products and other markets are expected to see the benefits in due course.

This inventory was reportedly put in place to mitigate the impact of longer lead times from Zotefoams in late 2011 and 2012 and, as our lead times reduced from early 2013, the inventory was not required. However, despite reporting a market inventory increase in the 2012 Annual Report, we misjudged the extent and timing of the inventory reduction. As a result we incurred excess costs from running our plant in the UK inefficiently during this period, with a similar average number of production employees despite the overall decline of approximately 11% in production volumes. We have put in place additional procedures for our major customers to ensure inventory management is more closely monitored and thus mitigating the impact on our business. In Asia we also saw some inventory reduction at a major customer, although the overall impact of this was much smaller and, with good underlying growth in the market, the total sales to Asia were marginally ahead of last year.

HPP sales increased 20% to £4.31m (2012: £3.60m) driven by the strong performance of ZOTEK® F fluoropolymer foams in the aerospace business. The HPP segment generated a profit of £0.42m against a loss of £0.08m in 2012, benefitting from the higher level of sales while expenditure remained relatively flat following our increased investment of the past few years. ZOTEK® F accounts for approximately 80% of our HPP segment sales, with other products, such as T-Tubes®, Nylon and ZOTEK® PEBA foams in earlier stages of market development. We are seeing more interest outside aviation for the benefits of excellent fire performance and chemical resistance of ZOTEK® F, and expect to see growth here adding to the still-increasing potential in the aviation industry. Encouragingly for Nylon, which is mainly of interest due to its performance at higher temperatures, and T-Tubes®, the advanced insulation system for clean room environments, we are seeing a strong start to 2014. ZOTEK® PEBA foam, which was previously marketed under Arkema's trademark Pebaxfoam®, is made from a very resilient polymer which is known for its energy management properties and is generating continued interest from the sports industry in particular. Commercialising some of these materials, particularly those like nylon foams which are aimed at high-end industrial applications, can take years of testing and design. However the value of these opportunities, many in specified applications which can have long life times, is potentially transformational for Zotefoams and we are pleased with their progress and remain positive about the long-term future of this portfolio of products.

"HPP sales grew by 20%, consolidating and building on a 51% increase in 2012. The HPP segment reported a full year profit for the first time with profit margins similar to the Polyolefin segment."

MEL, the third segment of our business, licenses technology for continuous foaming. In 2013, MEL reported sales growth of 17% to £1.56m (2012: £1.33m) and a small deficit before interest, tax, depreciation and amortisation (EBITDA) of £0.10m (2012: earnings of £0.01m). In 2012, as disclosed in our Interim Report, a licensee made a final payment on their licence. After adjusting for this licensee, MEL saw an increase in revenues of approximately 44%, driven by equipment sales which grew 63% year-on-year. While equipment sales have a relatively lower margin than licence and royalty income, the sales are a good indicator of the take-up rates of our technology and therefore of future royalty income. During 2013 MEL continued to focus on developing its markets in thin films and in extrusion blow moulding bottles, both for packaging, and in plastic sheets which have a variety of uses. Rather than attempting to license many users, we have focused on working with a more limited number of influential users in each of the film, bottle and sheet markets. We anticipate 2014 will bring good revenue growth, but, more importantly, we expect to see product launches validating this technology in these key markets. In addition, we are active in some more specialist markets, such as automotive ducting where we have a licence agreement with Kyoraku Group of Japan, and are developing our intellectual property across a variety of polymers, processing methods and product attributes.

In 2013, Group capital expenditure was £4.14m (2012: £3.68m) the majority of which was at our Croydon site in relation to our Azote® Polyolefin foams business. Two major projects began in 2013 that will continue into 2014: investment in a new ERP computer system and a major factory extension. One capacity improvement project for a new extruder has been delayed due to problems at an engineering contractor and the extruder, which brings approximately 17% additional capacity to this part of our process, is now expected to be operational in the second quarter of 2014. Investment in our new factory will give us the building capacity to meet future growth expectations, particularly in the HPP foams business. Our new ERP system, Microsoft Dynamics AX, was chosen to streamline internal processes and improve information availability, freeing up valuable management and staff time.

Strategy and objectives

Zotefoams' strategy is to expand through a combination of profitable organic growth of our Polyolefin and HPP foams businesses, new customers for our MEL technology licensing business, and through partnerships or acquisitions in related technologies, products or markets. In 2013, we did not make progress on three of our objectives as planned, with poor performance in our Polyolefin foams business being the main reason for this. Our stated objectives remain as:

- Sales growth in our Polyolefin business to exceed twice the average rate of GDP growth.
- Develop a HPP portfolio to deliver enhanced margins.
- Improve our operating margins.
- Improve our return on capital employed.

Performance against these objectives was as follows:

- Sales of Polyolefin foams declined by 8%, for reasons explained elsewhere in this Strategic Report.
- HPP sales grew by 20%, consolidating and building on a 51% increase in 2012. The HPP segment reported a full-year profit for the first time with profit margins similar to the Polyolefin segment.
- Group operating margins declined to 9.3% (2012: 12.8%).
- Pre-tax return on average capital employed, excluding intangible assets and their amortisation costs, decreased to 12.9% (2012: 20.3%). We indicated in our 2012 Annual Report that the investments planned for our Croydon site would adversely impact return on capital, however the Group's profitability performance is the main reason for the decline in this metric.

In 2014 we intend to focus on the same four key objectives in our business, although again return on capital employed will be impacted by the high levels of capital expenditure planned.

"The balance sheet remains strong with gearing at 2.9%."

MuCell Extrusion LLC
Coveris

Coveris, the world's sixth largest plastics packaging company, has launched a new, innovative polystyrene ('PS') sheet using proprietary technology from MuCell Extrusion LLC. Designed for the Form-Fill-Seal ('FFS') industry, NEOCELL® PS is a thermoformable and breakable co-extruded three-layer sheet with a gas-injected middle layer and external PS layers, highly suitable for dairy applications. The sheet innovation is adjustable to all kinds of FFS lines and its density, and therefore its properties, is adjustable by varying the quantity of the gas used. The new PS sheet achieves a density decrease of up to 24% without the use of chemical foaming agents. As a result, it maintains the product's functionality while improving the carbon footprint through a significant carbon dioxide reduction and the possibility to recycle waste.

Financial results

Changes in Accounting Policy

In 2013, Zotefoams adopted IAS 19 (revised) 'Employee benefits' and IFRS 13 'Fair value measurement'. For the year ended 31 December 2012 the restated pre-tax profit is £0.15 million lower. Further details of these changes in accounting policy are set out in note 1: Accounting Policies.

Income statement

Turnover fell by 5%, from £47.19m in 2012 to £44.63m. This impacted gross margins which fell by 3% to 26% (2012: 29.0%), primarily due to the operational gearing effect of the lower sales. Higher depreciation, material and energy prices were offset by selling price increases, cost reductions and slightly favourable exchange rates. Distribution and administrative expenses at £7.46m (2012: £7.64m) were 2% lower due to cost reductions. Overall profit before tax decreased from £5.78m to £3.86m.

The effective tax charge is 18% (2012: 20%), which is less than the UK corporation tax rate for the year of 23.3%. This is mainly due to lower future UK corporation tax rates reducing future deferred tax liabilities by £0.08m and a favourable £0.06m adjustment to the tax charge in respect of prior years.

Earnings per share and dividend

Group basic earnings per share were 8.0p (2012: 11.8p). The Directors are recommending a 0.1p increase in the final dividend to 3.6p per share, which, subject to shareholder approval, would be payable on 28 May 2014 to shareholders on the Company register at the close of business on 25 April 2014. This would bring the total dividend to 5.3p per ordinary share for the year (2012: 5.2p).

Cash flow and funding
Cash generated from operations increased by 6% to £6.63m (2012: £6.29m). Within this there was a £0.71m increase in net working capital (2012: £2.56m increase). The major component of the £1.43m inventory increase was to support the business growth in the HPP and MEL business segments, while receivables fell by £0.76m due to lower Polyolefin sales. Capital expenditure was £4.14m (2012: £3.68m) compared to depreciation and amortisation of £3.61m (2012: £3.31m). After tax and dividend payments, overall net debt increased by £0.50m to £1.12m (2012: £0.62m) at the end of the year. The balance sheet remains strong with gearing at 31 December 2013 of 2.9% (2012: 1.7%).

Pensions
The gross IAS19 deficit on the Company's Defined Benefit Pension Scheme (the 'Scheme') decreased by £2.89m to £4.28m (2012: £7.17m). This was primarily due to higher bond yields increasing the discount rate used to value the Scheme's liabilities, better than expected investment growth and the Company's contributions to the Scheme.

Following the April 2011 triennial actuarial review of the Scheme, the Company agreed with the Trustees to continue its current level of contributions into the Scheme of £55,000 per month until 30 September 2013 when, under the assumptions of the 2011 actuarial review, the deficit was expected to be eliminated. However, principally due to lower bond yields, this is not now expected to be the case and the Company has agreed to continue these contributions at £55,000 per month (previously after 30 September 2013 they would have reduced to £13,000 per month to cover the Scheme's expenses) until September 2014 when the results of the April 2014 actuarial review are expected to be available. The Company closed the Scheme to new members in 2001 and future accrual of benefit in 2005.

David Stirling
Managing Director

Clifford Hurst
Finance Director

17 March 2014

The Board of Directors believes that the Principal Risks and Uncertainties that the Company currently faces are as stated below. Regular risk reviews are undertaken to ensure that the major risks in the business, that could affect the Company's operations and financial performance, have been identified and that, where possible, mitigating actions and controls are put in place.

Principal Risks and Uncertainties

Risk and potential impact	Description
Operational	As the Company's operations are mainly on one site, a significant operational disruption could impact the ability to manufacture and supply products.
Supply chain	Certain of the Company's raw materials are sourced from single suppliers. Disruption in those supplies, either on a temporary or more permanent basis, could affect production and supply to the Company's customers and in certain defined circumstances have contractual commercial consequences which may result in customer claims.
Technology	The Company's processes for the manufacture of its products are substantially unique to the Company. Whilst the principles behind the processes are not confidential, the precise know-how is. A competitor could match or improve upon the properties and economics of the Company's processes and produce comparable (or better) products at lower prices. Key to the success of the business of MuCell Extrusion LLC ('MEL') is the strength of its intellectual property and, on the back of that, its ability to grant commercial licences. The risks to MEL are that its intellectual property becomes dated or its patents are successfully challenged and hence have no commercial value for being licensed.
Pension	The Company has a Defined Benefit Pension Scheme ('Scheme') and any inability of the Scheme to meet its liabilities to its members could, ultimately, be the responsibility of the Company.
Foreign exchange	The Company has significant exposure to foreign exchange fluctuations. The Company's operations are substantially based in the UK and, therefore, most of its manufacturing assets and costs are sterling denominated. The Company's customers are normally invoiced in their local currencies. In 2013, approximately 80% of the Company's revenue was in currencies other than sterling. The Company, therefore, generates surpluses in US dollars and euros, which are converted into sterling.
Macro economics	Most of our markets are exposed to general economic conditions. The Company is operationally geared and a fall in demand for its products could adversely impact the Company.
Financing	The Company needs to have sufficient cash, or be able to draw on loan facilities, to finance its operations and growth.
Commercial	Loss or failure of a major customer.
IT	The business is highly dependent on its ERP (Enterprise Resource Planning) system and is currently implementing a new system, which poses risks of there being flaws in the new system and/or a prolonged implementation.

Significant risks are reviewed by the Board and the Audit Committee. It is not possible to identify every risk that could affect the Company's business and the mitigating actions and controls that have been put in place may not provide absolute assurance that the risk will neither occur nor materially affect the Company's operations or financial performance.

Mitigation actions

The Company has extensive Safety, Health and Environment ('SHE') policies and procedures in place, which are 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 Environment Management Systems.

Regular training is provided on SHE matters to the staff.

Pressure equipment used is operated under the Pressure Systems Safety Regulations 2000 and is subject to systematic internal and frequent external inspections in accordance with the Safety Assessment Federation.

The Company and Zotefoams Inc. have extensive fire prevention systems in place. A programme is underway to improve further the systems in place on the Croydon site.

The Company has appropriate contingency plans in place in the event of the failure of certain major pieces of equipment.

Reporting of incidents, including 'near misses' and damage to plant or equipment not resulting in personal injury, is mandatory in order to track issues and to prevent reoccurrences.

Insurance is in place to cover capital restatement and loss of profits in the event of operational disruption caused by certain events.

Wherever possible, supplies are sourced from more than one supplier or location. However, this is not always possible, due to the special nature of the raw materials used.

The Company continually monitors suppliers and undertakes research of alternative suppliers that could be used and the resulting products that could be offered to the Company's customers as substitutes.

There are high barriers of entry to replicate our processes. Significant capital investment is required for the autoclaves as well as long lead times for their manufacture.

The Company has a constant flow of product variants to keep its product offering diversified.

The development of High-Performance Products ('HPP') and MEL, where the product offerings are unique and protected by both patents and process capability, opens up new markets for the Company with potential significant and lasting differential advantages.

MEL actively maintains and updates its intellectual property portfolio to ensure it is current. This is done by undertaking research and development to add new patents to the portfolio and obtaining licences of key third-party patents, which are complementary to the existing portfolio.

The portfolio is not dependent on any particular patent or licence, therefore if a patent is successfully challenged, MEL is still able to license its technology.

To minimise the risk to the Company of meeting the obligations under the Scheme, the Company closed the Scheme to new members in 2001 and closed it to future accrual of benefits in 2005.

The Company had committed to paying £42k monthly to the Defined Benefit Pension Scheme to September 2013 to eliminate the deficit based on the actuarial valuation in April 2011. As at April 2013, an indicative valuation of the Scheme showed a deficit of £5.5m and the Company has therefore continued its contributions to September 2014 when it is expected the results of the 2014 triennial review will be available.

The Company tries to minimise its foreign exposure by making its purchases either in euros or US dollars. For example, there are US dollar costs associated with the Company's operations in Kentucky USA and with MEL. In addition, the majority of the Company's raw materials are purchased in euros.

The Company hedges a proportion of its exposure to foreign exchange for the next nine months by using forward exchange contracts.

The Company, like most public companies, does not hedge for translating its foreign subsidiaries' assets or liabilities in the consolidation of its group accounts.

The Company's markets are spread geographically and across a number of markets. The Company's experience is that in these circumstances operational labour costs can be reduced, polymer prices generally fall with reduced economic demand giving a cost benefit and cash can be generated from reducing working capital and slowing capital expenditure projects to help offset the effects of a downturn. The Company has always maintained a low financial gearing to give it operational flexibility in a downturn. Going forward the growth of the Company's HPP and MEL businesses should take the Company into less cyclical markets.

The Company has strong cash generation from its operations.

The Company has:
- a £4.9m overdraft facility (payable on demand);
- a £3.3m loan facility taken out in January 2009 (£3.1m had been repaid at 31 December 2013); and
- £3.5m loan facility taken out in December 2012 (£0.6m had been repaid at 31 December 2013).

Both loan facilities are repayable over five years and have no major financial operating covenants, but are secured against certain items of plant and equipment.

The Company's largest customers are distributors and converters of foam. The Company has good knowledge of the end-customers of its major customers and, with some additional short-term work, would be able to bring or identify additional converter capacity to service these markets. The risk for constructing a satellite plant in Asia has been mitigated by partnering with the plant's major customer.

The new system chosen, Microsoft Dynamics AX, is proven in a large number of companies worldwide. The implementation's risk is minimised by use of experienced and reputable consultants as well as the appointment of a suitably qualified, dedicated project manager. An ERP Steering Committee comprising the most senior Executives in the Group, reports directly to the Board.

Zotefoams considers that the management of safety, health, environmental, social and ethical matters forms a key element of effective corporate governance.

Corporate Social Responsibility Report

Safety, Health and Environment ('SHE')

The Board has in place separate policies relating to Safety, Health and Environment. The Company is certified to accredited standards OHSAS 18001 on Health and Safety and ISO 14001, the International Standard for Environmental Management Systems, and is regularly audited by those bodies to ensure that the Company complies with those standards.

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

The Managing Director is directly responsible to the Board for Safety, Health and Environmental performance. Site Committees on SHE meet at least once a quarter to consider all SHE matters and are overseen by Steering Committees, chaired by the Managing Director (or appropriate responsible person in subsidiary companies). The Steering Committees meet quarterly to consider overall performance and the impact of current and impending legislation. The Company has an Occupational Health and Safety and Environmental Adviser who supports these groups.

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

In 2013, the Company established on its Croydon site an Occupational Health, Safety and Environmental ('OHSE') Centre, to centralise all safety, environmental and compliance activities, including record keeping and monitoring of safe systems of work of all activity carried out on the Croydon site.

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

All SHE events are investigated by appropriate levels of management to ascertain the root cause of the event and, wherever possible, working practices and procedures are improved to minimise the risk of re-occurrence. In 2013, there were no prosecutions, fines or enforcement actions taken as a result of non-compliance with safety, health or environmental legislation (2012: none).

Health and safety performance

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

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

In 2013 there were six reportable lost time injuries throughout the Group. Four were related to manual handling and the other two were minor injuries to fingers. All incidents have been fully investigated and appropriate corrective actions have been taken.

"The process used by Zotefoams to manufacture foam is one of the most environmentally friendly methods to manufacture cross-linked polymer foams."

Year	2013	2012	2011
Reportable lost time injuries	**6**	5	8

Environmental performance

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

In 2013 the Group had seven internally recorded environmental incidents (2012: 14).

In 2013, there were no noise or other complaints (2012: 8). Due to the close proximity of the Croydon site to residential areas, the Company occasionally will receive a complaint, normally concerning noise. Any such complaint is taken seriously and is investigated and a response given. The Company takes a proactive approach with its neighbours and tries to keep them informed of situations that might cause disturbances. For example, with the Company expanding its facilities on the Croydon site, there has been an increase in traffic on site and noise from the building activity. Whilst all building activity has been undertaken in accordance with planning permission and the majority of the activity has been on the part of the site furthest away from the residential areas, some of the activity has been in an area closer to the residential areas. In such cases, the Company advised its neighbours ahead of the work commencing, of the work being done, the duration of it and the times when it would be done.

There was one environmental incident in 2013, which was a minor oil leak (2012: 4 incidents of minor chemical or oil spills). The incident was dealt with appropriately and had no significant environmental impact. There was one incident of release of nitrogen gas into the air from a bursting disk (2012: 2). While Zotefoams records this as an environmental incident, principally on the grounds of loss of production and noise, the bursting disks are an essential part of the statutory safety regime for the high pressure equipment and are evidence that the safety systems of the plant are functioning as intended.

There were five incidents of the incorrect disposal of spent materials, which were removed and correctly disposed of and training given to the workforce as regards their correct disposal.

The majority of the waste produced by Zotefoams in the UK is either solid or foamed polyolefin. Unfortunately, due to the essential cross-linking step used on the polymers to manufacture the foams, recycling by being melt processed (the process used to recycle most plastics) is more complicated and not economically favourable.

In 2013, 442 tonnes of waste was sent to landfill from the main site in Croydon (2012: 638 tonnes).

In 2013, water consumption decreased to 39,000m^3 from 49,000m^3 in 2012. Whilst water consumption has decreased, the Company wishes to reduce this further and in 2014 is installing water meters throughout the Croydon site to gain a better understanding of how and where it uses water.

In 2013, the Group ran various initiatives in the UK to reduce its energy consumption. This work has led to a reduction of the energy base load of the Croydon site. Some energy reduction initiatives have been relatively simple to complete, such as installing rapid rise doors to the entrances of the factory, thereby minimising heat losses. Other initiatives will take longer to complete, such as using heat recovery from flue gases and reducing the cycle times for the high pressure operating vessels.

The Group regularly monitors its energy consumption, not only to reduce its carbon footprint but, with increasing energy prices, to keep the costs on its products at acceptable levels. In the second half of 2013, the Group commenced a project to install sub-meters throughout the Croydon site to monitor the specific energy consumption of individual plant and machinery so that further strategies can be developed to reduce the Group's energy consumption. The sub-meters for electricity were operational at the beginning of 2014 and sub-meters for monitoring gas consumption will be installed later in 2014.

We measure energy efficiency by taking energy consumption and dividing it by the amount of material (in kg) that passes through high-pressure vessels. In 2013, our energy

"The Group's people are a key part of the success of the businesses."

Corporate Social Responsibility Report continued

efficiency deteriorated to 12.3 kwhr/kg (2012: 11.6 kwhr/kg). This was due to lower volumes being produced in 2013 and, therefore, plant and machinery capacity being underutilised. With the various initiatives underway, we expect energy efficiency to improve in 2014.

In October 2009, the Group in the UK entered into a Climate Change Levy ('CCL') agreement, which involves meeting specific targets to reduce energy consumption. Providing the Group 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	**2013**	2012	2011
Internally recorded environmental incidents	**7**	14	13
Waste sent to landfill (tonnes)	**442**	638	757
Water consumption (000s m^3)	**39**	49	38
Energy consumption (kwhr/kg)	**12.3**	11.6	11.7

Carbon emissions

The Group's total carbon emissions for all its operations globally were 17,052 metric tonnes for the year ended 31 December 2013. This figure may be broken down as follows:

Description	Emission total (tonnes)
Emissions arising directly from our operations (including fuel used in our vehicles)	204
Indirect emissions – use of energy (electricity and gas)	16,848
Total	17,052

Our principal carbon emissions have been from our energy usage in manufacturing our foam products in both Croydon and Kentucky, USA. The carbon emissions from MuCell Extrusion LLC are minimal.

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

For our carbon emissions, we have decided to use the metric of carbon emissions (kg) per kg of material processed in our high-pressure vessels. We feel this is the most appropriate metric, as it will cover all the material that we produce, including any material that might be scrapped. We use a similar metric for our CCL agreement. For 2013, our carbon emissions (kg) per material gassed (kg) is 2.6.

Equality and diversity

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

At 31 December 2013, the Group had 290 employees and four Non-Executive Directors. The breakdown of those employees and Non-Executive Directors is as follows:

	Male	Female
Non-Executive Directors	3	1
Executive Directors	2	0
Senior Managers	4	0
Other Employees	236	48
Total	245	49

> "The Group is committed to high standards of business conduct and seeks to maintain these standards across all of our operations throughout the world."

Human rights
The Group does not, at present, have a specific policy on human rights. However, we have several policies that promote the principles of human rights.

In the Group's ethics policy, which may be found on the Zotefoams' website, we state that we will respect the human rights of all our employees, including:
- ensuring our employees have the freedom to join a union, associate or bargain collectively without fear of discrimination against the exercise of such freedoms;
- not using forced labour or child labour; and
- respecting the rights of privacy of our employees and protecting access and use of their personal information.

Supporting our ethics policy, we also have an equal opportunities policy and a dignity at work policy, which promote the right of every employee to be treated with dignity and respect and not to be harassed or bullied on any grounds.

Employee involvement
The Group places considerable value on the involvement of its people 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. In the UK, the Group operates a Joint Consultative Committee ('JCC'), which comprises an employee representative covering each department. The JCC meets regularly and considers a wide range of matters affecting the employees' current and future interests.

Business ethics
The Group is committed to high standards of business conduct and seeks to maintain these standards across all of our operations throughout the world. Under the Group's ethics policy, we state that we will:
- operate within the law;
- not tolerate any discrimination or harassment;
- not make any political donations;
- not make or receive bribes;
- avoid situations that might give rise to conflicts of interest;
- not enter into any activity that might be considered to be anti-competitive;
- aim to be a responsible company within our local communities; and
- support and encourage our employees to report, in confidence, any suspicions of wrong doing.

Supporting our ethics policy, we have policies on anti-bribery and corruption, anti-fraud, employee share trading and whistleblowing. Our policies are included in the employee handbook and employees are made aware of them on joining the Group. For those employees, such as the sales staff, who work in areas that are considered to carry a greater risk, regular training is provided on anti-bribery and anti non-competitive trading practices.

Board of Directors

David Stirling
Managing Director

Appointed: September 1997 (Finance Director) and May 2000 (Managing Director)

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

External appointment: Non-Executive Director of Bac2 Limited

Nigel Howard
Non-Executive Chairman
Chair of the Nominations Committee and member of the Remuneration Committee

Appointed: January 2006 (Board) and January 2007 (Chairman)

Skills and experience: Nigel was a Director of Morgan Crucible plc (now known as Morgan Advanced Materials plc), where he worked for over 36 years in a number of roles including Interim Chief Executive. Nigel is a graduate of Harvard Business School ISMP Program.

External appointment: Non-Executive Director of Alliance One International Inc (NYSE: AOI)

Clifford Hurst
Finance Director

Appointed: October 2000

Skills and experience: Clifford trained with Ernst & Young. He then worked for ICI plc and Caradon plc. Before joining Zotefoams plc, Clifford was the Finance Director and then became the Commercial Director of Thermos Limited. Clifford is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Association of Corporate Treasurers.

Marie-Louise Clayton
Non-Executive Director
Chair of the Audit Committee and member of the Nominations and Remuneration Committees

Appointed: July 2011

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

External appointment: Non-Executive Director of Geoffrey Osborne Ltd, Diploma plc and Independent Oil and Gas plc

Richard Clowes
Senior Independent Non-Executive Director
Chair of the Remuneration Committee and member of the Audit and Nominations Committees

Appointed: July 2007

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

Alex Walker
Non-Executive Director
Member of the Audit, Nominations and Remuneration Committees

Appointed: July 2011

Skills and experience: Alex spent most of his career at Yule Catto & Co plc (now known as Sythomer plc), where he was Chief Executive for the South East Asia operations before becoming the Group Chief Executive. Alex has also been a Non-Executive Director of Rotork plc and chaired its Remuneration Committee.

External appointment: Non-Executive Chairman of Spirent Communications plc

Directors' Report

The Directors present their Annual Report and audited consolidated financial statements for the year ended 31 December 2013.

Results and dividends

Profit attributable to shareholders for the year amounted to £3.16m (2012: £4.61m). An interim dividend of 1.7p (2012: 1.7p) per share was paid on 10 October 2013. The Directors recommend that a final dividend of 3.6p (2012: 3.5p) per share be paid on 28 May 2014 to shareholders who are on the Company's register at the close of business on 25 April 2014. This makes a total dividend of 5.3p per share for the year (2012: 5.2p).

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 22 and 23 served throughout the year. 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 their appointment and normally every three years thereafter. As was the case for the last two AGMs, the Board has decided to follow best practice and all Directors will stand for annual re-election at this year's AGM, notwithstanding that this specific requirement in the UK Corporate Governance Code is for FTSE350 companies.

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 letters of appointment which are terminable on six months' written notice.

The Company has issued Deeds of Indemnity in favour of all of the Directors. These Deeds were in force throughout the year ended 31 December 2013 and remain in force as at the date of this report. These Deeds, as well as the service contracts and the Company's Articles of Association are available for inspection during normal business hours at the Company's registered office and will be available at the AGM and 15 minutes before the meeting.

Conflicts of interest

All Directors submit details to the Company Secretary of any new situations, or changes to existing ones, which may give rise to an actual or potential conflict of interest with those of the Company. On an annual basis, the Company Secretary seeks confirmation from the Directors of their interests, which are reviewed by the 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 conflicted matter. Authorisation of a conflict is only given by Directors who are not interested in the matter.

Amendment to the Articles of Association

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

Corporate Governance

The Corporate Governance Report on pages 26 to 29 should be read as forming part of the Directors' Report.

Employees

To ensure employee welfare, the Group has documented, and well publicised, policies on occupational health and safety, the environment and training. The Group operates an equal opportunities, single status employment policy, together with an open management style. The Company operates to a number of recognised industry standards including Quality (ISO 9001), Environmental (ISO 14001) and Occupational Health and Safety (OHSAS 18001) 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 pages 20 and 21.

Substantial shareholdings

As at 17 March 2014, 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	13.5%
Schroder Investment Management	4,970,523	12.5%
Sekisui Alveo AG	3,814,762	9.6%
Miton Capital Partners	2,412,402	6.1%
J M Finn Stockbrokers	1,986,843	5.0%
Marc and Claire Downes	1,600,000	4.0%
Nicholas Adrian Beaumont-Dark	1,418,000	3.6%

The holding held by BlackRock Inc. includes notified holdings on behalf of BlackRock Emerging Companies Hedge Fund (2,740,941 shares, 6.9%) and BlackRock UK Smaller Companies Fund (1,919,285 shares, 4.8%).

Directors' shareholdings are shown in the Directors' Remuneration Report on page 44.

Research and development

The amount spent by the Group on R&D in the year was £1,014,000 (2012: £869,000). 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.

Share capital and reserves

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

At 31 December 2013, the Zotefoams Employee Benefit Trust ('EBT') held 418,750 shares (approximately 1.05% of the issued share capital) (2012: 719,262 shares, approximately 1.8% of the issued share capital at 31 December 2012) to satisfy share plans as described in the Directors' Remuneration Report. In accordance with best practice, the voting rights on the shares held in the EBT are not exercised and the right to receive dividends has been waived. During the year, the EBT issued 355,848 shares in respect of these share plans and 55,336 shares were bought back to satisfy future share awards.

At the AGM held on 15 May 2013, authority was given to the Directors to allot unissued shares in the Company up to a maximum amount equivalent to approximately two thirds of the issued share capital of the Company. 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, which at the date of this Report had not been used, expire at the AGM to be held on 20 May 2014 and the Directors propose to renew them for a further year.

At the AGM held on 15 May 2013, the Company was given authority to purchase up to 3,983,131 of its ordinary shares. This authority will expire at the 2014 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 this authority to make market purchases up to a maximum of 10% of the issued share capital of the Company.

Subsidiaries and branches
Details of the subsidiaries and branches within the Group are given in note 11 on pages 73 to 74.

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 pages 16 and 17 and in note 19 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.

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

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

By order of the Board

J W Kindell
Company Secretary
17 March 2014

Corporate Governance

Zotefoams plc Board

Nigel Howard Non-Executive Chairman
David Stirling Managing Director
Clifford Hurst Finance Director
Marie-Louise Clayton Non-Executive Director
Richard Clowes Senior Independent Non-Executive Director
Alex Walker Non-Executive Director

Audit Committee

Marie-Louise Clayton – (Chair)
Richard Clowes
Alex Walker

Remuneration Committee

Richard Clowes – (Chair)
Nigel Howard
Marie-Louise Clayton
Alex Walker

Nominations Committee

Nigel Howard – (Chair)
Marie-Louise Clayton
Richard Clowes
Alex Walker

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

The Company complied with all of the Code's provisions for the year ended 31 December 2013.

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

The Board has put in place a schedule of matters that are reserved for its determination or which need to be reported to the Board. This schedule is reviewed regularly and was last updated in February 2013.

Attendance details for 2013 by the Directors for meetings of the Board and these Committees are shown below:

	Board meetings		Audit Committee meetings		Remuneration Committee meetings		Nominations Committee meetings	
Attendance at meetings	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
M-L Clayton	9	8	4	4	7	7	3	3
R J Clowes	9	9	4	4	7	7	3	3
N G Howard	9	9	n/a	n/a	7	7	3	3
C G Hurst	9	9	n/a	n/a	n/a	n/a	n/a	n/a
D B Stirling	9	9	n/a	n/a	n/a	n/a	n/a	n/a
A Walker	9	9	4	4	7	7	3	3

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 Board considers that N G Howard has sufficient time to devote to his role as being the Chairman of the Company. Mr Howard only has one other significant commitment, which is being a non-executive director of Alliance One International Inc. (listed on the New York Stock Exchange).

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

Board balance and independence
Throughout 2013, the Board structure has comprised two Executive Directors, three independent Non-Executive Directors and the Non-Executive Chairman. R J Clowes has acted as the Senior Independent Director throughout 2013.

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

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

The Nominations Committee comprises the Chairman, N G Howard (who is Chair of the Nominations Committee), and the three independent Non-Executive Directors. The Committee operates within a defined set of terms of reference from the Board and is responsible for putting in place succession plans for the Board (in particular the Chairman and the Managing Director), reviewing the continuation in office of the Directors, managing the recruitment of new Board members within a specification set by the Board and annually reviewing conflicts of interest authorisations granted to any Board members. The Committee met three times in 2013 to perform its duties as set out in its terms of reference. The terms of reference were last reviewed in March 2014 and may be found on the Company's website.

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 and therefore no specific quotas have been set. Search consultants are briefed of these criteria and are encouraged to cast their search sufficiently broadly to identify the best candidates. Care is taken to ensure that appointees, as well as the existing Directors, have sufficient time to devote to their roles. The Board appointed in 2011 two independent Non-Executive Directors and, therefore, it was not considered necessary to make any further appointments in 2013.

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

Board evaluation
A formal review of the performance of the Board and Committee performance is carried out each year. 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. The Executive Team's 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).

Corporate Governance continued

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 in consultation with the Company Secretary. These take the form of a questionnaire and a discussion reviewing the work undertaken during the year and actions agreed. Due to the Company's size, the Board feels, at this stage, it is not appropriate to use the services of an external facilitator for its annual evaluation, but will keep the matter under review.

Following its review, the Board has decided in 2014 to trial a new format for the structure of the meetings of the Board and its Committees. Committee meetings are now being held in the afternoon of the day preceding the Board meeting. This enables the Non-Executive Directors to have more time to meet management and staff, meet together in the evening to discuss matters, but also allows the day of the actual Board meeting to be entirely focused on Board matters.

At the beginning of 2013, the Board started a trial of using one of the commercially available electronic packages for the secure and prompt distribution, access and storage of Board information for its meetings. From the Board evaluation, the feedback has been very positive and the Board intends to continue using such a product.

The Board also identified that succession planning, which it fully recognises is always difficult for any company of Zotefoams' size, should be given further consideration and various actions have already commenced on this aspect.

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 normally once every three years thereafter. However the Code requires all directors of FTSE350 companies to stand for annual re-election. Although the Company is not within the FTSE350, the majority of Main Market Listed companies have now adopted the practice for all their directors to stand for annual re-election. The Board has decided, as has been the case for the last couple of years, that all of the Directors will stand for annual re-election at the 2014 AGM.

Remuneration Committee and executive remuneration

The Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the UK Corporate Governance Code. R J Clowes, M-L Clayton, N G Howard and A Walker were members of the Committee throughout 2013 to the date of this report. All the members are independent Non-Executive Directors, with the exception of N G Howard, who was independent on appointment as Chairman of the Company. The Committee was chaired throughout 2013 by R J Clowes. The Committee's terms of reference were last reviewed in March 2014 and may be found on the Company's website.

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

In 2013, the Committee met seven times and considered the following matters:

- the benchmarking of remuneration for the Executive Directors;
- the selection of a new remuneration consultant and setting their brief;
- the Directors' Remuneration Report for 2012 and relevant matters;
- the annual bonuses for the Executive Team and the employees;
- the grant of HMRC Approved Share Options;
- the grant of awards under the Long-Term Incentive Plan and the Deferred Bonus Share Plan and the vesting of awards made in 2010 under these plans;
- the salary review of the Executive Team and the Company Secretary;
- the remuneration of the Chairman; and
- evaluation of its effectiveness in 2013.

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 Auditors.

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 Strategic Report on pages 10 to 15 and the section entitled 'Principal Risks and Uncertainties' on pages 16 and 17. This also describes the financial position of the Company, its cash flows and liquidity position. In addition, note 19 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 willing, where practicable, to discuss with its shareholders its objectives to promote a mutual understanding. Meetings with institutional shareholders are held twice a year following the announcements of the Group's interim and final results. Other meetings are held at institutional shareholders' request. To ensure that the Board, particularly the Non-Executive Directors, understands the views of the shareholders, the Company's corporate brokers provide summary feedback from the investor meetings that they arrange, in particular the meetings held following the interim and final results announcements. The Chairman and R J Clowes (the Senior Independent Non-Executive Director) are available to meet institutional shareholders, as well as the other Non-Executive Directors, if requested.

The Board considers the Annual Report and financial statements and the AGM to be the primary vehicles for communication with private investors. The Chairs of the Audit and Remuneration Committees will normally be present to speak at the AGM. The Chairman, being also the Chair of the Nominations Committee, will normally be present as well. The corporate website www.zotefoams.com contains further 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, as well as how it is reported to the Board. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Board has also performed a specific assessment for the purpose of this Annual Report. This assessment considered all the significant aspects of internal control arising during the period covered by the report. The 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.

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

Control procedures

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

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

Monitoring and corrective action

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

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

Remuneration Report

Statement of the Chair of the Remuneration Committee

Dear Shareholders

I am pleased to present the Remuneration Report for the year ended 31 December 2013.

New disclosure requirements in relation to the Directors' Remuneration Report were passed into law from October 2013, and this year's report complies with the new regulations.

Remuneration policy

At the beginning of 2013, the Remuneration Committee had engaged its remuneration consultant, MM&K Limited, to undertake a brief benchmarking exercise of the Company's practices for remunerating its executives. The outcome of this had highlighted that some of our executive remuneration practices may have fallen behind where we wished to place the level of remuneration for our executives. With this in mind and coupled with the new law coming in October 2013, the Remuneration Committee decided that it was appropriate to have a full review of the Company's remuneration strategy in order to develop the remuneration policy which is being submitted for approval at the AGM. A tender document was drafted by the Remuneration Committee and sent to four remuneration consultants, all of whom responded and, after having met with two of them, Deloitte LLP was selected by the Committee as the successful candidate.

With the assistance of Deloitte LLP, the Remuneration Committee has developed a remuneration policy for the next three years which the Committee and I believe offers an appropriate level of remuneration to attract, retain and motivate the executive management of the quality that is required to run and grow the Company successfully for the long-term by creating value for our shareholders.

Overall, our remuneration strategy is to provide a base remuneration below the market median, with enhanced short and longer-term bonus opportunities based on growth and financial objectives providing executives with above median total possible rewards. The main elements of our new remuneration strategy are:

- to continue to set base salary based on the market for similar companies;
- the maximum opportunity for the annual bonus to remain at 100% of base salary, but 25% of any bonus earned to be awarded in restricted shares under the Company's existing Deferred Bonus Share Plan ('DBSP'). Previously, only the element of the bonus that exceeded 40% of salary was awarded in DBSP shares. In line with what has become best practice, the Committee felt that it was appropriate for an element of any bonus paid to be deferred.
- the maximum opportunity for the Company's Long-Term Incentive Plan ('LTIP') to be set at 100% of base salary (previously we had set it at 50% of base salary), but more stretching performance targets to be used. This change was to bring the level of incentive under our LTIP in line with other companies. The performance targets will still continue to be based on absolute Total Shareholder Return (ie share price increase plus dividends) and Earnings per Share;
- awards still to be made under the Company's 2008 Approved Share Option Plan ('ASOP') subject to the statutory limit as set out in the Plan's rules. The Committee felt that whilst the awards were relatively small (currently a maximum holding of £30k), the Executive Directors still valued them due to the tax benefits that were available under the scheme;
- introduction of a minimum shareholding policy for the Executive Directors (see page 44 for further details); and
- use of a Malus arrangement to forfeit unvested awards in certain pre-defined circumstances (see page 36 for further details). The use of a Malus arrangement has become increasingly common with companies and the Committee felt that the introduction of such an arrangement was appropriate to protect the interests of the shareholders.

Performance in 2013 and conclusion

The Company had a disappointing year in 2013 and as a consequence the performance targets for the 2013 annual bonus were not achieved. The vesting of the 2011 awards made under the Long-Term Incentive Plan will be 24.8% of the maximum opportunity. It is important to incentivise the Directors appropriately, to ensure that they deliver on the Company's strategy for growth and its HPP business. The Remuneration Committee and I believe that the revisions to our remuneration strategy are aligned with the Company's strategy.

I hope that shareholders will be supportive of both the binding resolution on the Policy Report and the advisory resolution on the Annual Report on Remuneration. As always, I will be available at the AGM to answer any questions you may have.

R J Clowes
Chair – Remuneration Committee
17 March 2014

Introduction

Directors' Remuneration Report for the year ended 31 December 2013

The Directors' Remuneration Report has been prepared in accordance with the relevant provisions of the Listing Rules, section 421 of Companies Act 2006 and Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations').

In line with the new reporting Regulations, this report is split into two sections:

- The Directors' **Policy Report** which is intended to last three years and will be effective from the date of the 2014 AGM (20 May 2014). This section of the report will be subject to a binding shareholder vote at the 2014 AGM.
- The **Annual Report on Remuneration** which provides details on how Directors were paid in 2013 and how we intend to implement the remuneration policy in 2014. This section of the report will be subject to an advisory shareholder vote at the 2014 AGM.

Policy report

The following sections sets out our Directors' Remuneration Policy (the 'Policy') which will be put forward for shareholder approval at the 2014 AGM. This Policy will apply to payments made from 20 May 2014.

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out below where the terms of the payment were agreed (i) before the Policy came into effect or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes the term 'payments' includes (but is not limited to) the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

The Remuneration Committee may also make minor amendments to the Policy set out below (for regulatory, exchange control, tax or administrative purposes or to take account of changes in legislation) without obtaining shareholder approval for that amendment.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Base salary	To help recruit and retain Executive Directors of the calibre required to develop and deliver the business strategy.	The Committee sets base salary taking into consideration: • the individual's experience, performance and skills; • the scope of the role; • pay and conditions elsewhere in the Company; and • external market benchmark data in other similar sized companies. Normally reviewed annually, with increases effective from 1 April, however the Committee may review them more frequently where it considers this appropriate. Paid in cash.	While there is no maximum opportunity for base salary, base salary increases for Executive Directors will be considered in the context of increases for other employees in the Company. In specific circumstances, including but not limited to: • where the Committee has set the base salary for a newly appointed Executive Director at lower than the market level for such a role to allow for the individual to progress into the role; or • where, in the Committee's opinion, there has been a significant increase in the size or scope of an Executive Director's role or responsibilities the Committee may award increases above this level.	N/A

Remuneration Report continued

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

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Pension	To provide Executive Directors with competitive post-retirement benefits and reward sustained contribution.	The current Executive Directors participate in a defined contribution pension plan and are deferred members of the closed defined benefit pension plan. The terms of the contribution to the defined contribution plan were agreed at the time of closure of the Zotefoams defined benefit pension scheme, and therefore include a commitment to current Executive Directors to increase the level of contribution by 3% every five years. The policy for a new Executive Director is either to participate in a defined contribution pension plan or receive a cash allowance in lieu of pension. There will be no contractual commitment to increase the level of contribution every five years.	Currently the level of contribution is as follows: D B Stirling – 12.75% pensionable salary C G Hurst – 13.75% pensionable salary There is a commitment to increase the level of contribution by 3% of pensionable salary every five years. The next increase will apply from 2016, during the intended effective period of this remuneration policy. Therefore the maximum opportunity for the duration of this policy will be as follows: D B Stirling – 15.75% pensionable salary C G Hurst – 16.75% pensionable salary. The defined benefit pension plan is closed to future accruals, however legacy arrangements will continue to be honoured. Contributions for new Executive Directors will be set at the time of the relevant appointment taking into account the individual's circumstances and relevant market practice.	N/A

Remuneration Report continued

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Annual bonus	Incentivise Executive Directors to achieve specific financial and predetermined strategic goals during a one-year period. Deferred proportion of annual variable pay, provides a retention element and alignment with shareholders.	Performance normally assessed over one-financial year. Performance targets are set annually by the Remuneration Committee to ensure they are appropriately stretching. Bonus out-turns are determined by the Committee after the year end, taking into consideration performance against targets and the underlying performance of the business. 25% of the earned bonus is normally deferred into restricted shares under the Deferred Bonus Share Plan ('DBSP'). Awards under the DBSP will normally vest after a period set by the Committee, which will normally be three years. Deferred awards are normally awarded in the form of restricted shares, although awards may take other forms if it is considered appropriate. Dividends are paid on the restricted shares, but are reinvested to increase the award accordingly. Restricted shares are subject to Malus provisions (see page 36). The Committee may adjust and amend awards in accordance with the DBSP Rules.	Maximum opportunity is 100% of base salary (before salary sacrifice).	Performance is measured based on an appropriate mix of financial, strategic and personal performance measures. At least 75% of the bonus opportunity will be based on financial performance targets. The split between financial, strategic and personal performance measures will be kept under review by the Committee. Normally no bonus is payable for performance at the trigger point, with 50% of the maximum opportunity payable for target performance. 100% of the maximum bonus is payable for maximum performance.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
2007 Long-Term Incentive Plan ('LTIP')	Incentivise Executive Directors to achieve long-term sustainable growth. Align interests of Executive Directors and shareholders. Acts as a retention tool.	Awards subject to a performance period of normally no less than three years. Subject to performance, awards normally vest on the third anniversary of grant. Performance targets are set annually by the Remuneration Committee to ensure they are appropriately stretching. LTIP awards are normally in the form of restricted shares, although the Remuneration Committee may decide to make awards in other forms if considered appropriate. Dividends are paid on the restricted shares, but are reinvested to increase the award accordingly. LTIP awards are subject to Malus provisions. (see page 36). The Committee may adjust and amend awards in accordance with the LTIP Rules.	The normal maximum award permitted under the LTIP Rules is 150% of base salary. Under exceptional circumstances (eg, recruitment or retention), the Committee may award higher than this maximum. Our current intention is that Executive Directors will be granted a maximum annual award of 100% of base salary (before salary sacrifice).	Awards vest based on an appropriate balance of earnings and shareholder return measures. 25% of the award vests for performance at the trigger point, increasing to 100% of the maximum for maximum performance.
2008 Approved Share Option Plan ('ASOP')	Align interests of Executive Directors and shareholders. Acts as a retention tool.	Awards subject to a performance period of normally no less than three years. Subject to performance, awards normally vest on the third anniversary of grant. Performance targets are set by the Remuneration Committee when the award is made. The awards are options over shares in the Company and therefore do not receive dividends until the options are exercised. The Committee may adjust and amend awards in accordance with the ASOP Rules.	The maximum award permitted under the ASOP Rules is £30,000 (or such higher amount that might be permitted by legislation) subject to the maximum holding of £30,000 (or such higher amount that might be permitted by legislation). Our current intention is that Executive Directors will be awarded the maximum amount permitted under the ASOP Rules or by legislation.	Awards vest based on an earnings measure. 100% of the award vests for performance at the trigger point.

Remuneration Report continued

The deferred share element of the annual bonus plan, the 2007 Long-Term Incentive Plan and 2008 Approved Share Option Plan shall be operated in accordance with the rules of the respective plan.

The Committee retains the right to make payments to Executive Directors which were agreed prior to (and not in contemplation of) the individual becoming an Executive Director which are outside of the Policy outlined in this report.

The Committee retains the right to determine the vesting level of and satisfy awards that were granted and payments that were agreed before this Policy came into force whether or not they are in accordance with this Policy.

Legacy terms and conditions (entered into prior to 27 June 2012) will be honoured, including pension entitlements and any outstanding incentive awards.

Legacy arrangements
The Company also has an Executive Share Option Scheme ('ESOS'). This was replaced by the 2007 Long-Term Incentive Plan as the principal plan for incentivising the Executive Directors. No awards have been made under the ESOS since 2007. Options granted under the ESOS were subject to performance criteria. Options granted under the ESOS continue to be exercisable. C G Hurst is the only holder of options now under the ESOS.

Information supporting the policy table
Overview of changes in the remuneration policy since 2012 report and accounts
This is the first time that the Company is submitting its Remuneration Policy for approval to the shareholders under the new law. The principal changes from the remuneration strategy used for the last few years have been outlined in the Statement of the Chair of the Remuneration Committee on page 30.

Performance measures and approach to target setting
Annual bonus
Performance measures for the short-term incentive arrangements are selected annually by the Committee to align with Zotefoams' annual business strategy.

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

Long-Term Incentive Plan
Performance measures for the long-term incentive arrangements are selected annually by the Committee to align with Zotefoams' long-term business strategy and to reflect the Company's growth ambitions and approach to dividend distribution.

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

Malus arrangements for the DBSP and the LTIP
The Remuneration Committee may, in its absolute discretion, determine at any time prior to the vesting of an award under the DBSP or LTIP to:
a) reduce the number of shares to which an award relates;
b) cancel an award; or
c) impose further conditions on an award

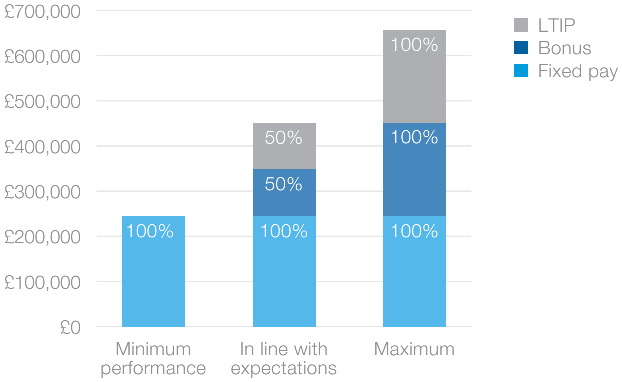
in circumstances where the Remuneration Committee considers such action is appropriate. Such circumstances include, but are not limited to:
a) a material financial downturn in the performance of the Company, a company forming part of the Group or a relevant business area;
b) a material misstatement of the Company's audited financial results;
c) a material failing in the risk management of the Company, a company forming part of the Group or a relevant business area; or
d) serious damage to the reputation of the Company, a company forming part of the Group or a relevant business area due to the participant's misconduct or otherwise.

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

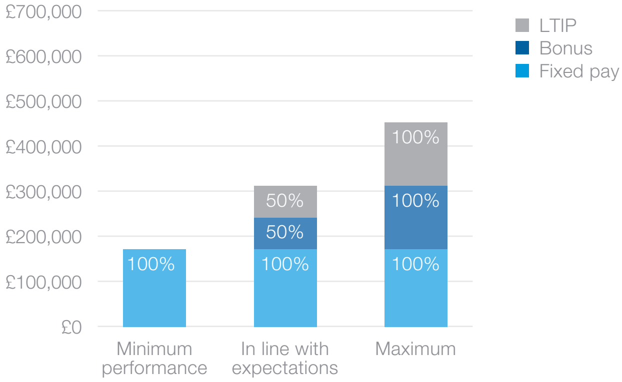
Illustration of application of remuneration policy

The charts below show how the composition of each of the Executive Directors' remuneration packages varies at different levels of performance achievement:

Managing Director



Finance Director



The assumptions used in the charts above are as follows:

Minimum performance	• Base salary, benefits and pension (total fixed pay) – Base salary – as effective for the 2014 financial year. – Benefits – Value received for the 2013 financial year. – Pension – Based on pension provision of 12.75% for D B Stirling and 13.75% for C G Hurst. • No bonus payout. • No vesting under the Long-Term Incentive Plan.
Performance in line with expectations	• Total fixed pay as outlined under 'minimum performance'. • 50% of maximum bonus opportunity (100% of base salary for both of the Executive Directors). • 50% of long-term incentive share awards (100% of base salary for both of the Executive Directors).
Maximum performance	• Total fixed pay as outlined under 'minimum performance'. • 100% of annual bonus opportunity (100% of base salary for both of the Executive Directors). • 100% of long-term incentive share awards (100% of base salary for both of the Executive Directors).
Other assumptions	• A constant share price has been used. • Excludes additional shares which may attach to the deferred element of any annual bonus or long-term incentive award at vesting, representing the value of dividends. • Awards under the Approved Share Option Scheme have been excluded.

Remuneration policy for Non-Executive Directors

Approach to fees	Operation	Other Items
Fees for the Chairman and Non-Executive Directors ('NEDs') are set an appropriate level to reflect: • the time commitment required to fulfil the role; • the responsibilities and duties of the positions; and • typical practice in other similar companies. Fees are reviewed at appropriate intervals by the Board. Fees are subject to the aggregate limit in the Company's Articles of Association for fees paid to NEDs.	Our NED fee policy is to pay: • a base fee for membership of the Board; and • an additional fee for being Chair of a Committee to reflect the additional responsibilities and time commitments of the role. The Chairman receives an inclusive fee for the role. Additional fees for acting as Senior Independent Director, membership of a committee, or chairmanship or membership of subsidiary boards or other fixed fees may be introduced if considered appropriate.	The Chairman and NEDs are not eligible to participate in the bonus or any long-term incentive arrangements. NEDs do not currently receive any taxable benefits. Additional benefits may be provided In the future if the Board considers this appropriate.

Remuneration Report continued

Remuneration policy on recruitment

In determining the remuneration package for a new recruit to the Board, (including internal promotions to the Board), the Remuneration Committee takes into consideration:

- the calibre and skills of the individual, local market practice in the individual's home country, appropriate market data, internal relativities and the current remuneration arrangements applicable for other Executive Directors on the Board. The Committee endeavours to align the remuneration arrangements of new recruits with the policy table outlined above. However, where appropriate, the Committee retains the discretion to make decisions outside the above Policy table to facilitate the hiring of candidates of the appropriate calibre, which may include, where applicable, the utilisation of Listing Rule 9.4.2;
- the Committee's desire to recruit an Executive Director of the required calibre to develop and deliver the business strategy while at the same time ensuring that remuneration arrangements offered are in the best interests of both Zotefoams and its shareholders without paying more than is considered necessary;
- the need to be transparent to shareholders. As such the Committee will make every effort to explain the rationale for the remuneration arrangements for a new recruit in the remuneration report following the recruitment of a new Director; and
- the maximum level of annual variable pay and long-term incentive awards which may be awarded to a new Executive Director, which following recruitment will be in line with the Policy table set out above, excluding any buyout awards. Such variable remuneration may be made in the form of cash or shares, subject to performance conditions as selected by the Committee, and may vest immediately or at a future point in time.

The remuneration package for a new recruit may include any of the elements listed in the above policy table, or any other component which the Committee considers appropriate at the time.

Buy-outs

When appointing a new Executive Director, existing incentive arrangements will be used where possible.

However, to facilitate recruitment, the Remuneration Committee may 'buy-out' any remuneration arrangements forfeited by the new Executive Director on leaving their former employment. In doing so, the Committee will consider all relevant factors including the form of the awards (ie cash or equity), performance conditions attached to the awards, the likelihood of such conditions being met and the timeframe of the awards.

Typically, any buy-outs will be made on a like-for-like basis.

On recruitment, the Remuneration Committee retains discretion to grant awards under Listing Rule 9.4.2 which allows for the grant of awards, specifically to facilitate, in unusual circumstances, the recruitment of an Executive Director without seeking prior shareholder approval.

Recruitment of Non-Executive Directors

The Remuneration Committee will normally align the remuneration arrangements for new Non-Executive Directors with those outlined in the Policy table above.

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

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

Notice period	• D B Stirling, Managing Director – 12 months' notice by either party. • C G Hurst, Finance Director – 12 months' notice by either party. • For new recruits, the Committee's policy is that Executive Director contracts will provide up to 12 months' notice by the Company and up to 12 months' notice by the Executive Director. The Committee reserves the right to vary this period to 24 months' for the initial period of appointment and for the notice period then to revert to 12 months' after the initial 12 months of employment.
Contract commencement date	• D B Stirling, Managing Director – 1 September 1997 • C G Hurst, Finance Director – 1 October 2000
Expiry date	• The contracts for the Executive Directors are rolling service contracts with no expiry date.
Termination payments	• If the Company terminates an Executive Directors' contract without full notice then the Executive Director has the right to a termination payment to reflect the unexpired term of the notice. • A payment in lieu of notice can be made of no more than one year's base salary. • Our policy for new appointments is that termination payments in lieu of notice will be based on base salary. • Termination payments may be subject to mitigation and may be paid in instalments. • Legal fees and outplacement costs may be paid if considered commercially appropriate. • Rights to annual bonus, DBSP awards, LTIP awards, ESOS awards and ASOP awards are governed by the respective plan rules.
Other information	*Annual bonus* • Under the annual bonus plan a 'good leaver' is someone that leaves employment because of death, disability, ill health, injury, redundancy or any other circumstance at the discretion of the Remuneration Committee. • A 'bad leaver' is someone that leaves employment for any other reason. • For 'good leavers' rights to any outstanding annual bonus in the year of cessation will be determined at the discretion of the Remuneration Committee, normally taking into account the level of performance achieved during the financial year up to the date of cessation. Outstanding DBSP awards will normally vest at the date of cessation. • For 'bad leavers' rights to annual bonus and DBSP awards will normally be forfeited. *2007 Long-Term Incentive Plan* • Under the 2007 Long-Term Incentive Plan a 'good leaver' is someone that leaves employment because of death, disability, ill health, injury, redundancy, the employing company being sold or transferred out of the Group, the employing company ceasing to be a Group member or any other circumstance at the discretion of the Remuneration Committee. • A 'bad leaver' is someone that leaves employment for any other reason. • For 'good leavers', rights to any awards under this plan will normally be pro-rated for the period from the date of grant to cessation and will vest based on performance to the date of cessation. The Remuneration Committee reserves the right to adjust the final level of vesting of awards in these circumstances. • For 'bad leavers', rights to awards under this plan will normally be forfeited. *2008 Approved Share Option Plan* • Under the 2008 Approved Share Option Plan a 'good leaver' is someone that leaves employment because of death, disability, injury, redundancy, retirement, the employing company ceasing to be a Group member or any other circumstance at the discretion of the Committee. • A 'bad leaver' is someone that leaves employment for any other reason. • For 'good leavers', rights to any awards under this plan will normally be pro-rated for the period from the date of grant to cessation and will vest based on performance to the date of cessation. The Remuneration Committee has the discretion to adjust the final level of vesting of these awards. • For 'bad leavers', rights to awards under this plan will normally be forfeited.

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

Remuneration Report continued

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

The following table sets out the date of initial appointment for each of the Non-Executive Directors and the start date of the current letter of appointment:

Non-Executive	Date of most recent appointment	Unexpired period
N G Howard	3 December 2011	9 months
M-L Clayton	1 July 2011	3 months
R J Clowes	23 July 2013	28 months
A Walker	1 July 2011	3 months

Copies of the Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office.

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

Considering employment considerations elsewhere in the Group
Budgeted salary increases for the wider employee group are taken into consideration when determining increases for the Executive Directors and senior executives.

The base salary level for the Finance Director, C G Hurst, will be increased by 2.5% (effective 1 April 2014) in line with the average increase for the wider employee group of 2.5% in the UK.

From the benchmarking work undertaken by Deloitte LLP, it was identified that the base salary for the Managing Director, D B Stirling, had fallen significantly behind the market competitive range that the Company uses. Therefore, the Remuneration Committee decided to increase D B Stirling's salary by 4.5% (effective 1 April 2014) to reduce this gap.

The Remuneration Committee does not consult with employees when formulating the remuneration policy for Executive Directors.

Considering shareholder views
The Remuneration Committee is committed to engaging in an open dialogue with the Group's shareholders and will seek views and opinions on significant matters relating to the remuneration of the Executive Directors as appropriate. As part of formulating the Remuneration Policy, letters were sent to the Company's main shareholders summarising the main changes to the remuneration strategy and to seek their support for the approval of the Policy at the AGM. Both the Chairman and the Chair of the Remuneration Committee make themselves available at the AGM to answer any questions on remuneration matters. They are also available at other times (requests should be made to the Company Secretary), should a shareholder wish to raise a matter on remuneration.

Annual Report on Remuneration

Statement of implementation of remuneration policy in 2014 (Non-Audited)

Base salary

The Remuneration Committee decided that for 2014 (effective 1 April), the base salary for the Managing Director would be increased by 4.5%, reflecting that the positioning of his base salary has fallen behind the market competitive range. The base salary for the Finance Director would be increased by 2.5%, in line with average increase for the wider work force.

Benefits

Executive Directors will be provided with a car allowance, private medical insurance and death-in-service cover.

Retirement benefits

For 2014, contributions to the defined contribution pension plan are as follows:

- Managing Director – 12.75% pensionable salary (before salary sacrifice).
- Finance Director – 13.75% pensionable salary (before salary sacrifice).

Annual bonus

For 2014, the maximum opportunity for Executive Directors under the annual bonus will be 100% of base salary (before salary sacrifice).

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

	As a percentage of maximum bonus opportunity	
Measure	Managing Director	Finance Director
Profit before tax	50.0%	42.5%
HPP segment sales	50.0%	42.5%
Individual objectives	–	15.0%

The bonus for individual objectives will not be paid if the trigger point for the profit before tax bonus has not been reached.

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

LTIP

For 2014, the Executive Directors will receive awards of performance shares under the LTIP equal to 100% of base salary (before salary sacrifice). This reflects an increase from previous years' awards (previously 50% of base salary) commensurate with an increase in the challenge to weight the incentive more towards the longer-term and to bring our remuneration arrangements in line with market practice.

The 2014 awards will be subject to two equally weighted measures consisting of absolute TSR performance and EPS performance. If performance is below the TSR trigger point then no part of the TSR award will vest. If the performance is below the EPS trigger point then no part of the EPS award vests. Between the trigger point and the maximum, the award vests on a sliding scale basis.

The table below summarises the performance criteria which will be used for the 2014 award.

	Trigger point		Maximum	
	Performance target	% of award vesting	Performance target	% of award vesting
Absolute TSR goal	7.5% pa growth	12.5	30% pa growth	50
EPS goal	13.2p	12.5	23.3p	50

Single total figure of remuneration (Audited)

The following table sets out the single figure for total remuneration for Directors for the 2013 and 2012 financial years.

Executive Directors

2013	Salary (£)	Benefits (£)	Bonus (£)	LTIP[1] (£)	Pension (£)	Total (£)
D B Stirling	**182,117**	**12,708**	**0**	**28,898**	**39,870**	**263,593**
C G Hurst	**126,900**	**11,810**	**0**	**20,069**	**28,307**	**187,086**

1 The LTIP award made in March 2011 is not due to vest until 31 March 2014, but has been included in the table as its performance was measured for the three year period ended 31 December 2013. For the purposes of this table, the award has been valued using the average share price over the three months to 31 December 2013 of £1.824. This compares to a share price of £1.535 at the date of grant.

Remuneration Report continued

2012	Salary (£)	Benefits (£)	Bonus (£)	LTIP (£)	Pension (£)	Total (£)
D B Stirling	176,795	12,795	118,596	143,820	38,709	490,715
C G Hurst	123,145	11,796	82,367	100,476	27,470	345,254

Non-Executive Directors

	Fees paid in respect of 2013 (£)	Fees paid in respect of 2012 (£)
N G Howard	**55,625**	54,125
M-L Clayton	**29,500**	28,563
R J Clowes	**29,500**	28,563
A Walker	**27,500**	26,563

Notes to the table (Audited)

Base salary

The Company operates a Defined Contribution ('DC') Pension Plan, where individuals can elect to change their contract of employment under a salary sacrifice arrangement, whereby their salary is reduced and the Company makes a corresponding contribution into their DC Pension Plan. Both of the Executive Directors have opted for salary sacrifice scheme and the amounts shown for base salary are after salary sacrifice.

Benefits

For the Executive Directors for 2013 and 2012, benefits were company car allowance for both Directors (£11,640 for D B Stirling and £10,561 for C G Hurst for both 2012 and 2013) and private medical insurance.

Annual bonus

2013

The annual bonus for 2013 was based on 50% on PBT targets and 50% on targets relating to High-Performance Products. The annual bonus is based on base salary before salary sacrifice ('bonusable salary'). Neither the Profit performance nor the HPP targets were achieved and hence there was no bonus payment for either Executive Director. The maximum opportunity for the bonus was 100% of bonusable salary.

The actual target range for the year has not been disclosed as this is considered by the Board to be commercially sensitive information. No discretion was used by the Committee in determining bonus pay-outs for the year.

2013	**Cash bonus**	**Deferred bonus**	**Total bonus**
D B Stirling	**0**	**0**	**0**
C G Hurst	**0**	**0**	**0**

2012

The annual bonus for 2012 was as follows:

	As a percentage of maximum bonus opportunity		Performance required		Performance achieved	
Measure`	Managing Director	Finance Director	Trigger point £m	Maximum £m	Actual £m	Payout (%)
Profit before tax	50%	50%	5.5	6.5	5.926	42.6
HPP segment sales	50%	50%	3.0	3.8	3.65[1]	81.3

1 This figure includes the sales for microZOTE® as it was classified as HPP when the performance criteria were set.

Overall, the bonus payment for each Executive Director was 62% of bonusable salary, out of the maximum opportunity of 100% of bonusable salary.

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

2012	Cash bonus (£)	Deferred bonus (£)	Total bonus (£)
D B Stirling	76,600	41,996	118,596
C G Hurst	53,200	29,167	82,367

LTIP

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

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

The table below summarises the performance criteria for the 2011 award, which is due to vest on 31 March 2014.

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

The TSR growth target was partially met (growth being 13.3% pa) and the EPS target was not met (EPS was 8.0p). Therefore, 24.8% of the award will vest, which will be increased to reflect the dividends paid during the performance period.

LTIP awards granted during 2013 (Audited)

The table below sets out details of the LTIP awards made under the LTIP to the Executive Directors during 2013:

	Type of award	Date of Grant	Number of shares granted	Face value[1] (£)	Face value (% of salary)	Performance condition	Trigger point for vesting (% of face value)	End of performance period
D B Stirling	LTIP (Conditional shares)	19/03/2013	47,519	97,750	50	50% based on TSR growth[2] and 50% EPS target[3]	12.5	31/12/2015
C G Hurst	LTIP (Conditional shares)	19/03/2013	33,002	66,500	50	50% based on TSR growth[2] and 50% EPS target[3]	12.5	31/12,2015

1 Face value calculated using the average of the Company's mid-market price for the five trading days preceding the date of grant (£2.015). The share price was £2.02 on 19 March 2013.
2 The trigger point for absolute TSR growth is 7.5% pa growth, where 12.5% of the award will vest to the maximum of 20% pa growth where 50% of the award will vest.
3 The trigger point for the EPS target is 13.5p, where 12.5% of the award will vest to the maximum of 19.5p where 50% of the award will vest.

Total pension entitlements (Audited)

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

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

	Accrued pension in scheme at 31 December 2013 (£)	Gross increase in pension (£)	Increase in accrued pension net of CPI inflation (£)	Change in value over the year (£)
D B Stirling	**18,449**	495	0	0
C G Hurst	**9,389**	251	0	0

Notes

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

(2) As required by the Regulations, the pension input amount has been calculated using the method set out in section 229 of the Finance Act 2004(a) where:
- 'pension input period' is the year ended 31 December 2013; and
- in the application of section 234 of the Act, the figure 20 is substituted for the figure 16.

Remuneration Report continued

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

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

(b) Normal retirement age is 65.

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

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

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

Payments made to past Directors (Audited)
No payments were made during 2013.

Payments for loss of office (Audited)
No payments were made during 2013.

Statement of Directors' shareholding and share interests (Audited)
For 2014 the Remuneration Committee has introduced a policy requiring Executive Directors to hold a shareholding equivalent to 100% of base salary, with a five year period to build up to this holding from introduction of the policy or becoming an Executive Director. Both D B Stirling and C G Hurst already comply with this policy.

The table below sets out the Directors' current interests (including those of their connected persons) in Zotefoams shares as at the year end.

Executive Directors

	Shares owned outright at 17 March 2014	Interest in share incentive schemes without performance conditions as at 31 December 2013	Interest in share incentive schemes with performance conditions as at 31 December 2013
D B Stirling	307,727	56,111	111,926
C G Hurst	265,237	163,467	77,684

There has been no change in the interests in the incentive schemes from the year-end to the date of this report.

Non-Executive Directors

	Shares owned outright at 17 March 2014
N G Howard	63,000
M-L Clayton	18,000
R J Clowes	40,000
A Walker	5,000

Scheme interests (Audited)

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

	Scheme	As at 31 December 2012	Date of exercise or release	Granted during the year	Exercised or released	Lapsed or cancelled	**As at 31 December 2013**	Market price on exercise date	Exercise price	Date from which exercisable	Expiry date
D B Stirling	ASOP	28,116	–	–	–	–	**28,116**	–	£1.067	12.08.2011	11.08.2018
	LTIP (2010)	65,036	19.03.2013	–	65,036	–	**–**	£2.00	–	19.03.2013	n/a
	LTIP (2011)	58,632	–	–	–	44,091	**14,541**	–	–	31.03.2014	n/a
	LTIP (2012)	49,866	–	–	–	–	**49,866**	–	–	04.04.2015	n/a
	LTIP (2013)	–	–	47,519	–	–	**47,519**	–	–	19.03.2016	n/a
	DBSP (2009)	9,173	11.03.2013	–	9,173	–	**–**	£1.99	–	11.03.2013	n/a
	DBSP (2010)	7,153	–	–	–	–	**7,153**	–	–	31.03.2014	n/a
	DBSP (2012)	–	–	20,842	–	–	**20,842**	–	–	19.03.2016	n/a
C G Hurst	ESOS	59,631	19.08.2013	–	59,631	–	**–**	£1.97	£0.725	07.04.2007	06.04.2014
	ESOS	115,909	–	–	–	–	**115,909**	–	£0.770	22.12.2008	21.12.2015
	ASOP	28,116	–	–	–	–	**28,116**	–	£1.067	12.08.2011	11.08.2018
	LTIP (2010)	45,436	19.03.2013	–	45,436	–	**–**	£2.00	–	19.03.2013	n/a
	LTIP (2011)	40,717	–	–	–	30,619	**10,098**	–	–	31.03.2014	n/a
	LTIP (2012)	34,584	–	–	–	–	**34,584**	–	–	04.04.2015	n/a
	LTIP (2013)	–	–	33,002	–	–	**33,002**	–	–	19.03.2016	n/a
	DBSP (2009)	6,408	11.03.2013	–	6,408	–	**–**	£1.99	–	11.03.2013	n/a
	DBSP (2010)	4,967	–	–	–	–	**4,967**	–	–	31.03.2014	n/a
	DBSP (2012)	–	–	14,475	–	–	**14,475**	–	–	19.03.2016	n/a

Change in remuneration of the Managing Director (Non-Audited)

The table below illustrates the percentage change in salary, benefits and annual bonus for the Managing Director and the UK work force.

The employee sub-set consists of an average of the UK work force employees for the period under review. This group has been selected as the Managing Director is based in the UK and this employee representative group is the largest group of employees within the organisation.

	% change in base salary (2013 to 2012)	% change in benefits (2013 to 2012)	% change in annual bonus (2013 to 2012)
Managing Director	3.0	–7.5	–100
Employee subset	2.5	0	–100

The employees' salary review is negotiated with the unions. Negotiations concluded early in 2014, where a 2.5% increase was agreed in relation to 2013 and a further 2.5% increase for 2014. The Remuneration Committee normally keeps salary increases for the Executive Directors in line with the employees when they review the salaries of the Executive Directors in April. A new provider was selected for the private medical insurance and a reduction in premium was obtained in return for a higher excess on the policy. The majority of employees do not receive any taxable benefits. In relation to 2013, neither the Managing Director nor the employees in the UK who participate in the general staff discretionary bonus scheme will receive a bonus.

Remuneration Report continued

Historic TSR performance and Managing Director remuneration outcomes (Non-Audited)
The graph below compares the TSR of Zotefoams against the FTSE Small Cap Index. The FTSE Small Cap Index is considered the most appropriate choice of index because of the Company's size.

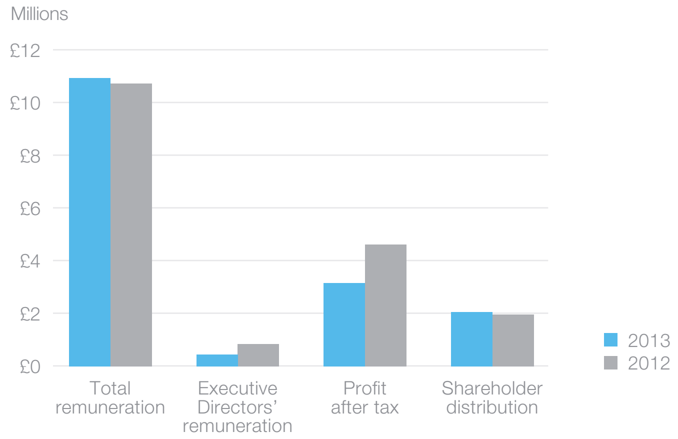
The table below illustrates the Managing Director's single figure for total remuneration, annual bonus payout, LTIP vesting as a percentage of maximum opportunity, the EPS and the average share price for the final quarter for the same five-year period.

	Managing Director's single figure of remuneration (£)	Annual bonus payout (% of maximum)	LTIP vesting (% of maximum)	EPS (p)	Average share price for the final quarter (p)
2013	**263,593**	**0**	**24.8**	**8.0**	**182.4**
2012	490,715	62.0	84.0	11.8	202.2
2011	572,969	33.3	88.7	11.8	121.1
2010	367,970	46.2	54.9	10.2	136.7
2009	177,562	29.8	0	6.8	90.4

Relative importance of spend on pay (Non-Audited)
The below table and chart illustrate the year-on-year change in total Executive Directors' remuneration and Executive Directors' remuneration compared to profit after tax and distributions to shareholder for 2013 and 2012.

	2013	2012
Total remuneration £k[1]	**10,925**	10,711
Executive Directors' remuneration £k	**451**	836
Profit after tax £k (including exceptional items)	**3,161**	4,613[2]
Shareholder distributions[3] £k	**2,048**	1,956

1 Social security costs paid by the Group have been excluded from this figure.
2 The profit after tax for 2012 was restated in the 2013 half year results.
3 Shareholder distributions refer to the dividends paid during the year.



Committee roles and advisers (Non-Audited)

The following Directors were members of the Committee during 2013:

- N G Howard
- M-L Clayton
- R J Clowes (Chair of the Committee)
- A Walker

At the invitation of the Committee, the Managing Director attended one meeting during the year to give background information on remuneration matters and has also been consulted on elements of the remuneration policy when being formulated by the Committee. The Committee was also advised by the Finance Director as regards the level of completion of the performance targets. The secretary to the Committee was the Company Secretary. The terms of reference of the Committee can be found on the Group's website at www.zotefoams.com and were last updated in March 2014.

Following a review of its advisers in September 2013, the Remuneration Committee appointed Deloitte LLP, an independent firm of remuneration consultants, as its advisers for the exercise of reviewing the executive remuneration framework in relation to market practice, setting the remuneration policy and the new disclosure regulations. MM&K Limited also provided advice on remuneration matters including benchmarking data.

MM&K Limited and Deloitte LLP are members of the Remuneration Consultants Group and adhere to its Code in relation to executive remuneration consulting in the UK.

Total fees for advice provided to the Committee during the year under review amounted to the following:

MM&K Limited	£5,000
Deloitte LLP	£9,740
Total:	£14,740

Shareholder voting (Non-Audited)

The table below sets out the results of the vote on the 2012 Remuneration Report at the 2013 AGM:

	Votes	%
Votes in favour	19,236,261	99.87
Votes against	5,375	0.03
Discretion	20,199	0.10
Total votes	19,261,835	–
Votes withheld	5,000	–

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, which are available on the Company's website, include all matters indicated by the Disclosure and Transparency Rule 7.1 and the UK Corporate Governance Code. The terms of reference are reviewed regularly by the Audit Committee and, if amended, are then referred to the Board for approval. The terms of reference were reviewed in July 2013 and updated to reflect the changes introduced by the UK Corporate Governance Code in 2012.

The main responsibilities of the Audit Committee are:

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

Composition of the Audit Committee

Throughout 2013, the members of the Audit Committee were the independent Non-Executive Directors of the Company (M-L Clayton, R J Clowes and A Walker) and the Committee was chaired by M-L Clayton, who is a Fellow of the Association of Chartered Certified Accountants and has, in the opinion of the Board, significant, recent and relevant financial experience to fulfil the requirements of the role. All Audit Committee members are expected to be financially literate and the Company provides further training if required or requested.

In 2013, R J Clowes's appointment to the Audit Committee was renewed as part of the renewal of his appointment to the Board itself.

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

Meetings

The Audit Committee has a planned calendar linked to events in the Company's financial calendar, where it normally meets three or four times in the year. Each meeting agenda is predominantly based around these events and is approved by the Audit Committee Chair on behalf of the other members, although other members have the right to require reports on matters of interest in addition to standard agenda items. The Audit Committee met four times in 2013.

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

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

Since the beginning of 2013 the Audit Committee has:

- reviewed the financial statements in the 2012 and 2013 Annual Report and Accounts and the interim report issued in August 2013. As part of this review the Committee received reports from the External Auditors on the audit of the Annual Reports and accounts and the review of the interim report;
- reviewed the Group's policies on ethics, anti-bribery and corruption, fraud and whistleblowing;
- reviewed the appropriateness of the Group's UK trading subsidiary companies to rely upon the exemption from audit as permitted by section 479A of the Companies Act 2006;
- considered the output from the Group-wide process used to identify, evaluate and mitigate high-level business risks, including reviewing the Group's high-level business risk matrix;
- reviewed with management and the External Auditors the accounting treatment for the Group's joint ventures in Asia;
- received briefings from the External Auditors and Company Secretary on the changes in narrative reporting brought in on 1 October 2013;
- agreed a programme of work for 2013 to be performed by the Internal Auditors, and received the Internal Auditors' reports on the work undertaken and management's responses to the proposals made in the reports;
- reviewed the effectiveness of the Group's internal controls (including, but not limited to, financial controls and measures for detecting fraud) to ensure that they remain appropriate and adequate as the Group grows;
- reviewed and agreed the scope of the audit work to be undertaken by the External Auditors;
- considered the views of both the External Auditors and Internal Auditors on the effectiveness of the Group's internal financial controls;
- agreed the fees to be paid to the External Auditors for their audit and work on the accounts and interim report;
- undertaken an evaluation of the independence, objectivity and effectiveness of the External Auditors, including reviewing the amount of non-audit services provided by the External Auditors; and
- reviewed its own effectiveness and updated its terms of reference.

Financial reporting and significant financial issues

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

The Company signed a joint-venture with INOAC Corporation in July 2013 to establish a sales joint-venture in Hong Kong and a manufacturing joint-venture in South Korea. The Audit Committee was involved in discussions between management and the External Auditors on applying IFRS 11 (Joint Arrangements) in relation to the accounting treatment for these joint-ventures when they become operational and a position paper was agreed with management and the External Auditors.

External audit tender

A tender process for the external audit was last undertaken in 2012, following which PricewaterhouseCoopers LLP was selected as the External Auditors. Whilst the Company is not within the FTSE 350, the Audit Committee intends to follow the UK Corporate Governance Code requirement in putting the external audit to tender at least once every 10 years. The Audit Committee has no current plans in the medium term to re-tender the external audit, but will keep the matter under review and will consider a tender process before the 10 year period has expired.

Effectiveness of the external auditors

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

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

In 2013, the Group spent £7,000 on non-audit services which was in connection with establishing a branch in Thailand of Zotefoams Operations Limited and advice on the accounting treatment of the joint venture in Asia. The External Auditors were used, as being an international firm with knowledge of the Group's business, the matters were able to be dealt with expediently without compromising the independence of the external audit. Details of the External Auditors' fees may be found in note 3.

The Audit Committee, having conducted a review of the External Auditors, concluded that the External Auditors have performed satisfactorily and continue to be objective and independent and, therefore, has recommended to the Board that a resolution be put to the shareholders at the 2014 AGM to re-appoint the External Auditors.

Internal audit function

Each year the Audit Committee reviews the need for an internal audit function and given the size of the Group continues to be of the opinion that the internal audit function is best performed by an external audit firm, which complements the services provided by the External Auditors. In 2013, Mazars LLP provided such services to the Group. The Audit Committee agreed the scope for the internal audits, reviewed the reports received and discussed the proposals made with management. Mazars LLP has provided no other work for the Group and, therefore, the Audit Committee has considered them to be independent.

Overview

As a result of its work during the year and having undertaken a review of its performance, the Audit Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the External Auditors. 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
17 March 2014

Statement of Directors' Responsibilities in Respect of the Annual Report

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors consider the Annual Report taken as a whole, to be fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the Directors, whose names and functions are listed on pages 22 to 23 of the Annual Report confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report beginning on page 10 of the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

C G Hurst
Finance Director

Independent Auditor's Report

to the members of Zotefoams plc

Report on the financial statements

Our opinion

In our opinion:

- The financial statements, defined below, give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's profit and of the Group's and Parent Company's cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- The Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements and Parent Company financial statements (the 'financial statements'), which are prepared by Zotefoams plc, comprise:

- the Group and Parent Company statements of financial position as at 31 December 2013;
- the Group income statement and statement of comprehensive income for the year then ended;
- the Group and Parent Company statements of changes in equity and statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

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

In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2013 ('Annual Report') to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £195,000, which represents, approximately, 5% of profit before tax.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £10,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Group is structured on a geographical basis, with the UK and the US being the main reporting entities of the business along with MuCell, which operates globally. The Group financial statements are a consolidation of these reporting entities.

In establishing the overall approach to the Group audit, we determined the type of work that we needed to perform at the reporting entities to enable us to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Accordingly, of the Group's three reporting entities, we identified two, being the UK and the US that, in our view, required an audit of their complete financial information due to their size. This, together with additional specific procedures performed at MuCell, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Independent Auditor's Report continued
to the members of Zotefoams plc

Areas of particular audit focus
In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 49.

Area of focus	How the scope of our audit addressed the area of focus
Accounting treatment of the Joint Venture Although there were no transactions in the joint venture during the year, given the general complexity of accounting for joint ventures we focused on the Directors' process around the initial recognition and classification of the joint venture with INOAC Corporation and the judgements that they were required to make in respect of control and rights to future returns.	We gained an understanding of the Joint Venture agreement with INOAC Corporation through inspection of the agreement and discussions with the Directors. The Directors have considered the key assumptions around the control of the venture, rights to future economic benefits and other associated factors to determine the appropriate classification of the venture. We challenged the Directors in respect of these judgements based on our understanding of the agreement and the relevant accounting standards to assess the decision made by the Directors that the agreement was a joint venture.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.	We tested key reconciliations and manual journal entries. We considered whether there was evidence of bias by the Directors in the significant accounting estimates and judgements relevant to the financial statements. We also assessed the overall control environment of the Group and discussed with senior management the possibilities for management override of controls.
Risk of fraud in revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. We focused on this area because of the potential for misstatement of revenue recognition and its presentation in the income statement due to the inherent complexities of revenue recognition.	We performed testing to check the timing of revenue recognition. We also performed testing over the recording of revenue transactions by agreeing recorded transactions to supporting documentation and cash to gain assurance over the occurrence of revenue. We tested the reconciliations between the revenue systems used by the Group and its financial ledgers. We also tested journal entries posted to revenue accounts to identify unusual or irregular items and obtained evidence to determine the rationale for the adjustments tested.

Going Concern
Under the Listing Rules we are required to review the Directors' statement, set out on page 28, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the Group's and Parent Company's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Parent Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and the Parent Company's ability to continue as a going concern.

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made, and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on Directors' remuneration. We have no exceptions to report arising from these responsibilities.

Corporate Governance Statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code (the 'Code'). We have nothing to report having performed our review.

On page 50 of the Annual Report, as required by the Code Provision C.1.1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 49, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the Directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Parent Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement, set out on page 50, the Directors are responsible for the preparation of the Group and Parent Company 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 Group and Parent Company financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Stephen Wootten (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
17 March 2014

Consolidated Income Statement

for the year ended 31 December 2013

	Note	2013 £000	2012 restated* £000
Revenue	2	**44,634**	47,188
Cost of sales		**(33,015)**	(33,521)
Gross profit		**11,619**	13,667
Distribution costs		**(3,587)**	(3,308)
Administrative expenses		**(3,868)**	(4,329)
Operating profit		**4,164**	6,030
Finance income	5	**7**	3
Finance costs	5	**(315)**	(258)
Profit before tax		**3,856**	5,775
Taxation	6	**(695)**	(1,162)
Profit for the year		**3,161**	4,613
Attributable to:			
Equity holders of the Parent		**3,161**	4,613
Earnings per share			
Basic (p)	7	**8.0**	11.8
Diluted (p)	7	**7.9**	11.6

*restated following the adoption of revised IAS 19 Employee Benefits standards.

All of the activities of the Group are continuing.

The notes on pages 62 to 87 form part of these financial statements.

Company number: 2714645

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013

	2013 £000	2012 restated* £000
Profit for the year	**3,161**	4,613
Other comprehensive income/(expense)		
Items that will not be reclassified to profit or loss		
Foreign exchange translation losses on investment in foreign subsidiaries	**(187)**	(445)
Actuarial gains/(losses) on defined benefit schemes	**2,526**	(2,814)
IAS19 adjustments to defined benefit pension scheme	**–**	151
Tax relating to items that will not be reclassified	**(505)**	612
Total items that will not be reclassified to profit or loss	**1,834**	(2,496)
Items that may be classified subsequently to profit or loss		
Effective portion of changes in fair value of cash flow hedges net of recycling	**283**	13
Tax relating to items that may be reclassified	**(57)**	(4)
Total items that may be classified subsequently to profit or loss	**226**	9
Other comprehensive income/(expense) for the year, net of tax	**2,060**	(2,487)
Total comprehensive income for the year	**5,221**	2,126
Attributable to equity holders of the Parent	**5,221**	2,126

*restated following the adoption of revised IAS 19 Employee Benefits standards.

All of the activities of the Group are continuing.

The notes on pages 62 to 87 form part of these financial statements.

Consolidated Statement of Financial Position

as at 31 December 2013

	Note	2013 £000	2012 £000
Non-current assets			
Property, plant and equipment	9	**27,333**	25,869
Intangible assets	10	**4,916**	5,248
Deferred tax assets	17	**477**	460
Total non-current assets		**32,726**	31,577
Current assets			
Inventories	12	**8,019**	6,640
Trade and other receivables	13	**10,991**	11,612
Cash and cash equivalents	14	**1,957**	3,698
Total current assets		**20,967**	21,950
Total assets		**53,693**	53,527
Current liabilities			
Interest-bearing loans and borrowings	16	**(865)**	(1,360)
Tax payable		**(506)**	(801)
Trade and other payables	15	**(5,557)**	(4,921)
Total current liabilities		**(6,928)**	(7,082)
Non-current liabilities			
Interest-bearing loans and borrowings	16	**(2,207)**	(2,962)
Employee benefits	21	**(4,280)**	(7,172)
Deferred tax liabilities	17	**(1,264)**	(621)
Total non-current liabilities		**(7,751)**	(10,755)
Total liabilities		**(14,679)**	(17,837)
Total net assets		**39,014**	35,690
Equity			
Issued share capital	18	**1,992**	1,992
Own shares held		**(21)**	(36)
Share premium		**16,090**	16,090
Capital redemption reserve		**15**	15
Translation reserve		**158**	345
Hedging reserve		**245**	(38)
Retained earnings		**20,535**	17,322
Total equity attributable to the equity holders of the Parent		**39,014**	35,690

The notes on pages 62 to 87 form part of these financial statements.

These financial statements were approved by the Board of Directors on 17 March 2014 and signed on its behalf by:

C G Hurst
Finance Director

Company number: 2714645

Company Statement of Financial Position

as at 31 December 2013

	Note	2013 £000	2012 £000
Non-current assets			
Property, plant and equipment	9	**24,166**	22,227
Investment in subsidiaries	11	**6,352**	6,352
Total non-current assets		**30,518**	28,579
Current assets			
Inventories	12	**6,341**	5,447
Trade and other receivables	13	**11,304**	12,061
Cash and cash equivalents	14	**1,362**	3,178
Total current assets		**19,007**	20,686
Total assets		**49,525**	49,265
Current liabilities			
Interest-bearing loans and borrowings	16	**(865)**	(1,360)
Tax payable		**(506)**	(801)
Trade and other payables	15	**(5,008)**	(4,434)
Total current liabilities		**(6,379)**	(6,595)
Non-current liabilities			
Interest-bearing loans and borrowings	16	**(2,207)**	(2,962)
Employee benefits	21	**(4,280)**	(7,172)
Deferred tax liabilities	17	**(1,264)**	(621)
Total non-current liabilities		**(7,751)**	(10,755)
Total liabilities		**(14,130)**	(17,350)
Total net assets		**35,395**	31,915
Equity			
Issued share capital	18	**1,992**	1,992
Own shares held		**(21)**	(36)
Share premium		**16,090**	16,090
Capital redemption reserve		**15**	15
Hedging reserve		**245**	(38)
Retained earnings		**17,074**	13,892
Total equity attributable to the equity holders of the Company		**35,395**	31,915

Notes on pages 62 to 87 form part of these financial statements.

These financial statements were approved by the Board of Directors on 17 March 2014 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 2013

	Note	2013 £000	2012 restated* £000
Cash flows from operating activities			
Profit for the year		**3,161**	4,613
Adjustments for:			
Depreciation and amortisation		**3,609**	3,312
Finance income		**(7)**	(3)
Finance costs		**315**	258
Equity-settled share-based payments		**232**	161
Taxation		**695**	1,162
Operating profit before changes in working capital and provisions		**8,005**	9,503
Decrease/(increase) in trade and other receivables		**763**	(1,165)
Increase in inventories		**(1,430)**	(746)
Decrease in trade and other payables		**(45)**	(644)
Employee benefit contributions		**(660)**	(660)
Cash generated from operations		**6,633**	6,288
Interest paid		**(24)**	(38)
Tax paid		**(1,013)**	(992)
Net cash from operating activities		**5,596**	5,258
Interest received		**7**	2
Acquisition of MuCell		**–**	(2,231)
Acquisition of intangibles		**(71)**	(63)
Acquisition of property, plant and equipment		**(4,141)**	(3,683)
Net cash used in investing activities		**(4,205)**	(5,975)
Proceeds from issue of share capital		**153**	46
Repurchase of own shares		**(113)**	–
Repayment of borrowings		**(1,340)**	(660)
New loans taken out		**90**	3,500
Dividends paid		**(2,048)**	(1,956)
Net cash (used)/generated in financing activities		**(3,258)**	930
Net (decrease)/increase in cash and cash equivalents		**(1,867)**	213
Cash and cash equivalents at 1 January		**3,698**	3,403
Effect of exchange rate fluctuations on cash held		**126**	82
Cash and cash equivalents at 31 December	14	**1,957**	3,698

*restated following the adoption of revised IAS 19 Employee Benefits standards.

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 62 to 87 form part of these financial statements.

Company Statement of Cash Flows

for the year ended 31 December 2013

	Note	2013 £000	2012 restated* £000
Cash flows from operating activities			
Profit for the year		**3,130**	4,226
Adjustments for:			
Depreciation and amortisation		**2,761**	2,425
Loss on disposal of plant and equipment		**–**	66
Finance income		**(7)**	(2)
Finance costs		**315**	258
Equity-settled share-based payments		**232**	161
Taxation		**706**	1,144
Operating profit before changes in working capital and provisions		**7,137**	8,278
Decrease/(increase) in trade and other receivables		**950**	(575)
Increase in inventories		**(894)**	(734)
Decrease in trade and other payables		**(121)**	(660)
Employee benefit contributions		**(660)**	(660)
Cash generated from operations		**6,412**	5,649
Interest paid		**(24)**	(38)
Tax paid		**(1,008)**	(1,000)
Net cash flow from operating activities		**5,380**	4,611
Interest received		**7**	2
Acquisition of property, plant and equipment		**(4,045)**	(3,656)
Net cash used in investing activities		**(4,038)**	(3,654)
Proceeds from issue of share capital		**153**	46
Purchase of own shares		**(113)**	–
Intercompany loan paid		**–**	(322)
Repayment of borrowings		**(1,340)**	(660)
New loans taken out		**90**	3,500
Dividends paid		**(2,048)**	(1,956)
Net cash (used)/generated in financing activities		**(3,258)**	608
Net (decrease)/increase in cash and cash equivalents		**(1,916)**	1,565
Cash and cash equivalents at 1 January		**3,178**	1,611
Effect of exchange fluctuations on cash held		**100**	2
Cash and cash equivalents at 31 December	14	**1,362**	3,178

*restated following the adoption of revised IAS 19 Employee Benefits standards.

Notes on pages 62 to 87 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

	Note	Share capital £000	Own shares held £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Hedging reserve £000	Retained earnings restated* £000	Total equity restated* £000
Balance at 1 January 2012		1,992	(58)	16,090	15	790	(51)	16,474	35,252
Foreign exchange translation losses on investment in foreign subsidiaries		–	–	–	–	(445)	–	–	(445)
Effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	–	13	–	13
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	–	–	(4)	(4)
Actuarial losses on defined benefit scheme		–	–	–	–	–	–	(2,814)	(2,814)
Tax relating to actuarial losses on defined benefit scheme		–	–	–	–	–	–	648	648
IAS19 adjustments to defined benefit scheme		–	–	–	–	–	–	151	151
Tax relating to IAS19 adjustments to defined benefit scheme		–	–	–	–	–	–	(36)	(36)
Profit for the period		–	–	–	–	–	–	4,613	4,613
Total comprehensive (expenditure)/ income for the year		–	–	–	–	(445)	13	2,558	2,126
Transactions with owners of the Parent:									
Shares issued		–	22	–	–	–	–	24	46
Equity-settled share-based payments net of tax		–	–	–	–	–	–	222	222
Dividends paid	7	–	–	–	–	–	–	(1,956)	(1,956)
Total transactions with owners of the Parent		–	22	–	–	–	–	(1,710)	(1,688)
Balance at 31 December 2012 and 1 January 2013		1,992	(36)	16,090	15	345	(38)	17,322	35,690
Foreign exchange translation losses on investment in foreign subsidiaries		–	–	–	–	(187)	–	–	(187)
Effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	–	283	–	283
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	–	–	(57)	(57)
Actuarial gains on defined benefit scheme		–	–	–	–	–	–	2,526	2,526
Tax relating to actuarial gains on defined benefit scheme		–	–	–	–	–	–	(505)	(505)
Profit for the period		–	–	–	–	–	–	3,161	3,161
Total comprehensive (expenditure)/ income for the year		–	–	–	–	(187)	283	5,125	5,221
Transactions with owners of the Parent:									
Shares issued		–	18	–	–	–	–	135	153
Shares acquired		–	(3)	–	–	–	–	(110)	(113)
Equity-settled share-based payments net of tax		–	–	–	–	–	–	111	111
Dividends paid	7	–	–	–	–	–	–	(2,048)	(2,048)
Total transactions with owners of the Parent		–	15	–	–	–	–	(1,912)	(1,897)
Balance at 31 December 2013		**1,992**	**(21)**	**16,090**	**15**	**158**	**245**	**20,535**	**39,014**

*restated following the adoption of revised IAS 19 Employee Benefits standards.

The aggregate current and deferred tax relating to items that are debited to equity is £649,000 (2012 restated: a credit of £669,000).

Company Statement of Changes in Equity

for the year ended 31 December 2013

	Note	Share capital £000	Own shares held £000	Share premium £000	Capital redemption reserve £000	Hedging reserve £000	Retained earnings restated* £000	Total equity restated* £000
Balance at 1 January 2012		1,992	(58)	16,090	15	(51)	13,431	31,419
Effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	13	–	13
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	–	(4)	(4)
Actuarial losses on defined benefit scheme		–	–	–	–	–	(2,814)	(2,814)
Tax relating to actuarial losses on defined benefit scheme		–	–	–	–	–	648	648
IAS19 adjustments to defined benefit scheme		–	–	–	–	–	151	151
Tax relating to IAS19 adjustments to defined benefit scheme		–	–	–	–	–	(36)	(36)
Profit for the period		–	–	–	–	–	4,226	4,226
Total comprehensive income for the year		–	–	–	–	13	2,171	2,184
Transactions with owners of the Parent:								
Shares issued		–	22	–	–	–	24	46
Equity-settled share-based payments net of tax		–	–	–	–	–	222	222
Dividends paid	7	–	–	–	–	–	(1,956)	(1,956)
Total transactions with owners of the Parent		–	22	–	–	–	(1,710)	(1,688)
Balance at 31 December 2012 and 1 January 2013		1,992	(36)	16,090	15	(38)	13,892	31,915
Effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	283	–	283
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		–	–	–	–	–	(57)	(57)
Actuarial gains on defined benefit scheme		–	–	–	–	–	2,526	2,526
Tax relating to actuarial gains on defined benefit scheme		–	–	–	–	–	(505)	(505)
Profit for the period		–	–	–	–	–	3,130	3,130
Total comprehensive income for the year		–	–	–	–	283	5,094	5,377
Transactions with owners of the Parent:								
Shares issued		–	18	–	–	–	135	153
Shares acquired		–	(3)	–	–	–	(110)	(113)
Equity-settled share-based payments net of tax		–	–	–	–	–	111	111
Dividends paid	7	–	–	–	–	–	(2,048)	(2,048)
Total transactions with owners of the Parent		–	15	–	–	–	(1,912)	(1,897)
Balance at 31 December 2013		**1,992**	**(21)**	**16,090**	**15**	**245**	**17,074**	**35,395**

*restated following the adoption of revised IAS 19 Employee Benefits standards.

The aggregate current and deferred tax relating to items that are debited to equity is £649,000 (2012 restated: a credit of £669,000).

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.

The consolidated financial statements of Zotefoams plc have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and IFRS Interpretations Committee ('IFRS IC') interpretations applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 24.

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

These financial statements were approved by the Board on 17 March 2014.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 10 to 15. This also describes the financial position of the Company, its cash flows and liquidity position. In addition, note 19 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.

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) 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.

iii) Accounting for business combinations

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

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value 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.

1. Accounting policies continued

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

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

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

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.

iv) Prior year restatement

The 2012 figures have been restated following the adoption of revised IFRS19 Employee Benefits standard.

The impact of the restatement was a reduction in profit for the year of £115,000 which is made up of a reduction in net finance income of £151,000 offset by a reduction in tax of £36,000. The corresponding balance was adjusted in Other Comprehensive Income, therefore there was no impact on reserves.

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 through Other Comprehensive Income. They are released into the Income Statement upon disposal.

d) Derivative financial instruments

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

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

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Notes continued

1. Accounting policies continued

e) Cash flow hedging

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

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

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

f) Investments in subsidiaries

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

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

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

h) Intangible assets

i) Research and development

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the Income Statement as an expense as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. No research and development expenditure has been capitalised to date.

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:

1. Accounting policies continued

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 completion and selling expenses.

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

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

l) Impairment
The carrying amounts of the Group's assets, other than inventories (see accounting policy (j)), employee benefits (see accounting policy (o)) and deferred tax assets (see accounting policy (s)), 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 CGUs. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

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

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

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

Notes continued

1. Accounting policies continued

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.

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 recognises licence revenue upon transfer of the MuCell® technology provided that no significant Company obligations remain, the licence amount is determinable, and the collection of the related receivable is probable. Royalty income is based on the terms of the licence agreements and is recorded when amounts are determinable and collection of the related receivable is probable. Revenue from equipment sales is recognised upon either shipment or delivery as specified in the contract terms. Revenue from consulting services is recognised either as the services are performed or upon the achievement of a specific milestone. Payments received under these arrangements prior to the completion of the related work are recorded as deferred income.

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.

1. Accounting policies continued

s) 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 Other Comprehensive Income, in which case it is recognised in Other Comprehensive Income.

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

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

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

t) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013 and have a material impact on the Group:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' ('OCI') on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

IAS 19, 'Employee benefits' was revised in June 2011. The changes on the Group's accounting policies has been as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

u) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

Notes continued

2. Segment reporting

The Group's operating segments are reported in a manner consistent with the internal reporting provided to and regularly reviewed by the Managing Director, David Stirling, who is considered to be the 'chief operating decision maker' for the purpose of evaluating segment performance and allocating resources.

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

- Polyolefins: these foams are made from olefinic homopolymer and copolymer resin. The most common resin used is polyethylene. Included in this segment are microZOTE® foams made using polyolefin resins.
- High-Performance Products ('HPP'): these foams exhibit high-performance on certain key properties, such as improved chemical, flammability or temperature performance, due to the resins on which they are based. Turnover in the segment is currently mainly derived from our ZOTEK® F foams and T-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® from Arkema.
- MuCell Extrusion LLC ('MEL'): licenses microcellular foam technology and sells related machinery.

	Polyolefins		HPP		MEL		Eliminations		Consolidated (2012 restated)	
	2013 £000	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Revenue	**38,825**	42,295	**4,311**	3,595	**1,562**	1,330	**(64)**	(32)	**44,634**	47,188
Segment profit/(loss) pre-amortisation	**4,199**	6,434	**423**	(82)	**(138)**	(22)	**–**	–	**4,484**	6,330
Amortisation	**–**	–	**–**	–	**(320)**	(300)	**–**	–	**(320)**	(300)
Segment profit/(loss)	**4,199**	6,434	**423**	(82)	**(458)**	(322)	**–**	–	**4,164**	6,030
Operating profit	**–**	–	**–**	–	**–**	–	**–**	–	**4,164**	6,030
Net financing costs	**–**	–	**–**	–	**–**	–	**–**	–	**(308)**	(255)
Taxation	**–**	–	**–**	–	**–**	–	**–**	–	**(695)**	(1,162)
Profit for the year									**3,161**	4,613
Segment Assets	**41,794**	41,465	**5,402**	5,398	**6,020**	6,204	**–**	–	**53,216**	53,067
Unallocated assets	**–**	–	**–**	–	**–**	–	**–**	–	**477**	460
Total assets									**53,693**	53,527
Segment liabilities	**(11,639)**	(16,017)	**(998)**	(194)	**(272)**	(204)	**–**	–	**(12,909)**	(16,415)
Unallocated liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**(1,770)**	(1,422)
Total liabilities									**(14,679)**	(17,837)
Depreciation	**3,114**	2,833	**138**	146	**37**	33	**–**	–	**3,289**	3,012
Amortisation	**–**	–	**–**	–	**320**	300	**–**	–	**320**	300
Capital expenditure:										
Tangible fixed assets	**4,655**	3,522	**107**	158	**35**	3	**–**	–	**4,797**	3,683
Intangible fixed assets	**–**	–	**–**	–	**71**	63	**–**	–	**71**	63

Unallocated assets and liabilities are made up of corporation tax and deferred tax assets and liabilities.

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 2013					
Revenue from external customers	**9,479**	**18,680**	**12,569**	**3,906**	**44,634**
Non-current assets	**24,166**	**–**	**8,083**	**–**	**32,249**
Capital expenditure	**4,045**	**–**	**96**	**–**	**4,141**
For the year ended 31 December 2012					
Revenue from external customers	9,949	21,063	12,877	3,299	47,188
Non-current assets	22,227	–	8,890	–	31,117
Capital expenditure	3,656	–	27	–	3,683

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

Major customer

Revenues from one customer of the Group represents approximately £4,453k (2012: £6,522k) of the Group's total revenues.

3. Expenses and auditors' remuneration

	2013 £000	2012 £000
Included in profit for the year are:		
Operating lease charges	**104**	143
Amortisation	**320**	300
Depreciation	**3,289**	3,012
Research and development costs expensed	**1,014**	869
Net exchange losses	**334**	360
Auditors' remuneration:		
Group – Fees payable to the Company's auditors and their associates for the audit of the Parent Company and consolidated financial statements	**72**	70
– fees payable to the auditors and their associates in respect of other services:		
– other services pursuant with legislation	**15**	15
– audit work relating to subsidiaries	**10**	10
– other services	**7**	–
	104	95

4. 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	
	2013	2012	2013	2012
Production	**141**	142	**131**	134
Maintenance	**17**	16	**15**	14
Distribution and marketing	**49**	48	**39**	38
Administration and technical	**91**	89	**75**	74
	298	295	**260**	260

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Wages and salaries	**10,041**	9,909	**8,425**	8,382
Social security costs	**941**	1,084	**756**	899
Share-based payments	**232**	161	**232**	143
Other pension costs	**652**	641	**601**	593
	11,866	11,795	**10,014**	10,017

Details of individual Directors' emoluments, pension costs and share options are dealt with in the Remuneration Report on pages 41 to 45.

5. Finance income and costs

Finance income

	2013 £000	2012 restated £000
Interest on bank deposits	**7**	3

Finance costs

	2013 £000	2012 restated £000
On bank loans and overdrafts	**21**	32
Interest on defined benefit pension obligation	**294**	226
	315	258

Notes continued

6. Taxation

	Note	2013 £000	2012 restated £000
UK corporation tax		**776**	1,112
Overseas taxation		**6**	(13)
Adjustment to prior year UK tax charge		**(64)**	(92)
Current taxation		**718**	1,007
Deferred taxation	17	**(23)**	155
Total tax charge		**695**	1,162

Factors affecting the tax charge

The tax charge for the year is lower (2012: lower) than the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%). The differences are explained below:

	2013 £000	2012 restated £000
Tax reconciliation		
Profit before tax	**3,856**	5,775
Tax at 23.25% (2012: 24.5%)	**897**	1,415
Effects of:		
Research and development tax credits and other allowances less expenses not deductible for tax purposes	**(41)**	14
Overseas earnings and effect of US tax losses	**(16)**	(81)
Change in deferred tax rate to 20%	**(81)**	(94)
Adjustments to prior year UK corporation tax charge	**(64)**	(92)
Total tax charge	**695**	1,162

7. Dividends and earnings per share

	2013 £000	2012 £000
Final dividend prior year of 3.50p (2011: 3.30p) net per 5.0p ordinary share	**1,378**	1,291
Interim dividend of 1.7p (2012: 1.7p) net per 5.0p ordinary share	**670**	665
Dividends paid during the year	**2,048**	1,956

The proposed final dividend for the year ended 31 December 2013 of 3.60p per share (2012: 3.50p) 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 £1,434,000 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 £3,161,000 (2012 restated: £4,613,000) 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 2013 was 418,750 (2012: 719,262). Distribution of shares from the trust is at the discretion of the trustees. Diluted earnings per ordinary share adjusts for the potential dilutive effect of share option schemes in accordance with IAS 33.

	2013	2012
Average number of ordinary shares issued	**39,330,596**	38,988,658
Deemed issued for no consideration	**515,843**	678,911
Diluted number of ordinary shares issued	**39,846,439**	39,667,569

8. Profit for the financial year

The Group financial statements do not include a separate Income Statement for Zotefoams plc (the parent undertaking) as permitted by Section 408 of the Companies Act 2006. The Parent Company profit after tax for the financial year is £3,130,000 (2012 restated: £4,226,000).

9. 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 2012	15,157	44,896	3,168	3,440	66,661
Additions	177	1,121	324	2,025	3,647
Reclassifications	–	2,771	–	(2,771)	–
Effect of movement in foreign exchange	(201)	(227)	(16)	–	(444)
Balance at 31 December 2012	15,133	48,561	3,476	2,694	69,864
Balance at 1 January 2013	15,133	48,561	3,476	2,694	69,864
Additions	–	239	96	4,462	4,797
Disposals	–	–	(7)	–	(7)
Reclassifications	–	1,436	210	(1,646)	–
Effect of movement in foreign exchange	(81)	(91)	(8)	–	(180)
Balance at 31 December 2013	**15,052**	**50,145**	**3,767**	**5,510**	**74,474**
Depreciation and impairment					
Balance at 1 January 2012	7,316	31,581	2,331	–	41,228
Depreciation charge for the year	604	2,178	230	–	3,012
Effect of movement in foreign exchange	(85)	(149)	(11)	–	(245)
Balance at 31 December 2012	7,835	33,610	2,550	–	43,995
Balance at 1 January 2013	7,835	33,610	2,550	–	43,995
Depreciation charge for the year	598	2,393	298	–	3,289
Disposals	–	–	(7)	–	(7)
Reclassifications	–	–	–	–	–
Effect of movement in foreign exchange	(47)	(82)	(7)	–	(136)
Balance at 31 December 2013	**8,386**	**35,921**	**2,834**	**–**	**47,141**
Net book value					
At 1 January 2012	7,841	13,315	837	3,440	25,433
At 31 December 2012 and 1 January 2013	7,298	14,951	926	2,694	25,869
At 31 December 2013	**6,666**	**14,224**	**933**	**5,510**	**27,333**

Included in plant and machinery for both the Company and the Group are assets with a net book value of £7,294,000 (2012: £7,928,000) pledged as security for bank loans.

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 in the year up to the balance sheet date totalled £4,462,000 (2012: £2,025,000) for the Group.

Notes continued

9. 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 2012	10,590	40,175	2,815	3,440	57,020
Additions	177	1,101	318	2,024	3,620
Disposals	–	–	–	–	–
Reclassifications	–	2,771	–	(2,771)	–
Balance at 31 December 2012	10,767	44,047	3,133	2,693	60,640
Balance at 1 January 2013	10,767	44,047	3,133	2,693	60,640
Additions	–	166	73	4,461	4,700
Disposals	–	–	(7)	–	(7)
Reclassifications	–	1,436	210	(1,646)	–
Balance at 31 December 2013	**10,767**	**45,649**	**3,409**	**5,508**	**65,333**
Depreciation and impairment					
Balance at 1 January 2012	5,476	28,334	2,112	–	35,922
Depreciation charge for the year	414	1,891	186	–	2,491
Disposals	–	–	–	–	–
Balance at 31 December 2012	5,890	30,225	2,298	–	38,413
Balance at 1 January 2013	5,890	30,225	2,298	–	38,413
Depreciation charge for the year	406	2,107	248	–	2,761
Disposals	–	–	(7)	–	(7)
Reclassifications	–	–	–	–	–
Balance at 31 December 2013	**6,296**	**32,332**	**2,539**	**–**	**41,167**
Net book value					
At 1 January 2012	5,114	11,841	703	3,440	21,098
At 31 December 2012 and 1 January 2013	4,877	13,822	835	2,693	22,227
At 31 December 2013	**4,471**	**13,317**	**870**	**5,508**	**24,166**

10. Intangible assets

Group

	Marketing related £000	Customer related £000	Technology related £000	Goodwill £000	Total intangibles £000
Cost					
Balance at 1 January 2012	204	162	3,820	1,955	6,141
Additions	–	63	–	–	63
Effect of movement in foreign exchange	(8)	(71)	(105)	(85)	(269)
Balance at 31 December 2012	196	154	3,715	1,870	5,935
Balance at 1 January 2013	196	154	3,715	1,870	5,935
Additions	–	–	71	–	71
Effect of movement in foreign exchange	(4)	(3)	(72)	(35)	(114)
Balance at 31 December 2013	**192**	**151**	**3,714**	**1,835**	**5,892**
Accumulated amortisation					
Balance at 1 January 2012	31	40	341	–	412
Charge for the year	20	37	243	–	300
Effect of movement in foreign exchange	(2)	(3)	(20)	–	(25)
Balance at 31 December 2012	49	74	564	–	687
Balance at 1 January 2013	49	74	564	–	687
Charge for the year	20	27	273	–	320
Effect of movement in foreign exchange	(2)	(12)	(17)	–	(31)
Balance at 31 December 2013	**67**	**89**	**820**	**–**	**976**
Net book value					
At 1 January 2012	173	122	3,479	1,955	5,729
At 31 December 2012 and 1 January 2013	147	80	3,151	1,870	5,248
At 31 December 2013	**125**	**62**	**2,894**	**1,835**	**4,916**

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

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

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

Key assumptions:

Long-term growth rate 2.5%

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

Discount rate 14%

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

The goodwill of £1.84 million is measured against the discounted future cash flow projections of MEL.

Sensitivity to changes in assumptions

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

11. Investment in subsidiaries

	Company	
	2013 £000	2012 £000
Shares in Group undertakings – at cost	**9,646**	9,646
Provision against the value of investment in subsidiary	**(3,294)**	(3,294)
	6,352	6,352

Notes continued

11. Investment in subsidiaries continued

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

	Ownership	Incorporated in:
Zotefoams International Limited	100%	Great Britain
Zotefoams Pension Trustees Limited	100%	Great Britain
Azote Asia Limited (indirectly owned)	100%	Hong Kong
Zotefoams Inc. (indirectly owned)	100%	USA
MuCell Extrusion LLC (indirectly owned)	100%	USA
Zotefoams Operations Limited (indirectly owned)	100%	Great Britain

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. Azote Asia Limited was established as part of the Group's strategy in the Far East. Zotefoams Pension Trustees Limited and Zotefoams Operations Limited are currently dormant. 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.

Zotefoams International Limited is relying upon the exemption from audit of individual accounts as permitted by section 479A of the Companies Act 2006. All outstanding liabilities as at 31 December 2013 of Zotefoams International Limited have been guaranteed by the Company and no liability is expected to arise under this guarantee.

The Company has representative offices in China and Germany.

12. Inventories

	Group		Company	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Raw materials and consumables	**3,849**	2,992	**3,597**	2,639
Work in progress	**2,187**	1,662	**1,455**	1,238
Finished goods	**1,983**	1,986	**1,289**	1,570
	8,019	6,640	**6,341**	5,447

The carrying amount of inventories subject to retention of title clauses is £1,162,000 (2012: £259,000).

In 2013 the value of inventory recognised by the Group as an expense in cost of goods sold was £29,505,000 (2012: £31,172,000).

13. Trade and other receivables

		Group		Company	
	Note	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Amounts falling due within one year:					
Trade receivables	19	**9,797**	10,509	**7,126**	7,839
Fair value derivatives	19	**249**	56	**249**	56
Amounts owed by Group undertakings	23	**–**	–	**3,029**	3,231
Other receivables		**577**	245	**577**	245
Prepayments and accrued income		**368**	802	**323**	690
		10,991	11,612	**11,304**	12,061
Trade receivables are shown net of:					
impairment losses		**152**	139	**92**	98

14. Cash and cash equivalents/bank overdrafts

	Group		Company	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Cash and cash equivalents per balance sheet	**1,957**	3,698	**1,362**	3,178
Cash and equivalents per cash flow statements	**1,957**	3,698	**1,362**	3,178

15. Trade and other payables

		Group		Company	
	Note	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Trade payables		**1,946**	1,501	**1,838**	1,419
Other creditors including taxation and social security:					
Other taxation and social security		**247**	276	**239**	271
Fair value derivatives	19	**5**	94	**5**	94
Amounts owed to Group undertakings	23	**–**	–	**–**	–
Other payables		**503**	535	**390**	448
Accruals and deferred income		**2,856**	2,515	**2,536**	2,202
		5,557	4,921	**5,008**	4,434

16. Interest-bearing loans and borrowings

		Group		Company	
	Note	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Bank Loans		**865**	1,360	**865**	1,360
Amounts falling due within one year		**865**	1,360	**865**	1,360
Bank loans		**2,207**	2,962	**2,207**	2,962
Amounts falling due in more than one year		**2,207**	2,962	**2,207**	2,962
	19	**3,072**	4,322	**3,072**	4,322

17. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities – Group

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2013 £000	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Property, plant and equipment	**–**	–	**1,552**	1,745	**1,552**	1,745
Rolled-over gain	**–**	–	**645**	742	**645**	742
Inventories	**(122)**	(110)	**–**	–	**(122)**	(110)
Financial instruments	**–**	(9)	**49**	–	**49**	(9)
Defined benefit scheme and share option charges	**(982)**	(1,857)	**–**	–	**(982)**	(1,857)
Tax value of recognised losses carried forward	**(355)**	(350)	**–**	–	**(355)**	(350)
Tax (assets)/liabilities	**(1,459)**	(2,326)	**2,246**	2,487	**787**	161
Set off tax	**982**	1,866	**(982)**	(1,866)	**–**	–
Net tax (assets)/liabilities	**(477)**	(460)	**1,264**	621	**787**	161

Unrecognised deferred tax assets

The Group has $3.9m (2012: $4.2m) 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 £2.3m (2012: £2.6m). The Group has only recognised £1.0m (2012: £1.0m) of these tax losses as a deferred tax asset representing what the Board consider to be a reasonable estimate of the expected US tax utilisation in the near future. During the year losses of £0.1m were used and additional losses of £0.1m were recognised. At a 35% tax rate these tax losses are £0.8m (2012: £0.9m) of which £0.4m has been recognised (2012: £0.4m).

Notes continued

17. Deferred tax assets and liabilities continued

Movement in deferred tax during the year

During the year, as a result of the changes in the UK corporation tax rate to 21% from 1 April 2014 and to 20% from 1 April 2015, which were substantially enacted on 2 July 2013, the relevant deferred tax balances have been remeasured.

	Balance 1 January 2013 £000	Recognised in income £000	Recognised in equity £000	**Balance 31 December 2013 £000**
Property, plant and equipment	1,745	(193)	–	**1,552**
Rolled-over gain	742	(97)	–	**645**
Inventories	(110)	(12)	–	**(122)**
Financial instruments	(9)	–	58	**49**
Defined benefit scheme and share option charges	(1,857)	284	591	**(982)**
Tax value of recognised losses carried forward	(350)	(5)	–	**(355)**
	161	(23)	649	**787**

Movement in deferred tax during the prior year

	Balance 1 January 2012 £000	Recognised in income restated £000	Recognised in equity restated £000	Balance 31 December 2012 £000
Property, plant and equipment	1,742	3	–	1,745
Rolled-over gain	806	(64)	–	742
Inventories	(140)	30	–	(110)
Financial instruments	(13)	–	4	(9)
Defined benefit scheme and share option charges	(1,370)	186	(673)	(1,857)
Tax value of recognised losses carried forward	(350)	–	–	(350)
	675	155	(669)	161

Deferred tax assets and liabilities – Company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2013 £000	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Property, plant and equipment	**–**	–	**1,552**	1,745	**1,552**	1,745
Rolled-over gain	**–**	–	**645**	742	**645**	742
Financial instruments	**–**	(9)	**49**	–	**49**	(9)
Defined benefit scheme and share option charges	**(982)**	(1,857)	**–**	–	**(982)**	(1,857)
Tax (assets)/liabilities	**(982)**	(1,866)	**2,246**	2,487	**1,264**	621
Set off tax	**982**	1,866	**(982)**	(1,866)	**–**	–
Net tax liabilities	**–**	–	**1,264**	621	**1,264**	621

Movement in deferred tax during the year

	Balance 1 January 2013 £000	Recognised in income £000	Recognised in equity £000	**Balance 31 December 2013 £000**
Property, plant and equipment	1,745	(193)	–	**1,552**
Rolled-over gain	742	(97)	–	**645**
Financial instruments	(9)	–	58	**49**
Defined benefit scheme and share option charges	(1,857)	284	591	**(982)**
	621	(6)	649	**1,264**

17. Deferred tax assets and liabilities continued

Movement in deferred tax during the prior year

	Balance 1 January 2012 £000	Recognised in income restated £000	Recognised in equity restated £000	Balance 31 December 2012 £000
Property, plant and equipment	1,742	3	–	1,745
Rolled-over gain	806	(64)	–	742
Financial instruments	(13)	–	4	(9)
Defined benefit scheme and share option charges	(1,370)	186	(673)	(1,857)
	1,165	125	(669)	621

18. Share capital

	2013 £	2012 £
Allotted, called-up and fully paid		
At 31 December		
Equity: 39,831,312 (2012: 39,831,312) ordinary shares of 5.0p each	**1,991,566**	1,991,566

Details of share options are provided in note 22 to the financial statements on pages 84 to 86.

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

19. Financial instruments and financial risk management

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 below. These policies have remained fundamentally unchanged throughout the year.

Credit risk

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

In 2013 and 2012, the Company and Group had credit insurance to mitigate this risk. However, the uninsured exposure as at 31 December 2013 for the Group was £2,501,000 (2012: £3,558,000) and for the Company was £1,757,000 (2012: £3,002,000) 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.

Trade receivables can be analysed as follows:

	Group 2013 £000	Group 2012 £000	**Company 2013 £000**	Company 2012 £000
Amounts neither past due or impaired	**7,457**	8,139	**5,114**	5,930
Amounts past due but not impaired				
Less than 60 days	**1,830**	1,112	**1,502**	651
More than 60 days	**–**	–	**–**	–
Total past due but not impaired	**1,830**	1,112	**1,502**	651
Amounts impaired	**662**	1,397	**602**	1,356
Impairment allowance	**(152)**	(139)	**(92)**	(98)
Carrying amount of impaired receivables	**510**	1,258	**510**	1,258
Trade receivables net of allowances	**9,797**	10,509	**7,126**	7,839

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

Notes continued

19. Financial instruments and financial risk management continued

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:

	2013				2012			
	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**	**–**	**165**	**165**	2.0	–	822	822
Sterling – mortgage	**–**	**3.5**	**2,848**	**2,848**	–	3.5	3,500	3,500
Total	**2.0**	**3.5**	**3,013**	**3,013**	2.0	3.5	4,322	4,322

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

Liquidity risk

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

	2013					2012				
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
Non-derivative financial liabilities										
Secured bank loans	**3,072**	**3,072**	**865**	**717**	**1,490**	4,322	4,322	1,360	862	2,100
Trade and other payables	**2,449**	**2,449**	**2,449**	**–**	**–**	2,036	2,036	2,036	–	–

	2013					2012				
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
Non-derivative financial liabilities										
Secured bank loans	**3,072**	**3,072**	**865**	**717**	**1,490**	4,322	4,322	1,360	862	2,100
Trade and other payables	**2,228**	**2,228**	**2,228**	**–**	**–**	1,867	1,867	1,867	–	–

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

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

In January 2009 the Company took out a £3.3m mortgage, repayable over five years in equal quarterly instalments. This facility is secured over specific plant assets. At 31 December 2013 £0.2m of this mortgage was outstanding and £3.1m had been repaid. This loan has no major financial operating covenants.

In December 2012 the Company took out a £3.5m mortgage, repayable over five years in equal quarterly instalments. This facility is secured over specific plant assets. At 31 December 2013 £2.9m of this mortgage was outstanding and £0.6m had been repaid. This loan has no major financial operating covenants.

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

19. Financial instruments and financial risk management continued

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 financial statements are as follows:

	2013		2012	
	Average	**Closing**	Average	Closing
Euro/sterling	**1.18**	**1.20**	1.23	1.23
US dollar/sterling	**1.57**	**1.66**	1.59	1.63

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 2013 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 – 2013	**Euro £000**	**US Dollar £000**	**Other £000**	**Total £000**
Cash and cash equivalents	**(619)**	**(141)**	**(13)**	**(773)**
Trade receivables	**3,360**	**974**	**350**	**4,684**
Trade payables	**(159)**	**(8)**	**–**	**(167)**

Group – 2012	Euro £000	US Dollar £000	Other £000	Total £000
Cash and cash equivalents	260	(404)	(57)	(201)
Trade receivables	3,852	650	352	4,854
Trade payables	(968)	(76)	–	(1,044)

Company – 2013	**Euro £000**	**US Dollar £000**	**Other £000**	**Total £000**
Cash and cash equivalents	**(619)**	**(141)**	**(13)**	**(773)**
Trade receivables	**3,360**	**974**	**350**	**4,684**
Trade payables	**(159)**	**(8)**	**–**	**(167)**

Company – 2012	Euro £000	US Dollar £000	Other £000	Total £000
Cash and cash equivalents	260	(404)	(57)	(201)
Trade receivables	3,852	650	352	4,854
Trade payables	(968)	(76)	–	(1,044)

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 2013 was a net asset of £244,000 (2012: net liability of £38,000) comprising assets of £249,000 (2012: £56,000) and liabilities of £5,000 (2012: £94,000).

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

19. Financial instruments and financial risk management continued

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

Company and Group:	2013 Foreign currency '000	2013 Contract value £000	2013 Transaction fair value £000	2013 Contract fair value £000	2012 Foreign currency '000	2012 Contract value £000	2012 Transaction fair value £000	2012 Contract fair value £000
Sell EUR	**€4,150**	**3,506**	**3,464**	**42**	€4,025	3,213	3,289	(76)
Sell USD	**$8,250**	**5,206**	**5,004**	**202**	$8,200	5,110	5,072	38

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 2013 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 £2,000 (2012: £8,000).

At 31 December 2013 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 £50,000 (2012: £59,000) before forward exchange contracts and £15,000 (2012: £26,000) after forward exchange contracts are included for the euro and £75,000 (2012: £85,000) for the US dollar before forward exchange contracts and £25,000 (2012: £38,000) 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 2013 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	2013 Carrying amount £000	2013 Fair value £000	2012 Carrying amount £000	2012 Fair value £000
Trade and other receivables	**10,374**	**10,374**	10,754	10,754
Cash and cash equivalents	**1,957**	**1,957**	3,698	3,698
Forward exchange contracts – assets	**249**	**249**	56	56
– liabilities	**(5)**	**(5)**	(94)	(94)
Secured bank loans	**(3,072)**	**(3,072)**	(4,322)	(4,325)
Trade and other payables	**(2,449)**	**(2,449)**	(2,036)	(2,036)

Company	2013 Carrying amount £000	2013 Fair value £000	2012 Carrying amount £000	2012 Fair value £000
Trade and other receivables	**10,732**	**10,732**	11,315	11,315
Cash and cash equivalents	**1,362**	**1,362**	3,178	3,178
Forward exchange contracts – assets	**249**	**249**	56	56
– liabilities	**(5)**	**(5)**	(94)	(94)
Secured bank loans	**(3,072)**	**(3,072)**	(4,322)	(4,325)
Trade and other payables	**(2,228)**	**(2,228)**	(1,867)	(1,867)

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).

19. Financial instruments and financial risk management continued

The following table presents the Group's financial instruments that are measured at fair value at 31 December 2013.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets				
Forward exchange contracts	–	**249**	–	**249**
Total assets	–	**249**	–	**249**
Liabilities				
Forward exchange contracts	–	**5**	–	**5**
Total liabilities	–	**5**	–	**5**

The following table presents the Group's financial instruments that are measured at fair value at 31 December 2012.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets				
Forward exchange contracts	–	56	–	56
Total assets	–	56	–	56
Liabilities				
Forward exchange contracts	–	94	–	94
Total liabilities	–	94	–	94

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

Derivatives are valued at fair value using Barclays mid market rate at the 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 Company and Group are primarily financed by ordinary shares and retained profits.

20. Commitments

	2013 £000	2012 £000
(i) Capital contracts at the end of the financial year for which no provision has been made	**2,404**	953
(ii) The Group has non-cancellable operating lease rentals, which are payable as follows:		
– within one year	**40**	98
– between two and five years	**14**	6

During the year ended 31 December 2013 £104,000 was recognised as an expense in the Income Statement in respect of operating leases (2012: £143,000).

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

Notes continued

21. Employee benefits

Defined benefit pension plans

The Company operates a UK registered trust-based pension scheme that provides defined benefits. Pension benefits are linked to the members' final pensionable salaries and service at their retirement (or date of leaving if earlier). The Trustees are responsible for running the Scheme in accordance with the Scheme's Trust Deed and Rules, which sets out their powers. The Trustees of the Scheme are required to act in the best interests of the beneficiaries of the Scheme. There is a requirement that one-third of the Trustees are nominated by the members of the Scheme.

There are two categories of pension scheme members:

- Deferred members: former and current employees of the Company.
- Pensioner members: in receipt of pension.

The defined benefit obligation is valued by projecting the best estimate of future benefit outgo (allowing for revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the balance sheet date. The majority of benefits receive increases linked to inflation (subject to a cap of no more than 5% pa). The valuation method is known as the Projected Unit Method. The approximate overall duration of the Scheme's defined benefit obligation as at 31 December 2013 was 19 years.

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

Future funding obligation

The last actuarial valuation of the Scheme was performed by the Actuary for the Trustees as at 5 April 2011. The Company agreed to pay annual contributions of £504,000 per annum over the period to 30 September 2013 towards paying off the deficit. The Company also agreed to pay £156,000 per annum to meet the Scheme's expenses, PPF levy and death in service premiums.

Due to the deterioration in funding, the Company has agreed to continue to pay contributions at this level until September 2014 when the results of the 5 April 2014 triennial actuarial valuation are expected to be available unless indications are that the fund is in surplus before that date.

Risks

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

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

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

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

The Company has recognised 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 2013 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	As at 31 December 2013	As at 31 December 2012
Discount rate	**4.5%**	4.3%
RPI inflation (before retirement)	**3.4%**	2.9%
CPI inflation (before retirement)	**2.4%**	2.4%

21. Employee benefits continued

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

	2013 £000	2012 £000
For an individual aged 65 in 2013		
– Male	**21.8**	22.0
– Female	**24.1**	24.3
At age 65 for an individual aged 45 in 2013		
– Male	**23.2**	23.4
– Female	**25.6**	25.9

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

	2013 £000	2012 restated £000
Balance Sheet obligations for:		
– Defined pension benefits	**4,280**	7,172
Income statement charge included in operating profit for:		
– Defined pension benefits	**294**	226
Actuarial gains/(losses) recognised in Other Comprehensive Income:		
– Defined pension benefits	**2,526**	(2,662)

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

	2013 £000	2012 £000
Market value of assets	**21,546**	19,355
Present value of defined benefit obligation	**(25,826)**	(26,527)
Funded status	**(4,280)**	(7,172)
Adjustment in respect of minimum funding requirement	**–**	–
Liability in the Balance Sheet	**(4,280)**	(7,172)

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

	2013 £000	2012 £000
Value of defined benefit obligation at start of year	**26,527**	22,758
Interest cost	**1,120**	1,100
Benefits paid	**(949)**	(605)
Actuarial (losses)/gains: experience differing from that assumed	**(220)**	44
Actuarial losses: changes in demographic assumptions	**(150)**	–
Actuarial (losses)/gains: changes in financial assumptions	**(502)**	3,230
Value of defined benefit obligation at end of year	**25,826**	26,527

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

	2013 £000	2012 £000
Market value of assets at start of year	**19,355**	17,814
Interest income	**826**	874
Actual gain	**1,654**	612
Employer contributions	**660**	660
Benefits paid	**(949)**	(605)
Market value of assets at end of year	**21,546**	19,355

Notes continued

21. Employee benefits continued

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Change in assumption	Change in defined benefit obligation
Discount rate	+/–0.5% pa	–7%/+8%
RPI inflation	+0.5% pa/–0.5% pa	+ 6%/–7%
Assumed life expectancy	+1 year	+3%

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

	Year ended 31 December 2013		Year ended 31 December 2012	
Asset class	**Market value £'000**	**% of total Scheme assets**	Market value £'000	% of total Scheme assets
Equities	**14,308**	**67%**	12,497	65%
Corporate Bonds	**2,936**	**14%**	2,580	13%
Gilts	**2,776**	**13%**	2,674	14%
Cash	**1,338**	**5%**	1,412	7%
Insured pensioners	**188**	**1%**	192	1%
Total	**21,546**	**100%**	19,355	100%
Actual return on assets over period:	**2,480**		1,486	

Other pension schemes

On 1 January 2006 a separate stakeholder scheme was set up for those employees who were originally in the closed defined benefit pension scheme. The contributions paid by the Company in 2013 were £427,000 (2012: £440,000).

In addition to this scheme, the Company operates a stakeholder scheme which is open to employees who joined after 1 October 2001. The contributions paid by the Company in 2013 were £168,000 (2012: £173,000).

For certain non-UK based employees of the Company, the Company makes contributions into individual schemes. The contributions paid by the Company in 2013 were £6,000 (2012: £9,000).

For US based employees, Zotefoams Inc. operates a 401(k) plan. The contributions paid by Zotefoams Inc. in 2013 were £51,000 (2012: £48,000).

22. 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 ten years from the date of grant, the options expire. Depending on the circumstances options are normally forfeited if the employee leaves the Group before the options vest.

In 2007 the Company introduced an 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 bonusable 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.

Details of the vesting conditions for the share, share option and LTIP awards are given in the Directors' Remuneration Report on pages 41 to 43.

22. Share-based payments continued

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

	2013		2012	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the year	**428,903**	**106.7**	368,173	90.3
Exercised during the year	**(158,544)**	**90.3**	(23,430)	106.7
Granted during the year	**30,174**	**215.4**	84,160	178.2
Outstanding at the end of the year	**300,533**	**126.2**	428,903	106.7
Exercisable at the end of the year	**186,199**	**88.2**	297,376	88.3

The options outstanding at 31 December 2013 have an exercise price of between 77.0p and 220.5p (2012: 72.5p and 179.0p) and a weighted contractual life of eight years (2012: eight years).

The weighted average share price at the date of exercise for share options exercised in 2013 was £2.09 (2012: £1.76).

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 (ten 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:

	2013		2012	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the year	**452,353**	**–**	700,050	–
Exercised during the year	**(158,075)**	**–**	(363,311)	–
Granted during the year	**139,967**	**–**	145,723	–
Forfeited during the year	**(111,713)**	**–**	–	–
Lapsed during the year	**–**	**–**	(30,109)	–
Outstanding at the end of the year	**322,532**	**–**	452,353	–
Exercisable at the end of the year	**–**	**–**	–	–

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

	2013		2012	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the year	**35,826**	**–**	35,826	–
Exercised in the year	**(20,368)**	**–**	–	–
Granted during the year	**65,410**	**–**	–	–
Outstanding at the end of the year	**80,868**	**–**	35,826	–
Exercisable at the end of the year	**–**	**–**	–	–

Notes continued

22. Share-based payments continued

Fair value of share options and assumptions

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

	31 March 2011	4 April 2012	9 May 2012	13 August 2012	**19 March 2013**	**16 April 2013**	**12 August 2013**
Share price (p)	153.5	186.5	179.0	176.2	**202.0**	**220.5**	**200.0**
Exercise price (p)	nil	nil	179.0	176.2	**nil**	**220.5**	**200.0**
Expected volatility	35%	35%	35%	35%	**35%**	**35%**	**35%**
Option life	Five years	Five years	Five years	Five years	**Five years**	**Five years**	**Five years**
Expected dividends (p) (assumed to be increasing at 2.5% p.a.)	nil	nil	5.0	5.0	**5.2**	**5.2**	**5.2**
Risk-free interest rate (based on national government bonds)	1.3%	1.3%	2.0%	2.0%	**2.0%**	**2.0%**	**2.0%**
Fair value at grant date (p)	153.5	186.5	47.0	46.0	**202.0**	**55.0**	**50.0**

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	
	2013 £000	2012 £000
Within administrative expenses – share-based payment charge	**232**	161
– related National Insurance	**25**	84
Element of the above relating to Directors of Zotefoams plc	**120**	97

23. Related parties

Directors

The Directors of the Company as at 31 December 2013 and their immediate relatives control approximately 1.75% of the voting shares of the Company. Details of Directors' pay and remuneration are given in the Directors' Remuneration Report on pages 41 to 45. 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	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Key management emoluments	**334**	525	**334**	525
Company contributions to money purchase pension plan	**68**	66	**68**	66
Share related awards	**120**	97	**120**	97
	522	688	**522**	688

Subsidiaries

The Company owns 100% of the shares of Zotefoams International Limited, which is incorporated in the UK. Zotefoams International Limited owns 100% of the shares in Zotefoams Inc., which is incorporated in the USA and Azote Asia Limited which is incorporated in Hong Kong. Common control exists between the Company 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.

The other indirect subsidiaries of the Company are currently dormant.

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

	Receivables owed by		Investment in	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Zotefoams Inc.	**3,029**	3,231	**–**	–
Zotefoams International Limited	**–**	–	**6,352**	6,352

In addition there is a net payable balance of £673k owed by MuCell Extrusion LLC to Zotefoams Inc.

24. 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 21 contains information about the assumptions relating to retirement benefit obligations.

Key judgements

i) Development Costs

Under IAS 38 development costs must be capitalised when specified criteria have been met. Following a review of the Company's research and development expenditure, because of the uncertainties which still exist on the development of new products, it was concluded that no material development costs met the IAS 38 criteria required for capitalisation and therefore all development costs have been expensed.

Notice of the 2014 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 20 May 2014 at 10.00 am for the following purposes:

Ordinary business
To consider and, if thought fit, pass resolutions numbered 1 to 12 below as ordinary resolutions:
1. To receive the Annual Report and Accounts of the Company for the year ended 31 December 2013.
2. To approve the Directors' Remuneration Policy set out on pages 31 to 40 (inclusive) in the Annual Report and Accounts.
3. To approve the Annual Statement by the Chair of the Remuneration Committee and the Annual Report on Remuneration for the year ended 31 December 2013 set out on pages 30 and 41 to 47 (inclusive) in the Annual Report and Accounts.
4. To declare a final dividend for the year ended 31 December 2013 of 3.6 pence per ordinary share, such dividend to be payable on 28 May 2014 to shareholders who are on the register of members of the Company at the close of business on 25 April 2014.
5. To re-elect M-L Clayton as a Director who retires by rotation.
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. To re-elect A Walker as a Director who retires by rotation.
11. That PricewaterhouseCoopers LLP be and is hereby re-appointed as Auditors of the Company to hold office from the conclusion of the AGM until the conclusion of the next general meeting at which accounts are laid before the Company.
12. To authorise the Directors to determine the Auditors' remuneration.

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

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

    (a) to exercise all powers of the Company to allot shares in the Company, and grant rights to subscribe for or to convert any security into shares of the Company (such shares, and rights to subscribe for or to convert any security into shares of the Company being 'relevant securities') up to an aggregate nominal amount of £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;

    (c) provided that, unless previously revoked, varied or extended, this authority shall expire on the earlier of 30 June 2015 and the conclusion of the next Annual General Meeting of the Company, except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if this authority had not expired.

14. That 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 13 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 13, 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 13 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 2015 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.

15. That the Company be and is hereby unconditionally and generally authorised for the purposes of Section 701 of the Act to make market purchases (within the meaning of Section 693(4) of the Act) of its Ordinary Shares of 5 pence each ('Ordinary Shares') provided that:

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

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

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

(d) this authority shall, unless previously renewed, revoked or varied, expire on the earlier of 30 June 2015 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.

16. That a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice.

Dated: 28 March 2014

By order of the Board

Registered Office:
675 Mitcham Road
Croydon
CR9 3AL

J W Kindell
Company Secretary

Notice of the 2014 Annual General Meeting continued

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 16 May 2014 (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 or has been sent to you separately. The notes to the proxy form include instructions on how to appoint the Chairman of the AGM or another person as a proxy. You can only appoint a proxy using the procedures set out in these notes and in the notes to the proxy form.

(iv) To be valid, a proxy form, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, should reach the Company's registrars, Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, by no later than 10.00 am on 16 May 2014.

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

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

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

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

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

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

(xi) As at the close of business on 27 March 2014, the Company's issued share capital comprised 39,831,312 ordinary shares of 5 pence each. Each ordinary share carries the right to one vote at a general meeting of the Company. No ordinary shares were held in treasury and accordingly the total number of voting rights in the Company as at the close of business on 27 March 2014 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 auditors' report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with the auditors of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's auditors not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.

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

Explanatory notes to the resolutions
Ordinary business
Resolution 1 – Receiving the Annual Report and Accounts
Shareholders will be asked to receive the Company's Annual Report and Accounts for the financial year ended 31 December 2013, as required by law.

Resolutions 2 and 3 – Directors' Remuneration Report
Resolutions 2 and 3 seek approval from the Shareholders on the Directors' Remuneration Policy, the Annual Report on Remuneration and the Annual Statement by the Chair of the Remuneration Committee, which together form the Directors' Remuneration Report. The Directors' Remuneration Report can be found on pages 30 to 47 (inclusive) of the Annual Report and Accounts.

The law changed on 1 October 2013 in relation to Directors' remuneration, which requires the Company to offer Shareholders: (i) a binding vote, at least every three years, on the Company's forward-looking policy on Directors' remuneration; and (ii) a separate annual advisory vote on the implementation of the Company's existing policy on Directors' remuneration in terms of the payments and share awards made to the Directors during the year (ie the Annual Report on Remuneration).

Resolution 2 seeks Shareholder approval for the Directors' Remuneration Policy, which can be found on pages 31 to 40 (inclusive) of the Annual Report and Accounts. The Directors' Remuneration Policy sets out the Company's future policy on Directors' remuneration, including the setting of the Directors' pay and the granting of share awards. Details on how the policy will be applied in practice in 2014 are set out in the Annual Report on Remuneration on page 41 of the Annual Report and Accounts. If Resolution 2 is approved, the effective date of the Directors' Remuneration Policy will be 20 May 2014. Payments will continue to be made to Directors in line with existing contractual arrangements until that date.

Once the Directors' Remuneration Policy becomes effective, all payments by the Company to Directors and any former Directors (in their capacity as Directors) will be made in accordance with the policy (unless a payment has separately been approved by a shareholder resolution). Additionally, if the Directors' Remuneration Policy is approved and remains unchanged, it will be valid for up to three financial years without new shareholder approval being required. Should the Company wish to change its Directors' Remuneration Policy, it will obtain Shareholder approval before it implements such a policy.

Resolution 3 seeks Shareholder approval for the Annual Statement by the Chair of the Remuneration Committee and the Annual Report on Remuneration which can be found on pages 30, and 41 to 47 (inclusive) of the Annual Report and Accounts. The Annual Report on Remuneration gives details of the implementation of the Company's current remuneration policy in terms of the payments and share awards made to the Directors in connection with their performance and that of the Company during the year ended 31 December 2013. This vote is advisory and will not affect the way in which the pay policy has been implemented.

The Company's Auditors, PricewaterhouseCoopers LLP, have audited those parts of the Directors' Remuneration Report that are required to be audited and their report may be found on pages 51 to 53 of the Annual Report and Accounts.

Resolution 4 – Declaration of dividend
This resolution concerns the Company's final dividend payment. The Directors are recommending a final dividend of 3.6 pence per ordinary share in respect of the year ended 31 December 2013 which, if approved, will be payable on 28 May 2014 to the shareholders on the register of members on 25 April 2014.

Resolutions 5 to 10 – Re-election of Directors
The UK Corporate Governance Code requires all directors of FTSE 350 companies to stand for annual re-election. Whilst the Company is not within the FTSE 350, 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 stand for annual re-election. Resolutions 5 to 10 concern the re-election of M-L Clayton, R J Clowes, N G Howard, C G Hurst, D B Stirling and A Walker.

Biographies for the Directors are set out on pages 22 and 23 of the report and accounts for the year ended 31 December 2013. The Chairman having undertaken performance reviews of the Directors and the Non-Executive Directors of the Chairman, the Board is satisfied that each Director continues to be effective and demonstrates commitment to the role and recommends that each Director should be re-elected.

Resolutions 11 and 12 – Re-appointment of Auditors and their remuneration
Resolution 11 concerns the re-appointment of PricewaterhouseCoopers LLP as the Company's Auditors, to hold office until the conclusion of the Company's next general meeting where accounts are laid.

Resolution 12 authorises the Directors to determine the Auditors' remuneration.

Special Business
Resolution 13 – Power to allot shares
This resolution grants the Directors authority to allot shares in the capital of the Company and other relevant securities up to an aggregate nominal value of £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 2014, 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 13 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 2014, being the latest practicable date before publication of this notice. This additional authority may be only applied to fully pre-emptive rights issues.

The intention of the authority granted pursuant to paragraph (b) of resolution 13 is to preserve maximum flexibility and if the Directors do exercise this authority, they intend to follow best practice as regards its use (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 ('Treasury Shares').

The Directors do not have any present intention of exercising the authorities conferred by resolution 13 but they consider it desirable that the specified amount of authorised but unissued share capital is available for issue so that they can more readily take advantage of possible opportunities.

Unless revoked, varied or extended, this authority will expire at the conclusion of the next AGM of the Company or 30 June 2015, whichever is the earlier.

Resolution 14 – 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 2014 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 2015, whichever is the earlier.

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

Resolution 15 – 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 27 March 2014, 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 2015, whichever is the earlier. The Directors intend to seek renewal of this authority at subsequent AGMs.

The minimum price that can be paid for an ordinary share is 5 pence being the nominal value of an ordinary share. The maximum price that can be paid is 5% over the average of the middle market prices for an ordinary share, derived from the Daily Official List of the London Stock Exchange, for the five business days immediately before the day on which the share is contracted to be purchased.

The Directors intend to exercise this right only when, in light of the market conditions prevailing at the time and taking into account all relevant factors (for example, the effect on earnings per share), they believe that such purchases are in the best interests of the Company and shareholders generally. The overall position of the Company will be taken into account before deciding upon this course of action. The decision as to whether any such shares bought back will be cancelled or held in treasury will be made by the Directors on the same basis at the time of the purchase.

As at 27 March 2014, 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 655,752 ordinary shares in the capital of the Company representing 1.65% 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 1.83% of the Company's issued ordinary share capital.

Resolution 16 – Notice period for general meetings
Under the Companies Act 2006, a listed company must give at least 21 days' notice of its general meetings. However, this Act enables general meetings (other than AGMs) to be held on shorter notice of not less than 14 days provided the shareholders have given their consent at the previous AGM or a general meeting held since the last AGM. Resolution 16 seeks such approval similar to the resolution that was passed last year. The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed. The Directors will always endeavour to give as much notice as possible of general meetings, but would like to have the flexibility to call a general meeting on the shorter permitted notice period for time sensitive matters that are clearly in the shareholders' interests. If the authority is used, the Company will offer the ability, as required by the Companies Act 2006, to vote electronically.

Recommendation
The Directors consider that the proposals being put to the shareholders at the AGM are in the best interests of the Company and of the shareholders as a whole. Accordingly, the Directors recommend that you vote in favour of the resolutions set out in the Notice of the AGM, as they intend to do in respect of their own beneficial holdings of ordinary shares.

Five-Year Trading Summary

	2013 £m	2012 restated £m	2011 £m	2010 restated £m	2009 £m
Turnover	**44.6**	47.2	44.2	39.9	31.8
Operating profit (excluding exceptional items)	**4.2**	6.0	5.6	4.8	3.4
Profit before tax (excluding exceptional items)	**3.9**	5.8	5.5	4.7	3.2
Profit before tax (including exceptional items)	**3.9**	5.8	5.5	5.3	2.7
Profit after tax (including exceptional items)	**3.2**	4.6	4.6	4.3	2.2
Capital expenditure	**4.1**	3.7	2.7	2.7	3.4
Cash generated from the operations	**6.6**	6.3	6.1	7.2	7.0
Basic earnings per share excluding exceptional items (p)	**8.0**	11.8	11.8	10.2	6.8
Basic earnings per share including exceptional items (p)	**8.0**	11.8	11.8	11.8	5.9
Dividends per ordinary share (p)	**5.30**	5.20	4.90	4.65	4.50

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Financial Calendar

Financial Calendar

AGM	20 May 2014
Payment of final dividend	28 May 2014 to shareholders on the register at the close of business on 25 April 2014
Announcement of 2014 interim results	August 2014
Payment of interim dividend	October 2014
Announcement of 2014 results	March 2015

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,
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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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