ZOTEFOAMS

Cellular materials for global markets

Zotefoams plc Annual Report 2014

Malta India Thailand

Poland Taiwan Italy Pakistan

Greece

France Brazil Singapore

Argentina Jordan Sweden

Netherlands

Belgium Japan Germany

Finland

China Switzerland Malaysia

United States

Norway South Korea South Africa

United Kingdom

Hong Kong United Arab Emirates Colombia Turkey

Israel Spain Austria Russia Australia

Denmark

Hungary Canada

Czech Republic

Chile

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.

Highlights 2014

High-Performance Products ('HPP')
– Total Revenue increase of 53% to £6.61m (2013: £4.31m)

– Segment profit of £1.02m (2013 restated: £0.27m)

MuCell Extrusion LLC ('MEL')
– Increased Total Revenue by 34% to £2.09m (2013: £1.56m)

– Installed equipment base increased by 62% to 52 units (2013: 32)

Polyolefin foams
– Total Revenue increased by 4% to £40.44m (2013: £38.83m)

– Strong levels of order intake in 2015 to date

Investment
– Successful share placement in the year raising £8.8m gross to deliver global expansion project

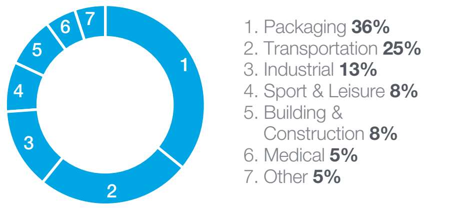
– Implementation of a new fully integrated IT system

Profit before tax (pre-exceptional items)
– Increased by 37% to £5.27m (2013: £3.86m)

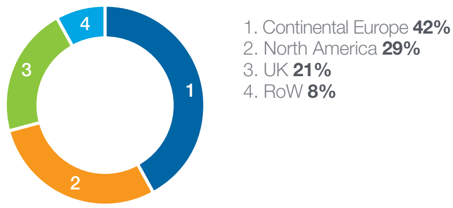
Dividends
– Increase in proposed final dividend to 3.7p per ordinary 5p share (2013: 3.6p)

– Giving a total proposed dividend for the year of 5.45p (2013: 5.3p)

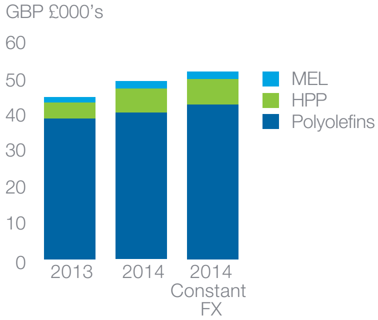
Revenue by Market 2014



Revenue by Geography 2014



Revenue by Segment



Definitions

'Total Revenue' consolidates all external sales made by the joint-ventures as well as those made by Zotefoams plc and its subsidiaries.

'Constant FX' is the estimated impact of restating 2014 at 2013 average foreign currency exchange rates, including the restatement of gains/losses on maturing forward exchange hedges in the period at 2013 average rates which reduces the profit impact by £0.59m. Balance sheet foreign exchange translation differences have not been restated.

International Success

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

Business segments

Polyolefin

Lightweight AZOTE® polyolefin block foams produced in Croydon, UK and Kentucky, USA. The most common resin used is low-density polyethylene. Foams are typically produced in dimensions of 2m x 1m at various thicknesses and sold to a wide variety of applications globally. Zotefoams employs a unique process for the manufacture of these cross-linked polymer foams which can be as light as 1.5% solid by volume.

Competitive advantage comes from our manufacturing process, protected by capital investment and know-how.

Capacity improvements in UK and in-progress investment of $22m to increase global capacity by approximately 20% in USA are aligned with our strategic objective to grow sales by twice global GDP.

Sales in Asia are managed through a 50:50 JV company with our largest customer in the region.

microZOTE® non-crosslinked roll foams are a minor part of this segment and curtailing operations in mid-2014 resulted in a non-cash exceptional charge against assets.

Revenue

- Total Revenue £40.4m, representing 82% of Group Total Revenue.
- Total Revenue increase 9% in volume and 9% in Constant FX.
- Approximately 80% of sales are denominated in currencies other than sterling, mainly in US dollar and euro.

Result

- Operating margin 15%, pre-exceptional items, at similar levels to previous year.

Business Segment Revenue

£40.4M

HPP

High-Performance Products. A portfolio of foam products that exhibit certain key properties, such as chemical, flammability or temperature resistance, due to the resins on which they are based. The manufacturing process uses the same unique, high-pressure nitrogen gas process as our AZOTE® range and, combined with know-how and our increasingly recognisable ZOTEK® speciality foams brand, offers good barriers to entry.

Our major block foam products are ZOTEK® F fluoropolymer foams made from PVDF resin and ZOTEK® N nylon foams. T-Tubes® advanced insulation for clean-rooms is made from ZOTEK® F blocks and mainly sold in the pharmaceutical and biotech markets, predominantly in Asia.

In 2015 we entered into a joint-venture arrangement to manufacture insulation products from our HPP foams in China, recognising the market opportunity from a more efficient supply chain into the Asian markets.

Other products, such as ZOTEK® PEBA speciality foams designed for energy management in sports, are either pre-revenue or with sales at low levels currently.

Revenue

- Total Revenue £6.6m, representing 13% of Group Total Revenue.
- Total Revenue increase 61% in Constant FX.

Result

- Operating margin 15%, showing significant growth over the previous year.

Business Segment Revenue

£6.6M

MEL

MEL's proprietary technology creates a foam that performs like a solid plastic, creating 'microbubbles' in the centre of plastic parts by injecting gas into them as they are manufactured. The resulting foam core, which is surrounded by a solid skin, typically reduces overall plastic usage by 15–20%.

The MuCell® technology uses high-pressure inert gases, typically carbon dioxide or nitrogen. It can be fitted to existing extrusion systems allowing the user to reduce the plastic content, delivering environmental and cost benefits, of many plastic parts.

MEL receives licence fees and/or royalties, usually based on the savings made by licensees, as well as selling enabling equipment.

MEL is an early stage growth business where our investment in people, technology and intellectual property exceeds sales. We believe there is significant potential for the MuCell® technology and this strategy is appropriate for the stage of development of the business.

Revenue

- Total Revenue £2.1m, representing 4% of Group Total Revenue.
- Total Revenue increase 40% in Constant FX.

Result

- Generated a small loss (£0.1m) pre-amortisation.

Business Segment Revenue

£2.1M

Zotefoams by region

North America

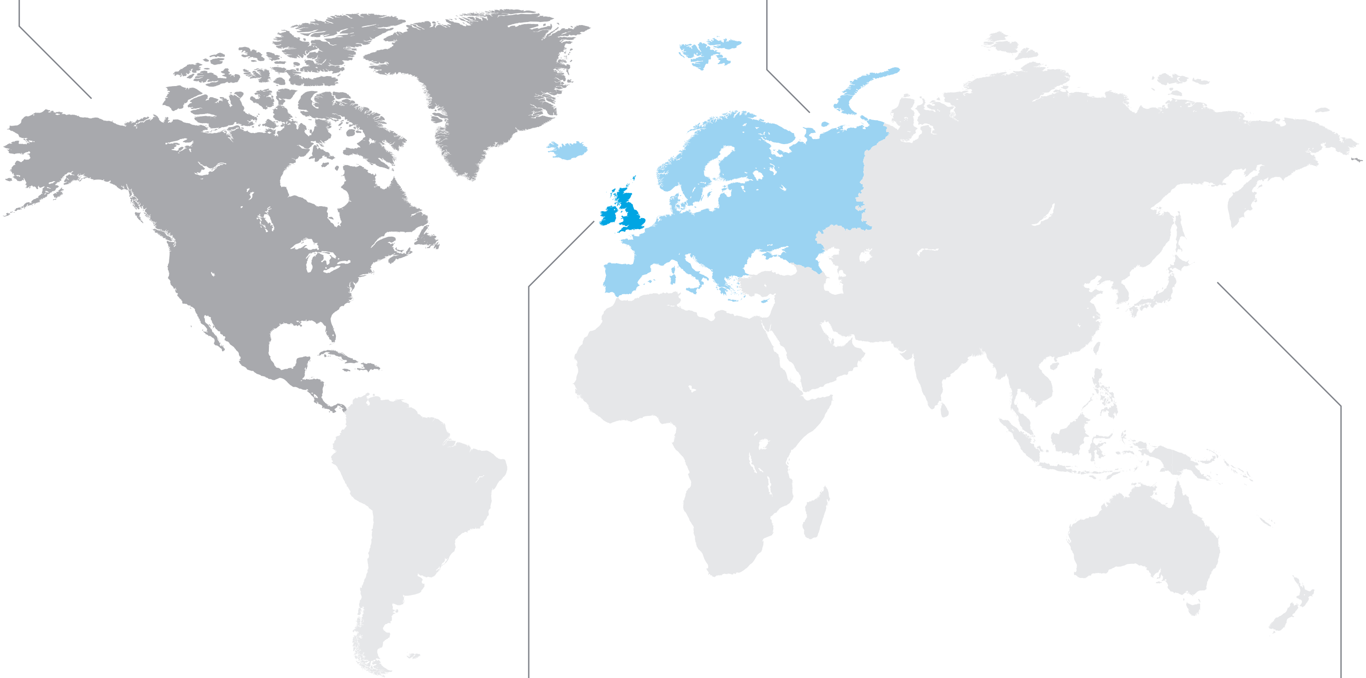
29% of Total Revenue

Local manufacturing presence in Kentucky for Polyolefin Foams and headquarters of MEL, based in Massachusetts, licensing technology globally.

Continental Europe

42% of Total Revenue

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



United Kingdom

21% of Total Revenue

Group Headquarters and main factory, manufacturing Polyolefin and HPP foams for sale globally.

Rest of World

8% of Total Revenue

Joint-ventures with INOAC Corporation for Polyolefin Foams sales in Asia and King Lai Group in China for manufacture and sales of speciality insulation. Local representation of MEL and HPP as well as branch office in Thailand dealing with T-Tubes® speciality insulation.

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

Chairman's Statement

"We recognise that talent management is key to delivery of the opportunities created by our product portfolio and are increasing our investments in people, training and development to meet our ambitious goals."

Results

Total Revenue increased by 10% to a record £49.08m (2013: £44.63m) while profit before tax and exceptional items increased by 37% to £5.27m (2013: £3.86m). Basic earnings per share pre-exceptional items grew by 34% to 10.7p (2013: 8.0p).

Group Revenue increased by 10% to £48.95m (2013: £44.63m). The non-cash impairment charge of £1.27m made following the decision to curtail manufacturing activity on the microZOTE® extrusion line, announced in June 2014, has been treated as an exceptional item. Profit before tax after this exceptional item was £4.01m (2013: £3.86m). After exceptional items basic earnings per share were 8.2p (2013: 8.0p).

Sales in our High-Performance Products ('HPP') segment now account for 13% (2013: 10%) of Total Revenue and increased by 53% to £6.61m (2013: £4.31m) while MuCell Extrusion LLC ('MEL') sales grew 34% to £2.09m (2013: £1.56m). Polyolefin foams, accounting for 82% (2013: 87%) of Total Revenue and sold under the AZOTE® brand, remains the largest segment of our business and here Total Revenue increased by 4% to £40.44m (2013: £38.83m). Polyolefin foams Group Revenue increased by 4% to £40.30m (2013: £38.83m).

Zotefoams has approximately 80% of sales denominated in US dollars and euros, both of which were relatively weaker against sterling in 2014 than in 2013. In Constant FX sales growth was approximately 15% and profit before tax and exceptional items increased by 43%.

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. 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.

Share placing and investment

In September 2014 Zotefoams raised gross proceeds of £8.8m from a placing of 9.99% of the existing issued share capital. The purpose was to finance investment in our Walton, Kentucky, USA factory to deliver a significant increase in global capacity to support future growth. The investment will comprise a high-pressure autoclave along with supporting extrusion capacity and related infrastructure. The programme is proceeding to plan with the 285 tonne ingot for the high-pressure autoclave already forged and ground breaking for the factory building extension scheduled early in April.

At our site in Croydon, we increased factory space by approximately 13% which gives us the flexibility to accommodate planned growth in our HPP business as well as extended technical support facilities. Further extrusion capacity for Polyolefin foams was completed in 2014 and commissioned early in 2015 and high-specification foam slicing equipment, suitable for both our AZOTE® and ZOTEK® product ranges, installed in our new factory in late 2014.

Talent

Zotefoams' business relies on the skills, effort and dedication of our people and, on behalf of the Board, I would like to extend my thanks to each and every one of them. We recognise that talent management is key to delivery of the opportunities created by our product portfolio and are increasing our investments in people, training and development to meet our ambitious goals.

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 therefore, based on our expectations for the future, the Board proposes to increase its final dividend to 3.7p per ordinary share (2013: 3.6p), which, if approved by the shareholders, would make a total of 5.45p per ordinary share for the year (2013: 5.3p), an increase of 3%. If approved, the dividend will be paid on 27 May 2015 to shareholders on the register on 24 April 2015.

Current trading and prospects

We entered 2015 with a larger than normal order backlog and a strong forward order book. In Polyolefin foams demand in Europe and North America has remained robust in the first two months of 2015 and we are also experiencing increasing levels of activity in Asia. Following very strong levels of growth in HPP and in our MEL licensing business we expect further progress in 2015, with clear indications of increased demand from existing customers and markets along with good development opportunities in new areas. The joint-venture in China with King Lai Group, announced earlier this month, is expected to make a positive contribution to revenue growth rates later in the year. As a net exporter we are exposed to movements in foreign exchange rates. Sterling is currently much stronger against the euro than the average rates experienced last year, but this is counteracted by sterling's weakness against the US dollar. The euro-denominated price of LDPE, our major raw material, is currently at slightly lower levels than seen in 2014 and these levels offer some limited benefit.

Outlook

The wide scope of Zotefoams' business means we are influenced by global economic conditions. In addition, 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 currency and economic conditions, the Board anticipates 2015 being another year of growth and remains confident about the long-term prospects for our business.

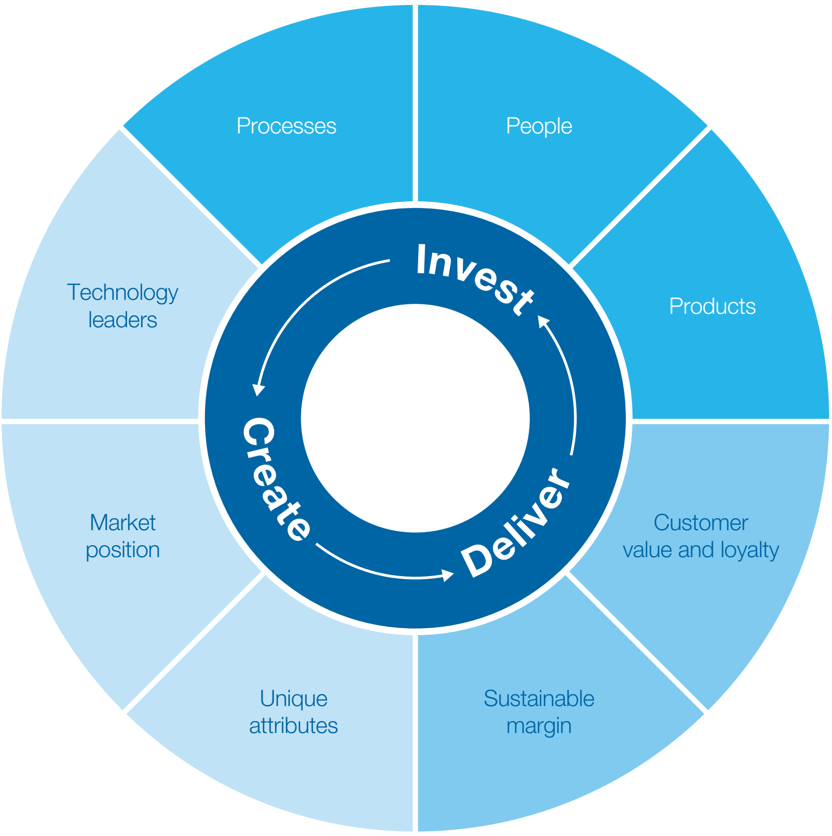
Nigel Howard
Chairman
16 March 2015

Our Business Model

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

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 and meet our customers' needs. By listening to our customers we gain an understanding of their requirements not just for the present, but for the future as well. We use this information, coupled with our extensive knowledge, to research and develop products to meet those needs.

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 products are at the core of our business and offer further growth opportunity. High-Performance Products ('HPP') and MEL, with potential for high growth and improved margins, are an increasingly important part of our diverse portfolio.

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

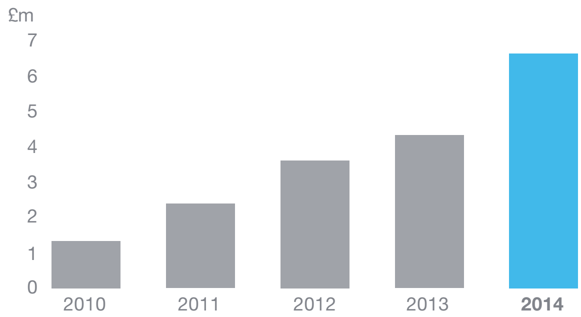
Deliver

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.

HPP Sales Growth



Key Objectives

Zotefoams measures its development and performance against four key objectives that represent the core elements of our strategy:

1. Grow

Grow sales in our Polyolefin business

Action

Our objective is to grow sales in excess of twice global GDP growth. Sales of Polyolefin foams increased by 4% in reporting currency and 9% in Constant FX.

2. Develop

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

Action

HPP sales grew by 61% in Constant FX and 53% in reporting currency. The HPP segment reported a segment profit of £1.02m (2013 restated: £0.27m) with segment average profit margins improving to 15%, reflecting higher margins in more established products and lower or negative margins where we are investing for future growth. MEL has grown its installed base of commercial machines at customers to 52 units from 32 units in 2013, but is still in early growth phase with the potential for enhanced margins in the future, therefore we continue to invest in people and intellectual property to deliver this future potential.

3. Improve

Improve our return on capital employed

Action

Pre-tax return on average capital employed, excluding exceptional items and acquired intangible assets and their amortisation costs, increased to 14.7% (2013: 12.9%). Group profitability is the main reason for the improvement in this metric. Levels of capital employed will increase with the current investment programme at our Croydon site from mid-2013 continuing until the latter part of 2015 and the strategically significant investment in our Kentucky, USA site planned to commission in the third quarter of 2016. We expect the return on capital to reflect this until the benefit of these investments can be realised.

4. Profit

Increase our operating margins

Action

Group operating margins pre-exceptional items increased to 11.4% (2013: 9.3%).

Managing Director's Q&A

This year the Q&A focus is on our technology licensing business and recently announced venture in China, both of which are taking Zotefoams outside our traditional base of 'block foams'.

1. What is MuCell Extrusion LLC ('MEL') and what markets does it serve?
The MuCell® technology reduces cost and environmental impact. It creates a foam that performs like a solid plastic, creating 'microbubbles' in the centre of plastic parts by injecting gas into them as they are manufactured. The resulting foam core, which is surrounded by a solid skin, typically reduces overall plastic usage by 15–20%.

There are many markets using extruded plastic, but the major usage is in consumer packaging: plastic films, sheets and bottles. Used in these applications the consumer will not notice the change, as the microbubbles in the centre layer are so small as to be barely visible to the naked eye and the outer layers are solid plastic.

The MuCell® technology is licensed to manufacturers and we benefit from a share of their cost savings. Market adoption of the technology is driven by both the cost savings and environmental benefits. Our main focus is in consumer packaging as this is a large market and the technology developed for one application can be transferred easily to other products. However MEL has a significant number of licensees in 'technical products' outside consumer packaging, such as in automotive air ducts, foams for seals and gaskets and even a manufacturer of sausage skins.

2. Can you explain the MEL business model in more detail?
The MuCell® technology combines process and additive know-how, patents and machinery. We license this technology in contracts that are typically 10–12 years in duration. The first step for a potential licensee is to validate our technology. With market adoption by an increasingly large number of well-known brands, such as Unilever, and packaging converters we often have a close reference point in the plastic packaging market. Outside this, and for more specialist requirements, proof-of-concept trials usually take place at our facility in Woburn, Massachusetts. Following contract negotiation a licensee will purchase and install MuCell® gas injection machinery which supplements their existing production equipment. Equipped with some other relatively minor modifications necessary for the MuCell® process, the machinery is capable of manufacturing both solid and MuCell® product as required. At this point, supported by our know-how and in possession of a valid licence for our patents, the brand holder or packaging converter

will scale up production. The benefits of the technology accrue when used and therefore savings to the licensee and payment to MEL is linked to volumes of product sold.

3. What is the growth potential of MEL?

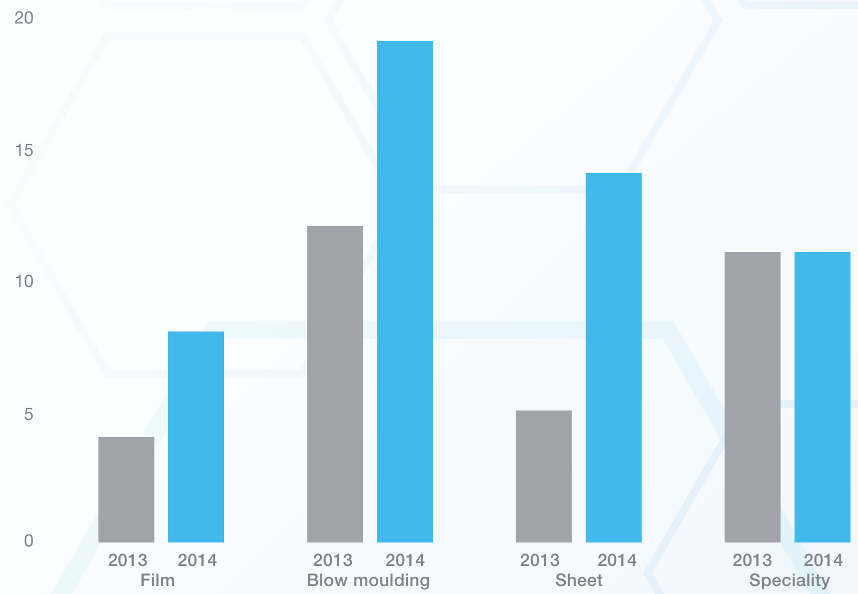
Our main focus is on consumer packaging which is a large global market. Growth potential therefore depends mainly on the adoption rate in packaging, which we expect to accelerate following market validation in the three major types of packaging (film, sheet and bottles), supplemented by a high number of technical projects outside packaging. The best growth metric for adoption rate is the number of gas-injection machines installed (known as 'SCF systems'). To use our technology requires a SCF system linked to a customer's extruder. In 2014 we sold 20 SCF systems, increasing our installed base to 52 units of which 38 are in commercial use. This is an increase from 26 units in commercial use at the end of 2013 (see table on page 13).

With proven in-market validation, MEL is now moving from the development phase to market scale up with 'early adopters' of the technology. We still see lots of potential to develop intellectual property ('IP') and improve our product offering, but the resource focus on the business has clearly moved to delivery of sales. With almost no capital expenditure and little in the way of working capital, our investment is adding additional people to our proven management team to deliver on the opportunities created. (See table on page 13).

4. Why did the Group form the ZOTEK King Lai joint-venture?

Since 2007 we have worked in partnership with one of our major customers in North America to develop high-performance products for insulation and personnel protection in clean rooms. These foam tubes, and other assorted parts, forming part of our HPP business unit, are made from our ZOTEK® fluoropolymer foam in North American and distribution rights outside North America are operated by Zotefoams. The largest market opportunities are in China, India and some ASEAN countries and the supply chain cost and time from North America did not fit well with market requirements. We therefore decided to partner with one of our largest Chinese customers, a Taiwanese owned business called King Lai Group, to manufacture a range of these products in China. The joint-venture company, 51% owned by Zotefoams, will buy foam from Zotefoams in the UK, manufacture and sell the product in China and supply our branch in Thailand for sale into territories outside China. Operations are anticipated to begin in the second half of 2015 on the site of our partner company in Kunshan, Jiangsu Province, PRC which is about 90 minutes west of Shanghai. Overall we expect to employ about 20 people by the end of this year in manufacturing and sales, including the staff in Thailand.

MEL Installed Machinery Base



Strategic Report

Business overview

Zotefoams' foams business is a value-added processor of plastics, using unique, high-pressure nitrogen gas technology to manufacture blocks of foam, which are then sold through a global network of customers who process those foams into parts for a wide variety of industries. We compete primarily through the superior foam properties created by our technology, offering reduced environmental impact, better safety and technical performance. This business has significant barriers to entry including capital cost, know-how, user specifications and, in our HPP business, patents. Zotefoams block foams are sold, and often specified, under the AZOTE® and ZOTEK® brand names, which are well-known in the industries we serve: automotive, aerospace, packaging, industrial parts, marine, building and construction, military and sports and leisure. Zotefoams also sells T-Tubes® speciality clean-room insulation, manufactured from ZOTEK® foams, for pharmaceutical, semiconductor and biotech facilities.

MuCell Extrusion LLC ('MEL') specialises in technology to reduce the use of plastics consumption at the point of manufacture. Our technology creates 'microbubbles' in the centre of plastic parts by injecting gas into them as they are manufactured. This creates a foam core that can typically deliver a 15–20% savings in the use of raw materials and reduces both environmental impact and cost. MEL has significant Intellectual Property ('IP'), including both know-how and patents, which is licensed to customers. MEL shares in the customers' benefits by receiving a licence fee for IP and/or royalty on parts made.

Results

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

Total Revenue increased by 10% to £49.08m (2013: £44.63m), with growth in all three segments and in all major geographies. Before exceptional items gross profit increased by 11% and, with distribution and administration costs at similar levels to 2013, operating profit margin pre-exceptional items increased from 9.3% to 11.4% and operating profit pre-exceptional items by 34% to £5.57m (2013: £4.16m) before exceptional items.

ZOTEK®

King Lai Group

King Lai Group, a provider of speciality pipe and fittings for clean-rooms globally, has been a customer of Zotefoams since 2012. In March 2015 Zotefoams announced the creation of a new venture with King Lai to manufacture and sell insulation products. The new venture will be called ZOTEK King Lai ('ZKL') and be based on an existing King Lai site in Kunshan, Jiangsu Province, China.

Building on the success of T-Tubes® clean-room insulation products for biotech, pharmaceutical and semiconductor manufacture facilities, ZKL will offer local supply into the market in China and a more rapid response to other markets including Asia, India and the Middle East.

Group Revenue increased by 10% to £48.95m (2013: £44.63m). After exceptional items operating profit increased from £4.16m to £4.31m.

In Constant FX, sales growth of 61% in HPP and 40% in MEL were the main drivers of an overall 15% increase in Total Revenue. Sales volumes of Polyolefin foams increased by 9%, recovering from customer destocking in 2013 in Continental Europe, and delivering good underlying growth in both UK and North America while volumes in Asia were at a similar level to 2013.

HPP

	2014 £m	2013 £m	% change (reporting currency)	% change (Constant FX)
Total and Group Revenue	**6.61**	4.31	53%	61%
Segment profit pre-amortisation	**1.02**	0.27		
Amortisation of acquired intangibles	**–**	–		
Segment profit	**1.02**	0.27		
Segment profit margin	**15%**	6%		

HPP sales grew by 61% in Constant FX and 53% in reporting currency, consolidating and building on a 20% increase in 2013 and a 51% increase in 2012. The HPP segment reported a segment profit of £1.02m (2013 restated: £0.27m), with segment profit margins increasing to 15% from 6% in 2013.

In HPP we delivered a near doubling of revenue from T-Tubes® insulation products, combined with continued strong progress in aviation and a variety of early stage developmental projects with good future growth prospects. The main markets for insulation products are in clean-rooms for pharmaceutical, biotech and semiconductor manufacture in China, India and Asia. To support and continue the progress of our insulation products business we have signed a joint-venture with King Lai Group, one of our existing customers, to manufacture insulation products from our ZOTEK® high-performance foams in China.

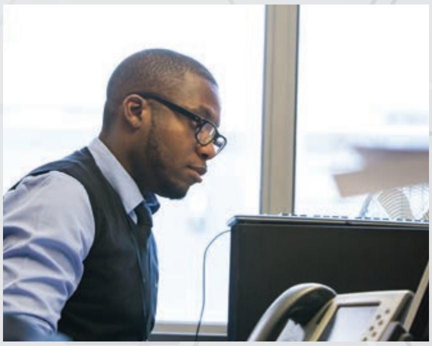
The new venture, based in Kunshan, Jiangsu Province, China and a related holding and trading company in Hong Kong, will be 51% owned by Zotefoams and 49% owned by King Lai Group, with a capital contribution of $0.3m by Zotefoams. Sales activity in China will be the direct responsibility of the joint-venture using King Lai as an exclusive distributor while all sales to customers outside China will be the responsibility of a wholly owned Zotefoams' subsidiary branch based in Thailand. Operations are expected to begin in the second half of 2015.

Within HPP the largest market is aviation, which is strategically well-placed to grow both as a result of new applications (increased content per aeroplane) and an increase in the build rate of aeroplanes using our products. Our customers have good application development pipelines and long aviation order books at original equipment manufacturers ('OEMs') are supporting our growth trend which we expect to be augmented later in the cycle by a demand for retrofit and replacement parts from airlines. In addition the aviation interiors market, which is driven by airlines and private jets, is becoming increasingly interesting with applications in high-end seats, luxury retrofits and flooring all benefiting from our patented ZOTEK® fluoropolymer foams which are lightweight, fire retardant and have low moisture uptake.

We continue to invest in our HPP products and sales development and support, primarily with product line extensions of existing materials, capitalising on our existing know-how and increasingly strong market presence. Other HPP products, such as nylon, which are currently less than 5% of segment sales, offer good medium-term prospects from current projects in sports and leisure, automotive, industrial and construction. Overall, the progress made in sales and profitability over the past three years validates our strategic approach to HPP and demonstrates the significant potential of this segment.

IT Systems Investment

In October 2014 we implemented the first phase of a new fully integrated IT system, Microsoft Dynamics AX, chosen to meet the needs of our increasingly diverse business. Since 2002, when the previous system was installed, the scope and size of Zotefoams has changed significantly. We have developed our HPP and MEL businesses, set-up two joint-ventures in Asia and are now in the process of a major investment in Kentucky, USA to increase global production capacity. The new system will deliver better management information, more structured processes and improved control in an increasingly complex global business.



MEL

	2014 £m	2013 £m	% change (reporting currency)	% change (Constant FX)
Total and Group Revenue	**2.09**	1.56	34%	40%
Segment loss pre-amortisation	**(0.10)**	(0.14)		
Amortisation of acquired intangibles	**(0.30)**	(0.32)		
Segment loss	**(0.41)**	(0.46)		

Total Revenue increased 34% to £2.09m (2013: £1.56m) representing a 40% growth in Constant FX. The segment result was a loss (after amortisation costs associated with acquired intangible assets) of £0.41m (2013: £0.46m), reflecting the investment made in people and IP development in MEL. Before amortisation costs on acquired intangible assets the loss was £0.10m (2013: £0.14m).

MEL's business model is to develop and license IP and share in the savings or benefits of the licensee through a royalty and/or licence fee. The MuCell® extrusion technology is delivered through a gas injection system which is sold to customers, often with other associated equipment and engineering support, to retrofit their existing extruders. Following product development and end-user validation the customers will manufacture their products using our technology and pay our licence fees and/or royalties. MEL revenue therefore comes from two main sources: initial set-up (engineering and equipment sales) and operation (licence fees and/or royalties). MEL's IP comprises a significant body of patents and know-how in gas injection methods and apparatus, product performance, additives, operating systems, die and screw design, etc.

The main target market for MEL is consumer packaging. Here production volumes are large and developments are scalable across geographic and product markets. Our approach is to demonstrate the benefits of our technology with a limited number of partners in selected markets and application types: plastic films, sheet and blow moulded bottles, and achieve in-market validation. A highlight of 2014 was Unilever's announcement that MuCell® technology would be used in Dove® body wash bottles in Europe and we estimate over 80 million units now have been manufactured using our technology, each unit saving approximately 15% plastic content. Following such validation the interest levels in our technology have dramatically increased as a clear benefits statement is supported by a proven delivery mechanism.

In addition to the consumer packaging market, MEL is active in a variety of speciality applications. Many of these are subject to client confidentiality agreements and are non-scalable and/or exclusive to an individual company. Typically these licensees are more resource intensive to develop, but can offer higher licensing fees and technological insights which are beneficial in IP development.

In 2014, Equipment and Engineering revenue ('E&E') increased by 55% to $1.91m (2013: $1.21m), while Licence and Royalty revenue ('L&R') increased by 25% to $1.54m (2013: $1.23m). In MEL's business E&E is a leading indicator of a future L&R stream, with contracts often lasting over 10 years the annuity potential of a new licensee can be significantly in excess of the initial E&E. The ability to forecast L&R from E&E depends on a number of factors: the application type (revenues from a large sheet line can be five times larger than from a blow moulded bottle line, while speciality lines can be substantially more and output from a film line is somewhat lower than a sheet line), the speed of development (some licensees are using our technology within months while others take years for approval) and line utilisation (the retrofit process allows production equipment to be dual foam/non-foam use giving the licensee flexibility). We believe that, as a leading indicator the E&E and installed equipment base is the most useful metric and in 2014 the installed base, excluding non-royalty bearing lines such as laboratories, increased from 32 to 52 units of which 38 are in use.

2013	Film	Blow Moulding	Sheet	Speciality	Total
Total Units	4	12	5	11	32
Unit in Use	3	11	3	9	26

2014	**Film**	**Blow Moulding**	**Sheet**	**Speciality**	**Total**
Total Units	**8**	**19**	**14**	**11**	**52**
Unit in Use	**4**	**17**	**8**	**9**	**38**

Speciality applications currently represent two-thirds of L&R and, although we continue to develop licences in this area, the consumer packaging market is a higher priority, offering greater revenue potential in both the short and medium term. MEL now has 28 licensees operating in 23 countries, a validated technology platform and a clear strategy for growth. Further investment in IP development and people is planned to deliver on the potential of this business over the coming years.

Polyolefin foams

	2014 £m	2013 £m	% change (reporting currency)	% change (Constant FX)
Total Revenue	**40.44**	38.83	4%	9%
Group Revenue	**40.30**	38.83	4%	8%
Segment profit pre-amortisation	**6.01**	5.80	4%	
Amortisation of acquired intangibles	**0.02**	–		
Segment profit pre-exceptional items	**5.99**	5.80	3%	
Segment profit margin	**15%**	15%		

Total Revenue in Polyolefin foams increased by 9% in Constant FX with a 9% increase in volume as sales recovered from the customer destocking experienced in 2013. However, volume growth was offset by the effect of a stronger pound and Total Revenue in Polyolefin foams increased by 4% to £40.44m (2013: £38.83m) and Group Revenue by 4% to £40.30m (2013: £38.83m), delivering a segment profit of £5.99m (2013 restated: £5.80m). Overall 2014 was a year in which the Polyolefin segment performed below potential, with a capacity constraint in the first half of the year and administrative bottlenecks due to our new Enterprise Resource Planning ('ERP') IT system that delayed shipments in the fourth quarter. We estimate that delayed shipments reduced Total Revenue by approximately £1.5m which if shipped in 2014 would have delivered sales growth of 8%. Input costs were at similar levels to 2013, with the average euro price of our main raw material, LDPE, being close to the average level as the previous year although registering a slight downward trend within the period.

Strategic Report continued

Polyolefin foams are sold through a network of converters globally, being used in a huge variety of applications in markets such as marine, automotive, sports, aviation, rail, construction, consumer goods, military and packaging. Fundamental to Zotefoams' success is our unique, high-pressure nitrogen gas processing of extruded plastic sheets into foams. This process allows foams to be as light as 98.5% air by volume and offers improved insulation and cushioning protection, lower use of polymer and improved environmental and safety performance in use. Our foams are also very consistent, a result of the physical foaming process that uses pure, inert gas rather than the environmentally contentious chemical processes common in our industry. microZOTE® roll foams are included in this business segment but, following the decision taken in June 2014 to curtail development of this product in favour of further investment in the speciality business of MEL, sales were minimal and the write-down of assets treated as an exceptional item.

Demand overall is driven by three main market trends: better use of resources, safety improvements and other performance benefits. Zotefoams makes foams that use less polymer for comparable performance, lightweight foams for improved fuel efficiency or better insulation properties, foams that cushion and protect from impact or other damage (both people and objects in dynamic or static situations) and foams with other performance benefits such as flotation properties, electrically conductive materials and foams where the colour match meets customer requirements.

Our Polyolefin foams business is global, currently operating from facilities in UK and USA and selling to over 40 countries. We manage the business in three major territory groups, which account for 98% of sales. Sales in UK and Continental Europe account for 72% of our turnover and increased 14% in Constant FX. North America, served from our satellite manufacturing facility in Kentucky, represents 22% of our Polyolefin foams business and grew by 5% in Constant FX, while Asia, where we operate a sales joint-venture with our largest customer in that area, reported a small decline in sales. We see all areas offering scope for further sales growth in line with our stated objective of growing Polyolefin foams sales at twice the rate of global GDP and have invested in and restructured our management teams in Europe and Asia with the aim of delivering commercially and operationally on the opportunities which exist.

Investment

Zotefoams' HPP and Polyolefin foams businesses are backed by significant investment in plant and machinery as well as our technical know-how and market position. To deliver on the potential for our business globally we increased investment in plant, machinery and a new IT system in 2013 and accelerated this investment in 2014 with a decision to expand our Kentucky, USA facility. Zotefoams ZOTEK® fluoropolymer foams and AZOTE® polyolefin foams are manufactured in three main steps: extrusion of a polymer sheet, high-pressure gassing with inert nitrogen gas and final expansion. Our Croydon, UK factory employs all these processes and supplies intermediate AZOTE® product for the final expansion stage to our facility in Kentucky. Investment in extrusion and gassing in Kentucky, at a cost estimated to be $22m, will deliver additional global capacity and shorten the supply chain into the North American market. The programme is well under way with orders placed for long lead-time items, including the critical high-pressure autoclave.

In Croydon, investment in additional factory and office space is expected to be substantially utilised from the third quarter of this year. Further extrusion capacity for ZOTEK® fluoropolymer and nylon foams is in progress with planned commissioning in 2016 and our new AZOTE® extruder is now operational, giving 17% additional capacity in this area.

In October 2014 we implemented the first phase of a new fully integrated IT system, Microsoft Dynamics AX, chosen to meet the needs of our increasingly diverse business. Our previous system was implemented in 2002 when Zotefoams was less than half its current size and was not providing sufficient management information or processes to support our current and future needs. The initial implementation of the new system did not immediately deliver sufficiently clear, detailed and accurate information from planning through customer service and as a result our delivery performance in the fourth quarter fell well short of expectations. While we are confident that all substantive issues have been resolved we entered 2015 with a higher than anticipated order backlog which will take some time to clear.

"Demand overall is driven by three main market trends: better use of resources, safety improvements and other performance benefits."

MuCell Extrusion LLC

Unilever sustainability

MuCell Extrusion won this award in partnership with ALPLA for developing breakthrough technology that uses, at a minimum, 15% less plastic for Unilever's Dove® Body Wash bottles.

With up to 59 million Dove® Body Wash bottles sold across Europe, MuCell Extrusion's technology is expected to save approximately 180 tonnes of plastic each year on the bottles. This represents another substantial contribution to the target set out in the Unilever Sustainable Living Plan to halve waste footprint by 2020.

Since 1 January 2015, Unilever has waived its exclusivity rights of the MuCell® technology so that other manufacturers can use the technology across the industry.

In Asia we have plans for investment in two manufacturing joint-ventures. In early 2015 we invested $0.3m in China to begin moulding of insulation products from our ZOTEK® fluoropolymer foams in a joint-venture with King Lai Group, initially for clean-room insulation where the largest market opportunities are China and India. In AZOTE® foams we have an agreement with INOAC Corporation in Japan for a 50:50 manufacturing joint-venture, similar to our current expansion only facility in Kentucky, USA which is supplied from Zotefoams plc in the UK. The trigger for investment in this manufacturing facility, based on sales volumes, has not yet been met and the final investment will be subject to Board approval based on sales volumes and overall potential.

Our Research and Development ('R&D') in Croydon focuses on variations of existing materials, particularly within the HPP portfolio. We now offer a number of different densities and formulations of our ZOTEK® fluoropolymer foams meeting the specific requirements of certain applications, while our range of nylon foams offers an even wider scope for development. As we are active in end markets as diverse as automotive, sports, construction and aviation it is important to tailor products and we often find that developments aimed at one market open up opportunities in other areas. In 2014, similar to previous years, we spent approximately 2% of Group Revenue on R&D. All R&D is expensed in the year incurred.

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 MuCell® technology licensing business, and through partnerships or acquisitions in related technologies, products or markets. Our stated objectives are:

- Sales growth in our Polyolefin business to exceed twice the average rate of global GDP growth.
- Develop a HPP portfolio and MEL customer base 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 increased by 4% in reporting currency and 9% in Constant FX.
- HPP sales grew by 61% in Constant FX and 53% in reporting currency. The HPP segment reported a segment profit of £1.02m (2013 restated: £0.27m) with segment average profit margins improving to 15%, reflecting higher margins in more established products and lower or negative margins where we are investing for future growth. MEL has grown its installed base of commercial machines at customers to 52 units from 32 units in 2013, but is still in early growth phase with the potential for enhanced margins in the future, therefore we continue to invest in people and intellectual property to deliver this future potential.
- Group operating margins pre-exceptional items increased to 11.4% (2013: 9.3%).
- Pre-tax return on average capital employed, excluding exceptional items and acquired intangible assets and their amortisation costs, increased to 14.7% (2013: 12.9%). Group profitability is the main reason for the improvement in this metric. Levels of capital employed will increase with the current investment programme at our Croydon site from mid-2013 continuing until the latter part of 2015 and the strategically significant investment in our Kentucky, USA site planned to commission in the third quarter of 2016. We expect the return on capital to reflect this until the benefit of these investments can be realised.

Financial results

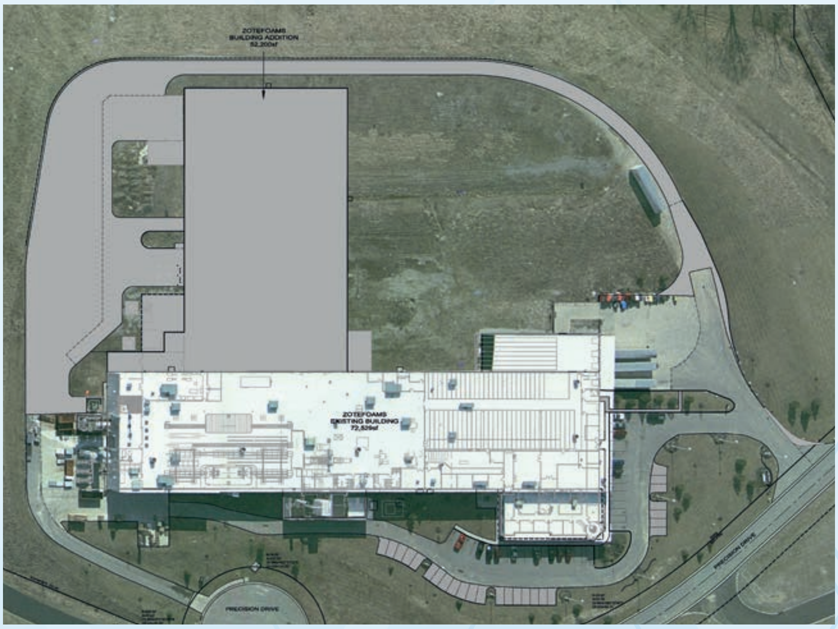
Income Statement

Total Revenue increased by 10% to £49.08m (2013: £44.63m). Total Revenue consolidates all external sales made by joint-ventures as well as those made by Zotefoams and its subsidiaries and therefore shows like-for-like sales growth. Group Revenue, which excludes the mark-up on sales made by the Azote Asia Limited joint-venture with INOAC, increased by 10% to £48.95m from £44.63m in 2013. Gross margins pre-exceptional items improved slightly at 26.2% (2013: 26.0%) with the operational gearing benefit of the higher sales and growth in the higher gross margin HPP business being offset by adverse foreign exchange rates. In distribution and administrative expenses of £7.27m (2013: £7.46m) there is a £0.31m gain from forward exchange hedging contracts and foreign exchange translation (2013: £0.33m loss).

The business segment results (note 2 to the financial statements) have been restated. Previously the HPP business result included direct costs and an allocation of R&D and manufacturing overhead but not a share of indirect administration costs. As the HPP business has grown significantly in the period the result has been restated to better reflect HPP's use of indirect resource. For 2013 the HPP segment profit has been restated to £0.27m (previously reported £0.42m). Central plc costs have also been excluded from the business segments as these are non-business specific. In 2014 central costs were £1.34m (2013: £1.11m).

Profit before tax and exceptional items was £5.27m (2013: £3.86m). As announced in June 2014, there was a non-cash impairment charge of £1.27m made following the decision to curtail manufacturing activity on the microZOTE® extrusion line which has been treated as an exceptional item. Profit before tax after this exceptional item was £4.01m (2013: £3.86m).

Creating Global Capacity



Investment in Zotefoams Inc., North America is under way and planned to provide a platform for future growth and a significant increase in global capacity of our proprietary technology. A 54,000 square foot facility coupled with polymer extrusion and high-pressure nitrogen gassing will complement the current operation which includes the final-stage, foaming of intermediate materials presently being supplied and shipped from the UK.

The expansion will create operational benefits and enhanced security of supply to customers from multisite operations. The result will be a more international footprint of Zotefoams Group to serve the ever increasing worldwide customer base.

The expansion is expected to be completed within two years and operational before the end of 2016.

The effective tax charge is 17% (2013: 18%), which is less than the UK corporation tax rate for the year of 21.5%. This is mainly due to a reduction in the tax charge for prior years and research and development and other tax allowances.

Earnings per share and dividend
Group basic earnings per share pre-exceptional items were 10.7p (2013: 8.0p) and post exceptional items were 8.2p (2013: 8.0p). The Directors are recommending a 0.1p increase in the final dividend to 3.7p per share, which, subject to shareholder approval, would be payable on 27 May 2015 to shareholders on the Company register at the close of business on 24 April 2015. This would bring the total dividend to 5.45p per ordinary share for the year (2013: 5.3p).

Cash flow and funding
Cash generated from operations was £5.98m (2013: £6.63m) with a £2.48m (2013: £0.71m) increase in working capital mainly reflecting the higher sales in the final quarter of 2014 compared to 2013. Capital expenditure was £7.57m (2013: £4.21m) with the main items of expenditure being on the new ERP system (treated as an intangible asset), the factory extension in Croydon and the initial stages of investment on the expansion of our Kentucky, USA site. The costs of the Kentucky programme are estimated at $22m and in September 2014 Zotefoams raised £8.45m net via a share placing of 9.99% of its issued share capital to support this investment with the remainder to be provided through debt and operational cash flow across the anticipated two year capital programme. After tax and dividend payments, the Group had net funds of £2.42m (2013: net debt of £1.12m) at the end of the year. These net funds at 31 December 2014 consist of £4.63m cash less £2.21m secured borrowings. The Group also has a £4.9m overdraft facility.

Pensions
The gross IAS19 deficit on the Company's Defined Benefit Pension Scheme (the 'Scheme') increased by £1.85m to £6.13m (2013: £4.28m). This was primarily due to a fall in bond yields which reduced the discount rate used to value the Scheme's liabilities, partially offset by better than expected investment growth and the Company's contributions to the Scheme.

The April 2014 triennial actuarial review and future funding arrangements for the Scheme are currently under discussion between the Company and the Trustees. In the meantime the Company is continuing to pay £55,000 per month into the Scheme. 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
16 March 2015

Principal Risks and Uncertainties

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

Risk and potential impact	Description
Operational	As the Group's operations are mainly on one site, a significant operational disruption or Safety, Health and Environmental ('SHE') incident could impact the ability to manufacture and supply products, which could have reputational issues and, in certain defined circumstances, have contractual commercial consequences which may result in customer claims.
Operational	The Group is extending its operations in Kentucky to cover the full block foam manufacturing process stages. This is a significant capital project and needs to be managed to time and budget.
Supply chain	Certain of the Group's raw materials and engineering components are sourced from single suppliers. Disruption in those supplies, either on a temporary or more permanent basis, could affect production and supply to the Group's customers and in certain defined circumstances have contractual commercial consequences which may result in customer claims.
Technology	The Group's processes for the manufacture of its products are substantially unique to the Group. Whilst the principles behind the processes are not confidential, the precise know-how is. A competitor could match or improve upon the properties and economics of the Group's products. Key to the success of the business of MuCell Extrusion LLC ('MEL') is the strength of its intellectual property and, on the back of that, its ability to grant commercial licences. The risks to MEL are that its intellectual property becomes dated or its patents expire or are successfully challenged.
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.

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

Mitigation actions

The Group has extensive SHE policies and procedures in place, which are in line with best practice. In the UK the Company is certified to accredited standards OHSAS 18001 on Health and Safety and ISO 14001, the International Standard for Environment Management Systems.

Regular training is provided on SHE matters to the staff.

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

The Group has extensive fire prevention systems in place.

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

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

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

The Group is investing in its Kentucky, USA site which, when completed, will give multi-site capability, subject to capacity, on many polyolefin products.

The extension of our facilities in Kentucky will replicate, where appropriate, machinery and processes already in operation in the UK. Existing managerial and engineering support in North America will be supplemented by external project expertise and resource from the Group's Croydon operations. Raw materials will be trialled in the UK first to reduce the commissioning risk.

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 Group continually monitors suppliers and undertakes research of alternative suppliers that could be used.

There are high barriers of entry to the market. Significant capital investment is required for the autoclaves and related infrastructure.

The Group patents its technology wherever it believes it is appropriate to do so. Where technology is not subject to patent, patents are no longer applicable or the technology is incapable of being patented, the Group guards its know-how.

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

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

MEL licences typically include a bundle of patents and know-how and therefore are not completely dependent on any particular patent.

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 is currently in discussions with the Trustees of the Scheme on the triennial actuarial valuation of the Scheme as at 5 April 2014, and the associated recovery plan for the Scheme. The Company is currently making a discretionary contribution to the Scheme of £42k per month to reduce the deficit.

Principal Risks and Uncertainties continued

Risk and potential impact	Description
Foreign exchange	The Group has significant exposure to foreign exchange fluctuations. This is both transactional and on the translation of foreign currency balances and the consolidation of its foreign subsidiaries. The Group's operations are substantially based in the UK and, therefore, most of its manufacturing assets and costs are sterling denominated. The Group's customers are normally invoiced in their local currencies. In 2014, approximately 80% of the Group's revenue was in currencies other than sterling. The Group, therefore, generates surpluses in US dollars and euros, which are converted into sterling.
Macro economics	Most of our markets are exposed to general economic conditions. The Group is operationally geared and a fall in demand for its products could adversely impact the Group.
Financing	The Group needs to have sufficient cash, or be able to draw on loan facilities, to finance its operations and growth.
Commercial	Loss, poor performance or insolvency of a major customer or joint-venture partner.
IT	The business is highly dependent on its ERP (Enterprise Resource Planning) system and has implemented a new system, which poses risks of there being flaws in its design and in user understanding and operation of the new system.
People	The failure to attract, develop or retain the right calibre of staff for a growing business.

Mitigation actions

The Group reduces its foreign exposure for transactional items by making purchases either in euros or US dollars where possible. For example, there are US dollar costs associated with the Group's operations in Kentucky, USA and with MEL. In addition, the majority of the Group's raw materials are purchased in euros. The Group is currently undertaking a major capital investment in North America which will reduce exposure for transactional items on the US dollar significantly.	The Group has a hedging policy, which is approved by the Board. The Group hedges a proportion of its exposure for transactional items to foreign exchange for the next nine months by using forward exchange contracts. The Company, like most public companies, does not hedge for the translation of its foreign subsidiaries' assets or liabilities in the consolidation of its group accounts.
Some of the Group's markets can be cyclical. However, this risk is spread geographically and across a number of segments which are expected to diversify further with the growth of HPP and MEL and the joint-ventures. The Group'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 Group targets a low financial gearing to give it operational flexibility in a downturn.	
The Group has strong cash generation from its operations. The Group has: • a £4.9m overdraft facility (payable on demand); and • a £3.5m loan facility taken out in December 2012 (£1.3m of which had been repaid at 31 December 2014). The loan facility is repayable over five years and has no major financial operating covenants, but is secured against certain items of plant and equipment.	When considering investment projects the Group has regard to its ability to raise finance for the project and will not commit to a project until acceptable and appropriate finance is in place, or believed to be available.
The Group's largest customers are distributors and converters of foam. The Group has good knowledge of the end-customers of its major customers and, with some additional short-term work, would be able to bring or identify additional converter capacity 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 joint-venture agreements contain clauses to address performance and insolvency issues.
The system has been implemented with minimal software changes, which reduces the risk substantially. It has been operational since October 2014 with no major system software issues so far encountered. Lesser issues remain and are being addressed in a prioritised order. A team of business analysts has been retained to support and control the operation of the system.	
The Group keeps under review its skill needs and labour requirements. The Group aims to provide its employees with varied and interesting work and to incentivise them appropriately.	The Group has recently appointed a Global Talent Manager, whose remit is to ensure senior and emerging talent is appropriate for the Group's current and future needs.

Corporate Social Responsibility Report

Zotefoams considers that the management of safety, health, environmental, social and ethical matters forms a key element of effective corporate governance. These areas are covered by the internal control systems and procedures outlined in the Corporate Governance Report on pages 30 to 33.

Safety, Health and Environment ('SHE')

The Board has in place separate policies relating to Safety, Health and Environment. The Group 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 Group 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 normally meet 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 consider overall performance and the impact of current and impending legislation. The Group 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 and refresher training is provided, as appropriate, to ensure that the employees understand SHE matters. All employees are made aware that everyone has a part to play to ensure the safety of themselves and their colleagues at work. Employees are encouraged to report to their managers any unsafe, or potentially unsafe, conditions. Senior managers are responsible for ensuring that SHE policies are implemented in their areas, that their teams are informed of the departmental SHE requirements and that the employees receive training on environmental issues and safe working practices and understand them. Regular audits are conducted to ensure policy and procedure implementation is appropriate.

The Group takes the reporting of all SHE incidents very seriously and requires the employees to report all incidents, including any 'near misses' as well as damage to plant or equipment which has not resulted in personal injury. The Group considers the reporting of 'near misses' to be 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 Group also ensures that appropriate safety practices are included in standard operating procedures to reduce the risk of SHE incidents occurring.

All SHE events are investigated by appropriate levels of management to ascertain the root cause of the event and, wherever possible, working practices and procedures are improved to minimise the risk of re-occurrence. In 2014, there were no prosecutions, fines or enforcement actions taken as a result of non-compliance with safety, health or environmental legislation (2013: none).

Health and safety performance

Few controlled substances are used in the manufacture of our foams, but where they are, the Group 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 2014, the whole Group just had one reportable lost time injury. This was an employee sustaining a minor burn to his arm when he was changing over a part on an extruder. The incident was fully investigated and appropriate corrective actions have been put in place.

Year	**2014**	2013	2012
Reportable lost time injuries	**1**	6	5

Environmental performance

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

In 2014 the Group had eight internally recorded environmental incidents (2013: 2), which were as follows:

Type of Incident	**2014**	2013 (restated)
Bursting disc incidents	**2**	1
Oil and chemical leaks	**1**	1
Noise complaints	**1**	0
Other	**4**	0
Total	**8**	2

There were two incidents of release of nitrogen gas into the air from a bursting disk (2013: 1). While Zotefoams records these as environmental incidents, 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 was a minor oil leak from one of the high pressure vessels. This was contained immediately and had no significant environmental impact (2013: 1).

There was one noise complaint (2013: nil). The Croydon site is very close to residential areas and, occasionally, the Group will receive complaints concerning noise. Such complaints are taken seriously and are investigated and responses given. The Group takes a proactive approach with its neighbours and tries to keep them informed of situations in advance that might be considered to be a disturbance.

There were four other minor incidents (2013: nil), none of which had an impact on the environment. These were a compressor for the silos left on by a tanker driver after having filled the silo, a bund for water treatment chemicals that had filled with rainwater and required emptying, a leak of gas from an air conditioning unit and a fault with the soiled waste of the new factory extension.

The 2013 comparative has been restated to exclude five insignificant incidents of incorrect disposal of spent materials.

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

In 2014, 225 tonnes of waste was sent to landfill from the main site in Croydon (2013: 442 tonnes). This is a significant reduction from the previous year and was due to better operating efficiencies.

In 2014, water consumption increased to 43,000m^3 from 39,000m^3 in 2013. This increase was disappointing but in line with the increase in 2014 production volumes.

The Group continues to undertake steps to reduce its energy consumption. For example, it has installed variable speed drives on the larger electrical motors at the Croydon site to reduce power consumption and is revising the storage of high pressure nitrogen which will improve energy efficiency.

In 2014, the Group at its Croydon site completed an extension to one of its factory buildings. The building obtained a Very Good rating under BREEAM (Buildings Research Establishment Environmental Assessment Method) and used features such as natural daylight and ventilation, rainwater harvesting, building insulation, draft reduction and materials either recycled or from sustainable resources to assist in achieving the Very Good rating.

Corporate Social Responsibility Report continued

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. As reported in the 2013 Annual Report, 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 have been collecting data and the sub-meters for monitoring gas consumption are to be installed in 2015.

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 2014, our energy efficiency improved to 11.5 kwhr/kg (2013: 12.3 kwhr/kg). This improvement was partly due to higher volumes being produced in 2014 (compared to 2013) and, therefore, plant and machinery capacity being better utilised.

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.

As with other companies, the Group is required to undertake its first assessment under the Energy Savings Opportunity Scheme ('ESOS') and notify the Environmental Agency by 5 December 2015 of its compliance with ESOS. The Group intends to appoint its lead assessor and undertake its first assessment by 31 July 2015.

Croydon site: Year	**2014**	2013 Restated	2012
Internally recorded environmental incidents	**8**	2	14
Waste sent to landfill (tonnes)	**225**	442	638
Water consumption (000s m^3)	**43**	39	49
Energy consumption (kwhr/kg)	**11.5**	12.3	11.6

Energy efficiency is also on the agenda at the Group's facility in Walton, Kentucky, USA, where minor capital investments in industrial lighting and rapid-rise doors are resulting in energy savings. A 52% reduction in energy consumption for lighting has been realised through the installation of industrial metal halide lighting with florescent tube fixtures and automatic movement-sensing power switches. Rapid-rise doors have been installed to curb heat loss during colder weather. With the investment in the full facility at Walton, energy efficiency is being considered as part of the design for the enlarged factory and new plant equipment.

Carbon emissions

The Group's total carbon emissions for all its operations globally were 17,482 metric tonnes for the year ended 31 December 2014 (2013: 17,052 metric tonnes). The break down on these figures is as follows:

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

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.

Whilst there has been an increase in our total carbon emissions for 2014 compared to 2013, this is due to the increase in material produced and our actual emissions have reduced per material gassed (kg) in our high-pressure vessels. We use this metric, as it covers all the material that we produce, including any material that might be scrapped. We use a similar metric for our CCL agreement.

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 2014, the Group had 300 employees (2013: 290) and five Non-Executive Directors (2013: four). The breakdown of those employees and Non-Executive Directors is as follows:

	2014 Male	**2014 Female**	2013 Male	2013 Female
Non-Executive Directors	**3**	**2**	3	1
Executive Directors	**2**	**0**	2	0
Senior Managers	**3**	**0**	4	0
Other Employees	**249**	**46**	236	48
Total	**257**	**48**	245	49

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 the 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.

Angela Bromfield
Non-Executive Director

Member of the Audit, Nominations and Remuneration Committees

Appointed: October 2014

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

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 appointments:
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.

Steve Good
Non-Executive Director

Member of the Audit, Nominations and Remuneration Committees

Appointed: October 2014

Skills and experience:
Steve was Chief Executive of Low & Bonar PLC between 2009 and 2014. Prior to that role, he was Managing Director of its Technical Textiles division for three years, Director of its new business for one year and Managing Director of its Plastics Division for one year. Prior to joining Low & Bonar he spent 10 years with BTP plc (now part of Clariant) in a variety of leadership positions managing international speciality chemicals businesses. Steve is a chartered accountant.

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

Directors' Report

The Directors present their Annual Report and audited consolidated financial statements for the year ended 31 December 2014.

Results and dividends

Profit attributable to shareholders for the year amounted to £3.34m (2013: £3.16m). An interim dividend of 1.75p (2013: 1.7p) per share was paid on 9 October 2014. The Directors recommend that a final dividend of 3.7p (2013: 3.6p) per share be paid on 27 May 2015 to shareholders who are on the Company's register at the close of business on 24 April 2015. This makes a total dividend of 5.45p per share for the year (2013: 5.3p).

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.

The current Directors named on pages 26 and 27 served throughout the year, with the exception that A C Bromfield and S P Good were appointed to the Board on 1 October 2014. A Walker served as Director until his resignation on 20 May 2014. 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 has been the case for the last three AGMs, the Board has decided to follow best practice and all Directors will stand for annual re-election at this year's AGM, notwithstanding that this specific requirement in the UK Corporate Governance Code is for FTSE 350 companies.

D B Stirling and 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 2014 (with the exception of the Deeds that were put in place on 1 October 2014 for A C Bromfield and S P Good) 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 30 to 33 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 page 25.

Substantial shareholdings

As at 16 March 2015, 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.	6,480,855	14.8%
Schroders plc	5,715,742	13.0%
Sekisui Alveo AG	3,814,762	8.7%
Miton Group plc	2,412,402	5.5%
J M Finn & Co Ltd	1,986,843	4.5%
Marc and Claire Downes	1,600,000	3.7%
The Diverse Income Trust plc	1,429,340	3.3%
Nicholas Adrian Beaumont-Dark	1,418,000	3.2%

Directors' shareholdings are shown in the Directors' Remuneration Report on page 50.

Research and development

The amount spent by the Group on R&D in the year was £1,128,000 (2013: £1,014,000). 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 2014, the Zotefoams Employee Benefit Trust ('EBT') held 340,611 shares (approximately 0.78% of the issued share capital) (2013: 418,750 shares, approximately 1.05% of the issued share capital at 31 December 2013) to satisfy share plans as described in the Directors' Remuneration Report. In accordance with best practice, the voting rights on the shares held in the EBT are not exercised and the right to receive dividends has been waived. During the year, the EBT released 86,017 shares in respect of these share plans and 7,878 shares were bought to satisfy future share awards.

At the AGM held on 20 May 2014, 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. This authority was used on 17 September 2014, when the Company issued 3,983,130 ordinary shares (9.99% of the issued share capital prior to the share issue) for a non-cash consideration of Investec Bank plc transferring its holdings of redeemable preference shares and ordinary subscriber shares in Walton Funding Limited to the Company. This raised gross proceeds of £8.8m.

Also at the AGM held on 20 May 2014, 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. This authority, which at the date of this Report, has not been used.

Both of the above-mentioned authorities expire at the AGM to be held on 13 May 2015 and the Directors seek new authorities for a further year.

At the AGM held on 20 May 2014, the Company was given authority to purchase up to 3,983,131 of its ordinary shares. This authority will expire at the 2015 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 seek a new authority to make market purchases up to a maximum of 10% of the issued share capital of the Company.

The Company proposes to establish a share scheme (The Zotefoams Share Incentive Plan) for all eligible employees. An ordinary resolution is proposed at the 2015 AGM to approve the rules for the share scheme as well as establishing the scheme. Further information on the share scheme is given in the explanatory notes to the notice of the AGM.

Subsidiaries and branches

Details of the subsidiaries, branches and joint-ventures within the Group are given in note 13 on page 83 and note 25 on page 96.

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 18 to 21 and in note 21 to the financial statements.

Pension schemes

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

Disclosure of information to Auditors

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

Independent auditors

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

By order of the Board

J W Kindell
Company Secretary
16 March 2015

Corporate Governance

Dear Shareholder

I am pleased to present the report on Corporate Governance on behalf of the Board.

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

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

Under the UK Corporate Governance Code, we are required to state whether we have complied with the Code's provisions. The Board confirms that throughout the financial year ended 31 December 2014, the Company applied all of the provisions set out in the UK Corporate Governance Code as published in September 2012.

The Board also confirms that 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. 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 and Committee composition

There have been various changes to the Board in 2014. A Walker resigned on 20 May 2014 and I would personally like to thank him for the contribution that he made to the Board and the Committees that he sat on. We took the opportunity, not only to recruit a replacement for Alex, but to recruit an additional independent Non-Executive Director as part of our plans for succession for the Board. It was pleasing that we were able to appoint two independent Non-Executive Directors (A C Bromfield and S P Good) to join the Board (as well as the Audit, Remuneration and Nominations Committees), whose respective experience and skill sets, which are quite different, create, what I believe to be, the right balance for the Board as a whole.

AGM

We believe that the AGM is an ideal opportunity for the Shareholders to attend and meet both the Executive Directors and the Non-Executive Directors, see the Croydon site and ask questions that they may have. I would, personally, like to encourage you to attend the AGM on 13 May 2015 and look forward to meeting you there.

N G Howard
Chairman
16 March 2015

The Board and its Committees

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 and other stakeholders 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 May 2014.

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

Attendance at meetings	Board meetings Eligible	Board meetings Attended	Audit Committee meetings Eligible	Audit Committee meetings Attended	Remuneration Committee meetings Eligible	Remuneration Committee meetings Attended	Nominations Committee meetings Eligible	Nominations Committee meetings Attended
A C Bromfield	2	2	1	0	2	2	2	2
M-L Clayton	12	12	3	3	6	6	4	4
R J Clowes	12	12	3	3	6	6	5	5
S P Good	2	2	1	1	2	2	2	2
N G Howard	12	12	n/a	n/a	6	6	5	5
C G Hurst	12	12	n/a	n/a	n/a	n/a	n/a	n/a
D B Stirling	12	12	n/a	n/a	n/a	n/a	n/a	n/a
A Walker	5	5	1	1	3	3	0	0

It should be noted that A C Bromfield, due to the timing of her appointment as a Director, was unable to attend a meeting of the Audit Committee as she had a prior engagement.

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

The Board currently comprises two Executive Directors, four independent Non-Executive Directors and the Non-Executive Chairman. R J Clowes has acted as the Senior Independent Director throughout 2014.

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 four 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, 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 five times in 2014 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. No specific quotas have been set on diversity and when search consultants are briefed of the search criteria, they are encouraged to cast their search sufficiently broadly to identify the best candidates. Care is taken to ensure that appointees, as well as the existing Directors, have sufficient time to devote to their roles.

Information and professional development

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

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).

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.

It was mentioned in the 2013 Annual Report, that the Board had decided to trial a new format in 2014 for the structure of the meetings of the Board and its Committees, by holding the Committee meetings in the afternoon of the day preceding the Board meeting in order to allow the Non-Executive Directors to have more time to meet management and staff and to meet together as a group to discuss matters. Feedback was that this format had worked well and is being continued in 2015.

In September 2014 the FRC published Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Board noted the guidance and has already embarked upon a review of its oversight of the systems in place on risk management and internal control.

In the 2013 Annual Report, it was mentioned that the Board had identified that further consideration was needed on succession planning and that various actions had already commenced on this aspect. Whilst two appointments were made to the Board in 2014, succession planning remains a priority for the Board and the actions are continuing on this front.

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 FTSE 350 companies to stand for annual re-election. Although the Company is not within the FTSE 350, 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 few years, that all of the Directors will stand for annual re-election at the 2015 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 and N G Howard were members of the Committee throughout 2014 to the date of this report, whereas A Walker stepped down from the Committee on 20 May 2014 and A C Bromfield and S P Good were appointed on 1 October 2014. 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 2014 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 fees paid as disclosed on page 46 and 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 2014, the Committee met six times and considered the following matters:

- the benchmarking of remuneration for the Executive Directors;
- the consideration of the Directors' Remuneration Policy;
- the Directors' Remuneration Report for 2013 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 vesting of awards made in 2011 under this plan and the Deferred Bonus Share Plan;
- the salary review of the Executive Team and the Company Secretary;
- the remuneration of the Chairman;
- the amendment of the rules of the Long-Term Incentive Plan and the Deferred Bonus Share Plan to include malus arrangements;
- the updating of the employment contracts for the Executive Directors;
- establishing a new all employees' share scheme;
- the adjustment of the eps performance targets for the awards made in 2012, 2013 and 2014 under the Long-Term Incentive Plan following the share placement and consultation with the largest shareholders; and
- evaluation of its effectiveness.

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 17 and the section entitled 'Principal Risks and Uncertainties' on pages 18 to 21. This also describes the financial position of the Company, its cash flows and liquidity position. In addition, note 21 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, borrowing facilities, and its exposure to credit risk and liquidity risk. As a consequence the Directors believe that the Company is well placed to manage its business risks and after making enquiries including a review of forecasts, budgets and banking facilities the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore 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), as well as the other Non-Executive Directors, are available to meet institutional shareholders 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. As mentioned above, the Board has already embarked upon an exercise to review its oversight processes on internal control and risk management in preparation for reporting for the financial year ending 31 December 2015 with FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, published in September 2014.

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.

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

Dear Shareholder

I am pleased to present the Remuneration Report for the year ended 31 December 2014.

Introduction

2014 was a particularly busy year for the Remuneration Committee. In addition to its routine work, the Committee developed the Directors' Remuneration Policy and updated the scheme rules as well as the Executive Directors' service contracts (further details are given below). The membership of the Committee also changed during the year. A Walker resigned from the Committee and the Board on 20 May 2014, M-L Clayton's appointment as a member of the Committee was renewed as part of the renewal of her appointment to the Board itself and A C Bromfield and S P Good were appointed to the Committee on 1 October 2014. I would like to thank Alex for his contribution to the Committee and to welcome both Angela and Steve.

Following the share placement on 17 September 2014, the Committee considered the effect that the share placement would have on the earnings per share ('EPS') targets on the existing awards made under the Long-Term Incentive Plan ('LTIP'). The announcement made on 12 September 2014 regarding the share placement, stated that the share placement would have a dilutive effect on earnings for the next few years and the Committee, having considered this dilutive effect, thought that it would be appropriate to adjust the EPS targets to ensure that management remained appropriately incentivised. We consulted with our largest shareholders on our proposed changes to the EPS targets and made those changes in December 2014. Further details may be found on pages 47 and 48 of the Annual Report on Remuneration.

Remuneration policy

The Remuneration Committee with the assistance of Deloitte LLP, the Committee's remuneration consultant, developed the Directors' Remuneration Policy, which was approved at the AGM held on 20 May 2014 and is expected to remain in place until the AGM planned to be held in 2017. There have been no changes to the Policy since it was approved and, therefore, no Shareholder approval is required at this year's AGM. The Policy has been included in the Annual Report for ease of reference (pages 35 to 44).

As part of updating our Directors' Remuneration Policy, we updated the rules of the LTIP and the Deferred Bonus Share Plan ('DBSP') to introduce Malus arrangements. Further details of these Malus arrangements may be found on page 40 of the Remuneration Policy. In addition, the DBSP was also amended to reflect that 25% of the annual bonus would be in the form of restricted shares under the DBSP. Previously awards were only made under the DBSP for the annual bonus element that was in excess of 40% of salary.

Service contracts

We took the opportunity in 2014 to update the service contracts for the Executive Directors, as these dated back to when they were first appointed and to ensure that the contracts were consistent with the Directors' Remuneration Policy.

Key pay outcomes in respect of 2014 and looking forward to 2015

The base salary of D B Stirling was increased by 4.5% (effective 1 April 2014), but his base salary still remains behind that of the competitive range we use and we intend to increase his salary by a further 4.5% (effective 1 April 2015). C G Hurst's salary was increased by 2.5% (effective 1 April 2014) and this was consistent with the increase given in 2014 to the wider workforce in the UK. The intention is that C G Hurst's salary will be increased by 2.5% (effective 1 April 2015). The salary reviews of the wider work force for 2015 are still yet to be agreed.

The annual bonus for 2014 was 44% of eligible salary for D B Stirling and 38% of eligible salary for C G Hurst. 25% of the annual bonus will be deferred by making awards under the DBSP. We have set the targets for the 2015 annual bonus and believe that these are appropriate for the Executive Directors to deliver on the Company's strategy. Further details of the annual bonus may be found on page 45.

The vesting of the 2012 awards made under the LTIP will be 66.0% of the maximum opportunity and details of the LTIP awards planned to be made in 2015 may be found on page 45.

Performance in 2014 and conclusion

The Company had a better year in 2014 than in 2013. Profit before tax and exceptional items was £5.3m compared to £3.9m in 2013. As a consequence, there were payouts on the 2014 annual bonus and vesting of 66.0% of the maximum opportunity of the 2012 LTIP awards, reflecting, in particular, the significant growth in TSR (total shareholder return) that management has achieved over the last three years.

The Committee and I feel that it is important to incentivise the Executive Directors appropriately, to ensure that they deliver on the Company's strategy for profitability and growth in its High-Performance Products ('HPP') and MuCell Extrusion LLC businesses. We feel that our remuneration strategy, as set out in the Directors' Remuneration Policy, remains appropriate and is aligned with the Company's strategy. I hope that Shareholders will be supportive of 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 of the Remuneration Committee
16 March 2015

Introduction

Directors' Remuneration Report for the year ended 31 December 2014

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

This report is split into two sections:

- The Directors' **Policy Report** which was approved at the AGM held on 20 May 2014, became effective immediately and is intended to last three years (ie until the AGM planned for 2017). There are no changes to the Policy report and, therefore, no shareholder vote is required at the 2015 AGM. It is being included for ease of reference.
- The **Annual Report on Remuneration** which provides details on how Directors were paid in 2014 and how we intend to implement the Directors' Remuneration Policy in 2015. This section of the report will be subject to an advisory shareholder vote at the 2015 AGM.

Policy report

The following sections sets out our Directors' Remuneration Policy (the 'Policy') which was approved at the 2014 AGM and applies to remuneration made since 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

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 40). 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 40). 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 now the only holder of options under the ESOS.

Information supporting the policy table
Overview of changes in the remuneration policy since 2013 report and accounts
There have been no changes in the remuneration policy since it was approved at the AGM held on 20 May 2014.

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.

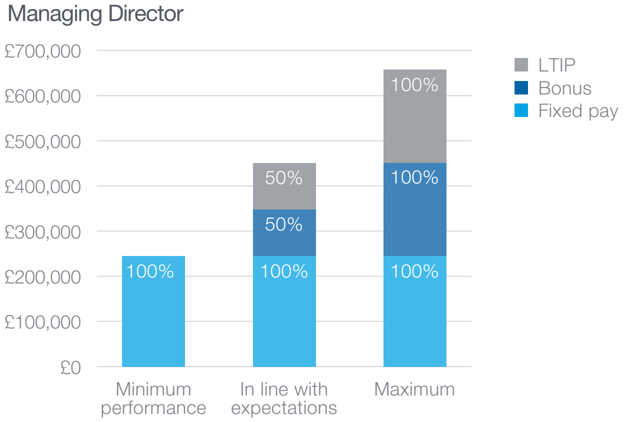
Malus arrangements for the DBSP and the LTIP
The Remuneration Committee may, in its absolute discretion, determine at any time prior to the vesting of an award under the DBSP or LTIP to:
a) reduce the number of shares to which an award relates;
b) cancel an award; or
c) impose further conditions on an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

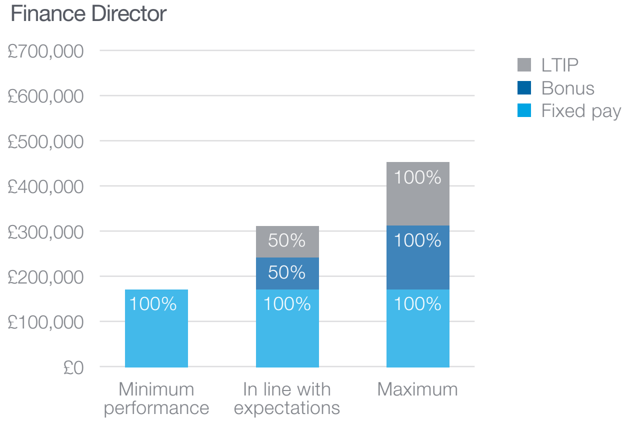
in circumstances where the Remuneration Committee considers such action is appropriate. Such circumstances include, but are not limited to:
a) a material financial downturn in the performance of the Company, a company forming part of the Group or a relevant business area;
b) a material misstatement of 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 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:





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 (50% of base salary for both of the Executive Directors). • 50% of long-term incentive share awards (50% 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 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 on page 41.

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 (contract updated 31 July 2014). • C G Hurst, Finance Director – 1 October 2000 (contract updated 11 August 2014).
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 Inceptive 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. Details of the appointment letters are contained in the Annual Report on Remuneration on page 51.

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, was 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 2015 (Unaudited)

Base salary

From the benchmarking work undertaken by Deloitte LLP in early 2014, 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. A 4.5% increase (effective 1 April 2014) was made to D B Stirling's salary. Whilst this increase reduced the gap, D B Stirling's salary still remains behind the competitive range and, therefore, the Remuneration Committee intends to make an increase of 4.5% (effective 1 April 2015).

The base salary for the Finance Director will be increased by 2.5% (effective 1 April 2015).

The 2015 salary increase for the wider work force has not yet been agreed, and in the UK, this is subject to negotiation with the unions.

Benefits

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

Retirement benefits

For 2015, 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 2015, 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	42.5%	42.5%
HPP segment sales	42.5%	42.5%
Individual objectives	15.0%	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 2015, the Executive Directors will receive awards of performance shares under the LTIP equal to 100% of base salary (before salary sacrifice).

The 2015 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 2015 award.

	Trigger point		Maximum	
	Performance target	% of award vesting	Performance target	% of award vesting
Absolute TSR goal	7.5% pa growth	12.5	30.0% pa growth	50
EPS goal	13.3p	12.5	23.5p	50

Single total figure of remuneration (Audited)

The following table sets out the single figure for total remuneration for Directors for the 2014 and 2013 financial years.

Executive Directors

2014	Salary (£)	Benefits (£)	Bonus (£)	LTIP[1] (£)	Pension (£)	Total (£)
D B Stirling	**189,599**	**12,563**	**90,956**	**84,205**	**41,547**	**418,870**
C G Hurst	**130,254**	**11,729**	**52,698**	**58,399**	**29,073**	**282,153**

1 The LTIP award made in April 2012 is not due to vest until 4 April 2015, but has been included in the table as its performance was measured for the three year period ended 31 December 2014. For the purposes of this table, the award has been valued using the average share price over the three months to 31 December 2014 of £2.378. This compares to a share price of £1.865 at the date of grant.

2013	Salary (£)	Benefits (£)	Bonus (£)	LTIP[1] (£)	Pension (£)	Total (£)
D B Stirling	182,117	12,708	0	35,992	39,870	270,687
C G Hurst	126,900	11,810	0	24,996	28,307	192,013

1 The LTIP award vested on 8 April 2014 and has been recalculated using the actual sales price achieved for the shares sold (£2.272) on that day.

Non-Executive Directors

	Fees paid in respect of 2014 (£)	Fees paid in respect of 2013 (£)
N G Howard	**57,125**	55,625
A C Bromfield	**7,113**	–
M-L Clayton	**30,313**	29,500
R J Clowes	**30,313**	29,500
S P Good	**7,113**	–
A Walker	**10,836**	27,500

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. Similarly, the amounts shown for pension include the amounts of salary sacrificed.

Benefits

For the Executive Directors for 2014 and 2013, benefits were company car allowance for both Directors (£11,640 for D B Stirling and £10,561 for C G Hurst for both 2014 and 2013) and private medical insurance.

Annual bonus

2014

The targets for the annual bonus for 2014 are as set out in the below table. 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.

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

The annual bonus was based on base salary before salary sacrifice ('bonusable salary'). The maximum opportunity for the bonus was 100% of bonusable salary. The bonus payout for D B Stirling was 44% and for C G Hurst was 38%. 25% of the bonus will be deferred by making awards under the Deferred Bonus Share Plan ('DBSP'). Full details of the operation of the DBSP are set out in the Directors' Remuneration Policy (see page 38).

2014	**Cash bonus (£)**	**Deferred bonus (£)**	**Total bonus (£)**
D B Stirling	**68,217**	**22,739**	**90,956**
C G Hurst	**39,524**	**13,174**	**52,698**

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

2013

The annual bonus for 2013 was as follows:

Measure	As a percentage of maximum bonus opportunity		Performance required		Performance achieved	
	Managing Director	Finance Director	Trigger point £m	Maximum £m	Actual £m	Payout (%)
Profit before tax	50%	50%	5.9	6.9	3.9	0
HPP segment sales	50%	50%	4.5	5.8	4.3	0

There was no bonus payment for each Executive Director in 2013. The maximum opportunity was 100% of bonusable salary.

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

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.

As reported in other parts of this Annual Report, the Company made a placement of shares on 17 September 2014, where the Company’s existing share capital was increased by approximately 9.99%. It was recognised at the time of the share placement that it would be earnings dilutive for the next few years as the proceeds from the share placement are being used to invest in extending the operations of the Group’s facility in Walton in Kentucky, USA, that this investment programme would involve a phasing of costs over a two year build period and the intended benefits would only be expected to begin thereafter.

The Remuneration Committee considered the dilutive effect of the share placement on the EPS targets for the LTIP awards made in 2012, 2013 and 2014. These EPS targets were set before any decision was made to do the share placement and, therefore, the Remuneration Committee had not factored into its calculations for the EPS targets the likelihood of a share placement being made nor any possible dilutive effect that such a share placement could have. The Remuneration Committee formed the opinion that the share placement was a necessary step to grow the Group’s business and therefore, in the short-term, management should not be penalised for this decision to invest in the future growth of the business and proposed that the EPS targets be adjusted accordingly.

The rules of the LTIP do permit the Remuneration Committee to adjust the performance targets for the LTIP awards after they have been set. The Company’s largest shareholders were written to seeking their feedback on the proposal to adjust the EPS targets, prior to the Remuneration Committee making those adjustments and notifying the Executive Directors of them in December 2014.

The Remuneration Committee formed the opinion that the TSR was unaffected by the share placement and, therefore, there has been no change to the TSR targets.

The EPS targets were adjusted as follows:

Date of Grant	Date from which exercisable	Original EPS target	Adjusted EPS target
04/04/2012	04/04/2015	11.0p for 12.5% of the award to vest 16.0p for 50% of the award to vest	10.0p for 12.5% of the award to vest 14.5p for 50% of the award to vest
19/03/2013	19/03/2016	13.5p for 12.5% of the award to vest 19.5p for 50% of the award to vest	12.3p for 12.5% of the award to vest 17.7p for 50% of the award to vest
07/04/2014	07/04/2017	13.2p for 12.5% of the award to vest 23.3p for 50% of the award to vest	12.6p for 12.5% of the award to vest 22.2p for 50% of the award to vest

The table below summarises the performance criteria for the 2012 award, which is due to vest on 4 April 2015.

	Trigger point		Maximum	
	Performance target	% of award vesting	Performance target	% of award vesting
Absolute TSR goal[1]	10% pa growth	12.5	20% pa growth	50
EPS goal[2]	10.0p	12.5	14.5p	50

1 The absolute TSR growth is from a share price of 150.3p. Normally, the baseline for the absolute TSR growth target is the average share price of the final quarter of the preceding year. However, in the final quarter of 2011, the Remuneration Committee felt that the Company's share price did not reflect the true value of the Company and decided that it would be more appropriate to set the baseline for the absolute TSR growth target for the 2012 award from the average share price in the final quarter of 2010 increased by 10% to produce a baseline that was more meaningful.

2 The trigger point for the EPS target was originally set as 11.0p, where 12.5% of the award would vest to the maximum of 16.0p where 50% of the award would vest. The EPS target was adjusted in December 2014 to reflect the dilutive effect that the share placement, that took place on 17 September 2014, had on earnings.

The maximum TSR growth target was nearly met (growth being 19.4% pa) and the adjusted EPS target was partially met (EPS was 10.7p). Therefore, 66.0% of the award will vest, which will be increased to reflect the dividends paid during the performance period.

LTIP awards granted during 2014 (Audited)

The table below sets out details of the LTIP awards made under the LTIP to the Executive Directors during 2014:

	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)	07/04/2014	85,798	197,250	100	50% based on TSR growth[2] and 50% EPS target[3]	12.5	31/12/2016
C G Hurst	LTIP (Conditional shares)	07/04/2014	59,591	137,000	100	50% based on TSR growth[2] and 50% EPS target[3]	12.5	31/12/2016

1 Face value calculated using the average of the Company's mid-market price for the five trading days preceding the date of grant (£2.299). The share price was £2.275 on 7 April 2014.

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 30% pa growth where 50% of the award will vest.

3 The trigger point for the EPS target was originally set as 13.2p, where 12.5% of the award would vest to the maximum of 23.3p where 50% of the award would vest. The EPS target was adjusted in December 2014 to reflect the dilutive effect that the share placement, that took place on 17 September 2014, would have on earnings. The adjusted EPS target is 12.6p, where 12.5% of the award will vest to the maximum of 22.2p where 50% of the award will vest.

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

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

	Accrued pension in scheme at 31 December 2014 (£)	Gross increase in pension (£)	Increase in accrued pension net of CPI inflation (£)	Change in value over the year (£)
D B Stirling	**18,667**	218	0	0
C G Hurst	**9,500**	111	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 2014; and
- in the application of section 234 of the Act, the figure 20 is substituted for the figure 16.

The following is additional information relating to the Directors' pensions from the DB Scheme:
(a) Before the DB Scheme closed, members had the option of paying Additional Voluntary Contributions ('AVCs'). The value of these AVCs has been excluded from the above figures.
(b) Normal retirement age is 65.
(c) On death before retirement, a spouse's pension is payable of one-half of the member's preserved pension at leaving, revalued from leaving to the date of death.
On death in retirement, a spouse's pension is payable of one-half of the member's pension at death, without reduction for any part of the member's pension commuted for cash at retirement.
(d) Members' Guaranteed Minimum Pensions increase at statutory rates. Other pensions increase in payment at 5% 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 2014.

Payments for loss of office (Audited)
No payments were made during 2014.

Statement of Directors' shareholding and share interests (Audited)
For 2014 the Remuneration Committee introduced a policy requiring Executive Directors to hold a shareholding equivalent to 100% of base salary, with a five year period to build up to this holding from introduction of the policy or becoming an Executive Director. Throughout 2014, both D B Stirling and C G Hurst complied 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 16 March 2015	Interest in share incentive schemes without performance conditions as at 31 December 2014	Interest in share incentive schemes with performance conditions as at 31 December 2014
D B Stirling	335,233	48,958	166,229
C G Hurst	292,558	158,500	115,418

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 16 March 2015
N G Howard	69,300
A C Bromfield	nil
M-L Clayton	29,800
R J Clowes	44,000
S P Good	nil

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 2013	Date of exercise or release	Granted during the year	Exercised or released	Lapsed or cancelled	**As at 31 December 2014**	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 (2011)	14,541	08.04.2014	–	14,541	–	**–**	£2.27	–	31.03.2014	n/a
	LTIP (2012)	49,866	–	–	–	16,954	**32,912**	–	–	04.04.2015	n/a
	LTIP (2013)	47,519	–	–	–	–	**47,519**	–	–	19.03.2016	n/a
	LTIP (2014)	–	–	85,798	–	–	**85,798**	–	–	07.04.2017	n/a
	DBSP (2010)	7,153	08.04.2014	–	7,153	–	**–**	£2.27	–	31.03.2014	n/a
	DBSP (2012)	20,842	–	–	–	–	**20,842**	–	–	19.03.2016	n/a
C G Hurst	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 (2011)	10,098	08.04.2014	–	10,098	–	**–**	£2.27	–	31.03.2014	n/a
	LTIP (2012)	34,584	–	–	–	11,759	**22,825**	–	–	04.04.2015	n/a
	LTIP (2013)	33,002	–	–	–	–	**33,002**	–	–	19.03.2016	n/a
	LTIP (2014)	–	–	59,591	–	–	**59,591**	–	–	07.04.2017	n/a
	DBSP (2010)	4,967	08.04.2014	–	4,967	–	**–**	£2.27	–	31.03.2014	n/a
	DBSP (2012)	14,475	–	–	–	–	**14,475**	–	–	19.03.2016	n/a

Details of Directors' service contracts and appointment letters (Audited)
The following table sets out the details of the service contracts and appointment letters for the Directors as at 31 December 2014:

Director	Date of current service contract or appointment letter	Unexpired terms at 31 December 2014
A C Bromfield	1 October 2014	2 years and 9 months
M-L Clayton	1 July 2014	2 years and 6 months
R J Clowes	23 July 2013	1 year and 7 months
S P Good	1 October 2014	2 years and 9 months
N G Howard	31 December 2014	2 years
C G Hurst	11 August 2014	–
D B Stirling	31 July 2014	–

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

Change in remuneration of the Managing Director (unaudited)
The table below illustrates the percentage change in salary and benefits for the Managing Director and the UK work force. It is not possible to provide a percentage change for the annual bonus, as neither the Managing Director nor the UK work force received a bonus in 2013.

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 (2014 to 2013)	% change in benefits (2014 to 2013)	% change in annual bonus (2014 to 2013)
Managing Director	4.5	–1.1	n/a
Employee subset	2.5	0	n/a

The employees' salary review is negotiated with the unions and a 2.5% increase was agreed in relation to 2014. The Remuneration Committee normally keeps salary increases for the Executive Directors similar to those of the employees when they review the salaries of the Executive Directors in April each year. The cover provided under the private medical insurance was slightly amended upon renewal and this resulted in a lower premium in relation to the Managing Director. The majority of employees do not receive any taxable benefits.

Remuneration Report continued

Historic TSR performance and Managing Director remuneration outcomes (Unaudited)
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 six-year period.

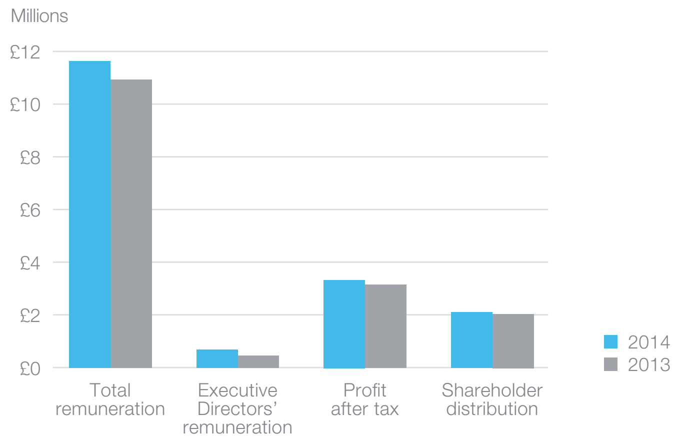
	Managing Director's single figure of remuneration (£)	Annual bonus payout (% of maximum)	LTIP vesting (% of maximum)	EPS[1] (p)	Average share price for the final quarter (p)
2014	**418,870**	**44.0**	**66.0**	**10.7**	**237.8**
2013	270,687	0	24.8	8.0	182.4
2012	490,715	62.0	84.0	11.8	202.2
2011	572,969	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

1 Basic, pre-exceptional items.

Relative importance of spend on pay (Unaudited)
The below table and chart illustrate the year-on-year change in total Executive Directors' remuneration and Executive Directors' remuneration compared to profit after tax and distributions to shareholder for 2014 and 2013.

	2014	2013
Total remuneration £k[1]	**11,636**	10,925
Executive Directors' remuneration £k	**701**	463
Profit after tax £k (including exceptional items)	**3,336**	3,161
Shareholder distributions[2] £k	**2,112**	2,048

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



Committee roles and advisers (Unaudited)
The following Directors were members of the Committee during 2014:

- N G Howard
- A C Bromfield (appointed on 1 October 2014)
- M-L Clayton
- R J Clowes (Chair of the Committee)
- S P Good (appointed on 1 October 2014)
- A Walker (resigned on 20 May 2014)

At the invitation of the Committee, the Managing Director attended three meetings 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.

During 2014, the Remuneration Committee used the services of 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.

Deloitte LLP is a member of the Remuneration Consultants Group and adheres to its Code in relation to executive remuneration consulting in the UK.

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

	2014 £	2013 £
MM&K Limited	**nil**	5,000
Deloitte LLP	**17,760**	9,740
Total:	**17,760**	14,740

Shareholder voting (Unaudited)
The table below sets out the results of the votes on the Policy Report and 2013 Remuneration Report at the 2014 AGM:

	Policy report	%	Annual report on remuneration	%
Votes in favour	21,203,289	99.95	21,204,740	99.95
Votes against	4,300	0.02	4,300	0.02
Discretion	6,474	0.03	6,474	0.03
Total votes	21,214,063	–	21,215,514	–
Votes withheld	6,451	–	5,000	–

Audit Committee Report

Dear Shareholder

I am pleased to present my report on the activities of the Audit Committee for 2014.

The composition of the Committee changed during the year as A Walker resigned from the Committee and the Board on 20 May 2014 and we welcomed A C Bromfield and S P Good, who were appointed to the Committee on 1 October 2014.

During 2014, the Audit Committee spent time scrutinising the Group's risk management and systems of internal control, the integrity of the Group's financial reporting and the internal and external audit processes, the risks associated with the Company's defined benefit pension scheme and the arrangements in place for preventing bribery. The latter, at the request of the Committee, was the focus of an internal audit review to ensure that the procedures were adequate.

2014 was a particularly busy year for the Group with the share placement in September 2014 to assist with the investment in developing the Group's facility in Walton, Kentucky and the implementation of a new Group-wide enterprise resource planning system ('ERP'). The Audit Committee paid particular attention to the planning of implementing the new ERP system, not only to ensure that it was robust but, due to the amount of management time required for the implementation, that the financial and management reporting functions continued to be performed without major disruption. The Audit Committee also considered the Group's hedging policy in light of the change to the Group's exposure to foreign exchange due to the investment in Walton.

The Committee received a briefing on the updated UK Corporate Governance Code and the associated FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, which were published in September 2014 and apply to the Group for the 2015 financial year. In 2015, the Committee will work with management to ensure that the Group's risk management and internal control systems continue to be robust and effective and reflect the new requirements.

As a result of the Committee's 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. I will be available at the AGM to answer any questions about the work of the Committee.

M-L Clayton
Chair of the Audit Committee
16 March 2015

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 Group's website, include all matters indicated by the Disclosure and Transparency Rule 7.1 and the UK Corporate Governance Code. The terms of reference are reviewed regularly by the Audit Committee to ensure they remain appropriate and reflect best practice and, if amended, are then referred to the Board for approval. The terms of reference were last updated in July 2013.

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

The members of the Audit Committee during 2014 were the independent Non-Executive Directors of the Company: M-L Clayton; R J Clowes; A Walker (until his resignation from the Board on 20 May 2014); S P Good (appointed on 1 October 2014); and A C Bromfield (appointed on 1 October 2014). 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 2014, M-L Clayton's appointment as a member to the Audit Committee was renewed as part of the renewal of her appointment to the Board itself.

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

Meetings

The Audit Committee has a planned calendar linked to events in the Group's financial calendar, causing it to meet three times in the year. Each meeting agenda is predominantly based around these events and is approved by the Audit Committee Chair on behalf of the other members, although other members have the right to require reports on matters of interest in addition to standard agenda items. The Audit Committee met three times in 2014.

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 2014 the Audit Committee has:

- reviewed the financial statements in the 2013 Annual Report and Accounts and the interim report issued in August 2014. 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 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;
- discussed the risks associated with the defined benefit pension scheme;
- considered the Group's hedging policy;
- reviewed with management and the External Auditors the accounting treatment for the Group's joint-ventures in Asia;
- received briefings from the External Auditors on the recent changes to the UK Corporate Governance Code and associated guidance published in September 2014;
- agreed a programme of work for 2014 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.

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 Audit Committee had an in-depth discussion on the risks associated with the Company's defined benefit pension scheme, as the scheme represents one of the largest liabilities to the Group. The Committee is being kept informed of the Company's current discussions with the scheme's trustees on the triennial actuarial valuation of the scheme as at 5 April 2014 and the associated recovery plan for the scheme.

It was reported in last year's report that a position paper had been agreed on the accounting treatment under IFRS 11 (Joint Arrangements) for the sales and manufacturing joint-venture with INOAC Corporation in Asia. Now that the sales part of the joint-venture has been established, as the accounting for joint-ventures is complicated and requires an element of judgement by management, the External Auditors have placed particular focus on this area and have reported on it at each of the Committee's meetings, which the Committee has considered.

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 Group 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.

Audit Committee Report continued

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 2014, the Group spent £15,900 on non-audit services which was in connection with establishing a branch in Thailand of Zotefoams Operations Limited, advice on the accounting treatment of a joint-venture in Asia, advice on the patent box tax treatment and work undertaken in relation to the Group implementing a new ERP system. The External Auditors were chosen to do this work as they are 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 to the financial statements.

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 2015 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 previous years the internal audit work had been performed by Mazars LLP. The Committee decided not to instruct Mazars LLP as it had concerns on their ability to perform the work to the same standard as previous years due to a loss of key staff. After discussion, the Committee appointed Grant Thornton UK LLP to perform the internal audit function in 2014 and will put the function to tender in 2015. The Audit Committee agreed the scope for the internal audit, reviewed the report received and discussed the proposals made with management. Grant Thornton UK LLP has provided no other work for the Group and, therefore, the Audit Committee has considered them to be independent.

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 (the '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 26 to 27 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 Auditors’ Report

to the members of Zotefoams plc

Report on the financial statements

Our opinion

In our opinion:

- Zotefoams plc’s Group financial statements and Company financial statements (the ‘financial statements’) give a true and fair view of the state of the Group’s and of the Company’s affairs as at 31 December 2014 and of the Group’s profit and the Group’s and the Company’s cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (‘IFRSs’) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

Zotefoams plc’s financial statements comprise:

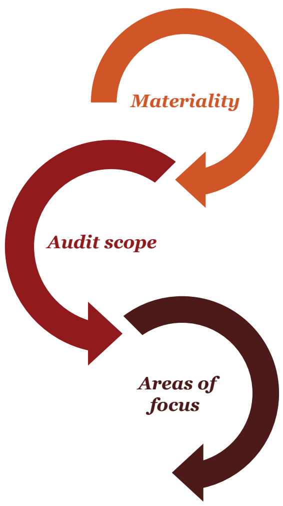
- the Consolidated and Company Statement of Financial Position as at 31 December 2014;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated and Company Statement of Cash Flows for the year then ended;
- the Consolidated and Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Our audit approach

Overview



- Overall Group materiality: £263,000 which represents 5% of profit before tax before exceptional items.

- There are four trading companies within the Zotefoams plc consolidated accounts, one based in the UK, two in the US, and a joint-venture in Asia. All these companies operate internationally.
- We conducted an audit of full year financial information on two trading companies, Zotefoams plc in the UK and Zotefoams Inc. in the US, with specific tests on one further company.
- The trading companies where we performed full audit procedures accounted for 97% of Group revenue and 91% of Group profit before tax and exceptional items.

- Actuarial assumptions of the defined benefit pension scheme involve a number of key assumptions.
- Joint-venture may not be accounted for appropriately due to the application of the new IFRS 11 accounting requirements.

The scope of our audit and our areas of focus

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

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

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

Area of focus	How our audit addressed the area of focus
Actuarial assumptions of the defined benefit pension scheme Refer to page 54 (Audit Committee Report), page 91 (notes), and page 96 Key Sources of Estimation Uncertainty The Group's closed defined benefit pension scheme represents one of the largest liabilities on the statement of financial position at £6.1m. The valuation of the scheme's liabilities requires the Directors to apply their judgement in making a number of key assumptions, being the rates of inflation (Consumer Price Index and Retail Price Index), the discount rate, and the life expectancy of scheme members. There is a risk of material misstatement if there are small changes in the assumptions, as the liability is highly sensitive.	We obtained the pension assumptions used in the defined benefit scheme from the pension scheme's actuary. We assessed whether management's actuary had the appropriate skills and expertise to calculate the pension scheme liabilities, through checking and confirming their membership of the Institute of Actuaries. We compared the key assumptions used by the scheme actuary with our internally generated expected range of values and found them to be within that range. We also compared the methodology in calculating the assumptions against the methodology used in the prior year, given that there have been no substantive changes to the scheme (notably, as it is closed to new members) and did not identify any changes that would have a material impact on the value of the scheme liabilities.
Joint-venture may not be accounted for appropriately The Group entered into an agreement in 2013 to form two Joint-Ventures ('JVs'): one a Manufacturing JV and the other a Sales JV. During 2013, neither JV was recognised in the Group financial statements because they did not enter into any transactions. The Sales JV was incorporated as Azote Asia Ltd in March 2014 and has started to trade. As a consequence, it has been included in the Group financial statements in 2014. In recognising Azote Asia Ltd for the first time, IFRSs required the Directors to assess whether the Group actually has control of, joint control of or significant influence over the entity, each of which has different accounting requirements. We considered this to be an area of focus because an error in the accounting treatment could have material implications on the financial statements both in 2014 and in subsequent years.	We obtained the Directors' analysis which determined under 'IFRS 11 – Joint Arrangements' that the Group should account for Azote Asia Ltd as a JV. We obtained the signed underlying JV agreement and confirmed that the terms noted in the Directors' analysis were an accurate reflection of those it contained. We compared the analysis against the requirements of IFRS 11 and concurred with the Directors' conclusion that Azote Asia Ltd was correctly accounted for as a Joint-Venture. We also compared the related disclosures in the financial statements with the requirements of IFRS 11 and found them to be compliant.

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

Of the four trading companies noted above, two of these are considered to be significant components of the Group, Zotefoams plc in the UK and Zotefoams Inc.in the US, on which we have performed full-scope audits. Zotefoams plc accounts for 69% and 82% of the Group's revenue and profit before tax and exceptional items respectively, whilst Zotefoams Inc. accounts for a further 28% and 9% respectively. MuCell Extrusion LLC, in which we performed procedures specifically around the revenue recognised in the period, only contributed 6% towards the profit before tax and exceptional items of the Group. Specific procedures were also completed on all exceptional items.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures 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 financial statements as a whole as follows:

Overall group materiality	£263,000 (2013: £195,000).
How we determined it	5% of profit before tax and exceptional items.
Rationale for benchmark applied	We consider that profit before tax and exceptional items to be an appropriate measure as it provides us with a consistent year on year basis for determining materiality, and reflects the underlying results of the Group.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £13,000 (2013: £10,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent Auditors' Report continued
to the members of Zotefoams plc

Report on the financial statements

Going concern
Under the Listing Rules we are required to review the Directors' statement, set out on page 32, 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 financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

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

Other required reporting
Consistency of other information

Companies Act 2006 opinions

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 information given in the Corporate Governance Statement set out on pages 30 to 33 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• Information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report arising from this responsibility.
• the statement given by the Directors on page 57, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• the section of the Annual Report on pages 55 and 56, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Directors' remuneration report – Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

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

Corporate governance statement
Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

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

Responsibilities for the financial statements and the audit
Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 57, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

Stephen Wootten (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
16 March 2015

Consolidated Income Statement

for the year ended 31 December 2014

	Note	Pre exceptional items 2014 £000	Exceptional items (see note 4) 2014 £000	Post exceptional items 2014 £000	2013 £000
Total Revenue	2	**49,081**	–	**49,081**	44,634
Adjustment for JV sales		**(136)**	–	**(136)**	–
Group Revenue		**48,945**	–	**48,945**	44,634
Cost of sales		**(36,103)**	(1,265)	**(37,368)**	(33,015)
Gross profit		**12,842**	(1,265)	**11,577**	11,619
Distribution costs		**(3,442)**	–	**(3,442)**	(3,587)
Administrative expenses		**(3,829)**	–	**(3,829)**	(3,868)
Operating profit		**5,571**	(1,265)	**4,306**	4,164
Finance income	6	**2**	–	**2**	7
Finance costs	6	**(235)**	–	**(235)**	(315)
Share of loss from JVs		**(64)**	–	**(64)**	–
Profit before tax		**5,274**	(1,265)	**4,009**	3,856
Taxation	7	**(926)**	253	**(673)**	(695)
Profit for the year		**4,348**	(1,012)	**3,336**	3,161
Attributable to:					
Equity holders of the Parent		**4,348**	(1,012)	**3,336**	3,161
Earnings per share					
Basic (p)	8	**10.7**	–	**8.2**	8.0
Diluted (p)	8	**10.5**	–	**8.1**	7.9

All of the activities of the Group are continuing.

The notes on pages 70 to 97 form part of these financial statements.

Company number: 2714645

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2014

	2014 £000	2013 £000
Profit for the year	**3,336**	3,161
Other comprehensive income/(expense)		
Items that will not be reclassified to profit or loss		
Foreign exchange translation gains/(losses) on investment in foreign subsidiaries	**669**	(187)
Actuarial (losses)/gains on defined benefit schemes	**(2,334)**	2,526
Tax relating to items that will not be reclassified	**467**	(505)
Total items that will not be reclassified to profit or loss	**(1,198)**	1,834
Items that may be classified subsequently to profit or loss		
Effective portion of changes in fair value of cash flow hedges net of recycling	**(394)**	283
Tax relating to items that may be reclassified	**79**	(57)
Total items that may be classified subsequently to profit or loss	**(315)**	226
Other comprehensive (expense)/income for the year, net of tax	**(1,513)**	2,060
Total comprehensive income for the year	**1,823**	5,221
Attributable to equity holders of the Parent	**1,823**	5,221

All of the activities of the Group are continuing.

The notes on pages 70 to 97 form part of these financial statements.

Consolidated Statement of Financial Position

as at 31 December 2014

	Note	2014 £000	2013 £000
Non-current assets			
Property, plant and equipment	11	**28,561**	27,333
Investments in joint-ventures	10	**174**	–
Intangible assets	12	**6,851**	4,916
Deferred tax assets	19	**502**	477
Total non-current assets		**36,088**	32,726
Current assets			
Inventories	14	**9,218**	8,019
Trade and other receivables	15	**13,437**	10,991
Cash and cash equivalents	16	**4,628**	1,957
Total current assets		**27,283**	20,967
Total assets		**63,371**	53,693
Current liabilities			
Interest-bearing loans and borrowings	18	**(718)**	(865)
Tax payable		**(385)**	(506)
Trade and other payables	17	**(6,715)**	(5,557)
Total current liabilities		**(7,818)**	(6,928)
Non-current liabilities			
Interest-bearing loans and borrowings	18	**(1,489)**	(2,207)
Employee benefits	23	**(6,132)**	(4,280)
Deferred tax liabilities	19	**(698)**	(1,264)
Total non-current liabilities		**(8,319)**	(7,751)
Total liabilities		**(16,137)**	(14,679)
Total net assets		**47,234**	39,014
Equity			
Issued share capital	20	**2,191**	1,992
Own shares held		**(17)**	(21)
Share premium		**24,340**	16,090
Capital redemption reserve		**15**	15
Translation reserve		**827**	158
Hedging reserve		**(149)**	245
Retained earnings		**20,027**	20,535
Total equity attributable to the equity holders of the Parent		**47,234**	39,014

The notes on pages 70 to 97 form part of these financial statements.

These financial statements were approved by the Board of Directors on 16 March 2015 and signed on its behalf by:

C G Hurst
Finance Director
Company number: 2714645

Company Statement of Financial Position

as at 31 December 2014

	Note	2014 £000	2013 £000
Non-current assets			
Property, plant and equipment	11	**24,554**	24,166
Investment in subsidiaries	13	**10,172**	6,352
Intangible assets	12	**1,920**	–
Total non-current assets		**36,646**	30,518
Current assets			
Inventories	14	**7,416**	6,341
Trade and other receivables	15	**10,543**	11,304
Cash and cash equivalents	16	**3,476**	1,362
Total current assets		**21,435**	19,007
Total assets		**58,081**	49,525
Current liabilities			
Interest-bearing loans and borrowings	18	**(718)**	(865)
Tax payable		**(385)**	(506)
Trade and other payables	17	**(5,687)**	(5,008)
Total current liabilities		**(6,790)**	(6,379)
Non-current liabilities			
Interest-bearing loans and borrowings	18	**(1,489)**	(2,207)
Employee benefits	23	**(6,132)**	(4,280)
Deferred tax liabilities	19	**(698)**	(1,264)
Total non-current liabilities		**(8,319)**	(7,751)
Total liabilities		**(15,109)**	(14,130)
Total net assets		**42,972**	35,395
Equity			
Issued share capital	20	**2,191**	1,992
Own shares held		**(17)**	(21)
Share premium		**24,340**	16,090
Capital redemption reserve		**15**	15
Hedging reserve		**(149)**	245
Retained earnings		**16,592**	17,074
Total equity attributable to the equity holders of the Company		**42,972**	35,395

The notes on pages 70 to 97 form part of these financial statements.

These financial statements were approved by the Board of Directors on 16 March 2015 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 2014

	Note	2014 £000	2013 £000
Cash flows from operating activities			
Profit for the year		**3,336**	3,161
Adjustments for:			
Depreciation, amortisation and impairment		**4,669**	3,609
Finance income		**(2)**	(7)
Finance costs		**235**	315
Loss from joint-ventures		**64**	–
Equity-settled share-based payments		**138**	232
Taxation		**673**	695
Operating profit before changes in working capital and provisions		**9,113**	8,005
(Increase)/decrease in trade and other receivables		**(2,398)**	763
Increase in inventories		**(1,249)**	(1,430)
Increase/(decrease) in trade and other payables		**1,171**	(45)
Employee benefit contributions		**(660)**	(660)
Cash generated from operations		**5,977**	6,633
Interest paid		**(55)**	(24)
Tax paid		**(868)**	(1,013)
Net cash from operating activities		**5,054**	5,596
Interest received		**2**	7
Investment in joint-ventures		**(238)**	–
Acquisition of intangibles		**(1,606)**	(71)
Acquisition of property, plant and equipment		**(5,967)**	(4,141)
Net cash used in investing activities		**(7,809)**	(4,205)
Proceeds from issue of share capital		**8,453**	153
Repurchase of own shares		**(19)**	(113)
Repayment of borrowings		**(865)**	(1,340)
New loans taken out		**–**	90
Dividends paid		**(2,112)**	(2,048)
Net cash generated/(used) in financing activities		**5,457**	(3,258)
Net increase/(decrease) in cash and cash equivalents		**2,702**	(1,867)
Cash and cash equivalents at 1 January		**1,957**	3,698
Effect of exchange rate fluctuations on cash held		**(31)**	126
Cash and cash equivalents at 31 December	16	**4,628**	1,957

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

The notes on pages 70 to 97 form part of these financial statements.

Company Statement of Cash Flows

for the year ended 31 December 2014

	Note	2014 £000	2013 £000
Cash flows from operating activities			
Profit for the year		**3,359**	3,130
Adjustments for:			
Depreciation, amortisation and impairment		**3,888**	2,761
Finance income		**(2)**	(7)
Finance costs		**235**	315
Equity-settled share-based payments		**138**	232
Taxation		**655**	706
Operating profit before changes in working capital and provisions		**8,273**	7,137
Decrease in trade and other receivables		**555**	950
Increase in inventories		**(1,075)**	(894)
Increase/(decrease) in trade and other payables		**750**	(121)
Employee benefit contributions		**(660)**	(660)
Cash generated from operations		**7,843**	6,412
Interest paid		**(55)**	(24)
Tax paid		**(825)**	(1,008)
Net cash flow from operating activities		**6,963**	5,380
Interest received		**2**	7
Investment in subsidiaries		**(3,820)**	–
Acquisition of intangibles		**(1,578)**	–
Acquisition of property, plant and equipment		**(4,877)**	(4,045)
Net cash used in investing activities		**(10,273)**	(4,038)
Proceeds from issue of share capital		**8,453**	153
Repurchase of own shares		**(19)**	(113)
Repayment of borrowings		**(865)**	(1,340)
New loans taken out		**–**	90
Dividends paid		**(2,112)**	(2,048)
Net cash generated/(used) in financing activities		**5,457**	(3,258)
Net increase/(decrease) in cash and cash equivalents		**2,147**	(1,916)
Cash and cash equivalents at 1 January		**1,362**	3,178
Effect of exchange fluctuations on cash held		**(33)**	100
Cash and cash equivalents at 31 December	16	**3,476**	1,362

The notes on pages 70 to 97 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2014

	Note	Share capital £000	Own shares held £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Hedging reserve £000	Retained earnings £000	Total equity £000
Balance at 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 year		—	—	—	—	—	—	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	8	—	—	—	—	—	—	(2,048)	(2,048)
Total transactions with owners of the Parent		—	15	—	—	—	—	(1,912)	(1,897)
Balance at 31 December 2013 and 1 January 2014		1,992	(21)	16,090	15	158	245	20,535	39,014
Foreign exchange translation gains on investment in subsidiaries		—	—	—	—	669	—	—	669
Effective portion of changes in fair value of cash flow hedges net of recycling		—	—	—	—	—	(394)	—	(394)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		—	—	—	—	—	—	79	79
Actuarial losses on defined benefit scheme		—	—	—	—	—	—	(2,334)	(2,334)
Tax relating to actuarial losses on defined benefit scheme		—	—	—	—	—	—	467	467
Profit for the year		—	—	—	—	—	—	3,336	3,336
Total comprehensive income/ (expenditure) for the year		—	—	—	—	669	(394)	1,548	1,823
Transactions with owners of the Parent:									
Shares issued		199	4	8,250	—	—	—	—	8,453
Shares acquired		—	—	—	—	—	—	(19)	(19)
Equity-settled share-based payments net of tax		—	—	—	—	—	—	75	75
Dividends paid	8	—	—	—	—	—	—	(2,112)	(2,112)
Total transactions with owners of the Parent		199	4	8,250	—	—	—	(2,056)	6,397
Balance at 31 December 2014		**2,191**	**(17)**	**24,340**	**15**	**827**	**(149)**	**20,027**	**47,234**

The aggregate current and deferred tax relating to items that are credited to equity is £515,000 (2013: a debit of £649,000).

Company Statement of Changes in Equity

for the year ended 31 December 2014

	Note	Share capital £000	Own shares held £000	Share premium £000	Capital redemption reserve £000	Hedging reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 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 year		—	—	—	—	—	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	8	—	—	—	—	—	(2,048)	(2,048)
Total transactions with owners of the Parent		—	15	—	—	—	(1,912)	(1,897)
Balance at 31 December 2013 and 1 January 2014		1,992	(21)	16,090	15	245	17,074	35,395
Effective portion of changes in fair value of cash flow hedges net of recycling		—	—	—	—	(394)	—	(394)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		—	—	—	—	—	79	79
Actuarial losses on defined benefit scheme		—	—	—	—	—	(2,334)	(2,334)
Tax relating to actuarial losses on defined benefit scheme		—	—	—	—	—	467	467
Profit for the year		—	—	—	—	—	3,359	3,359
Total comprehensive (expenditure)/income for the year		—	—	—	—	(394)	1,571	1,177
Transactions with owners of the Parent:								
Shares issued		199	4	8,250	—	—	—	8,453
Shares acquired		—	—	—	—	—	(19)	(19)
Equity-settled share-based payments net of tax		—	—	—	—	—	78	78
Dividends paid	8	—	—	—	—	—	(2,112)	(2,112)
Total transactions with owners of the Parent		199	4	8,250	—	—	(2,053)	6,400
Balance at 31 December 2014		**2,191**	**(17)**	**24,340**	**15**	**(149)**	**16,592**	**42,972**

The aggregate current and deferred tax relating to items that are credited to equity is £515,000 (2013: a debit of £649,000).

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, in accordance with the Companies Act 2006.The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 26.

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

These financial statements were approved by the Board on 16 March 2015.

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 17. This also describes the financial position of the Company, its cash flows and liquidity position. In addition, note 21 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, borrowing facilities, and its exposure to credit risk and liquidity risk. As a consequence, the Directors believe that the Company is well placed to manage its business risks.

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

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

a) Measurement convention

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

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

c) Foreign currency

i) Foreign currency transactions

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

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

ii) Financial statements of foreign operations

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

Exchange differences arising from the 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.

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.

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

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

Marketing related	5–15 years
Customer related	2–10 years
Technology related	5–20 years

1. Accounting policies continued

Software related	3–10 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.

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.

Notes continued

1. Accounting policies continued

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.

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.

1. Accounting policies continued

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) Exceptional items
Items which are significant by virtue of their size or nature which are considered non-recurring and which are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 4) are classified as exceptional items. In 2014, this included the impairment of property, plant and equipment and inventory associated with the microZOTE® line, which has been curtailed during the year.

u) New and amended standards adopted by the Group
The IASB and IFRS Interpretations Committee have issued the following standards and interpretations which were effective during the year and were adopted by the Group in preparing the financial statements:

Effective in 2014	Effective for accounting periods beginning on or after	Endorsed by the EU
New standards		
IFRS 10, 'Consolidated financial statements'	1 January 2014	Yes
IFRS 12, 'Disclosures of interests in other entities'	1 January 2014	Yes
IAS 27 (revised 2011) 'Separate financial statements'	1 January 2014	Yes
Amendments		
Amendments to IFRS 10, 11 and 12 on transition guidance	1 January 2014	Yes
Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities	1 January 2014	Yes
Amendments to IAS 32 on Financial instruments asset and liability offsetting	1 January 2014	Yes
Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures	1 January 2014	Yes
Amendment to IAS 39 'Financial instruments: Recognition and measurement', on novation of derivatives and hedge accounting	1 January 2014	Yes
New IFRICs		
IFRIC, 'Levies'	1 January 2014	No

v) New standards and interpretations not yet adopted
The IASB and IFRS Interpretations Committee have issued the following standards and interpretations with an effective date of implementation for accounting periods beginning after the date on which the Group's financial statements for the current year commenced. The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application:

Effective after 31 December 2014	Effective for accounting periods beginning on or after	Endorsed by the EU
New standards		
IFRS 9, 'Financial instruments'	1 January 2018	No
IFRS 15 'Revenue from contracts with customers'	1 January 2017	No
Amendments		
Amendment to IAS 19, 'Employee benefits', on defined benefit plans	1 July 2015	Yes
Amendment to IAS 16 'Property Plant and Equipment' and IAS 38, "Intangible assets' regarding depreciation and amortisation	1 January 2016	No
Amendment to IFRS 11,'Joint arrangements' on acquisition of an interest in a joint operation',	1 January 2016	No
Amendment to IAS 16 ,'Property, plant and equipment' and IAS 38,'Intangible assets', on depreciation and amortisation	1 January 2016	No
Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28,'Investments in associates and joint-ventures' on sale or contribution of assets	1 January 2016	No

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	
	2014 £000	2013 Restated £000	**2014 £000**	2013 Restated £000	**2014 £000**	2013 Restated £000	**2014 £000**	2013 Restated £000	**2014 £000**	2013 Restated £000
Total Revenue	**40,440**	38,825	**6,614**	4,311	**2,088**	1,562	**(61)**	(64)	**49,081**	44,634
Segment profit/(loss) pre-amortisation	**6,008**	5,798	**1,022**	269	**(103)**	(138)	**–**	–	**6,927**	5,929
Amortisation of acquired intangible assets	**(21)**	–	**–**	–	**(304)**	(320)	**–**	–	**(325)**	(320)
Segment profit/(loss)	**5,987**	5,798	**1,022**	269	**(407)**	(458)	**–**	–	**6,602**	5,609
Foreign exchange gains/(losses)	**–**	–	**–**	–	**–**	–	**–**	–	**310**	(334)
Unallocated central costs	**–**	–	**–**	–	**–**	–	**–**	–	**(1,341)**	(1,111)
Operating profit	**–**	–	**–**	–	**–**	–	**–**	–	**5,571**	4,164
Net financing costs	**–**	–	**–**	–	**–**	–	**–**	–	**(233)**	(308)
Share of loss from joint-ventures	**–**	–	**–**	–	**–**	–	**–**	–	**(64)**	–
Taxation	**–**	–	**–**	–	**–**	–	**–**	–	**(926)**	(695)
Profit for the year (pre-exceptional items)									**4,348**	3,161
Segment Assets	**48,214**	41,794	**7,955**	5,402	**6,526**	6,020	**–**	–	**62,695**	53,216
Unallocated assets	**–**	–	**–**	–	**–**	–	**–**	–	**676**	477
Total assets									**63,371**	53,693
Segment liabilities	**(14,257)**	(11,639)	**(210)**	(998)	**(587)**	(272)	**–**	–	**(15,054)**	(12,909)
Unallocated liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**(1,083)**	(1,770)
Total liabilities									**(16,137)**	(14,679)
Depreciation and impairment	**4,155**	3,114	**151**	138	**38**	37	**–**	–	**4,344**	3,289
Amortisation	**21**	–	**–**	–	**304**	320	**–**	–	**325**	320
Capital expenditure:										
Tangible fixed assets	**5,488**	4,655	**129**	107	**94**	35	**–**	–	**5,711**	4,797
Intangible fixed assets	**1,577**	–	**–**	–	**29**	71	**–**	–	**1,606**	71

Unallocated assets and liabilities are made up of corporation tax and deferred tax assets and liabilities and investments in joint-ventures.

Previously the HPP business result included direct costs and an allocation of R&D and manufacturing overhead but not a share of indirect administration costs. As the HPP business has grown significantly in the period the result has been restated to better reflect HPP's use of indirect resource. For 2013 the HPP segment profit has been restated to £0.27m (previously reported £0.42m). Central plc costs have also been excluded from the business segments as these are non-business specific. In 2014 central costs were £1.34m (2013: £1.11m).

2. Segment reporting continued

Geographical segments

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

	United Kingdom £000	Europe £000	North America £000	Rest of the world £000	Total £000
For the year ended 31 December 2014					
Revenue from external customers	**10,465**	**20,381**	**14,277**	**3,958**	**49,081**
Non-current assets	**26,647**	**–**	**8,939**	**–**	**35,586**
Capital expenditure	**4,625**	**–**	**1,086**	**–**	**5,711**
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

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 £5,127,000 (2013: £4,453,000) of the Group's total revenues.

3. Expenses and auditors' remuneration

	2014 £000	2013 £000
Included in profit for the year are:		
Operating lease charges	**122**	104
Amortisation	**325**	320
Depreciation and impairment	**4,344**	3,289
Research and development costs expensed	**1,128**	1,014
Net exchange (gains)/losses	**(310)**	334
Auditors' remuneration:		
Group – Fees payable to the Company's auditors and their associates for the audit of the Parent Company and consolidated financial statements	**75**	72
– 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	**16**	7
	116	104

4. Exceptional Item

On 27 June 2014 the Company made the decision to curtail manufacturing activity on its microZOTE® extrusion line within its Polyolefin business segment. This has resulted in a non-cash impairment charge as follows:

	2014 £000	2013 £000
Fixed asset impairment	**1,175**	–
Inventory impairment	**90**	–
	1,265	–

5. Staff numbers and expenses

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

	Number of employees			
	Group		Company	
	2014	2013	**2014**	2013
Production	**135**	141	**124**	131
Maintenance	**17**	17	**15**	15
Distribution and marketing	**48**	49	**38**	39
Administration and technical	**100**	91	**82**	75
	300	298	**259**	260

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	2014 £000	2013 £000	**2014 £000**	2013 £000
Wages and salaries	**10, 472**	10,041	**8,938**	8,425
Social security costs	**1,099**	941	**985**	756
Share-based payments	**138**	232	**138**	232
Other pension costs	**828**	652	**774**	601
	12,537	11,866	**10,835**	10,014

Details of individual Directors' emoluments, pension costs and share options are dealt with in the Remuneration Report on pages 45 to 51.

6. Finance income and costs

Finance income

	2014 £000	2013 £000
Interest on bank deposits	**2**	7

Finance costs

	2014 £000	2013 £000
On bank loans and overdrafts	**57**	21
Interest on defined benefit pension obligation	**178**	294
	235	315

7. Taxation

	Note	**2014 £000**	2013 £000
UK corporation tax		**859**	776
Overseas taxation		**44**	6
Adjustment to prior year UK tax charge		**(154)**	(64)
Current taxation		**749**	718
Deferred taxation	19	**(76)**	(23)
Total tax charge		**673**	695

7. Taxation continued

Factors affecting the tax charge

The tax charge for the year is lower (2013: lower) than the standard rate of corporation tax in the UK of 21.5 % (2013: 23.25%). The differences are explained below:

	2014 £000	2013 £000
Tax reconciliation		
Profit before tax	**4,009**	3,856
Tax at 21.5% (2013: 23.25%)	**862**	897
Effects of:		
Research and development tax credits and other allowances less expenses not deductible for tax purposes	**(61)**	(41)
Overseas earnings and effect of US tax losses	**26**	(16)
Change in deferred tax rate to 20%	**–**	(81)
Adjustments to prior year UK corporation tax charge	**(154)**	(64)
Total tax charge	**673**	695

8. Dividends and earnings per share

	2014 £000	2013 £000
Final dividend prior year of 3.60p (2012: 3.50p) net per 5.0p ordinary share	**1,421**	1,378
Interim dividend of 1.75p (2013: 1.7p) net per 5.0p ordinary share	**691**	670
Dividends paid during the year	**2,112**	2,048

The proposed final dividend for the year ended 31 December 2014 of 3.70p per share (2013: 3.60p) 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 £1,621,000 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 £3,336,000 (2013: £3,161,000) 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 2014 was 340,611 (2013: 418,750). 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.

	2014	2013
Average number of ordinary shares issued	**40,664,440**	39,330,596
Deemed issued for no consideration	**599,430**	515,843
Diluted number of ordinary shares issued	**41,263,870**	39,846,439

9. Profit for the financial year

The Group financial statements do not include a separate Income Statement for Zotefoams plc (the Parent undertaking) as permitted by Section 408 of the Companies Act 2006. The Parent Company profit after tax for the financial year is £3,359,000 (2013: £3,130,000).

10. Investments in joint-ventures

During 2013 the Group entered into joint-venture arrangements with INOAC Corporation. As a result the Group has a 50% interest in Azote Asia Limited (incorporated in Hong Kong) and Inoac Zotefoams Korea Limited (incorporated in South Korea). Azote Asia Limited commenced trading in 2014. Inoac Zotefoams Korea Limited remains non-trading.

Notes continued

11. 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 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
Balance at 1 January 2014	15,052	50,145	3,767	5,510	74,474
Additions	–	857	242	4,612	5,711
Disposals	–	(232)	–	–	(232)
Reclassifications from Under Construction	(177)	1,798	238	(1,859)	–
Reclassifications to Intangible Assets	–	–	–	(363)	(363)
Effect of movement in foreign exchange	267	277	23	54	621
Balance at 31 December 2014	**15,142**	**52,845**	**4,270**	**7,954**	**80,211**
Depreciation and impairment					
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)
Effect of movement in foreign exchange	(47)	(82)	(7)	–	(136)
Balance at 31 December 2013	8,386	35,921	2,834	–	47,141
Balance at 1 January 2014	8,386	35,921	2,834	–	47,141
Depreciation charge for the year	578	2,135	456	–	3,169
Disposals	–	(232)	–	–	(232)
Impairment	–	1,175	–	–	1,175
Effect of movement in foreign exchange	140	233	24	–	397
Balance at 31 December 2014	**9,104**	**39,232**	**3,314**	**–**	**51,650**
Net book value					
At 1 January 2013	7,298	14,951	926	2,694	25,869
At 31 December 2013 and 1 January 2014	6,666	14,224	933	5,510	27,333
At 31 December 2014	**6,038**	**13,613**	**956**	**7,954**	**28,561**

Included in plant and machinery for both the Group and the Company are assets with a net book value of £5,906,000 (2013: £7,294,000) pledged as security for bank loans.

The Group and Company have 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 £4,612,000 (2013: £4,461,000) for the Group.

11. 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 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
Balance at 1 January 2014	10,767	45,649	3,409	5,508	65,333
Additions	–	805	199	3,614	4,618
Reclassifications from Under Construction	(177)	1,798	239	(1,860)	–
Reclassifications to Intangible Assets	–	–	–	(363)	(363)
Balance at 31 December 2014	**10,590**	**48,252**	**3,847**	**6,899**	**69,588**
Depreciation and impairment					
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)
Balance at 31 December 2013	6,296	32,332	2,539	–	41,167
Balance at 1 January 2014	6,296	32,332	2,539	–	41,167
Depreciation charge for the year	395	1,891	406	–	2,692
Impairment	–	1,175	–	–	1,175
Balance at 31 December 2014	**6,691**	**35,398**	**2,945**	**–**	**45,034**
Net book value					
At 1 January 2013	4,877	13,822	835	2,693	22,227
At 31 December 2013 and 1 January 2014	4,471	13,317	870	5,508	24,166
At 31 December 2014	**3,899**	**12,854**	**902**	**6,899**	**24,554**

12. Intangible assets

Group

	Marketing related £000	Customer related £000	Technology related £000	Software related £000	Goodwill £000	Total intangibles £000
Cost						
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
Balance at 1 January 2014	192	151	3,714	–	1,835	5,892
Additions	–	121	28	1,457	–	1,606
Reclassifications from Tangible Assets	–	–	–	363	–	363
Effect of movement in foreign exchange	12	9	234	–	114	369
Balance at 31 December 2014	**204**	**281**	**3,976**	**1,820**	**1,949**	**8,230**
Accumulated amortisation						
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
Balance at 1 January 2014	67	89	820	–	–	976
Charge for the year	19	46	260	–	–	325
Effect of movement in foreign exchange	5	7	66	–	–	78
Balance at 31 December 2014	**91**	**142**	**1,146**	**–**	**–**	**1,379**
Net book value						
At 1 January 2013	147	80	3,151	–	1,870	5,248
At 31 December 2013 and 1 January 2014	125	62	2,894	–	1,835	4,916
At 31 December 2014	**113**	**139**	**2,830**	**1,820**	**1,949**	**6,851**

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 £1.95 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.

12. Intangible assets continued

Company

	Customer related £000	Software related £000	Total intangibles £000
Cost			
Balance at 1 January 2014	–	–	–
Additions	121	1,457	1,578
Reclassifications from Tangible Assets	–	363	363
Balance at 31 December 2014	**121**	**1,820**	**1,941**
Accumulated amortisation			
Balance at 1 January 2014	–	–	–
Charge for the year	21	–	21
Balance at 31 December 2014	**21**	**–**	**21**
Net book value			
At 31 December 2013 and 1 January 2014	–	–	–
At 31 December 2014	**100**	**1,820**	**1,920**

13. Investment in subsidiaries

Company

	2014 £000	2013 £000
Shares in Group undertakings – at cost	**13,466**	9,646
Provision against the value of investment in subsidiary	**(3,294)**	(3,294)
	10,172	6,352

During the year the Company increased its investment in Zotefoams International Limited by £3,820,000.

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
Zotefoams Inc. (indirectly owned)	100%	USA
MuCell Extrusion LLC (indirectly owned)	100%	USA
Zotefoams Operations Limited (indirectly owned)	100%	Great Britain
Zotefoams Technology Limited (indirectly owned)	100%	Great Britain
KZ Trading and Investment Limited (indirectly owned)	51%	Hong Kong

The principal activities of the subsidiary undertakings are as follows: Zotefoams Inc. purchases, manufactures and distributes cross-linked block foams. Zotefoams International Limited is a holding company. MuCell Extrusion LLC holds and develops microcellular foam technology which it licenses to customers. Zotefoams Pension Trustees Limited and Zotefoams Technology Limited are currently dormant. Zotefoams Operations Limited is a trading company and has a branch in Thailand. KZ Trading and Investment Limited is a holding and trading company for the joint-venture with the King Lai Group. 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, Zotefoams Technology Limited and Zotefoams Operations Limited are relying upon the exemption from audit of individual financial statements as permitted by section 479A of the Companies Act 2006. All outstanding liabilities as at 31 December 2014 of these companies 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.

14. Inventories

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Raw materials and consumables	**2,966**	3,849	**2,932**	3,597
Work in progress	**3,731**	2,187	**2,596**	1,455
Finished goods	**2,521**	1,983	**1,888**	1,289
	9,218	8,019	**7,416**	6,341

The carrying amount of inventories subject to retention of title clauses is £1,019,000 (2013: £1,162,000).

In 2014 the value of inventory recognised by the Group as an expense in cost of goods sold was £33,698,000 (2013: £29,505,000).

15. Trade and other receivables

	Note	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Amounts falling due within one year:					
Trade receivables	21	**12,752**	9,797	**8,348**	7,126
Fair value derivatives	21	**43**	249	**43**	249
Amounts owed by Group undertakings	25	**–**	–	**1,604**	3,029
Other receivables		**334**	577	**334**	577
Prepayments and accrued income		**308**	368	**214**	323
		13,437	10,991	**10,543**	11,304
Trade receivables are shown net of:					
impairment losses		**232**	152	**192**	92

16. Cash and cash equivalents/bank overdrafts

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Cash and cash equivalents per balance sheet	**4,628**	1,957	**3,476**	1,362
Cash and equivalents per cash flow statements	**4,628**	1,957	**3,476**	1,362

17. Trade and other payables

	Note	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Trade payables		**2,892**	1,946	**2,521**	1,838
Other creditors including taxation and social security:					
Other taxation and social security		**283**	247	**274**	239
Fair value derivatives	21	**192**	5	**192**	5
Amounts owed to Group undertakings	25	**–**	–	**–**	–
Other payables		**858**	503	**591**	390
Accruals and deferred income		**2,490**	2,856	**2,109**	2,536
		6,715	5,557	**5,687**	5,008

18. Interest-bearing loans and borrowings

	Note	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Bank loans		**718**	865	**718**	865
Amounts falling due within one year		**718**	865	**718**	865
Bank loans		**1,489**	2,207	**1,489**	2,207
Amounts falling due in more than one year		**1,489**	2,207	**1,489**	2,207
	21	**2,207**	3,072	**2,207**	3,072

19. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities – Group

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014 £000	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013 £000
Property, plant and equipment	**–**	–	**1,407**	1,552	**1,407**	1,552
Rolled-over gain	**–**	–	**645**	645	**645**	645
Inventories	**(143)**	(122)	**–**	–	**(143)**	(122)
Financial instruments	**–**	–	**30**	49	**30**	49
Defined benefit scheme and share option charges	**(1,384)**	(982)	**–**	–	**(1,384)**	(982)
Tax value of recognised losses carried forward	**(359)**	(355)	**–**	–	**(359)**	(355)
Tax (assets)/liabilities	**(1,886)**	(1,459)	**2,082**	2,246	**196**	787
Set off tax	**1,384**	982	**(1,384)**	(982)	**–**	–
Net tax (assets)/liabilities	**(502)**	(477)	**698**	1,264	**196**	787

Unrecognised deferred tax assets

The Group has $3.3m (2013: $3.9m) 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 £2.1m (2013: £2.3m). The Group has only recognised £1.0m (2013: £1.0m) of these tax losses as a deferred tax asset representing what the Board considers to be a reasonable estimate of the expected US tax utilisation in the near future based on discounted projections. During the year losses of £0.4m were used and no additional losses were recognised. At a 35% tax rate these tax losses are £0.7m (2013: £0.8m) of which £0.4m has been recognised (2013: £0.4m).

Movement in deferred tax during the year

	Balance 1 January 2014 £000	Recognised in income £000	Recognised in equity £000	**Balance 31 December 2014 £000**
Property, plant and equipment	1,552	(145)	–	**1,407**
Rolled-over gain	645	–	–	**645**
Inventories	(122)	(21)	–	**(143)**
Financial instruments	49	–	(19)	**30**
Defined benefit scheme and share option charges	(982)	94	(496)	**(1,384)**
Tax value of recognised losses carried forward	(355)	(4)	–	**(359)**
	787	(76)	(515)	**196**

Movement in deferred tax during the prior 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
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

19. Deferred tax assets and liabilities continued

Deferred tax assets and liabilities – Company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014 £000	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013 £000
Property, plant and equipment	**–**	–	**1,407**	1,552	**1,407**	1,552
Rolled-over gain	**–**	–	**645**	645	**645**	645
Financial instruments	**–**	–	**30**	49	**30**	49
Defined benefit scheme and share option charges	**(1,384)**	(982)	**–**	–	**(1,384)**	(982)
Tax (assets)/liabilities	**(1,384)**	(982)	**2,082**	2,246	**698**	1,264
Set off tax	**1,384**	982	**(1,384)**	(982)	**–**	–
Net tax liabilities	**–**	–	**698**	1,264	**698**	1,264

Movement in deferred tax during the year

	Balance 1 January 2014 £000	Recognised in income £000	Recognised in equity £000	**Balance 31 December 2014 £000**
Property, plant and equipment	1,552	(145)	–	**1,407**
Rolled-over gain	645	–	–	**645**
Financial instruments	49	–	(19)	**30**
Defined benefit scheme and share option charges	(982)	94	(496)	**(1,384)**
	1,264	(51)	(515)	**698**

Movement in deferred tax during the prior 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

20. Share capital

	2014 £	2013 £
Allotted, called up and fully paid		
At 31 December		
Equity: 43,814,442 (2013: 39,831,312) ordinary shares of 5.0p each	**2,190,722**	1,991,566

Details of share options are provided in note 24 to the financial statements on pages 94 to 95.

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.

21. Financial instruments and financial risk management

Policy

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

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

21. Financial instruments and financial risk management continued

Credit risk

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

In 2014 and 2013, the Group and Company had credit insurance to mitigate this risk. However, the uninsured exposure as at 31 December 2014 for the Group was £3,386,000 (2013: £2,501,000) and for the Company was £2,064,000 (2013: £1,757,000) 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 2014 £000	Group 2013 £000	**Company 2014 £000**	Company 2013 £000
Amounts neither past due nor impaired	**9,885**	7,457	**6,037**	5,114
Amounts past due but not impaired				
Less than 60 days	**1,890**	1,830	**1,334**	1,502
More than 60 days	**–**	–	**–**	–
Total past due but not impaired	**1,890**	1,830	**1,334**	1,502
Amounts impaired	**1,209**	662	**1,169**	602
Impairment allowance	**(232)**	(152)	**(192)**	(92)
Carrying amount of impaired receivables	**977**	510	**977**	510
Trade receivables net of allowances	**12,752**	9,797	**8,348**	7,126

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

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

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

Interest rate risk

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

	2014				2013			
	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
Sterling – mortgage	**3.5**	**2,173**	**–**	**2,173**	3.5	2,848	–	2,848
Total	**–**	**2,173**	**–**	**2,173**	2.0	2,848	165	3,013

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

Notes continued

21. Financial instruments and financial risk management continued

Liquidity risk

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

	2014					2013				
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	**2,207**	**2,207**	**718**	**737**	**752**	3,072	3,072	865	717	1,490
Trade and other payables	**3,750**	**3,750**	**3,750**	**–**	**–**	2,449	2,449	2,449	–	–

	2014					2013				
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	**2,207**	**2,207**	**718**	**737**	**752**	3,072	3,072	865	717	1,490
Trade and other payables	**3,112**	**3,112**	**3,112**	**–**	**–**	2,228	2,228	2,228	–	–

The Group's and Company'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 Group's and Company's borrowings is shown above.

The Group and the Company 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 Group and the Company under a cross-guarantee structure.

In December 2012 the Company took out a £3.5m mortgage, repayable over five years in equal quarterly instalments. This facility is secured over specific plant assets. At 31 December 2014 £2.2m of this mortgage was outstanding and £1.3m 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 Group and the Company against the available facilities.

Foreign currency risk

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

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

	2014		2013	
	Average	**Closing**	Average	Closing
Euro/sterling	**1.25**	**1.29**	1.18	1.20
US dollar/sterling	**1.65**	**1.56**	1.57	1.66

The Group and the Company hedge a proportion of their estimated cash exposure in respect of trade and other receivables, trade and other payables and forecast sales receipts and purchase payments for the next nine months. The Group and the Company use forward exchange contracts to hedge their foreign currency risk. As at 31 December 2014 these forward currency contracts covered approximately two thirds of the estimated net cash foreign exchange exposure for the euro for the next nine months. The Group and the Company expect the capital expenditure on the expansion of its Walton, Kentucky, USA plant to offset its US dollar cash inflows so the forward exchange contracts on the US dollar are commensurately smaller ($3.8m as at 31 December 2014 (2013: $8.3m). 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 Group and the Company ensure that the net exposure is kept to a manageable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Where possible the Group tries to hold the majority of its cash and cash equivalent balances in the local currency of the respective entity.

21. Financial instruments and financial risk management continued

The table below shows financial instruments not in the domestic currency of the individual company they are held by:

Group – 2014	**Euro £000**	**US dollar £000**	**Other £000**	**Total £000**
Cash and cash equivalents	**(44)**	**(112)**	**(14)**	**(170)**
Trade receivables	**3,323**	**1,571**	**455**	**5,349**
Trade payables	**(1,461)**	**–**	**(3)**	**(1,464)**

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)

Company – 2014	**Euro £000**	**US dollar £000**	**Other £000**	**Total £000**
Cash and cash equivalents	**(44)**	**(112)**	**(14)**	**(170)**
Trade receivables	**3,298**	**1,571**	**455**	**5,324**
Trade payables	**(1,461)**	**–**	**(3)**	**(1,464)**

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)

Forecast transactions

The Group and the Company 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 2014 was a net liability of £149,000 (2013: net asset of £244,000) comprising assets of £43,000 (2013: £249,000) and liabilities of £192,000 (2013: £5,000).

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).

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

	2014				2013			
Group and Company:	**Foreign currency ‘000**	**Contract value £000**	**Transaction fair value £000**	**Contract fair value £000**	Foreign currency ‘000	Contract value £000	Transaction fair value £000	Contract fair value £000
Sell EUR	**€3,800**	**3,013**	**2,971**	**42**	€4,150	3,506	3,464	42
Sell USD	**$3,800**	**2,247**	**2,438**	**(191)**	$8,250	5,206	5,004	202

Sensitivity analysis

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

Short-term fluctuations in interest rates are not hedged as the Group and the Company, at present, do not consider them material. At 31 December 2014 it is estimated that a general increase of one percentage point in interest rates would decrease the Group's and the Company's profit before tax by approximately £nil (2013: £2,000). At 31 December 2014 it is estimated that an increase of one percentage point in the value of sterling against the euro and US dollar would decrease the Group's and the Company's profit before tax by approximately £44,000 (2013: £50,000) before forward exchange contracts and £15,000 (2013: £15,000) after forward exchange contracts are included for the euro and £117,000 (2013: £75,000) for the US dollar before forward exchange contracts and £91,000 (2013: £25,000) after forward exchange contracts are included.

The Group and the Company 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 Group's and the Company's policy in 2014 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.

Notes continued

21. Financial instruments and financial risk management continued

Fair values

The fair values together with the carrying amounts shown in the Balance Sheet are as follows:

Group	2014 Carrying amount £000	2014 Fair value £000	2013 Carrying amount £000	2013 Fair value £000
Trade and other receivables	**13,086**	**13,086**	10,374	10,374
Cash and cash equivalents	**4,628**	**4,628**	1,957	1,957
Forward exchange contracts – assets	**43**	**43**	249	249
– liabilities	**(192)**	**(192)**	(5)	(5)
Secured bank loans	**(2,207)**	**(2,207)**	(3,072)	(3,072)
Trade and other payables	**(3,750)**	**(3,750)**	(2,449)	(2,449)

Company	2014 Carrying amount £000	2014 Fair value £000	2013 Carrying amount £000	2013 Fair value £000
Trade and other receivables	**10,286**	**10,286**	10,732	10,732
Cash and cash equivalents	**3,476**	**3,476**	1,362	1,362
Forward exchange contracts – assets	**43**	**43**	249	249
– liabilities	**(192)**	**(192)**	(5)	(5)
Secured bank loans	**(2,207)**	**(2,207)**	(3,072)	(3,072)
Trade and other payables	**(3,112)**	**(3,112)**	(2,228)	(2,228)

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 (i.e. as prices) or indirectly (derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Group's financial instruments that are measured at fair value at 31 December 2014.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets				
Forward exchange contracts	**–**	**43**	**–**	**43**
Total assets	**–**	**43**	**–**	**43**
Liabilities				
Forward exchange contracts	**–**	**(192)**	**–**	**(192)**
Total liabilities	**–**	**(192)**	**–**	**(192)**

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

21. Financial instruments and financial risk management continued

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

22. Commitments

	2014 £000	2013 £000
(i) Capital contracts at the end of the financial year for which no provision has been made	**2,863**	2,404
(ii) The Group has non-cancellable operating lease rentals, which are payable as follows:		
– within one year	**80**	40
– between two and five years	**70**	14

During the year ended 31 December 2014 £122,000 was recognised as an expense in the Income Statement in respect of operating leases (2013: £104,000).

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

23. 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 2014 was 20 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 continued to pay contributions at this level until the results of the 5 April 2014 triennial actuarial valuation are finalised and a new recovery plan has been agreed with the Trustees.

23. Employee benefits continued

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. The initial results calculated as part of the formal actuarial valuation as at 5 April 2014 have been updated to 31 December 2014 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	As at 31 December 2014	As at 31 December 2013
Discount rate	**3.6%**	4.5%
RPI inflation (before retirement)	**2.9%**	3.4%
CPI inflation (before retirement)	**1.9%**	2.4%

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:

	2014	2013
For an individual aged 65 in 2014		
– Male	**22.3**	21.8
– Female	**24.3**	24.1
At age 65 for an individual aged 45 in 2014		
– Male	**24.0**	23.2
– Female	**26.2**	25.6

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

	2014 £000	2013 £000
Balance Sheet obligations for:		
– Defined pension benefits	**6,132**	4,280
Income statement charge included in operating profit for:		
– Defined pension benefits	**178**	294
Actuarial (losses)/gains recognised in Other Comprehensive Income:		
– Defined pension benefits	**(2,334)**	2,526

23. Employee benefits continued

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

	2014 £000	2013 £000
Market value of assets	**22,819**	21,546
Present value of defined benefit obligation	**(28,951)**	(25,826)
Funded status	**(6,132)**	(4,280)
Liability in the Balance Sheet	**(6,132)**	(4,280)

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

	2014 £000	2013 £000
Value of defined benefit obligation at start of year	**25,826**	26,527
Interest cost	**1,138**	1,120
Benefits paid	**(1,100)**	(949)
Actuarial losses: experience differing from that assumed	**(56)**	(220)
Actuarial gains/(losses): changes in demographic assumptions	**381**	(150)
Actuarial gains/(losses): changes in financial assumptions	**2,762**	(502)
Value of defined benefit obligation at end of year	**28,951**	25,826

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

	2014 £000	2013 £000
Market value of assets at start of year	**21,546**	19,355
Interest income	**960**	826
Actual gain	**753**	1,654
Employer contributions	**660**	660
Benefits paid	**(1,100)**	(949)
Market value of assets at end of year	**22,819**	21,546

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	–8%/+9%
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 2014		Year ended 31 December 2013	
Asset class	**Market value £'000**	**% of total Scheme assets**	Market value £'000	% of total Scheme assets
Equities	**15,512**	**68%**	14,308	67%
Corporate Bonds	**3,487**	**15%**	2,936	14%
Gilts	**2,633**	**12%**	2,776	13%
Cash	**752**	**3%**	1,338	5%
Insured pensioners	**435**	**2%**	188	1%
Total	**22,819**	**100%**	21,546	100%
Actual return on assets over the year:	**1,713**		2,480	

23. Employee benefits continued

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 2014 were £431,000 (2013: £427,000).

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 2014 were £276,000 (2013: £168,000).

The Company also operates another stakeholder scheme which is open to employees who joined after 1 March 2014. The contributions paid by the Company in 2014 were £65,000 (2013: nil).

For certain non UK based employees of the Company, the Company makes contributions into individual schemes. The contributions paid by the Company in 2014 were £2,000 (2013: £6,000).

For US based employees, Zotefoams Inc. operates a 401(k) plan. The contributions paid by Zotefoams Inc. in 2014 were £54,000 (2013: £51,000).

24. Share-based payments

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

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

In 2007 the Company introduced a Deferred Bonus Plan. Originally under the Plan executive bonuses over 40% of bonusable salary were held as deferred shares for three years. The awards made in March 2013 are still outstanding under this arrangement. In 2014 the Remuneration Committee amended the Deferred Bonus Plan for bonuses awarded since 2014, where 25% of executive bonuses are held as deferred shares for three years. Depending on the circumstances awards are normally forfeited if the employee leaves the Group before the award vests.

Details of the vesting conditions for the share, share option and LTIP awards are given in the Directors' Remuneration Report on pages 46 to 48.

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

	2014		2013	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the year	**300,533**	**126.2**	428,903	106.7
Exercised during the year	**–**	**–**	(158,544)	90.3
Forfeited during the year	**(49,666)**	**201.3**	–	–
Granted during the year	**40,493**	**234.6**	30,174	215.4
Outstanding at the end of the year	**291,360**	**128.4**	300,533	126.2
Exercisable at the end of the year	**186,199**	**88.2**	186,199	88.2

The options outstanding at 31 December 2014 have an exercise price of between 77.0p and 245.7p (2013: 77.0p and 220.5p) and a weighted contractual life of seven years (2013: eight years).

There were no share options exercised in the year.

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

24. Share-based payments continued

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

	2014		2013	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the year	322,532	–	452,353	–
Exercised during the year	(44,270)	–	(158,075)	–
Granted during the year	223,046	–	139,967	–
Forfeited during the year	(74,805)	–	(111,713)	–
Outstanding at the end of the year	426,503	–	322,532	–
Exercisable at the end of the year	–	–	–	–

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

	2014		2013	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of the year	80,868	–	35,826	–
Exercised in the year	(36,300)	–	(20,368)	–
Granted during the year	–	–	65,410	–
Outstanding at the end of the year	44,568	–	80,868	–
Exercisable at the end of the year	–	–	–	–

Fair value of share options and assumptions

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

	4 April 2012	9 May 2012	13 August 2012	19 March 2013	16 April 2013	12 August 2013	7 April 2014	7 April 2014	21 April 2014
Share price (p)	186.5	179.0	176.2	202.0	220.5	200.0	229.8	229.8	245.7
Exercise price (p)	nil	179.0	176.2	nil	220.5	200.0	229.8	nil	245.7
Expected volatility	35%	35%	35%	35%	35%	35%	35%	35%	35%
Option life	Five years	Five years	Five years	Five years	Five years	Five years	Five years	Five years	Five years
Expected dividends (p) (assumed to be increasing at 2.5% pa)	nil	5.0	5.0	5.2	5.2	5.2	5.4	5.4	5.4
Risk free interest rate (based on national government bonds)	1.3%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Fair value at grant date (p)	186.5	47.0	46.0	202.0	55.0	50.0	61.0	229.8	66.0

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	
	2014 £000	2013 £000
Within administrative expenses – share-based payment charge	138	232
– related National Insurance	38	25
Element of the above relating to Directors of Zotefoams plc	78	120

25. Related parties

Directors

The Directors of the Company as at 31 December 2014 and their immediate relatives control approximately 1.76% of the voting shares of the Company. Details of Directors' pay and remuneration are given in the Directors' Remuneration Report on pages 45 to 51. 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	
	2014 £000	2013 £000	**2014 £000**	2013 £000
Key management emoluments	**488**	334	**488**	334
Company contributions to money purchase pension plan	**71**	68	**71**	68
Share related awards	**78**	120	**78**	120
	637	522	**637**	522

Subsidiaries

Details of the subsidiaries of the Company are set out in note 13. These companies are considered to be related parties.

In addition the Company has a 50% interest in associate companies Azote Asia Limited (incorporated in Hong Kong) and Inoac Zotefoams Korea Limited (incorporated in South Korea).

Common control exists between the Company and Zotefoams 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.

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

	Receivables owed by		Investment in	
	2014 £000	2013 £000	**2014 £000**	2013 £000
Zotefoams Inc	**1,604**	3,029	**–**	–
Azote Asia Limited	**995**	–	**–**	–
Zotefoams International Limited	**–**	–	**10,172**	6,352

In addition there is a net payable balance of £1,025,000 owed by MuCell Extrusion LLC to Zotefoams Inc.

26. Accounting estimates and judgements

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

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

Key sources of estimation uncertainty

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

26. Accounting estimates and judgements continued

i) Property, plant and equipment

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

ii) Intangible assets

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

iii) Pensions assumptions

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

Key judgements

i) 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 require for capitalisation and therefore all development costs have been expensed.

ii) Joint-ventures

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

Notice of the 2015 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 13 May 2015 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 2014.
2. To approve the Annual Statement by the Chair of the Remuneration Committee and the Annual Report on Remuneration for the year ended 31 December 2014 set out on pages 34 and 45 to 53 (inclusive) in the Annual Report and Accounts.
3. To declare a final dividend for the year ended 31 December 2014 of 3.7 pence per ordinary share, such dividend to be payable on 27 May 2015 to shareholders who are on the register of members of the Company at the close of business on 24 April 2015.
4. To elect A C Bromfield as a Director who was appointed since the last Annual General Meeting.
5. To elect S P Good as a Director who was appointed since the last Annual General Meeting.
6. To re-elect M-L Clayton as a Director who retires by rotation.
7. To re-elect R J Clowes as a Director who retires by rotation.
8. To re-elect N G Howard as a Director who retires by rotation.
9. To re-elect C G Hurst as a Director who retires by rotation.
10. To re-elect D B Stirling as a Director who retires by rotation.
11. That PricewaterhouseCoopers LLP be and is hereby re-appointed as Auditors of the Company to hold office from the conclusion of the AGM until the conclusion of the next general meeting at which accounts are laid before the Company.
12. To authorise the Directors to determine the Auditors' remuneration.

Special business
To consider and, if thought fit, to pass the following resolutions of which resolutions 13 and 16 will be proposed as ordinary resolutions and resolutions 14, 15 and 17 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 £730,240 (such amount to be reduced by the nominal amount of any allotments or grants made under paragraph (b) below in excess of £730,240); and further

    (b) to allot equity securities (as defined in Section 560 of the Act) up to an aggregate nominal amount of £1,460,480 (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 2016 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 £109,536; and

(b) unless previously revoked, varied or extended, this power shall expire on the earlier of 30 June 2016 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 4,381,444;

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

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

(d) this authority shall, unless previously renewed, revoked or varied, expire on the earlier of 30 June 2016 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) the Zotefoams Share Incentive Plan (the 'SIP'), a copy of the rules of which has been produced to this Meeting and, for the purposes of identification only, initialled by the Chairman and a summary of the principal terms of which is set out in the Appendix to this Notice of Annual General Meeting, be and is hereby approved; and

(b) the Directors be and are hereby authorised to do all such acts and things as they may consider necessary or desirable to give effect to the SIP and to establish other employees' share schemes for the benefit of employees located outside the UK based on the SIP but modified to take account of local tax, exchange control or securities laws in overseas territories provided that any shares made available under any such further schemes are treated as counting against the limits on individual or overall participation in the SIP.

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

Dated: 27 March 2015

By order of the Board

Registered Office:
675 Mitcham Road
Croydon
CR9 3AL

J W Kindell
Company Secretary

Notice of the 2015 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 11 May 2015 (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 11 May 2015.

(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 26 March 2015, the Company's issued share capital comprised 43,814,442 ordinary shares of 5 pence each. Each ordinary share carries the right to one vote at a general meeting of the Company. No ordinary shares were held in treasury and accordingly the total number of voting rights in the Company as at the close of business on 26 March 2015 is 43,814,442.

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

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

Explanatory notes to the resolutions
Ordinary business
Resolution 1 – Receiving the Annual Report and Accounts
Shareholders will be asked to receive the Company's Annual Report and Accounts for the financial year ended 31 December 2014, as required by law.

Resolution 2 – Directors' Remuneration Report
Resolution 2 seeks Shareholder approval of the Directors' Remuneration Report for the year ended 31 December 2014 which can be found on pages 34, and 45 to 53 (inclusive) of the Annual Report and Accounts.

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 58 to 61 of the Annual Report and Accounts.

The Shareholders approved the Directors' Remuneration Policy at the AGM held on 20 May 2014 and it became effective immediately. As there have been no changes to the Directors' Remuneration Policy, there is no need to seek further approval of it at this year's AGM. The current intention is to submit the Directors' Remuneration Policy for Shareholder approval at the AGM scheduled for 2017, unless, in the interim, there are specific changes that require Shareholder approval. The Directors' Remuneration Policy, for ease of reference, has been included in the Annual Report and Accounts on pages 35 to 44 (inclusive).

Resolution 3 – Declaration of dividend
This resolution concerns the Company's final dividend payment. The Directors are recommending a final dividend of 3.7 pence per ordinary share in respect of the year ended 31 December 2014 which, if approved, will be payable on 27 May 2015 to the shareholders on the register of members on 24 April 2015.

Resolutions 4 to 10 – Election and Re-election of Directors
Resolutions 4 and 5 concern the election of A C Bromfield and S P Good, who were both appointed to the Board since the last AGM was held on 20 May 2014.

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 6 to 10 concern the re-election of M-L Clayton, R J Clowes, N G Howard, C G Hurst and D B Stirling.

Biographies for the Directors are set out on pages 26 and 27 of the report and accounts for the year ended 31 December 2014. The Chairman having undertaken performance reviews of the Directors and the Non-Executive Directors of the Chairman, the Board is satisfied that each Director continues to be effective and demonstrates commitment to the role and recommends that each Director should be elected or re-elected as the case may be.

Resolutions 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 £730,240, representing approximately one-third (33.33%) of the nominal value of the issued ordinary share capital of the Company as at 26 March 2015, being the latest practicable date before publication of this notice. In addition, in accordance with the latest institutional guidelines issued by the Investment Management Association ('IMA'), paragraph (b) of resolution 13 grants the Directors authority to allot further equity securities up to an aggregate nominal value of £1,460,480, representing approximately two-thirds (66.67%) of the nominal value of the issued ordinary share capital of the Company as at 26 March 2015, being the latest practicable date before publication of this notice. This additional authority may be only applied to fully pre-emptive rights issues.

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

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

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

Unless revoked, varied or extended, this authority will expire at the conclusion of the next AGM of the Company or 30 June 2016, 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 £109,536, representing approximately 5% of the nominal value of the issued ordinary share capital of the Company as at 26 March 2015 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 2016, 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 4,381,444 ordinary shares (representing approximately 10% of the Company's issued ordinary shares as at 26 March 2015, 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 2016, 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 26 March 2015, 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 656,921 ordinary shares in the capital of the Company representing 1.5% of the Company's issued ordinary share capital. If the authority to purchase the Company's ordinary shares were exercised in full, such options would represent 1.7% of the Company's issued ordinary share capital.

Notice of the 2015 Annual General Meeting continued

Resolution 16 – Approval of new all-employees' share incentive plan
This resolution seeks the Shareholders' approval of a new 'all-employees' share scheme, to be called The Zotefoams Share Incentive Plan (the 'SIP').

The SIP will be registered with Her Majesty's Revenue & Customs as a 'Schedule 2 share incentive plan' for the purposes of Part 7 of the Income Tax (Earnings and Pensions) Act 2003. The Directors' authority to issue new shares for the purposes of the SIP will expire on the tenth anniversary of the passing of the resolution approving the SIP.

The principal terms of the SIP are summarised in the Appendix. The SIP provides for the acquisition by employees within the Zotefoams Group of beneficial interests in fully-paid ordinary shares to be held on their behalf by a plan trustee subject to the rules of the SIP. There is a limit on the issue of new shares for the purposes of the SIP as described further in the Appendix.

A copy of the rules of The Zotefoams Share Incentive Plan is 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. A copy is also available on the Company's website.

Resolution 17 – 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 17 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.

Notice of the 2015 Annual General Meeting continued

Appendix

Summary of the principal terms of The Zotefoams Share Incentive Plan (the 'SIP')

General

The SIP is intended to be, and will be registered with Her Majesty's Revenue & Customs as, a 'qualifying Schedule 2 share incentive plan' as mentioned in section 488 and schedule 2, Income Tax (Earnings & Pensions) Act 2003 (the 'relevant provisions'). The SIP provides for shares to be acquired by eligible employees as outlined below. Shares acquired under the SIP must be held by the plan trustee (the 'SIP Trustee').

Eligibility

All UK resident employees of the Zotefoams Group (the 'Group') who have been employed for a minimum period (as permitted by the relevant provisions) are eligible to participate in the SIP on any occasion on which awards of shares are proposed to be made.

The Directors may decide to create a scheme similar to the SIP for the benefit of employees located outside the UK based on the SIP but modified to take account of local tax, exchange control or securities laws in overseas territories provided that any shares made available under any such further schemes are treated as counting against the limits on individual or overall participation in the SIP.

Partnership Shares

Eligible employees may be invited to agree that up to £1,800 pa (or such other amount as may be specified in the relevant provisions) of pre-tax salary may be applied in the acquisition of shares in the Company ('Partnership Shares') to be held on his or her behalf by the SIP Trustee. Insofar as employees elect to acquire Partnership Shares in any year, the Directors may procure the transfer to such participants of additional shares ('Matching Shares'), free of charge, but not to exceed (currently) two free Matching Shares for each Partnership Share so acquired. Subject to the aforementioned limit, the number of Matching Shares made available in any year is at the absolute discretion of the Directors and may be determined by reference to the performance of the Group over such period as the Directors may determine. A participant may at any time withdraw his or her Partnership Shares from the SIP and will be required to do so on leaving employment. The Directors may stipulate that if a participant leaves employment (otherwise than in consequence of death, disability, redundancy, retirement or the company or business in which he or she is employed being sold outside the Group) or withdraws his or her Partnership Shares within a period not exceeding three years, his or her Matching Shares will then be forfeited.

Free Shares

If the Directors so determine, the SIP Trustee may, each year, invite eligible employees to accept an appropriation of shares in the Company with a market value of up to (currently) £3,600 per employee ('Free Shares'). Such Free Shares must be appropriated amongst participating eligible employees on a 'similar terms' basis except that, subject to the relevant provisions, the whole or a proportion of such Free Shares may be appropriated by reference to performance determined according to such objective criteria and over such period as the Directors may specify. Participants must agree to allow their Free (and Matching) Shares to remain with the SIP Trustee throughout a holding period specified by the Directors of between three and five years. The Directors may stipulate that if a participant leaves the Group (otherwise than as mentioned above) within three years after they were appropriated to him or her, his or her Free Shares will then be forfeited.

Sourcing of shares

Free and Matching Shares will be purchased in the market or, subject to the limits described below, subscribed for by the SIP Trustee using funds contributed by the respective employer companies within the Group.

Reinvestment of dividends on SIP Shares

The Directors may determine that dividends on shares held in the SIP on behalf of participants may be reinvested in acquiring additional shares in the Company to be held in the SIP. Dividends reinvested will be exempt from income tax.

Tax benefits for participants

Under current tax rules, salary applied in the acquisition of Partnership Shares is free of tax and National Insurance contributions ('NICs'). Free and Matching Shares will be acquired free of income tax and NICs. For so long as shares are held in the SIP, any gain in their value is exempt from capital gains tax. Participants may be charged to income tax and NICs if shares are withdrawn from the SIP within five years. Participating companies will generally be entitled to relief from corporation tax for expenses incurred in funding the acquisition of Free and Matching Shares for the purposes of the SIP and for the costs of establishing and administering the SIP.

Notice of the 2015 Annual General Meeting continued
Appendix continued

Rights of participants
Participants will beneficially own shares held in the SIP by the SIP Trustee on their behalf. Except as mentioned above, all dividends and other distributions received in respect of such shares will be passed onto the participants.

The SIP Trustee will exercise voting rights in respect of such shares only in accordance with directions in writing given by the participants. In the event of a takeover or a rights or capitalisation issue or other variation of the Company's share capital, participants may instruct the SIP Trustee how to act or vote on their behalf.

Overall limit on the issue of new shares
The Company may issue shares for the purposes of making awards under the SIP. However, the number of shares which may be issued, or in respect of which rights to subscribe for new shares may be granted, on any day under or for the purposes of the SIP, when added to the number of shares which have been issued or remain issuable under rights to subscribe for shares granted under or for the purposes of any other executive or employees' share scheme established by the Company, in the period of 10 years ending on that day, shall not exceed 10% of the issued ordinary share capital of the Company.

Amendment of the SIP
The Directors may amend the SIP, but the provisions relating to the eligibility of participants, limitations on the number of shares issued for the purposes of the SIP, individual participation limits, the basis for determining a participant's entitlement, the rights attaching to shares and the adjustment thereof if there is a capitalisation, rights issue, open offer, sub-division or consolidation of shares or reduction of capital or any variation of capital, cannot be altered to the advantage of participants without the prior approval of shareholders in general meeting except for minor amendments to benefit the administration of the SIP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the SIP or for any member of the Group.

This summary does not form part of the rules of the SIP and should not be taken as affecting the interpretation of their detailed terms and conditions. The Directors reserve the right up to the time of the Annual General Meeting to make such amendments and additions to the rules of the SIP as may be appropriate provided that such amendments do not conflict in any material respect with this summary.

Five-Year Trading Summary

	2014 £m	2013 £m	2012 restated £m	2011 £m	2010 restated £m
Total Revenue	**49.1**	44.6	47.2	44.2	39.9
Group Revenue	**48.9**	44.6	47.2	44.2	39.9
Operating profit (excluding exceptional items)	**5.6**	4.2	6.0	5.6	4.8
Profit before tax (excluding exceptional items)	**5.3**	3.9	5.8	5.5	4.7
Profit before tax (including exceptional items)	**4.0**	3.9	5.8	5.5	5.3
Profit after tax (including exceptional items)	**3.3**	3.2	4.6	4.6	4.3
Capital expenditure (including intangibles)	**7.6**	4.2	3.7	3.1	2.7
Cash generated from the operations	**6.0**	6.6	6.3	6.1	7.2
Basic earnings per share excluding exceptional items (p)	**10.7**	8.0	11.8	11.8	10.2
Basic earnings per share including exceptional items (p)	**8.2**	8.0	11.8	11.8	11.8
Dividends per ordinary share (p)	**5.45**	5.30	5.20	4.90	4.65

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Financial Calendar

Financial Calendar

AGM	13 May 2015
Payment of final dividend	27 May 2015 to shareholders on the register at the close of business on 24 April 2015
Announcement of 2015 interim results	August 2015
Payment of interim dividend	October 2015
Announcement of 2015 results	March 2016

Registrars
Enquiries concerning the holding of ordinary shares in the Company should be addressed to the registrars who should also be notified of any changes in a holder's address.

The registrars are: Computershare Investor Services Plc,
The Pavilions, Bridgwater Road, Bristol BS99 6ZZ.
Telephone: 0870 707 1424
www.investorcentre.co.uk/contactus

Website
The Company has a website (www.zotefoams.com) which provides information on the business and products.
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Notes

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