Resilient in a changing world

Zotefoams plc
Annual Report 2020

ZOTEFOAMS

Resilient. Agile. Focused on delivery.

In June 2020, Zotefoams' largest UK customer secured a government contract under the 'make' initiative to supply visors for frontline workers battling the COVID-19 pandemic. The material specified for the headband was Plastazote® LD33 from our AZOTE® polyolefin foams range – long recognised for its suitability for medical and skin-contact applications.

Over 26 weeks between June and November, Zotefoams supplied over 750,000 sheets of material, achieving record output at our UK manufacturing plant in several successive months. This was supplemented with material extruded and nitrogen-saturated in our USA facility and expanded in the UK.

Zotefoams was instrumental in assembling a consortium of UK fabricators to meet the demanding project timelines. Some 1,200 truckloads of material were produced for the project to create over 71 million reusable visors, with all post-fabrication waste recycled into applications such as carpet underlay and sports flooring. Among the many remarkable aspects of this project, the skills, responsiveness and dedication of the Zotefoams team stood out.

Martin Ernoult
Forklift Operator, UK

It was my job to unload frozen slabs coming in from the USA. Often processing two trucks per day, I would offload, check and then load the stock into our freezers. It was an essential part of the overall process to ensure the slabs were correctly put away, in batch order, ready for use.

Naveed Khan
Process Quality Manager, UK

I interpreted our customer requirements into a specification covering product, packaging and processing conditions. We updated our processes to fast-track product made in both the UK and the USA through Inspection, so that we could successfully supply the product to the end-user in a very short timeframe.

Liz Papadolambakis
Customer Service Manager, UK

When the last truckload of material left our site, I sat back and thought: "Wow, this is the end of a massive undertaking, and we have managed to get it through the plant and dispatched on time." It was a sense of relief and pride that we had performed so well. This was a demonstration of team effort at its best, and it brought out so many great qualities in our colleagues.

AZOTE®

Chris Endres
Polyolefin Sales Manager, UK

The effort and the hours put in by all involved was astonishing and I doubt it will ever be surpassed. I'm really proud of the efforts that we put in as a team, firstly to help our customer win the contract and then to deliver on such an extraordinary scale. It was also wonderful to see so many of our UK customers join forces in this incredible effort.

Andy Millward
Production Manager, UK

It was remarkable how quickly Zotefoams geared up for this project, with new staff, new processes and a concerted effort to maximise output while maintaining a COVID-19 safe working environment. The team's enthusiasm for the project was wonderful to see: knowing that our materials were going straight to the frontline of the fight against the pandemic was extraordinarily motivating.

Francis Rigault
Forklift Operator, UK

I loaded the lorries for the early shift – it was essential that they left in a timely manner due to the increased number of daily loads. My contribution was to get as many lorries loaded as possible before our regular day began, sometimes three or four lorries ahead of the rest. I am so proud that we were doing this for the benefit of the NHS.

Benito Sala
Managing Director (Europe), UK

When the customer first discussed their contract with us, we worked with them to determine the maximum we could do together to help address the national PPE shortage. We increased headcount in our production team by over 25% and effectively doubled output for the duration of the contract, breaking production records at our UK site. It was so impressive to see the entire organisation committed to delivering against a single, hugely important goal.

+25%

increased headcount in our production team

Craig McElwee
Supplier Chain Manager, USA

The involvement of the USA plant was essential to deliver the volume of product within the required timescale. It was certainly a challenge and I'm grateful to all colleagues involved; it was great to work with so many dedicated people. At a personal level, I'm proud to have supported the efforts to reduce the spread of COVID-19.

Andrew Martin
Manufacturing Coordinator and Training Lead, USA

I was very excited to be a part of the first exportation of gassed materials from the Walton plant. 2020 proved to be a tough year and the teamwork, effort and dedication it took to accomplish this was incredible. Thank you to all parties involved and I am thankful to have been able to help through the enduring times of the COVID-19 pandemic.

Financial highlights

Group revenue
£82.7m
Change **+2%**
2019 **£80.9m**

Gross margin
33.6%
Change **-180 basis points**
2019 **35.4%**

Operating profit before exceptional item
£9.1m
Change **nil**
2019 **£9.1m**

Operating profit
£9.1m
Change **-10%**
2019 **£10.2m**

Profit before tax and exceptional item
£8.3m
Change **-5%**
2019 **£8.8m**

Profit before tax
£8.3m
Change **-15%**
2019 **£9.8m**

Basic earnings per share before exceptional item
14.87p
Change **nil**
2019 **14.91p**

Basic earnings per share
14.87p
Change **-13%**
2019 **17.10p**

Total dividend for the year
6.30p
Change **+210%**
2019 **2.03p**

Return on capital employed
9.0%
Change **-150 basis points**
2019 **10.5%**

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Learn more **zotefoams.com**

A record-breaking partnership

Over the course of 2020, our partnership with Nike has continued to strengthen on many levels

A new running boom

The growing global medal tally for Nike distance running athletes combined with the increased popularity of running during the COVID-19 pandemic has seen surging demand for shoes featuring the Nike ZoomX foam, notably the Vaporfly NEXT% and Alphafly NEXT%. Produced from Zotefoams' ZOTEK® thermoplastic elastomer (TPE) foams, ZoomX delivers strong energy return and supreme cushioning.

Extending the range

H2 2020 saw our highest ever volumes of material produced for Nike as the Group responded to increased demand as ZoomX foams were introduced on new footwear products scheduled for introduction in 2021.

Making strides in environmental footprint

A midsole made from our material already contains less polymer per unit of volume than any other, thanks to the unique Zotefoams three-stage manufacturing process. But with sustainability a priority for both Nike and Zotefoams, we are working together to ensure the carbon footprint of ZoomX is as impressive as its record-breaking performance.

> Three years into our exclusive partnership with Nike, we are proud to be associated with this global revolution in both elite and amateur running performance and excited by what the future holds”

David Stirling, Group CEO

Our 2020

In this extraordinary year, our operational resilience and adaptability, supported by significant recent investments, proved more valuable than ever before

January
- MuCell Extrusion strategy review by Board

February
- Begin to hire local staff for Poland plant

March
- COVID-19: Implement safe working procedures and working from home where possible
- China T-FIT® business facility reopens and remains open while following Government requirements
- Bank approves extended leverage covenant from 3.0x to 4.0x
- Claimed UK Government financial support
- Dividend suspended
- USA: Commissioned second high-pressure autoclave and third extruder

April
- Marketing campaign to promote suitability of Plastazote® products for PPE attracts highest online audience of the year

May
- Largest UK customer places initial order for Plastazote® foam to service a contract with the NHS
- Croydon site leads UK manufacturers in qualifying for new ISO 45001 OHS standard

June
- Increased sales to footwear segment to support product launches by our customer

> "Poland was a clear choice from the outset; it is a manufacturing powerhouse, with the sixth highest demand for plastics in Europe"
>
> **David Stirling, Zotefoams Group CEO**

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Image © Nike

"Between June and November, Zotefoams achieved record output at our UK manufacturing plant in several successive months"

July
- AZOTE® sales volumes over 10% ahead of previous monthly record

August
- Repayment of UK Government financial support

September
- EU customer survey results inform objective setting for 2021
- Started using US facility to bolster the UK's capacity to meet growing demand
- T-FIT investment in the USA with the hiring of first commercial employees

October
- Dividends resumed
- Launch of ZOTEK® F XR, disruptive foam technology offering weight savings of up to 70% in aircraft interior applications

November
- ReZorce® sub-committee holds first meeting to consider strategy for focusing ReZorce in right market with right resource and investment support

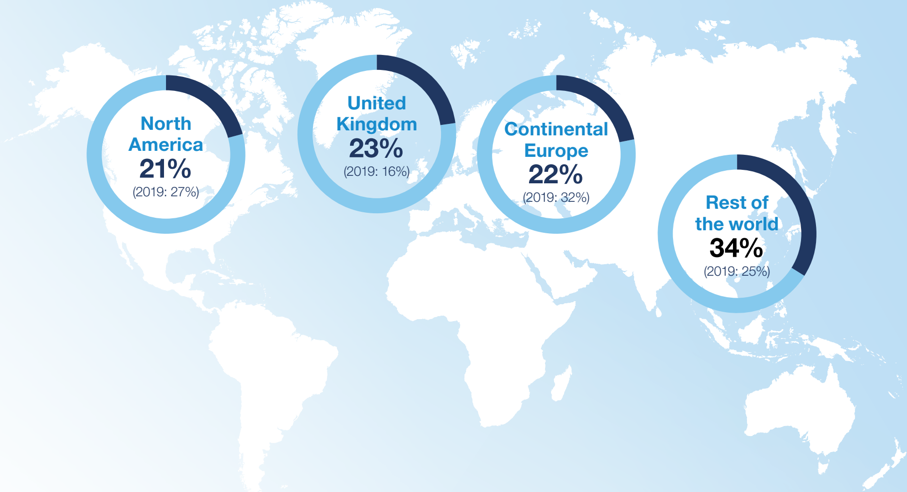
December
- Met the objective of developing a foam using at least 20% recycled content, sufficient for market and commercial evaluation
- GO1 training system launched
  See people section
- Poland commissioning
  See strategic section
- Brexit comms to EU customers
  See strategic section
- Launched ZOTEK® T range, leveraging investment in development of athletic shoe foams for non-footwear applications

"Recognising the need to provide our investors and other stakeholders with information relating to our ESG performance, we have adopted the Sustainable Accounting Standards Board framework"

Group at a glance
Four strong, distinctive brands

Zotefoams produces a wide range of innovative products that are critical components in a world of everyday applications

Revenue by geography %



North America
Local manufacturing presence in Kentucky for the Polyolefin Foams business, cutting operation in Oklahoma to service the construction market, and headquarters of MuCell Extrusion LLC (MEL), based in Massachusetts, licensing technology globally. Local representation for our High-Performance Products (HPP) business.

United Kingdom
Group headquarters and main factory, manufacturing polyolefin foams and high-performance products for sale globally.

Continental Europe
Significant market for polyolefin foams. Local manufacturing presence in Brzeg, south west Poland, since February 2021, initially servicing the Polyolefin Foams business. Sufficient land has been purchased to allow larger-scale operations in the future.

Rest of the world
T-FIT® technical insulation manufacturing in China for sales of insulation products globally. Local representation for our HPP business. Joint venture with INOAC Corporation for AZOTE® polyolefin foams sales in Asia. Commercial operation in India.

AUTOCLAVE TECHNOLOGY

AZOTE®

POLYOLEFIN FOAMS

Premium durable foams

Uniformly dense foam sheets with a consistent cell structure. These foam sheets and blocks are manufactured from common polymers using our unique nitrogen-expansion process.

Key markets served

- Automotive
- Aviation
- Building and construction
- Industrial
- Marine
- Military
- Product protection
- Sports and leisure

Key market drivers

- Light weighting
- Durability
- Fire safety
- Reduced toxicity
- Energy saving

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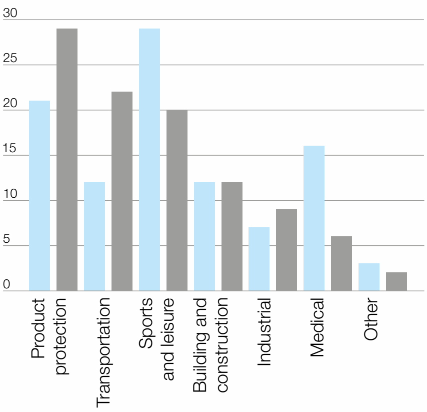
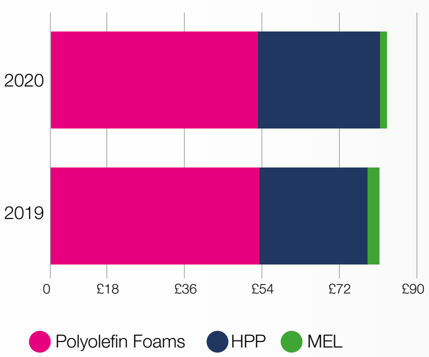
Revenue by industry
%



Revenue by business unit
£m



Driving zero emissions for urban buses in China

Read more page 18

EXTRUSION TECHNOLOGY

ZOTEK®

HPP

Lightweight technical foams

Foams which offer superior technical properties such as energy management, durability, heat and/or fire resistance, ZOTEK® foams are manufactured from engineering polymers using our unique nitrogen-expansion process.

Key markets served

- Athletic footwear
- Automotive
- Aviation
- Construction
- Product protection

Key market drivers

- Light weighting
- Personal safety
- High-technology insulation
- Durability
- Fire safety
- Sports and leisure

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T-FIT®

HPP

Technical insulation for industry

A range of insulation products manufactured from Zotefoams' own ZOTEK® block foam materials. T-FIT® insulation products are purpose-designed to perform in demanding environments.

Key markets served

- Food and personal care manufacturing
- High-temperature processing environments
- Pharmaceutical, biotech and semiconductor cleanrooms

Key market drivers

- Ageing population
- Demographic changes
- Reduced toxicity
- Energy saving

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MuCell®

MEL

Innovative and accessible technology for greener, lower-cost plastic products

This pioneering technology injects gas into plastics during the manufacturing process to create micro-bubbles and is licensed to customers manufacturing plastic parts. The end-product uses 15–20% less material. Recently developed ReZorce® recyclable mono-material barrier solutions use this technology.

Key markets served

- Automotive
- Consumer packaging

Key market drivers

- Environmental benefit
- Lower cost

Read more page 21

Improving the safety and sustainability of air travel with our newest lightweight foam

Read more page 19

T-FIT® helps to deliver dairy products safety in India

Read more page 20

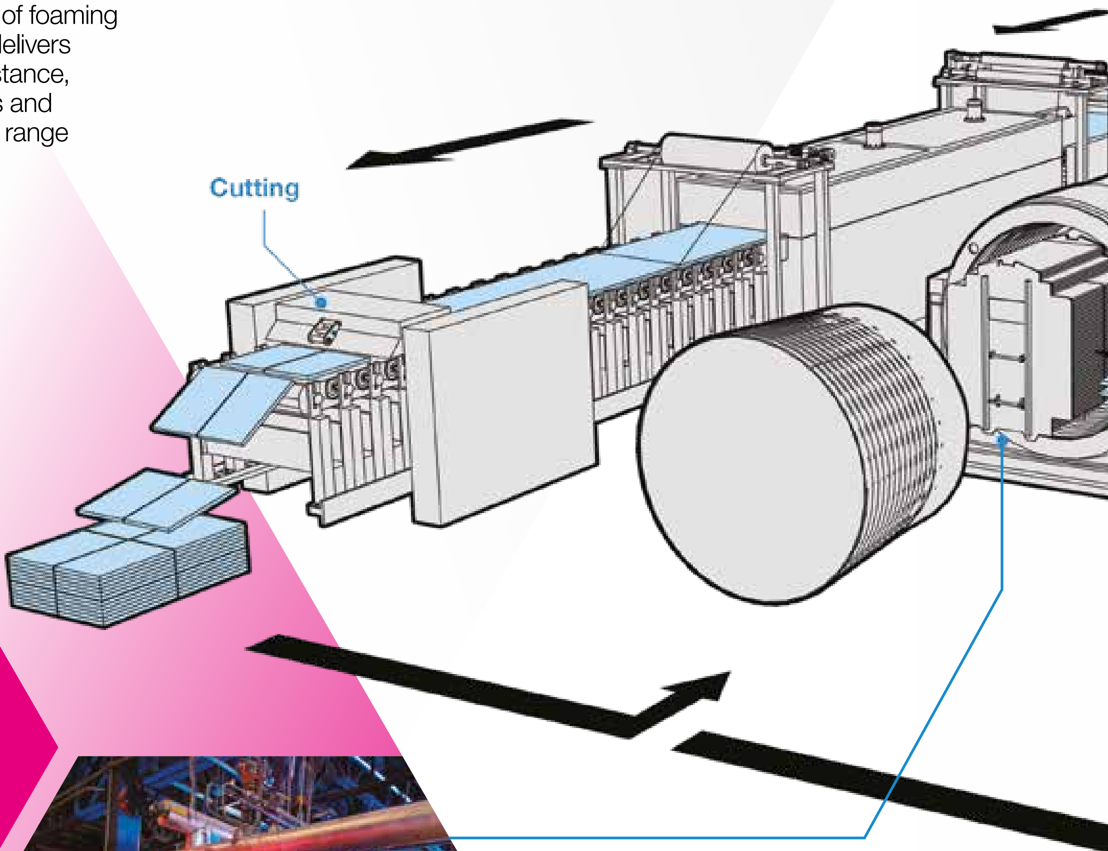
Pilot facility set to speed time to market for ReZorce® barrier technology

Read more page 21

A unique manufacturing process
The Zotefoams difference

Zotefoams manufactures a wide range of crosslinked, lightweight block foams using variations of our unique nitrogen-expansion manufacturing process. This affords an exclusive combination of beneficial characteristics – uniformity, purity, low toxicity and durability – that differentiates Zotefoams' materials from all other foams. Our core autoclave process is capital-intensive, with a long investment cycle, and represents a considerable barrier to entry for potential competitors

Operating at temperatures up to 250ºC, this environmentally friendly technology is extremely flexible, allowing us to foam a wide range of polymers. The combination of foaming process and polymer performance delivers properties such as excellent fire resistance, high-temperature stability, toughness and insulation, which are prized in a wide range of demanding applications.



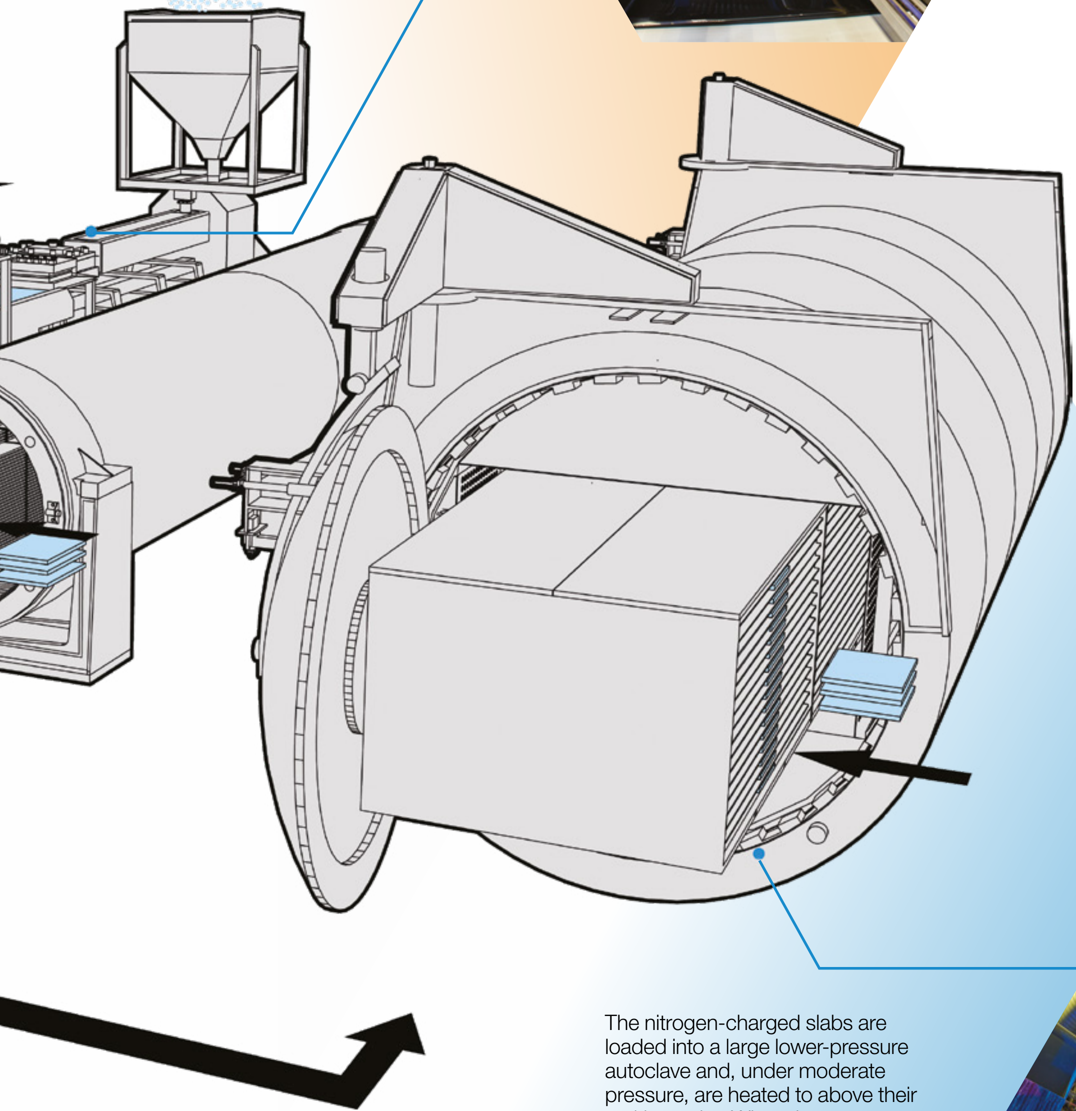
Stage 2
Nitrogen saturation

Slabs are loaded into a high-pressure autoclave. The material is heated above its melting point and pressurised with pure nitrogen gas. Over a long period of time, the nitrogen gas diffuses into the slabs. A rapid depressurisation destabilises the absorbed nitrogen nucleating cells in the slab. The slabs are then cooled under pressure in the autoclave, locking the nitrogen in the unexpanded slabs, prior to them being unloaded.

Stage 1
Extrusion and crosslinking

Polymer and any additives (colours, fire retardants, conductive agents) are extruded into a continuous solid plate. The plate passes through an oven which activates the crosslinking process. It then cools and is cut into slabs.

See our process in action



The nitrogen-charged slabs are loaded into a large lower-pressure autoclave and, under moderate pressure, are heated to above their melting point. When the pressure is reduced, the nitrogen expands turning the slabs into larger foam sheets. This expansion process is unconstrained, so uniform in each dimension.

Stage 3
Expansion

Our business model
Leveraging unique technology with an innovation-led portfolio of advanced products

How our business works

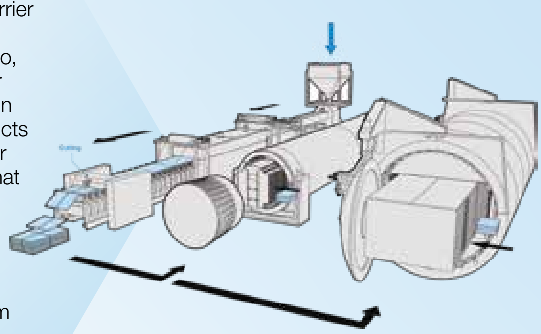
1. Starting with a core process

At our block foam manufacturing sites in the UK, the USA and Poland, we operate proprietary technology to produce foams from a variety of different polymers. Our manufacturing process almost always involves three sequential steps – extrusion, nitrogen saturation and expansion. Zotefoams' differential advantage is the use of autoclaves, developed from a century of experience, using a nitrogen-based process. All of our assets are flexible – we can use each of them to make many product grades.

For more information on our process, please see page 8

The high levels of know-how and capital required to use autoclaves is a difficult barrier for new entrants to overcome. Patents on our basic process expired some years ago, although we are able to obtain patents for products manufactured by that process, in particular in our High-Performance Products (HPP) business. This, and the fact that our process allows us to produce materials that cannot be made by any other method, delivers a meaningful and sustainable competitive advantage.

Foam has high distribution costs relative to price, particularly for our polyolefin foam product range. It is more economic and sustainable to expand the foam closer to customers and we have invested in regional manufacturing capacity in Poland to be closer to certain markets.



2. Making the best use of our assets

Our route to increased profitability includes running our unique machinery as near to full capacity as possible – and filling new capacity as quickly as possible – and then mix-enriching our product portfolio. We produce two distinct product portfolios which combine to make our model work: polyolefin foams and high-performance products. Polyolefin foams (typically branded as AZOTE®) are based on polymers that are also foamed by many of our competitors, compete primarily through the superior foam properties created by our technology, are produced in large volumes and are sold to a wide variety of customers who then incorporate the foam into many different products. High-performance products (typically branded as ZOTEK®), meanwhile, are made of more costly and specialised polymers that very few competitors can foam, are currently produced in relatively lower volumes and are sold at a higher price to a smaller number of customers. These customers then use this technologically advanced foam for highly specific applications.

While the superior performance of our foams creates demand globally, most of our polyolefin foam customers are regional – for us that means the UK, mainland Europe and North America and reflects the geographic locations of our manufacturing plants. This is in part driven by distribution costs and by the importance of good service levels. By contrast, distribution costs make up a far smaller proportion of the value of our HPP portfolio, so do not constrain global reach, and the complexity and higher value make it more effective to produce the HPP range from the more established UK site.

Over time we expect to increase profitability through mix enrichment. Our core process allows us to produce a range of both polyolefin and HPP foams. With the higher margins achievable from HPP and more technical polyolefin foams, we prioritise these products in our production decision-making. However, the markets for polyolefin foams, with many segments ranging from those higher margin, specified, technical foams to the highly competitive foams with low switching costs, afford us the flexibility to make full use of any significant availability of capacity while still generating good margins and providing highly valued solutions to our customers. Supporting a broad product portfolio therefore remains critical to our long-term success. Currently, the Polyolefin Foams Business Unit utilises most of our capacity.

3. Working with our partners and enriching the product mix

We partner with a network of customers around the globe that fabricates our polyolefin foams and promote them in their geographic markets. Some specialise in specific sectors, while others specialise in foam fabrication capabilities for general markets. Our aim is always to be the material of choice for our partners. Our block foams are sold, and often specified, into a broad range of industries, such as automotive, aerospace, product protection, industrial parts, marine, building and construction and sports and leisure.

The AZOTE portfolio is typically viewed as 'best-in-class' for performance, often measured by weight, purity and durability, and can be efficiently fabricated into complex shapes. We provide our customers with products that offer improved performance per unit weight over competitive solutions. They are lighter, made with less raw material and their durability means they need replacing less often. This makes them a product of choice in thermal insulation, transportation or when protecting goods in transit where light weight helps reduce fuel and energy consumption. Zotefoams products are predominantly found in permanent solutions. Our Plastazote® and Evazote® polyolefin foam brands are held in high regard in the industry and offer premium performance in the portfolio of a foam fabricator.

Image © Nike

4. Developing our HPP portfolio

A significant portion of technical, sales and marketing expenditure is allocated for the development of our HPP portfolio, sold under the ZOTEK® and T-FIT® brand names. Close and direct collaboration with customers, and a focus on the ultimate end-users, is crucial to the success of this business unit. We have a long history of investing in R&D, which enables us to innovate and meet the needs of customers with technically demanding requirements seeking solutions that consume fewer resources, operating in sectors such as footwear and aviation. These businesses are more global in nature and we have strong management alignment to the product range and certain key markets.

Developing products to demanding technical specifications, and promoting these globally, can mean that a new HPP product makes losses at first. However, once a product's specifications have been finalised and orders are secured, the opportunities are longer term and cash generation potential is high. Our HPP Business Unit margins reflect a portfolio of products and applications at different stages of the lifecycle and we see considerable opportunity to grow and to enrich our product mix over the medium term.

5. Adding more value for customers, and to our business

Our HPP portfolio comprises innovative and versatile raw materials which, like our polyolefin foams, lend themselves to being fabricated into complex parts by our customers. The unique and advanced properties of these foams often allow designers and industry both to meet stringent regulations, for example around safety or environment, and to offer better products, often by substituting non-foam products or replacing multiple products. For example, our foam is now used by the aviation industry for ducting, where it acts as both the structure and the insulation, visual window surrounds, where it also acts as the seal, as well as 'soft touch' materials within the cabin.

This area of the business is more readily defensible because of the unique performance advantages inherent in our advanced technology, the patents we hold and the highly specified markets we serve. These factors also enable us to sell at a higher price, with a better margin. Ultimately, expanding our HPP portfolio is critical to our past, present and future growth.

In some cases, however, we are able to move even further up the value chain, and ultimately provide finished parts directly to customers. The best example of this is our T-FIT technical insulation business. We take a 'direct to market' approach to sell this clean insulation. While this is a departure from our typical model of contributing to, rather than producing, the finished product, we are able and ready to make similar moves in response to unmet demand when it complements our global network of fabrication partners.

6. Capacity to meet growing demand

In a 'steady state', our business is strongly cash generative, but we have significant opportunity to grow and have therefore chosen to re-invest to take advantage of profitable opportunities. Over the past five years, we have increased capacity significantly in anticipation of projected demand. While our mix enrichment strategy favours our HPP portfolio, and investment in the UK has focused on increasing our capacity to deliver on these opportunities, the knock-on impact of HPP growth is a reduction in available UK capacity to service our highly valued and profitable Polyolefin Foams business. The larger part of this capacity expansion has consequently been outside the UK, to allow us to meet our growth expectations in polyolefin foams while increasing our service levels and reducing transport-related emissions through closer proximity to our customers. And as one would expect, our new facilities use state-of-the-art technology with improved energy efficiency. All this allows us to pursue more opportunities than before in terms of new products and solutions, many of which will then help to grow the business further.

Our business model
Continued

Our place in a lower-carbon economy

There are four aspects of our business that will enable us to thrive within a lower-carbon economy. Over time, we plan to build on these advantages, such that we can continue to grow, reduce our carbon footprint and help our customers become more sustainable.

For more information about our **ESG approach,** see pages 44 to 53.

1. Our nitrogen-based process

Our core high-pressure autoclave foaming process uses nitrogen as the foaming agent, borrowed from the atmosphere during the production process, so there is limited further environmental impact beyond the use of energy and raw plastic. At the same time, this process is becoming more efficient as we invest in newer, more efficient autoclaves.

2. Efficient use of raw material

We are proud that our unique technology delivers foam products with better performance per unit of weight, which allows us to offer high-quality solutions made with less material. Furthermore, not only do we use less material to produce our foams, but the integrity and durability of our products also mean they need replacing less often.

3. Our products' role in avoiding emissions

Our products are typically used in a way which, in the round, reduces emissions and conserves scarce resources. For example, our foams are used for thermal insulation, they protect products in transit that have a high carbon footprint and they often replace heavier and more wasteful alternative materials.

4. New product development

As the demand grows for products that actively help us move to a less wasteful, lower-carbon future, we are already responding, with more to come. For example, ReZorce® is a 100% recyclable mono-barrier packaging solution which has been designed to replace difficult-to-recycle tubes, laminated paper, pouches and cartons.

Our sustainable competitive advantages

As described on page 10 in 'How our business works', our sustainable competitive advantages include

- High-value, unique assets
- Technical know-how
- Established market position
- Valued brands

Three further competitive advantages are also important contributors to our success

Growing global reach

Beginning from a single site in the UK, we now have major manufacturing sites operating in the USA and Poland, serving regional and international customers. Proximity to major manufacturing centres is a significant advantage in our markets. Having three sites provides the flexibility to expand to serve regional markets, while retaining high-capacity utilisation across the Group, and serve markets that are growing at different rates with different products. In recent years, we have established a T-FIT subsidiary in China, which fabricates products manufactured in the UK, and a T-FIT sales subsidiary in India. We have also established a subsidiary in Oklahoma, USA, cutting AZOTE parts for a valued customer located adjacent to our facility.

Diversity of products and customers

We sell to customers from a wide variety of different sectors, so we have a more limited exposure to a downturn in any particular industry. We have also demonstrated the ability to quickly meet a change in demand, as with our work on producing foam for PPE during the COVID-19 pandemic.

Stable finances enabling organic growth

Our stable finances enable us to invest in new opportunities as they appear, giving us a significant competitive edge. We have the resources available to move into new polymers, or to displace competition by superior performance. We have grown organically for many years and we believe that much more is possible.

Critical resources and relationships

In order for us to continue as a viable and successful business, we are aware of the need to secure access to, and/or invest in, our key resources and relationships, which include:

- Raw material
- Stable business environment
- Plant and equipment
- Intellectual property, including patents
- Well-trained people and their capacity to innovate (read more about our people on page 54)
- Relationships with channel partners
- Relationships with HPP clients
- Ability to move goods between manufacturing sites and customers
- Financial resources

Our MuCell Extrusion business

MuCell Extrusion LLC (MEL) licenses a patented process that creates micro-bubbles in the core of plastic parts or products by injecting gas into them as they are manufactured. This produces a foamed core, bound by a solid skin into one integral material, that seems indistinguishable from a solid product. Products using MuCell® technology can be designed to perform like solid plastic, but will typically use 15–20% less material, realising both cost and environmental benefits by using inert carbon dioxide or nitrogen gas and reducing the plastic content at source. Most customers are in the fast-moving consumer goods (FMCG) or food packaging industries, where value is created from making a small saving in plastic content, which is multiplied across many millions of parts annually, and where the current environment is increasingly driving them towards more sustainable solutions. MEL shares in the customers' benefits by receiving a licence fee for IP and/or royalty on parts made.

Recently, a variation of this technology has been used to create ReZorce®, a recyclable, mono-material barrier packaging solution and an industry first. In 2020, we focused efforts on how ReZorce can best be deployed in the aseptic beverage carton market, where some of the most intractable challenges to achieving recycling and recyclability in post-consumer waste exist, due to the multi-material nature of current solutions. Our new pilot facility (see page 21) will help customers expedite time to market for ReZorce, ahead of impending legislation.

Our external context
Our response to short- and long-term trends

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

We have built a clear long-term strategy for growth based around three long-term global megatrends that are driving demand for our products.

Understanding these market trends informs our strategy and product development, as well as the allocation of our resources. Given the diversity of applications for foam, it is not possible to track every use for our materials, and a new idea or application may come from a foam converter, an end-user or from within Zotefoams. We therefore actively monitor these and maintain flexibility to react to a wide variety of possibilities.

As the world around us changes, we regularly re-test our strategy. We believe our existing strategy continues to serve us well and continues to enable us to grow strongly.

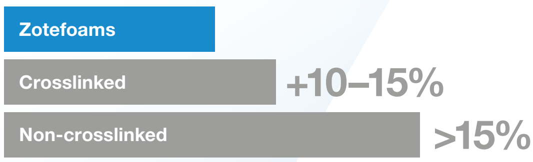
Sometimes, as has happened during the pandemic, short-term factors distort longer-term trends. With clarity of purpose and an understanding of the fundamental drivers of our business environment, we will make adjustments to our short-term approach, such as limiting expenses and capital expenditure, while ensuring that our longer-term goals remain achievable.

Environment

Optimising the use of scarce resources has become a universal driver. Lightweighting is fundamental to reducing fuel usage and controlling emissions for the aviation and automotive industries. High-quality insulation conserves thermal energy.

MuCell® technology uses less material to make everyday items and saves costs. Our ReZorce® mono-material technology can be used to create barrier packaging, for items such as juices, toothpaste, food and dried goods, which can be recycled using common kerbside collections. Much of our AZOTE® foam is used in permanent packaging or packaging that is designed to be reused, while foams used in transportation are normally specified to the lightest weight for the required physical performance. Zotefoams' products typically use less plastic than competitive solutions due to the cell structure of foam made in our autoclave process, giving us both a cost and environmental advantage.

Zotefoams versus other materials: typical like-for-like performance using less polymer



ReZorce® is a better solution with lower environmental impact

Based on an independently conducted Life Cycle Assessment, comparing the environmental impact of ReZorce with widely used multi-material alternative, liquid packaging board

Regulation

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

Regulatory requirements mainly cover the performance of end-use products, although there are specific tests for fire performance and toxicity limits in foams for certain industries and jurisdictions. Zotefoams provides specifically tested materials for semi-conductor, pharmaceutical and biotech manufacture and automotive, aircraft and rail insulation and provides validated materials for medical transportation and devices, and military storage and personnel protection. Our technical team is closely involved in developing new materials to meet and anticipate standards and we are currently working on projects for automotive batteries, high-tech composites, foams from recycled materials and foams which can be more easily recycled. We sell AZOTE® grades for automotive, medical and packaging designed to minimise emissions and/or meet specific purity requirements. Around 43% of Zotefoams' revenue from foams in 2020 came from products with specific properties tested to customer requirements, although not all of this was demonstrably for regulation compliance.

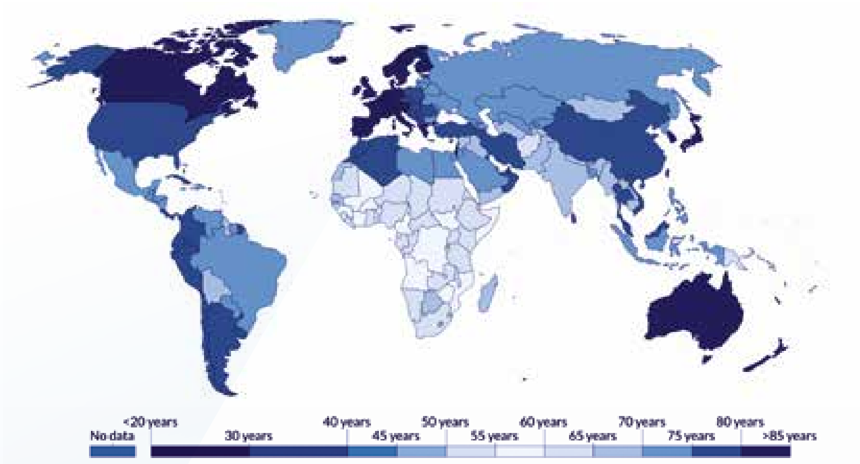
Plastazote® from our AZOTE® polyolefin foams range is the most frequently cited thermoplastic foam in medical literature due to its purity and hypoallergenic characteristics. It meets ISO 10993 standards for evaluating the biocompatibility of medical devices and is the material of choice for skin contact applications.

Demographics

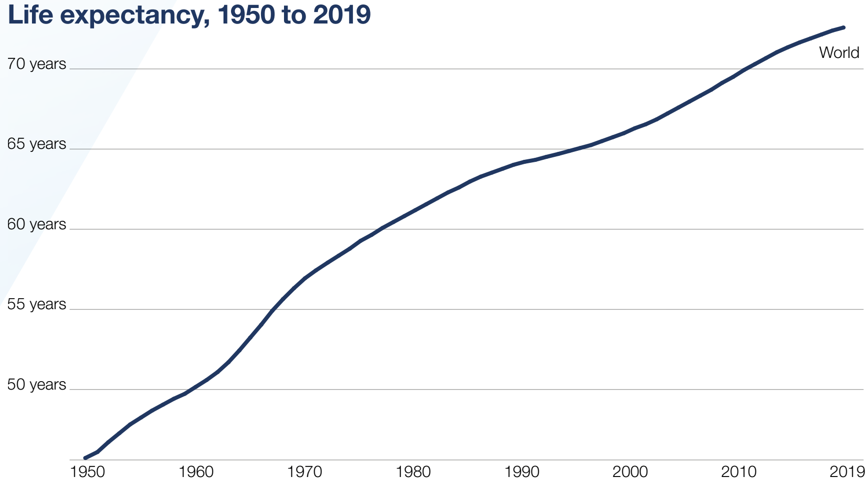
Better healthcare has created a population boom, especially in older age groups, while globally, discretionary spending power is rising rapidly. Demand for healthcare products is accelerating. Wealthier and more discerning consumers are driving growth rates in other industries such as food and drink, sports equipment and transportation.

Transport, medical and sports and leisure applications account for around 57% of sales directly, while our T-FIT® insulation products – demand for which is currently linked to semiconductor, pharmaceutical and biotech manufacturing – account for a further 4% of sales.

Life expectancy, 2019



Life expectancy, 1950 to 2019



Our strategic objectives
Our four-part plan to deliver growing returns

We measure progress against four strategic objectives:

	Why?
1 **Develop an HPP portfolio and MEL customer base to deliver enhanced margins.**	HPP and MEL offer higher growth rates and the potential for higher margins than AZOTE® foams. High-performance products use the same asset base as the Polyolefin Foams business and leverage our uniqueness by providing customers with solutions based on foams that can only be manufactured using our technology. They offer larger-scale opportunities than our polyolefin foams and higher drop-through operating margins. MEL reduces plastics use at source using patented high-pressure gas technology at customers' facilities and operates on a royalty basis over a period in excess of ten years. Using similar technology, the team at MEL has developed mono-material barrier packaging technology, which we have branded ReZorce®. Using significant recycled plastic content and being readily recyclable, the potential market is large and facing significant pressure to improve sustainability rapidly.
2 **Grow sales in our AZOTE® Polyolefin Foams business in excess of twice the rate of GDP global growth.**	Zotefoams is a capital-intensive business with high operational gearing. The Polyolefin Foams business is the largest user of capacity and its volumes are important for the absorption of fixed costs. AZOTE® foams provide unique solutions to a broad spread of customers across many industries, serving as a valuable mitigant against industry and customer risk. Demand for improved resource efficiency, regulation and global demographics underpins our growth potential in this profitable business unit.
3 **Increase our operating margins, before exceptional items.**	Zotefoams targets improved operating margins through a continuous focus on the efficient use of its assets and mix enrichment across its product range by developing applications which most effectively leverage its unique technology. This applies not only to our High-Performance Products business but also to our Polyolefin Foams business. Zotefoams adopts a medium-to long-term view, balancing immediate operating margin gain with the investments required in infrastructure and capacity (and their consequent impact on short-term margin), to maximise future growth. Higher operating margins generate higher returns to shareholders.
4 **Improve our return on capital (over our investment cycle).**	Zotefoams uses unique and capital-intensive assets. We understand the importance of generating a good return on these assets to provide our shareholders with strong returns and maintain their support when funding is required to drive longer-term capital projects. As Zotefoams' business grows, we have invested in large capital programmes which have changed the shape of our balance sheet. In order for return on capital to provide a meaningful measurement, major capacity and infrastructure investments, which are expected to require considerable capital over a number of years before being commissioned as production assets, are excluded from the calculation until the point of commissioning.

This year

In 2020, sales in these segments increased by 8% and accounted for 39% (2019: 37%) of Group revenue. The expected growth in Footwear resulted in it, alone, accounting for 26% (2019: 16%) of Group revenue, while ZOTEK® F fluoropolymer foams, primarily for aviation applications, reduced by 54% as Boeing, Airbus and airlines (which use our foams for interior applications) significantly curtailed their activities due to COVID-19. T-FIT® insulation products grew by 4%, with COVID-19 significantly holding back the rate of growth in the year. The profit margin of the HPP Business Unit was 26% (2019: 24%), compared with a 10% margin in AZOTE foams (2019: 14%). MEL's development strategy was negatively impacted by COVID-19, with an inability of our staff to travel to customer sites and considerable reductions in discretionary expenditure by potential customers leading to a 64% fall in revenue from equipment sales. Revenue from licence fees, which we had expected to increase, remained relatively stable year-on-year as a result of mixed customer fortunes in the difficult economic environment. The reduced expenditure of the business as a result of these absent development opportunities led to a loss in line with that of the previous year.

In 2020, sales of AZOTE polyolefin foams were broadly stable, although within this there were significant variations by product and segment year-on-year. The general market weakness from COVID-19 was offset by sales to our largest UK customer for a UK Government PPE contract for the NHS, which represented almost 19% of AZOTE® revenues in 2020. In the latter part of the year, we experienced early, although inconsistent, signs of recovery in demand. With low levels of inventory in many sectors of the market, such an improvement in demand, combined with the risk of supply disruptions linked to Brexit, would normally have led to inventory increases through the supply chain, but these were generally not implemented due to the customers' priority of conserving cash in an environment of continued economic uncertainty.

In 2020, in aggregate, segment margins decreased to 13.7% from 15.1%. This decline in margin, despite stable Group revenue, results mainly from a less favourable sales mix and increased manufacturing and depreciation overhead from new UK and US capacity. After central costs, which include corporate, finance and IT, mainly relating to the corporate governance of an increasingly complex organisation, as well as net foreign exchange movements, Group operating margin before exceptional item declined slightly to 11.0% (2019: 11.3%).

In 2020, the return on capital declined to 9.0% (2019: 10.5%). Operating profit was the same level as the previous year, while the capital base included recently commissioned assets in the UK and USA. The investment in the Group's ongoing expansion project in Poland was excluded from the calculation, in line with the Group's definition of return on capital.

Next year, and beyond

We see opportunity to continue strong growth in HPP and MEL with the potential to enhance Group margins. The rate of margin enhancement will depend on both the capacity utilisation of the Group and the relative level of investment in early stage and high-growth opportunities within our HPP and MEL portfolios, as well as the speed of recovery from the pandemic in markets such as aviation. We have worked closely with external consultants and packaging industry experts to help validate and evaluate the ReZorce opportunity and strategy, and have commenced the next phase of a go-to-market evaluation strategy which is expected to be substantially complete during the third quarter. The licensing business of MEL, which is aimed at reducing customers' consumption of plastic volumes, will continue to support existing licensees and current projects.

We are confident that growing AZOTE sales at twice the rate of GDP growth is achievable and that the impacts of the pandemic will recede. The key drivers of this business – use of materials, lightweight, insulation etc – remain as relevant as ever and we are developing our product range and geographical reach accordingly. During 2020, we developed recycled foams containing internal process scrap, we improved our technical capability to produce different densities of our Adapt product range, which will mainly be made in Poland, and we worked closely with large customers in automotive and retail to develop application-specific AZOTE products to meet their particular needs. All these developments are set to broaden further Zotefoams' product range and offer good opportunities to grow market share by aligning closely with market trends and customer needs.

Sales growth improves operating margins as asset utilisation increases, although in the short term this will be offset by additional depreciation and operating costs of the Poland facility, given the time lag between making capacity available and achieving targeted utilisation rates. Operating margin will also be impacted by a return to normalised levels of spending in certain areas, after tight cost control in 2020 related to COVID-19, and increased operating cost investment in high opportunity areas such as those in T-FIT® technical insulation. However, as we utilise our assets through the investment cycle, we expect margins to grow, supported by the strong margin Polyolefin Foams business, the enhanced-margin, faster-growing HPP business and the possibilities offered by MEL.

The Group has committed to a large capacity expansion programme over recent years, which has ended in February 2021 with the commissioning of the Poland manufacturing site. The balance sheet, which includes new capacity as well as supporting infrastructure which will not directly generate returns, has increased significantly. We approved these projects, acknowledging and accepting the dilution of return in capital over the shorter term but recognising the importance of adequately investing in the capacity needed for anticipated future growth and the corresponding improvement in return on capital that should accompany it.

Our brands in action
Innovating to help our customers meet new challenges

AZOTE®

AZOTE® polyolefin foams are manufactured using our unique, high-pressure process. This process differentiates Zotefoams from competitors that manufacture similar foams using low-density polyethylene (LDPE), which is our main raw material.

Zotefoams produces foams that are more consistent, lighter weight and possess higher purity compared with foams manufactured using chemical technology. These superior attributes are valued globally in many uses with examples as diverse as aerospace, sports equipment and medical packaging. Underlying growth of many of these segments is driven by global trends in regulation, environment and demographics, including resource efficiency.

The main geographical markets for our AZOTE® foams are the UK, other European countries and North America as, beyond this, distribution costs limit the market opportunity. We do sell outside these areas, mainly in Japan and China, into more niche, technical applications and further development of these geographies remains a longer-term goal.

Case Study

Driving zero emissions through electric buses in China

Context
Announced in 2018, the Chinese government's Blue Sky Plan aims to cut air pollution in urban areas and includes commitments such as the aggressive rollout of clean energy vehicles and electric vehicle (EV) charging infrastructure.

Chengdu FlexTech Environment Protection Technology Co Ltd, a specialist in fitting out and converting buses, is supporting customers, including Sichuan Bus Group, as they switch from fossil fuel to clean energy vehicles. The company recognised lightweighting as a priority in the move to electric vehicles and that the weight of the glass fibre boards historically used for bus bodywork insulation would be an obstacle in this regard.

What we did
Having decided to replace glass fibre boards with a lighter foam insulation, FlexTech evaluated materials from several suppliers. Zotefoams' Plastazote® LD24 FR flame-retarded low density polyethylene foam from the AZOTE® polyolefin foams range was selected for both bus bodywork and also EV car battery insulation, on the basis that it proved lighter and stronger than the alternatives.

AZOTE FR grades are a popular choice for thermal and acoustic insulation in public transportation applications due to their compliance with UL94 HF1 flammability, DIN 5510-2 flame retardance and EN45545 fire resistance in railway vehicles standards, on their own or in combination with other materials.

Results
Weight saving is paramount in EV applications to preserve battery charge and increase range. In this application, Plastazote reduced weight by 90% compared with the previous glass fibre board solution and its flexibility makes for quicker and easier installation in confined spaces.

ZOTEK®

ZOTEK® products use Zotefoams' unique autoclave technology applied to high-end polymers such as polyvinylidene fluoride (PVDF) fluoropolymer, nylon or thermoplastic elastomers (TPE). Combining the original polymer properties with our foaming process creates truly unique materials.

ZOTEK® F fluoropolymer foams are inherently fire- and chemical-resistant and are mainly used in aerospace applications. ZOTEK® N nylon foams are designed to operate at very high temperatures and are finding uses in a wide variety of mainly industrial applications. There is a considerable level of interest currently in ZOTEK® N as a lightweight thermoplastic composite material for transportation, designed to reduce weight and meet environmental targets for fuel economy. ZOTEK® TPE foams, which delivered the largest contribution to HPP growth for the second year in a row, have excellent kinetic energy management properties and are being sold primarily in sports and leisure applications. Historically, sales of ZOTEK® foams have grown due to more stringent regulation in the aviation markets, while recent growth is being led by developments in the footwear market.

Case Study

Improving the safety and sustainability of air travel with our newest lightweight foam

Context

Although the reduced number of flights due to COVID-19 has temporarily curtailed air travel, the long-term forecast is for passenger – and therefore flight – numbers to increase. Airlines and aircraft manufacturers are united in their commitment to facilitating the benefits of air travel while reducing its environmental impact. Along with cleaner engine technology, reducing fuel usage through lightweighting is central to this strategy.

What we did

In 2020, Zotefoams launched ZOTEK® F XR, an extra-rigid grade complementing the flexible, semi-rigid and rigid materials already in the ZOTEK® F OSU range and extending Zotefoams' scope of application in aircraft interiors thanks to its semi-structural properties. ZOTEK F revolutionised aircraft interiors through its unique blend of safety, versatility and weight reduction; ZOTEK F XR looks set to do the same, reducing weight by as much as 70% on a like-for-like basis compared with the solid thermoplastics traditionally used in applications such as the interior of seat pods, stowage lockers, rigid armrests and tray tables.

Results

Adient Aerospace was the first company to deploy ZOTEK F XR in a commercial application, replacing 3mm thick solid thermoplastic in a seat backshell liner with the same thickness of ZOTEK F XR. The foam is vacuum-formed to create the required shape and bonded with a luxury non-woven fabric for a premium finish. Besides reducing component weight, ZOTEK F XR also exhibits exceptionally low heat release and smoke density in aviation industry testing protocols.

Our brands in action
Continued

T-FIT®

The T-FIT® insulation story began with end-users looking for a solution to insulate pipes in pharmaceutical and biotechnology cleanrooms. T-FIT® Clean was developed as a unique thermal insulation system designed for these demanding, highly controlled production environments.

Based on the unique technology owned by Zotefoams and following the success of T-FIT Clean insulation, Zotefoams is expanding the T-FIT range to address the requirements of the food, dairy, personal care and general process industries. These are products that are inherently pure and free of chemical residues and meet leading fire certification standards. Demonstrably resistant to growth of mould and bacteria, the full range of T-FIT insulation products manufactured by Zotefoams is durable, moisture-resistant and easy to install and clean.

T-FIT® Hygiene is designed for large-scale, aseptic, food processing. Production areas are built to exacting standards, where the specification is for a pure, pollutant- and fibre-free thermal insulation with the capability to withstand the steam purging process typical in this sector. T-FIT Hygiene can ensure air conditioning, air filtration and other process equipment continue to operate at optimum levels of performance.

Unique in both its material (Nylon PA6) and its foam insulation class, T-FIT® Process is the high temperature addition to the T-FIT range and operates at temperatures up to 160°C with spikes, for cleaning in place, up to 205°C. Aimed at the utility and general processing industries around the world, T-FIT Process will assist project and process engineers in their quest for ever more durable and heat-resistant insulation solutions.

Case Study

T-FIT® helps to deliver dairy products safety in India

Context
Karnataka Cooperative Milk Producers' Federation Limited (KMF) is the second largest dairy cooperative in India. Its 'Nandini' brand is a household name and market leader in fresh and pasteurised milk products. KMF was using traditional polyurethane foam and nitrile rubber pipe insulation in certain places. This was underperforming, resulting in cracks from thermal fatigue allowing condensation ingress, creating a risk of bacterial and fungal growth and the potential for cross-contamination. This was raised as a non-conformity in an external compliance audit relating to the Food Safety and Standards Authority of India.

What we did
The T-FIT team in India worked with the customer to implement T-FIT® Hygiene and T-FIT® Process. T-FIT Hygiene was retrofitted to the chiller and ice cream filling lines to prevent the condensation that had proved so problematic previously. The exceptional material properties of T-FIT Hygiene are tailored to demanding FMCG applications. T-FIT Process was applied to steam and CIP lines; its high temperature credentials ensure that it can withstand temperature spikes associated with the steam flushing necessary to prevent cross-contamination and maintain the taste and quality of products.

Results
The adoption of T-FIT® technical insulation in the production and process areas significantly reduced the accumulation of condensation, minimising the risk of bacterial and fungal growth. Areas are now condensation-free, resolving the audit non-conformity and ensuring products are safe for public consumption. Additional tangible benefits have also been realised, including a more durable insulation solution, significant energy savings and reduced maintenance costs.

MuCell®

MEL licenses microcellular foam technology and sells related machinery. MEL's business model is to develop and license IP and share in the savings or benefits of the licensee through a royalty and/or licence fee. Recently, a variation of this technology has been used to create ReZorce®, a recyclable, mono-material barrier packaging solution.

MEL technology offers the potential to reduce the plastic content of an article by around 15%, by injecting inert gas to displace plastic with microcellular bubbles. MEL technology can be used with most common plastics and reduces material consumption with no negative impact on recycling. The primary target market for MEL is consumer packaging, where production volumes are high and developments are scalable across geographic and product markets.

MEL continues to evolve its product offering and intellectual property (IP). As the business begins to achieve commercial scale, our staff become more specialist and our knowledge deepens. MEL staff integrate with the customers in product design, to make the best use of our technological capability, and with this depth of knowledge comes improved customer satisfaction and also more opportunity for further IP.

Typically, barrier packaging used to prevent food and beverage being spoiled by oxygen or moisture has been made using laminate structures, often combining materials such as plastic, card and metals. These multi-material structures are not designed for recycling, are often incinerated and are not considered part of the circular economy. With ReZorce, packaging can be recycled using common methods globally, with no need for specialised systems, and turned into plastic which can be used again and again for similar packaging.

Case Study

Pilot facility set to speed time to market for ReZorce®

Context

ReZorce® recyclable mono-material barrier packaging is the exciting evolution of MuCell® microcellular foaming technology and, for food brand owners and retailers using aseptic beverage cartons, the means to achieve impending legislative targets for recycling and recyclability that cannot be met by current composite materials.

ReZorce offers barrier properties that meet or exceed all food industry standards and is compatible with existing manufacturing, packaging and post-consumer recycling infrastructure, ensuring easy transition. A recent Life Cycle Analysis has demonstrated that producing a one-litre ReZorce carton uses 11 times less water and five times less energy than a composite carton equivalent and has a 50% lower global warming potential.

Strategic progress

The biggest obstacle to food and beverage manufacturers seeking to adopt ReZorce® is securing time to run trials on their production lines, since food and beverage production operations are typically 24/7/365. Trialling new materials and processes comes at the expense of production and profit. Zotefoams has invested $1m in a pilot extrusion facility and is now investing in pasteurisation and in a typical form, fill, seal cartoning machine similar to those of potential customers. Based in Leominster, MA, USA, the facility is close to MuCell Extrusion LLC.

Results

The pilot facility will enable fast-track trials of ReZorce by interested parties, cutting lead times from months to a matter of weeks and enabling deployment of the technology ahead of legislative deadlines.

An introduction from our Chair
Resilience and flexibility

The response to the pandemic has demonstrated an effective strategy delivered by a dedicated workforce and leveraging a differentiated technology

Basic earnings per share before exceptional item

14.87p

Change **nil**

2019 **14.91p**

Earnings per share

14.87p

Change **-13%**

2019 **17.10p**

Total dividend for the year

6.30p

Change **+210%**

2019 **2.03p**

Overview
While 2020 was of course dominated by the impact of the COVID-19 pandemic, Zotefoams demonstrated its resilience and flexibility in successfully responding to the significant market, operational and workplace challenges posed. COVID-secure working procedures were introduced at each of its sites. Financial performance was robust, with a strong second half recovery leading to revenue growth for the year as a whole and we continued to make good strategic progress despite these considerable challenges. It has been an immense effort and, on behalf of the Board, I would like to record my sincere gratitude to the leadership team and all their colleagues across the Group who have worked safely, flexibly and tirelessly to support all of our stakeholders during the year.

Strategic progress
In an extremely challenging year, we have nevertheless made good strategic progress. In our High-Performance Products (HPP) business, we delivered excellent growth in footwear and made significant headway in T-FIT® insulation, particularly in China, moderated by COVID-19 related disruptions in Europe and India. We commissioned our Poland manufacturing facility in February 2021, which was the final part of a multi-year capacity improvement programme adding 60% capacity to pre-2018 levels. As visibility improved in H2 2020, we recommenced investment into the commercial and product development initiatives that will enable us to develop our pipeline of opportunities and accelerate future growth. We also took decisive steps to assess and develop market entry plans for ReZorce® mono-material barrier packaging solutions in key application areas to capitalise on the significant opportunities which exist for this technology.

The major market impact of COVID-19 was felt in our ZOTEK® F foams business, which mostly supplies the aviation industry. Sales more than halved this year; however, through a combination of new application areas and recovery, we expect this business to return to pre-pandemic growth rates in the medium term. We demonstrated the resilience of our Polyolefin Foams business, supporting a new personal protective equipment (PPE) application which offset reduced demand in industrial markets brought on by the pandemic. We continue to see structural growth prospects in this important business unit, underpinned by the megatrends of environment, regulation and demographics and facilitated by our new global capacity.

Results

Group revenue was £82.7m, 2% above the previous year (2019: £80.9m). Operating profit before exceptional item was in line with the previous year at £9.1m (2019: £9.1m), with statutory operating profit down 10% at £9.1m (2019: £10.2m). Basic earnings per share before exceptional item was in line with the previous year at 14.87p (2019: 14.91p) and basic earnings per share was down 13% at 14.87p (2019: 17.10p).

The combination of our rapid response to the pandemic and the successful execution of both new and existing opportunities in H2 2020 has demonstrated the financial resilience of Zotefoams' business. We ended the year with a strong balance sheet and leverage down to 2.1x from its peak level of 2.6x at the mid-year, well within our covenants.

Dividend

The Board has a progressive dividend policy, recognising the importance to our shareholders of the dividend as part of their overall return. Given the extraordinary uncertainty at the time of the COVID-19 outbreak, however, the Board did not recommend a final dividend for the year ended 31 December 2019. As the ongoing impact of the pandemic and our responses to mitigate it became clearer, a more confident assessment of the Group's financial position and future was taken at the half year end and resulted in the payment of an interim dividend in October 2020 of 2.03p (2019: 2.03p). The small amount of UK Government financial support received in the first half of the year was fully repaid in early August 2020. The Board remains confident in the Group's future and is proposing a final dividend of 4.27p (2019: nil) which, if approved, will be paid on 1 June 2021 to shareholders on the register on 7 May 2021.

Sustainability

The Board is very focused on the growing importance of sustainability and the evolving debate around the use of plastics by society. It considers both in relation to the future desired outcomes for all stakeholders. Accordingly, our strategy incorporates the consideration of climate change in terms of financial and operational impacts. Zotefoams' products are used almost exclusively for permanent solutions and often form a positive element of our customers' own sustainability agenda. They are seldom used for single-use purposes which, understandably in certain applications, has caused most public concern. Our MuCell® technology is focused on the reduction of plastic in society, lowering carbon footprint and improving recyclability of packaging. We believe that plastics, used appropriately, remain the optimal solution both functionally and environmentally for our customers' needs. We also recognise the importance of continuous improvement around product development and operating efficiency to reduce the Group's environmental impact. The Board has elevated sustainability and climate change to be a new principal risk at Zotefoams, see page 37, and the Group executive has been tasked with ensuring that both the strategic and operational impact of sustainability is embedded within decision-making processes throughout the Group. More details are also included under Strategy update in the Group CEO's review on page 24 and in the Environment, social and governance report on page 44.

Governance and the Board

The Board leads an ongoing programme to ensure the highest standards of corporate governance and integrity across the Group and has remained abreast of developing governance standards. The Board's interactions and communications with executive management continue to be excellent and as a result the Board is well placed to challenge, guide and support executive management in the delivery of the growth strategy. Due to COVID-19, there has been a considerable increase in our interactions as a Board, which have mainly taken place virtually in 2020. This year, we have paid particular attention to the provision of a safe working environment for our staff across all global locations and have maintained the improved visibility and quality of safety performance data across the business. We continue to support and empower our employees and are meeting our commitment to enhancing the employee voice in the boardroom through the position of J Carling as Board representative for workforce engagement.

The process to refresh the non-executive membership of the Board was completed in 2020. On 14 May 2020, we appointed C Wall and A Fielding to the Board, with A Fielding assuming the role of Chair of the Remuneration Committee. These changes have brought highly relevant skillsets and experiences to the Board and both new Board members have quickly amassed good knowledge of the business and its strategy, despite the obstacles presented by COVID-19. A Bromfield retired from the Board on 13 May 2020 after six years of invaluable service; we wish her well.

The Board considers that it has fully applied all the principles and provisions of the UK Corporate Governance Code during 2020. More information is provided in the Corporate Governance report on page 62.

Our people

We have always understood that our people are key to our success. This year, the most difficult of years, has reinforced this. Their contribution to the Group's success through their dedication to each other, their adaptability to change, their steadfastness during an uncertain H1 2020 and their tireless commitment in a very busy and demanding H2 has been inspiring. As the results show, the leadership team responded swiftly and very capably to the COVID-19 challenges, resolutely tackling short-term issues while not losing sight of the long term. It has been a great team effort and I want to thank all of our employees for their considerable efforts during the year.

The future

In 2020, Zotefoams delivered a strong response to the COVID-19 crisis, with good operating results and strategic progress in the face of very challenging macroeconomic conditions. Looking ahead, while the COVID-19 pandemic creates an uncertain environment, we continue to benefit from a highly talented and committed workforce, an attractive product portfolio and strong competitive positions in our markets. We recently completed our investment programme to significantly increase manufacturing capacity and, with a broad range of exciting business opportunities, we remain confident about our future prospects.

S P Good
Chair

7 April 2021

Group CEO's review
Solid operating profits and cash management following record second-half sales

Zotefoams remains well positioned competitively and environmentally. Our core materials offer improved product performance using less material and MuCell Extrusion (MEL) licenses technology specifically to reduce polymer usage

2020	United Kingdom	Continental Europe	North America	Rest of the world	Total
Change %	**48%**	**(30)%**	**(20)%**	**37%**	**2%**
Group revenue (£'000)	**19,106**	**17,856**	**17,629**	**28,061**	**82,652**
% of Group revenue	**23%**	**22%**	**21%**	**34%**	**100%**
2019					
Group revenue (£'000)	12,875	25,503	22,010	20,472	80,860
% of Group revenue	16%	32%	27%	25%	100%

I am pleased at how Zotefoams has performed in 2020 given the COVID-19 impact on economies and supply chains globally. This performance has been as a result of decisive actions taken by our management teams in prioritising staff welfare while ensuring our facilities operated as required by our customers. We had to contend with high levels of uncertainty regarding the impacts of COVID-19 and the demand environment, particularly during the second quarter, requiring us to manage costs and conserve cash to protect our business. We also worked closely with customers to re-agree priorities where practical which, in the main, reflected lower levels of demand and requirements for much shorter lead times. However, due to the wide variety of applications using our foams, we had some notable successes in the second half, including supplying a significant volume of our Plastazote® polyolefin foams for a UK Government personal protective equipment (PPE) contract and, as anticipated, increasing sales of our ZOTEK® HPP foams to Nike under our exclusive agreement for footwear.

Zotefoams' stated business purpose is "optimal material solutions for the benefit of society" and we utilise unique technology to make what we consider to be "best in class" foams for a variety of uses aligned to global environmental, regulatory and demographic trends. We firmly believe that plastic, our main raw material, is the optimal material for the applications for which our products are used. These are predominantly not single-use and often function for many years as industrial and consumer durables in applications as varied as medical devices, footwear, clean-room insulation, cars, aircraft and marine buoyancy.

Over the past five years, Zotefoams has invested significant capital in global capacity to grow our business. Our recently opened facility in Poland, the completion of which was delayed to 2021 to better match anticipated demand and conserve cash, completes this investment programme. The timing to achieve our planned return on these investments has inevitably been extended by the current economic climate, and growing sales to improve asset utilisation is our priority in the short term. An improved product mix, with a higher proportion of sales from our more technical ZOTEK HPP foams and T-FIT® insulation products, is expected to be the main driver of improved profitability and returns in the medium term.

Group revenue increased by 2% to £82.7m (2019: £80.9m) with operating profit of £9.1m at a similar level to last year (2019: £9.1m excluding the 2019 exceptional item related to the recovery of pensions costs). Strong HPP footwear growth and sales for PPE in Polyolefin Foams offset the broader COVID-19 related downturn in most other markets. Profit before tax declined by 5% to £8.3m (2019: £8.8m excluding the aforementioned 2019 exceptional item), with less bank interest being capitalised in 2020 as debt financed a lower level of capacity-enhancement projects still under construction.

Net cash inflow from operations increased 10% to £13.0m (2019: £11.8m).

Strategy update
Zotefoams' strategy is to invest in flexible assets with the capability to support the growth opportunities afforded by our diverse, and often unique, products. As mentioned above, the timing of capacity available from our investment programme has unfortunately coincided with lower levels of current economic activity. However, we are working hard to increase market share and we expect benefits from an initial improvement in utilisation as the macroeconomic environment improves, with further enhancement from increasing proportions of higher margin business where we have a strong business development pipeline.

Overall, we believe our strategy is sound and the ability to realign our business, to adapt to a rapidly changing environment and to manage our cost base and investment profile demonstrates the flexibility of our product range, capacity and people.

While we rightly curtailed investment in some areas to manage our costs and cash at a time of extreme uncertainty, we also continued and even accelerated efforts in other areas. Footwear products, T-FIT insulation and ReZorce® mono-material barrier technology, which is part of our MEL Business Unit, have all benefited from increased investment and all offer excellent potential over, in order of sequence, the short to more medium term.

Sustainability remains a key consideration in developing and implementing our strategy. Our core materials offer improved product performance in durable solutions using less material than competitors. MEL licenses technology specifically to reduce polymer content and has now developed a fully recyclable, circular, barrier packaging solution which we have trademarked ReZorce. The emergence of what we see as a strongly negative public perception of plastic is now becoming more nuanced beyond the environmental impact of ill-considered, single-use plastic, used predominantly in consumer packaging. Zotefoams' current markets are not immediately impacted by this, as products using our foams are primarily integrated components in larger systems or products (such as cars, planes, footwear and medical parts) or used in the long-term storage of items. They are very rarely used in consumer disposable items. Our foams save weight and fuel in cars, trains and aircraft, save energy by insulating and provide protection to people and goods. Our products help our customers reduce emissions, lower energy usage, improve fuel efficiency and comply with increasingly stringent safety regulations. In common with other businesses, we seek to minimise the use of natural resources through measures such as reducing energy and polymer usage, which benefits the environment and reduces our costs.

We believe Zotefoams has demonstrable credibility in reducing the carbon footprint of our customers, but the world is changing rapidly with different competitive solutions and redefinition of requirements driven by preferences and regulation. We therefore continue to develop both our product range and technology to anticipate and react to these changes. We recognise the risk of not meeting our stakeholder expectations on sustainability and have reflected this in our key risks and uncertainties as a consequence, see page 37.

Capacity and investment

In the past six years, Zotefoams has invested £65.2m to increase our global capacity by approximately 60% from 2017, culminating in the completion of our facility in Poland in early 2021. A virtual tour of this facility can be found on the Group's website. Based on our assessment of the opportunities afforded by the underlying market for our products as well as an attractive pipeline of opportunities, primarily within our HPP Business Unit, we are now well-invested to deliver accelerated growth. When determining our investment strategy we need to consider that our capacity investments, which involve significant infrastructure and bespoke machinery, take time to complete and are costly. The first increment of capacity on any site requires disproportionately high investment in infrastructure, but subsequent investment on the site can then be made more cost-effectively and quickly. As markets continue to recover, we will see returns move towards our target levels and we consider that our Poland facility is well placed geographically, giving confidence to our European customer base for polyolefin foams post Brexit. Both the USA and Poland sites have the option for further investment, allowing cost-effective capacity increases on approximately an 18-month lead time. Although there is no current expectation of major investment to increase capacity, Zotefoams has the ability to react to structural increases in demand for all its products.

Segment revenue

£50.9m

Change **-1%**
2019 **£51.4m**

Segment profit margin

9.5%

2019 **14.2%**

Segment profit

£4.8m

Change **-34%**
2019 **£7.3m**

Sales in Polyolefin Foams were broadly stable, although within this there were significant variations by product and segment year-on-year. Sales to our traditional polyolefin foam markets (excluding PPE) fell by approximately 20%, with the largest falls being experienced in aviation, automotive and product protection linked to trade shows and exhibitions. Geographically, Japan and continental Europe, Germany in particular, were noticeably weaker while overall sales to both the UK and North American markets fell by around 11%, although sales in our North American construction segment, served by our facility in Tulsa, OK, increased by 15%.

Offsetting the general market weakness were sales to our largest UK customer for a UK Government PPE contract for the NHS which represented almost 19% of AZOTE revenues in 2020. This business was substantially delivered between June and November and accounted for almost 24% of AZOTE volume sold in the year. The specific foam involved was a light-density variant of our Plastazote range which has been used and cited in medical applications for many years, helping our customer fast-track approval for their design.

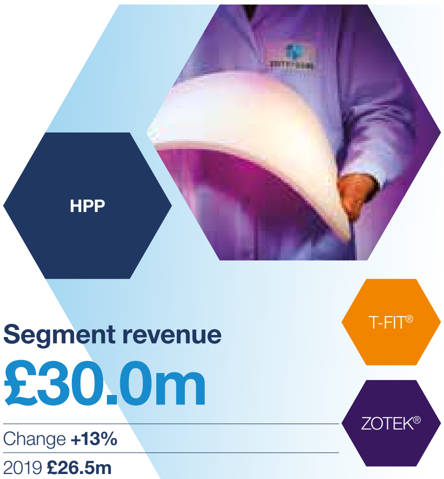
Segment profit declined to £4.8m (2019: £7.3m), mainly as a result of additional costs associated with the full-year operation of new equipment in the UK and USA, costs substantially related to the higher volumes of polyolefin foams and additional administration costs, mostly committed to in 2019, around human resources, finance, audit and IT. Our expectations are that additional costs related to the Poland plant will burden segment profit margin in the short term before higher plant utilisation rates allow recovery in the medium term.

During the year, customers of our Polyolefin Foams business operated with low inventory levels and an expectation of rapid and flexible response times from Zotefoams. By supporting peak levels of PPE demand with supply from our USA facility, we had sufficient capacity to meet other customer needs from our UK facility. Our new facility in Poland now brings further agility and capability in continental Europe to support customers' growth.

In the latter part of the year, we experienced early, although inconsistent, signs of recovery in demand. With low levels of inventory in many sectors of the market, such an improvement in demand, combined with the risk of supply disruptions linked to Brexit, would normally have led to inventory increases through the supply chain. While this was discussed with many customers, increases in their inventory were typically not implemented due to their priority of conserving cash in an environment of continued economic uncertainty.

During the year, we continued to enhance our AZOTE product portfolio, albeit at a slower pace than in previous years due to our focus on short-term cash management. We developed recycled foams containing internal process scrap, we improved our technical capability to produce different densities of our Adapt product range, which will mainly be made in Poland, and we worked closely with large customers in automotive and retail to develop application-specific AZOTE products to meet their particular needs. All these developments are set to broaden Zotefoams' product range further and offer good opportunities to grow market share by aligning closely with market trends and customer needs.

Group CEO’s review
Continued



Segment revenue
£30.0m

Change **+13%**
2019 **£26.5m**

Segment profit margin
26.3%

2019 **24.3%**

Segment profit
£7.9m

Change **+23%**
2019 **£6.4m**

HPP comprises ZOTEK® technical foams, which include foams for footwear where we have an exclusive relationship with Nike, and T-FIT® insulation products. These products are typically unique or highly differentiated and designed to deliver specific performance attributes, such as energy management, excellent fire resistance or high-temperature performance to meet the exacting needs of industries such as sports equipment, aviation, automotive, biotech and pharmaceutical.

The HPP Business Unit accounted for 36% of Group sales in 2020 (2019: 33%).

Within this business unit there are currently three main end-use applications: footwear, aviation and technical insulation. Footwear grew strongly as expected, particularly in the second half, and now accounts for 26% (2019: 16%) of Group revenue. This growth follows close collaboration with Nike as product innovation from Zotefoams is used on an increasing number of running shoe models. We continue to work closely with Nike globally to ensure Zotefoams’ development efforts are clearly aligned with Nike’s priorities. Sales of ZOTEK F fluoropolymer foams, primarily for aviation applications, reduced by 54% as Boeing, Airbus and airlines (where we supply foams for interiors) significantly curtailed their activities due to COVID-19. The supply chain for aviation typically has more inventory than other markets and customers reducing inventory levels exacerbated the decline in demand for Zotefoams materials in the short term. T-FIT insulation products grew by 4% in the year, which was significantly below our expectations and does not yet reflect the strong uptick in interest and customer engagement we are seeing. COVID-19 impacts were significant in holding back the rate of growth in 2020 and resulted in substantial regional variability. We grew our business in China by 60%; India, which had been expected to perform well, was relatively flat with many projects deferred; and sales in the EU, previously our largest market, declined by 40%. As the disruption of the pandemic reduces, we would expect T-FIT insulation demand to respond strongly, underpinned by our clearly differentiated offering and the accelerating structural growth drivers in the cleantech, biotech and food safety sectors.

During 2020, as well as continuing our close cooperation on footwear, we also continued technical and market development of our unique ZOTEK foams range, mainly focused on the aviation and automotive industries. Both are undergoing significant disruption with travel patterns changing and sustainability pressures. Zotefoams believes that its range of lightweight, insulating and fire-retardant materials are ideally placed to help these industries meet their challenges and capture new business. We have therefore prioritised developing new foams focused on aviation applications, despite the low current demand from this industry. We have also put significant focus on market opportunities in ground transportation, and e-vehicles in particular, using both our existing product range and customer-specific product variants. Current signs are positive on both these development approaches, which form an integral part of our Group-wide portfolio of opportunities.

Segment revenue
£1.8m

Change **-41%**
2019 **£3.1m**

Segment loss before amortisation
£1.2m

Change **+7%**
2019 **£1.3m**

Segment loss after amortisation
£1.4m

Change **+6%**
2019 **£1.5m**

MuCell Extrusion LLC licenses microcellular foam technology and sells related machinery. MEL’s business model is to develop and license intellectual property (IP). MuCell technology offers the potential to reduce the plastic content of an article by around 15% by injecting inert gas to displace plastic with microcellular bubbles. Using similar technology, in 2019 the team at MEL developed mono-material barrier packaging technology, which we have branded ReZorce®.

MEL’s development strategy was significantly negatively impacted by COVID-19 during the year. An inability of our staff to travel to customer sites and considerable reductions in discretionary expenditure by potential customers led to a 64% fall in revenue from equipment sales. Revenue from licence fees, which we had expected to increase, remained relatively stable year-on-year as a result of mixed customer fortunes in the difficult economic environment. Overall, activity at MEL retrenched from the beginning of the pandemic, with a reduction in travel and development reducing costs to such an extent that the segment loss after amortisation was slightly below 2019.

Progress on our ReZorce pilot line was also deliberately slowed in the short term, in common with much Group capital expenditure. It is currently in its commissioning phase and forms a significant element of our intention to accelerate development of the ReZorce barrier technology. We have worked closely with external consultants and packaging industry experts to help validate and evaluate the ReZorce opportunity and strategy. As a result of this work, we have commenced the next phase of a go-to-market evaluation strategy focusing primarily on the beverage packaging market, currently dominated by Tetrapak along with other multi-material carton solution providers. This phase of evaluation is likely to be substantially complete during the third quarter and involves pivoting a substantial portion of our MEL team over the coming months to be almost exclusively dedicated to ReZorce. The licensing business of MEL, which is aimed at reducing customers' consumption of plastic volumes, will continue to support existing licensees and current projects but will not actively seek new customers at this time, other than in a few cases where we have a readily implementable solution. We currently expect the operating result impact of this pivot to be broadly neutral over the year as we believe the planned activities and additional costs associated with this very specific targeted validation programme meet the criteria for capitalisation. The potential market is large and facing significant pressure to improve sustainability rapidly. Our ReZorce product line can be made with significant recycled plastic content and, as it is classified as a mono-material, can be readily recycled to support a circular economy, putting sustainability at the heart of our MEL development agenda.

Measuring strategic progress

The markets in which we operate are driven by global trends – environment, regulation and demographics – which we believe offer potential for high rates of market growth as well as opportunity for our disruptive technology solutions. We measure strategic progress on four metrics, all before exceptional items:

1. Sales in our HPP and MEL Business Units, which offer unique disruptive products and solutions, together now account for 39% (2019: 37%) of Group revenues with combined growth of 8%. The unique benefits offered by these products, combined with a focus on selling into structural growth niches, means that we expect strong further growth in these product lines in the future.

2. Sales of our highly differentiated AZOTE polyolefin foam products declined by 1%, against our target rate of twice global GDP growth. Supply for a UK Government PPE contract in the second half approximately offset the weakness in most other markets during the year. In a year where global GDP shrank considerably and our home market suffered the worst drop in GDP for 300 years, I am pleased that our business showed such resilience.

3. Group operating margin before exceptional item was 11.0% (2019: 11.3%). Higher capital spending over the past few years has increased our depreciation and reduced gross margin while asset utilisation remains lower than anticipated due to the global economic situation. The mix benefit of higher growth in our HPP products provides a structural driver for margins over time. During the year, we did curtail certain operating costs and the negative impact of changes in foreign exchange rates was lower than in previous years. Overall, I am pleased that operating margin remained stable and we were able to continue to invest for our future as well as increase employment within the Group.

4. Group return on capital, which excludes large asset investments not yet commissioned, declined to 9.0% (2019: 10.5%). The Group has invested in a large capacity enhancement programme over recent years, including significant expenditure in the supporting infrastructure that will be sufficient to support further capacity, if needed, at much lower incremental cost. The committed large-scale increases in capacity ended with the commissioning of our Poland facility early in 2021 and the Group is well invested to support future growth. Capital spending is planned to return to more normal, lower levels, broadly in line with depreciation. The net assets of the business have increased significantly and higher asset utilisation from increased sales will be an important factor in delivering improvements in the return on capital over the coming years. We believe Zotefoams' investments are consistent with our strong portfolio of business opportunities and support strong organic growth in line with our stated strategic intent.

People

The top priority for Zotefoams is ensuring the health and safety of employees and site visitors. The Board tolerance for risk is set accordingly and health and safety is an agenda item at every Board and Executive Committee meeting. We recognise that culture, and specifically the behaviour of all employees, has a significant impact on safety risk and performance. Management therefore has a clear priority to ensure that safety behaviour and culture are continuously improved across our business and we will not be satisfied until we achieve our goal of no one getting hurt while working at Zotefoams.

During 2020, managing our workforce's wellbeing during COVID-19 was a significant challenge. Fortunately, most of our operations allow social distancing, non-production staff benefit from good IT systems and were able to work from home and, therefore, other than a few short breaks to assess the impact on our business and implement safe-working systems, our facilities were able to work substantially as normal. While we called upon the UK Government's furlough scheme during H1 2020, the small amount of support we received was fully repaid in early Q3 2020 and no further support was sought. Furthermore, performance during the year and our expectations for the future rendered it unnecessary to make any pandemic-related job losses, restructurings or salary reductions and, additionally, we enhanced sick pay for those who were vulnerable and self-isolating under COVID-19 guidelines.

The main safety metric across our business is reportable lost time incidents and, regrettably, we had one such incident at our Croydon facility during the year (2019: one). In line with our policy, a full follow-up and analysis with corrective actions was reviewed by the Board.

At the end of 2020, the Zotefoams Group employed 474 people, an increase of 4% (2019: 454). Of these, 222 or 47% have been employed for less than two years. With such a high proportion of new employees to integrate, developing our organisational capability and culture globally is essential to delivering our strategy and in times of COVID social distancing this is particularly challenging. However, I believe we have a strong management team, clear direction and the right balance between control and autonomy to deliver our strong portfolio of opportunities in a challenging environment.

Forward-looking statements

Forward-looking statements have been made by the Directors in good faith using information available up until the date they approved these financial statements. These forward-looking statements should be considered in light of the continuing uncertainty surrounding the impacts of the COVID-19 virus on economic trends and business.

Current trading and outlook

We are experiencing a strong start to 2021, consistent with our growth expectations, across the business as a whole. Our Polyolefin Foams Business Unit is trading very strongly, buoyed by restocking in some markets and the restarting of some previously delayed projects. We do not anticipate any significant sales from PPE programmes this year, which materially supported 2020's second half trading. In our HPP Business Unit, demand for footwear products continues at similar levels to the strong performance seen in the second half of last year, while COVID-related factors continue to impact aviation and the rate of growth in T-FIT® insulation products.

The operational environment is currently impacted by Brexit-related changes and global trade imbalances, making it more difficult and expensive to plan transportation, although we anticipate that this will ease with time. We expect to recover inflationary pressure, particularly in raw material pricing, through price increases in the second quarter.

Zotefoams demonstrated resilience and flexibility under very difficult macroeconomic conditions in 2020, while continuing to make good strategic progress and adding to its broad range of exciting business opportunities. We expect to deliver significant growth this year; however, our cost base will increase, reflecting a return to more normalised levels of spending, the new Poland facility coming on stream and selective investment to support our best growth projects. The year has started strongly and, while we are cautious on our short-term outlook given the ongoing COVID-19 and logistics challenges, the Board remains confident about the future prospects for our business.

D B Stirling
Group CEO

7 April 2021

Group CFO's review
Resilient performance and a strong balance sheet

Successful management of a difficult H1 2020 and a return to growth in H2 2020 demonstrates the strength of the Group's product offering

Group revenue

£82.7m

Change **+2%**

2019 **£80.9m**

Operating profit before exceptional item

£9.1m

Change **0%**

2019 **£9.1m**

Operating profit

£9.1m

Change **-10%**

2019 **£10.2m**

Overview

H1 2020 was a challenging period for Zotefoams as COVID-19 took hold across the world and reduced business activity. During this period, Zotefoams introduced and successfully implemented a range of cost and cash saving measures to protect the balance sheet while the impacts of the pandemic remained highly uncertain. In contrast, H2 2020 returned a record six-month sales performance for the Group, with successful delivery of AZOTE® polyolefin foam to a key customer supplying the UK Government with personal protective equipment (PPE) for the NHS and growth in footwear as expected. This allowed the Group in August to return the low amounts of government support it had received in Q2, reinstate a dividend and recommence operating cost investment in support of future growth. The Group ended the year in a strong financial position, as reflected by year-end leverage (net debt to EBITDA) close to 2x, having been 2.6x at 30 June 2020, and liquidity headroom of £19.2m.

Group revenue for the year increased by 2% to £82.7m (2019: £80.9m). High-Performance Products (HPP) had another very strong year, growing 13% to £30.0m (2019: £26.5m) and Polyolefin Foams held firm at £50.9m, just 1% below the previous year (2019: £51.4m), demonstrating resilience in a very difficult trading environment, while MuCell Extrusion LLC (MEL) sales fell to £1.8m (2019: £3.1m). Constant currency variances were immaterial across all business units. Operating profit before exceptional item was maintained at £9.1m (2019: £9.1m), while operating profit was down 10% at £9.1m (2019: £10.2m) following a previous year pension credit of £1.1m recorded as an exceptional item.

Zotefoams invested a further £6.9m during the year in its final major capacity expansion project, a new manufacturing facility in Poland. Delayed slightly by close cash management and travel restrictions imposed by COVID-19, the facility started up in February 2021, on budget.

At 31 December 2020, net debt under IFRS was £35.6m (2019: £31.9m) and leverage (net debt to EBITDA) was 2.2x (2019: 2.1x). While cash generated from operations increased by 10% to £13.0m (2019: £11.8m), the Group's investment programme was the main driver behind the Group requiring to draw down on its debt facilities, as expected. Under the definition of the bank facility agreement, which adjusts net debt for the impact of IFRS 2 and IFRS 16, leverage was 2.1x (2019: 2.0x) against a covenant of 3.0x, down from 2.6x at mid-year against a covenant of 4.0x.

Group revenue

Group revenue increased by 2% to £82.7m (2019: £80.9m).

Polyolefin Foams Business Unit sales decreased 1% versus 2019, with a year-on-year decline of 23% in H1 followed by an increase of 28% in H2. Excluding the PPE-related sales in H2, which we largely consider to be a one-off opportunity, annual sales of polyolefin foams decreased 20%, reflecting the significant adverse change in demand conditions across a range of our markets as a result of COVID-19. With the exception of the UK, where the PPE sales were made and where growth was 84% in the year, all regions were heavily impacted by the pandemic: Europe declined 27%, the USA declined 11% and the Rest of the world declined 35%.

HPP sales increased 13%. Footwear is the largest application currently within HPP and revenue in this market grew 68% versus 2019, reflecting significant increases in the sales run rate in H2, as expected and previously communicated, following an increase in the number of shoe models using the Group's foam. After a solid H1, ZOTEK F fluoropolymer foam sales fell significantly in H2, primarily as a result of the well-publicised and visible impact of COVID-19 on the aviation industry. ZOTEK F sales ended the year 54% down versus 2019. T-FIT® advanced insulation sales grew 4% (2019: 33%), with significant growth in China offset by much lower sales in Europe related to COVID-19.

MEL sales suffered heavily during 2020, the business being the most reliant on international travel and direct customer engagement to secure equipment sales and support installation of the technology. Despite firm royalty revenues, sales fell by 41% to £1.8m.

Revenue by market (%)

	2020	2019
Product protection	**21**	29
Transportation	**12**	22
Sports and leisure	**29**	20
Building and construction	**12**	12
Industrial	**7**	9
Medical	**16**	6
Other	**3**	2

Within the transportation segment, aviation represented 6.5% (2019: 15%) and automotive 5.5% (2019: 7%) of Group revenue.

Gross margin

Gross margin decreased to 33.6% (2019: 35.4%). Group revenue grew in the period, the share of footwear sales increased, average LDPE polymer prices declined and the UK site was successful in flexing direct labour costs in H1 to match lower production volumes. However, this was more than offset by the mix effect of 7% higher polyolefin foam volumes at lower average prices to supply PPE equipment, the sharp decline in higher margin ZOTEK F sales and a £1.0m increase in Group depreciation and amortisation following completion of the UK and US capacity expansion projects. As the Group returns to its expected growth rates, the product mix improves, ZOTEK F sales recover, T-FIT technical insulation sales grow and capacity utilisation improves to leverage the recent investment programme, we expect to rebuild gross margins.

Distribution and administrative costs

The Group has a clear expansion strategy, founded on proprietary cellular materials technology linked to longer-term demand growth in our chosen markets. Organic growth with a portfolio of unique and highly differentiated products requires that we invest actively in, and reprioritise where needed, technical, sales-focused and administrative resources to create, execute and manage this growth. During the year, in order to manage the uncertainties of COVID-19, operating cost investment into these growth drivers was postponed, restarting later in the year. Marketing and travel costs fell to very low levels, discretionary spend was tightly controlled, new hires were delayed and, where possible, leavers were not immediately replaced. These measures helped offset the natural increase in costs as a result of the full year impact of staff additions during 2019.

Included within distribution costs in the consolidated income statement are warehousing and sales and marketing expenses. These costs decreased by 15% to £6.8m (2019: £8.0m) during the year, mostly reflecting reduced Group marketing spend, delayed hiring or replacement of sales personnel at Zotefoams USA and at MEL and lower travel-related expenditure. Included within administrative expenses before exceptional item are technical development, finance, information systems and administration costs as well as the impact of foreign exchange hedges maturing in the period and non-cash foreign exchange translation expenses. These costs increased in 2020 by £0.4m, or 3%, to £11.9m (2019: £11.5m). Expenditure unrelated to foreign exchange movements increased by £1.5m, reflecting the strengthening of the Finance and HR functions, most of the hiring or commitments having taken place in 2019, increased audit and tax charges, increased IT support costs, including full year costs of certain expenditure capitalised during the 2019 ERP system upgrade, and adminstrative costs in Poland. Offsetting this was a reduction in the combined loss from foreign exchange hedging contracts and foreign exchange translation movements to £0.3m (2019: net loss £1.4m). See Currency review for further information and context.

The business unit results are shown on pages 25 to 27 in this Strategic Report. They do not include central plc costs, which are not considered to be segment specific. In 2020, central plc costs were £1.9m (2019: £1.7m).

Exceptional item

In 2019, the Company was successful in a claim against the previous advisers to the Company's Defined Benefit Pension Scheme (the "DB Scheme") following legal advice that the linkage to future increases in salary had not been properly broken. The Company was awarded £1.1m, including £0.1m of expenses, following mediation, and recorded this as an operating exceptional item in the income statement.

Operating profit

Operating profit before exceptional item was £9.1m, in line with 2019 (£9.1m). Operating profit was £9.1m (2019: £10.2m).

Finance costs

The total interest charge for the year increased to £0.9m (2019: £0.5m) and includes £0.2m (2019: £0.2m) of interest on the DB Scheme pension obligation. The Group capitalised £0.6m (2019: £0.9m) of interest in relation to the financing of its capacity enhancement projects still under construction, a reduction following completion of the USA and UK projects in the previous year.

Profit before tax

Profit before tax and exceptional item decreased by 5% to £8.3m (2019: £8.8m). Profit before tax decreased by 15% to £8.3m (2019: £9.8m).

Currency review

Movements in foreign exchange rates can have a significant impact on results. During the year, while there continued to be a high level of volatility in exchange rates, the sterling average exchange rate year-on-year against the US dollar weakened by only 1% and the sterling average exchange rate against the euro did not move. The sterling spot rate against the US dollar from 31 December 2019 to 31 December 2020 strengthened by 4% and the sterling spot rate against the euro from 31 December 2019 to 31 December 2020 weakened by 6%.

Zotefoams is a predominantly UK-based exporter which invoices mostly in local currency. In 2020, approximately 79% of sales (2019: approximately 87%) were denominated in currencies other than sterling, mostly US dollars or euros. Most operating costs are incurred in sterling, other than the main raw materials for polyolefin foams used for production in the UK, which are euro-denominated, US subsidiary production and operating costs, other subsidiaries' staff and operating costs and some HPP raw materials, which are US dollar-denominated. The Group therefore uses forward exchange contracts to hedge its foreign currency transaction risk. The Group generated a net loss on forward exchange contracts of £0.1m (2019 loss: £0.9m).

Zotefoams also faces translation risk. Zotefoams plc, the parent company, holds the Group's multi-currency borrowings facility and has provided intercompany loans and intercompany trading facilities to the USA and Poland to support the Group's capacity expansion projects. It also has a growing footwear business, which is invoiced from the UK in US dollars, adding to its exposure to foreign currency denominated net assets. This translation exposure is mitigated, where possible, through an offset with same-currency liabilities, primarily through borrowing in the relevant currency. Every month, these foreign currency denominated intercompany net positions, despite being cash neutral, require to be translated by Zotefoams plc on a mark to market basis and the movement taken to the Company income statement. This treatment also applies to the non-sterling accounts receivable balances held on the Company's balance sheet, the impact of which should reverse through forward currency contracts but is subject to the timing difference between the recording of accounts receivable and cash received. In the year, the Group recorded a translation loss in the income statement of £0.2m (2019 loss: £0.5m).

Group CFO's review
Continued

Currency movements during the year negatively impacted Group revenue by £0.1m (2019: £2.0m positive impact). They also negatively impacted operating costs by £0.1m (2019: £0.9m negative impact), resulting in a net negative impact of £0.2m (2019: benefit £1.1m) before hedging. The combined impact on the income statement of transactional and translational foreign currency movements was a charge of £0.3m (2019: charge of £1.4m), resulting in a net currency negative impact for the year of £0.6m (2019: negative impact £0.3m).

We expect growth to come mainly from outside the UK and recognise that one of our principal risks is our exposure to foreign currency fluctuations, particularly in the US dollar. With respect to transactional risk, the Group's faster growth outside the UK will increase exposure, but will continue to be mitigated through forward exchange contract hedging activities, which cover a defined portion of the anticipated exposure over a rolling 18-month period. With respect to translation risk, the Group's major committed capacity investments are now complete and intercompany debt and intercompany trading balances are expected to have peaked. They will begin to fall as cash flows from those subsidiaries are used to pay back these positions, all of which reduce exposure. Our investment in overseas operating locations will also contribute to an effective natural hedge against currency fluctuation. We recognise, however, that inherent risk will remain. Based on 2020, it is estimated that, with respect to transaction risk and for every one percentage point movement in the US dollar/sterling rate, profit moves by £0.25m unhedged and £0.08m hedged. In the year, it is assumed that the transaction risk from euro/sterling movements continues to be substantially naturally hedged, with sales revenues offset by costs, primarily related to raw material purchases and certain further processing costs.

The Group does not currently hedge for the translation of its foreign subsidiaries' assets or liabilities. The foreign currency hedging policy is kept under regular review and is formally approved by the Board on an annual basis.

Tax and earnings per share
The effective tax rate for the year before exceptional item is 13.7% (2019: 18.2%), which is below the Group's weighted average corporate tax rate for the year of 19.7% (2019: 18.7%). The effective tax rate for the year is 13.7% (2019: 16.2%). The lower effective tax rate for the year arises primarily from an adjustment for overpayments made in previous years and research and development tax credits. Net income tax paid during the year was £1.1m (2019: £2.3m).

Basic earnings per share before exceptional item was 14.87p (2019: 14.91p), in line with the previous year. Basic earnings per share was 14.87p (2019: 17.10p), a reduction of 13%, reflecting the impact of the successful litigation claim against the previous pension scheme advisers on the 2019 figure.

Currency impact on business segments in 2020
Currency had negligible impact on the Group's performance

Segment revenue £m

	2020 Reported	2020 Adjusted*	2019 Reported	Net change % Reported	Net change % Adjusted
Polyolefin Foams	**50.9**	**50.9**	51.4	**(1)**	**(1)**
HPP	**30.0**	**30.2**	26.5	**13**	**14**
MEL	**1.8**	**1.8**	3.1	**(44)**	**(44)**
Eliminations	**(0.1)**	**(0.1)**	(0.1)	**–**	**–**
Group	**82.7**	**82.8**	80.9	**2**	**2**

* Constant currency, adjusting 2020 values to 2019 rates.

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

	2020	2019
GBP to euro – average	**0.88**	0.88
GBP to euro – year-end spot	**0.90**	0.85
GBP to USD – average	**0.78**	0.79
GBP to USD – year-end spot	**0.73**	0.76

Dividend
The Board has a progressive dividend policy, recognising the importance to our shareholders of the dividend as part of their overall return. In August 2020, the Board announced its decision to reinstate a dividend, having fully repaid the small amount of government support it had received. This followed its previous decision not to recommend a final dividend for 2019, ordinarily payable in May 2020, as a result of the extraordinary uncertainty posed by the COVID-19 outbreak at that time. With continuing confidence in the Group's future prospects and financial position, the Directors are now proposing a final dividend of 4.27p (2019: nil), which would be payable on 1 June 2021 to shareholders on the Company register at the close of business on 7 May 2021. Taken with the interim dividend of 2.03p (2019: 2.03p), this would bring the total dividend for the year to 6.30p and would represent a dividend cover of 2.4 times (2019: 8.4 times).

Cash flow, investment and net debt
Net cash inflow from operations before investment in working capital increased 4% to £16.1m (2019: £15.4m). Without the 2019 award of £1.1m following successful litigation specific to the DB Scheme, see Exceptional item above and Post-employment benefits below, net cash inflow from operations before investment in working capital increased 12%, demonstrating the strong cash-generative potential of the business. £2.4m (2019: £1.9m) of this was re-invested in working capital. Trade and other receivables reduced by £1.2m (2019: reduced £2.7m), reflecting strong cash recovery and a reduction in overdue balances to below 0.5%. Inventories increased by £4.5m (2019: increased £0.9m). Higher footwear demand, Brexit-related polyolefin foams contingency stock and T-FIT technical insulation inventory build for H1 2021 drive this increase. The change in mix also impacts value, with HPP raw materials being significantly more expensive than their polyolefin counterparts and their uniqueness requiring higher inventory levels. Trade and other payables increased £1.0m (2019: decreased £3.7m), with higher purchases to support anticipated Q1 2021 demand offset by more punctual supplier payments. Zotefoams recognises the importance of its supplier relationships and has improved its performance with respect to honouring agreed payment terms. As a result of the above, cash generated from operations was £13.0m (2019: £11.8m), up 10%.

During the year, the Group paid interest of £1.1m, of which it capitalised £0.6m (2019: paid interest of £1.0m, of which it capitalised £0.9m) on qualifying assets under IAS 23 "Capitalisation of Borrowing Costs". The interest paid has been split between operating activities of £0.5m (2019: £0.1m) and investing activities of £0.6m (2019: £0.9m) to reflect the Group's utilisation of the interest paid. Taxation paid during the year amounted to £1.1m (2019: £2.3m), the reduction being a result of lower 2019 payments, including those for Q3 and Q4 2018 and payments on account for Q1 and Q2 2019 based on higher profit expectations at the time.

Zotefoams' property, plant and equipment capital expenditure was largely focused on capacity expansion, with total expenditure including capitalised interest of £13.0m (2019: £24.4m). This follows investments of £72.4m in the previous five years. The 2020 expenditure was almost entirely related to projects begun in 2019, with other expenditure minimised or eliminated in line with tight cash control in the face of the COVID-19 pandemic. £6.9m of this year's capital expenditure was directed to the Poland manufacturing facility, which was commissioned in February 2021 and is now expanding products delivered from the UK and USA plants. A small amount of capital investment is outstanding in Poland, to be completed during 2021, and certain expenditure on our ReZorce® barrier technology development is expected to be capitalised in line with accounting standards. Other than this, we expect capital expenditure to return to levels more in line with the Group's depreciation charge. The Group also invested £0.3m (2019: £0.9m) in intangible assets, with the higher 2019 amount relating to an upgrade of the Group's Microsoft AX ERP system to the latest version.

After dividends paid in the year amounting to £1.0m (2019: £3.0m), repayments of £1.5m (2019: £1.5m) in relation to the £7.5m sterling term loan, payable in equal quarterly instalments, and the inclusion of £1.4m (2019: £1.2m) of lease liabilities in accordance with IFRS 16, closing net debt was £35.6m (2019: £31.9m). Under the definition of the bank facility agreement, which adjusts for the impact of IFRS 2 and IFRS 16, net debt was £34.2m (2019: £30.7m). At the year end, the Group remains comfortably within its bank facility covenants, with a ratio of EBITDA to net finance charges of 24 (2019: 73), against a covenant minimum of 4, and net debt to EBITDA (leverage) of 2.1x (2019: 2.0x), against a covenant of 3.0x. We expect to remain within revised covenant levels going forward.

Investments

Given the capital-intensive nature of the Zotefoams business, long lead times for key equipment and the importance of operational gearing, investment decisions require significant planning and are made with a clear assessment of strategic fit, risk, risk appetite and expected returns. Confidence in the Group's developing portfolio of HPP opportunities is a significant consideration in determining the timing of certain investments, while the strategic importance of maintaining growth in the profitable Polyolefin Foams business, the Group's largest volume product range, informs the decision to increase total Group capacity versus relying solely on mix enrichment.

Zotefoams targets improvements in the Group's return on capital over the investment cycle, while recognising the short-term impact on this return during construction and operating initially at lower utilisation levels. When Zotefoams embarks on investment in a major expansion or new location, such as installation of extrusion and high-pressure capability at our existing Kentucky, USA site or the most recent investment in foam manufacturing at the Poland site, we take into account the importance of scale and dilution of heavy infrastructure cost over a (future) second or third line. As such, the first step is invariably more dilutive to capital return than any subsequent investments.

Zotefoams defines the return on capital employed (ROCE) as operating profit before exceptional items divided by the average sum of its equity, net debt and other non-current liabilities. This measure excludes acquired intangible assets and their amortisation costs. We also exclude significant capacity investments under construction until they enter production. We do not attempt to adjust for the first phase inefficiencies as mentioned above. In 2020, the return on capital employed decreased to 9.0% (2019: 10.5%). The cause of this movement is two-fold. Impacting the numerator, operating profit was lower than previously anticipated, mainly as a result of well-publicised macroeconomic challenges related to COVID-19, which reduced asset utilisation. Impacting the denominator has been the increasing capital base following the completion of our investments in the UK and the USA. If the capacity investment still under construction, namely our Poland manufacturing facility, were also included, the return on capital employed reduced to 7.1%, from 8.1% in 2019.

Investing in growth (£m)

	2015	2016	2017	2018	2019	**2020**	**Total**
Growth capital	6.1	6.9	7.8	12.8	19.8	**10.3**	**63.7**
Capitalised interest	–	–	–	–	0.9	**0.6**	**1.5**
Maintenance capital	2.6	5.2	3.6	3.0	3.7	**2.1**	**20.2**
Total investment in property, plant and equipment	8.7	12.1	11.4	15.8	24.4	**13.0**	**85.4**

Post-employment benefits

As previously reported, the Company provided £1.3m in its 2017 income statement for potential additional liabilities in its DB Scheme following legal advice received by the pension trustees and a calculation by the actuaries. This was based on the legal opinion that the DB Scheme was properly closed to future accrual of service in 2005, but the linkage with future increases in salary had not been broken. The Company recorded this as an operating exceptional item in the income statement, together with a small accrual to take steps to break this link. The action to break the link was completed in 2018. In 2019, the Company was successful in a claim against the advisers of both the Company and the Trustees and was awarded £1.1m following mediation, which it recorded as an exceptional item in the income statement. After deduction of costs incurred by the Company, the net award of £0.9m was transferred into the DB Scheme to help fund its deficit.

A full actuarial valuation of the DB Scheme is scheduled as at 5 April 2020, in line with the requirement to have a triennial valuation. As at the date of this report, the final outcome is still pending. The previous triennial valuation was completed as at 5 April 2017, on a Statutory Funding Objective basis, and calculated a deficit for the DB Scheme of £4.2m. As a result, the Company agreed with the Trustees to make contributions to the DB Scheme of £43,300 per month to meet the shortfall by 31 October 2026, up from £41,000 per month previously. In addition, the Company pays the ongoing DB Scheme expenses of £15,000 per month (previously £10,600 per month) to cover death-in-service insurance premiums, the expenses of administering the DB Scheme and Pension Protection Fund levies.

Group CFO's review
Continued

The net IAS19 deficit on the DB Scheme increased by £1.9m to £8.9m as at 31 December 2020 (2019: £6.9m). The main factor contributing to this increase was the change in assumptions, which has significantly increased the value of the defined benefit obligation. This is primarily due to a lower discount rate following falls in corporate bond yields over the year. However, this was slightly offset by the actual investment return achieved on the assets being higher than expected. The deficit is the net total of £31.9m (2019: £29.6m) of assets and £40.8m (2019: £36.5m) of liabilities and represents 9.4% (2019: 7.7%) of total consolidated net assets. Zotefoams does not consider its pension scheme to be a key risk to its ability to achieve its strategic objectives. Mitigation of further risk is expected to come from our growth expectations and the refocus by the Trustees on a lower-risk strategy to meet the DB Scheme's deficit shortfall.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 1 to 59 and the section entitled 'Risk management and principal risks' on pages 33 to 42. These also describe the financial position of the Group, its cash flows and liquidity position. In addition, note 22 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, borrowing facilities and its exposure to credit risk and liquidity risk.

At 31 December 2020, the Group's gross finance facilities were £53.8m (2019: £55.2m), comprising a multi-currency term loan of £25.0m, a multi-currency revolving credit facility of £25.0m and a remaining balance of £3.8m (2019: £5.2m) of a further £7.5m sterling annually renewable term loan, repayable in equal quarterly instalments. The bank facility is for a five-year period and expires in May 2023. At the date of the statement of financial position, £10.7m was undrawn on the facility (2019: £17.7m). At the same date, the Group also held £8.5m (2019: £6.7m) of cash and cash equivalents. The facility is subject to two covenants, which are tested semi-annually: net debt to EBITDA (leverage) and EBITDA to net finance charges.

The Directors believe that the Group is well placed to manage its business risks and, after making enquiries including a review of forecasts and predictions, taking account of reasonably possible changes in trading performance and considering the existing banking facilities, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months following the date of approval of the financial statements. The Directors have also drawn upon the experiences of 2020 and the Group's success in reacting to the challenges of COVID-19 through its safety protocols and cost and cash management, all of which could be replicated in a similar scenario.

After due consideration of the range and likelihood of potential outcomes, the Directors continue to adopt the going concern basis of accounting in preparing the Annual Report.

Financial risk management

The main financial risks of the Group relate to funding and liquidity, credit, interest rate fluctuations and currency exposures. The management of these risks is documented in note 22.

G C McGrath
Group CFO

7 April 2021

Risk management and principal risks
Managing our risks to achieve our strategic objectives

Zotefoams' risk management process is designed to improve the likelihood of achieving its strategic objectives, keep its employees safe, protect the interests of its shareholders and key stakeholders and enhance the quality of its decision-making. The Group is committed to conducting business in line with all applicable laws and regulations and in a manner consistent with its values

Risk management framework

Board

Ensures that risk is managed across the business

Defines the Group's appetite for risk

Assesses the Group's principal risks and opportunities

Executive Committee

- Inputs into the Board's process for setting risk appetite
- Implements strategy in line with the Group's risk appetite
- Manages opportunities and the resulting risks arising
- Leads operational management's approach to risk
- Inputs its assessment of risk and opportunities into the Internal Controls Committee

Audit Committee

- Monitors and reviews the effectiveness of the Group's risk management framework

Internal Controls Committee

- Reviews and assesses the effective functioning of, and proposed amendments to, the Group's risk management framework
- Reviews the outputs and the effectiveness of all functional steering committees and takes action where outputs do not achieve the desired effect
- Reviews the context within which Zotefoams operates and the effect of risks and opportunities on management systems and strategic direction
- Assesses and ensures mitigation actions identified at functional steering committees are planned, implemented and effective
- Reviews, updates and submits the Group's principal risks and uncertainties to the Board
- Reviews and approves the Zotefoams business continuity plan

Functional Steering Committees

- Chaired by, and including, Executive Committee members
- Provide a regular forum for active monitoring of key business risks as they relate to the achievement of the Group's strategic objectives, the controls and activities in place to mitigate them, the key actions required and their timings
- Report bi-annually to the Internal Control Committee on successful adherence to their terms of reference specific to risk and raise any failures in the effectiveness of existing processes

Steering committees exist for:

Health and Safety	New Product Development	Fire Protection
Environment	Marketing Communications	Maintenance
HR and Training	Planning and Capacity	Zotefoams Inc Executive, plus functional sub-committees
Supplier Management	Capital Planning	MEL Executive, plus functional sub-committees
Contract Control	Credit	
IT	Foreign Exchange	
Quality		

Operational management

- Members of functional steering committees
- Create an environment where risk management is embraced and the responsibility for risk management is accepted by all employees
- Implement and maintain risk management processes

Employees

- Active in the day-to-day management of risk

Risk management and principal risks
Continued

Risk appetite

Zotefoams is a business with good opportunities for growth. Reflecting the uniqueness of our technology, its capital intensity and the importance of matching capacity with our demand expectations, we plan for the future over five years and convert these plans into financial targets. To achieve more ambitious targets, we understand we must be willing to accept higher levels of risk. We seek an appropriately balanced outcome, where we consider the level of reward commensurate with the likelihood of success. We recognise the importance of taking these risks within clear boundaries as recommended by the Executive team and approved by the Board. We challenge, reassess and reaffirm these boundaries regularly and, for key decisions, on a case-by-case basis. As a manufacturing company, the health and safety of our employees will always be paramount, which translates into an extremely low tolerance for risk in this area.

Key changes in the year

COVID-19

Zotefoams has been swift and proactive in its response to COVID-19. Since March, Board engagement was increased to every second week while the Executive team met weekly. Overseen by the Board, the team's immediate concern was to prioritise the health and safety of our workforce and the immediate needs of our customers, implementing comprehensive site pandemic response measures across all locations, keeping them fluid to reflect changing developments and ensuring they followed or exceeded local government policies at all times. These measures have helped ensure operations continue safely, as has ensuring technology is available to all staff working from home. Zotefoams also specifically focused actions on managing cash flow, controlling costs and the quantum and timing of its capital expenditures, and successfully ensuring the Group remained robust with sufficient liquidity. An important action early in the year was to increase the leverage ratio covenant with its banks for the 30 June 2020 reporting period, given the very high uncertainty prevailing at the time and the debt level of the Group as it completed its significant programme of capacity expansion investment.

Zotefoams recognises that COVID-19 is likely to change the global economic, social, political and business landscape for the foreseeable future, and in some cases permanently. The Board has reviewed the Group's principal risks to reflect the impact of the pandemic. It has determined that risk definitions have not required change as the pandemic has not changed the longer-term nature of each risk. Consideration has also been given to whether COVID-19 should be treated as an individual risk, but the Board concluded that the pandemic risk was best reflected within each existing principal risk rather than as a new stand-alone item.

At the time of writing this Annual Report, COVID-19 remains an evolving situation, with new variants of the virus, but with hope for a return to a less constrained environment as vaccination levels reduce the impact of COVID viruses globally. The Group thus recognises the importance of continuing to be agile in managing the risk but takes comfort from its successful management through the crisis and the resilience of its business model thus far.

Brexit

Following over four years of uncertainty since the Brexit referendum of June 2016, some clarity was achieved at the end of 2020 with a free-trade agreement which has no import or export tariffs on trade with the EU. The Group has previously viewed the risk to its business around labour mobility to be low. The Group considers the risk of operational disruption mitigated for the most part, with further mitigation coming from the recent commissioning of its Poland facility and its Authorised Operator Status providing a fast track for shipments in and out of mainland Europe.

Sustainability and climate change

Sustainability and climate change has been determined by the Board to be a new principal risk category at Zotefoams. Increased focus on this important issue, and our response to it, could significantly change our relationship with existing and potential employees, customers, investors and any other stakeholders. Our purpose, providing "optimal material solutions for the benefit of society", encompasses our beliefs that our products, when used appropriately, remain the optimal solution both functionally and environmentally for many of our customers' needs. We view the transition to a lower carbon economy as an opportunity to demonstrate our competitive advantage through the nature of our existing business and our proactive pursuit of opportunities with outstanding sustainability credentials.

Other developments during the year

- Zotefoams prepares an annual strategic plan over a five-year period. The Board and Executive team risk-assessed this plan during the two-day annual strategic review in October.
- Risk discussions remained highly prominent at Board meetings and regular updates were held during the year as the Board discussed, considered and assessed the results of its responses to the COVID-19 pandemic, as well as the development and execution of objectives and activities.
- The Executive team, who are also members of the functional steering committees, met twice during the year specifically to review and update the Group's principal risks and uncertainties.
- The Group reviewed its key policies, including anti-bribery and corruption, competition, ethics, whistleblowing and share dealing, to make sure they remain relevant and are operating effectively.
- GO1, a multi-lingual online training platform, was launched at the end of the year, with the purpose of providing both governance and self-improvement training to all Group employees.
- Zotefoams implemented a cyber security awareness testing programme across all staff in the UK, starting in July followed by monthly testing, with training programmes for those employees failing the test. During the period, the failure rate fell from 16% to 3%.
- Zotefoams successfully gained the Cyber Essentials Plus certification in 2018 following a full independent assessment of our IT systems. During the year, we have ensured maintenance of standards in line with the accreditation and passed the annual re-audit by the accredited bodies. The Cyber Essentials Scheme is part of the UK Government's National Cyber Security Strategy, with the primary aim of making the UK a safer place to conduct business online. It encourages businesses and organisations to implement digital protection against common cyber-attacks, while allowing them to demonstrate an increased awareness of cyber security.

- In May 2020, the Company successfully transitioned to the new Occupational Health and Safety Management System ISO 45001: 2018, led by significant focus and effort from a dedicated Health and Safety team on our UK site, supported by the Executive team and impacting all UK-based employees. As with previous years, accreditation and systems audits were conducted during 2020 and the Company received no significant non-conformities. As a result, all the Company's product accreditations remain.
- The Group continues to use an external adviser to perform its financial internal audit services. During the year, based on the Group's internal risk assessments, our Internal Auditor Grant Thornton LLP completed an audit on the purchase to pay process at Zotefoams plc, with outcomes and improvement plans presented to the Audit Committee.

Principal risks and uncertainties

- The details of our principal risks and uncertainties and the key mitigating activities can be found on pages 36 to 42. We are disclosing those risks and uncertainties that we believe have the greatest impact in achieving our strategic objectives. The Group is exposed to a wide range of risks in addition to those listed, and these are managed through the risk management framework shown on page 33. This framework enables us to monitor for any increase in likelihood or impact and ensure that we have the appropriate mitigations in place.
- Zotefoams' risk profile will evolve as the business grows at its targeted pace, although we expect these principal risks and uncertainties to remain broadly consistent. As noted above, we have determined Sustainability and Climate Change to be a new principal risk. Having assessed the inputs from our risk framework mechanism during the current year, we have concluded that there are no further changes to our assessment.

Key to links to the strategy

1
Develop an HPP portfolio and MEL customer base to deliver enhanced margins.

2
Grow sales in our AZOTE® Polyolefin Foams business in excess of twice the rate of global GDP growth.

3
Increase our operating margins, before exceptional items.

4
Improve our return on capital (over our investment cycle).

Read more on pages 16 and 17.

Risk management and principal risks
Continued

Operational disruption

Strategy 1 2 3 4 Risk trend

Description and context

What is the risk?
The performance of our business will be impacted if we are unable to run our equipment and manufacture and distribute products at rates at least equivalent to those currently achieved. The potential impacts of operational disruption are: i) sizeable financial consequences related to missed sales and the high operational gearing nature of the business; ii) the commercial and longer-term consequences of not delivering to strategic customers dependent on our products; and iii) the reputational damage that might impact future chances to acquire new business.

Material influencing factors

- The Croydon, UK site manufactures the majority of Zotefoams' polyolefin foams and, given their complexity, all of its high-performance products. It operates at high utilisation rates. A major incident specific to safety, health and the environment, including high absenteeism resulting from a pandemic such as COVID-19, or a significant operational disruption from either failure of critical equipment or the IT systems that drive them, could shut down the plant for a period of time.
- We do what others do not, making us unique and providing significant opportunities. However, this uniqueness also means that certain of our engineering components and raw materials are sourced from single suppliers. Disruption in those supplies, either on a temporary or more permanent basis, could affect production and supply to the Group's customers, with the knock-on impact, in certain defined circumstances, of contractual commercial consequences resulting in possible customer claims.

Mitigating actions

Safety, Health and Environment policies
We have extensive Safety, Health and Environment (SHE) policies and procedures in place which are in line with best practice. The 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 recurrences. Regular internal and external audits are performed, and quarterly reports are submitted to, and discussed by, the Board.

COVID-19 response
We have adapted our on-site health and safety measures in line with the changing governance guidance in each of our global facilities. The nature of our business operations allows for social distancing without major disruption, while all relevant measures specific to face protection, cleanliness, permitted gatherings and visitors to site are reviewed on a regular basis to ensure the highest standards of safety and business continuity. All staff able to work from home currently do so, supported by modern technology and careful appraisal of their working environments. We have limited travel in line with World Health Organization advice. All manufacturing sites have remained operational, other than as specifically noted elsewhere, throughout the pandemic.

The supply chain has been proactively managed. We have alternative supply sources for LDPE in different countries and we have experienced a prioritisation by local governments on the continuity of industries such as the polymer suppliers during the current pandemic, providing further comfort should there ever be a repeat. Our ZOTEK® core materials are always closely managed due to their uniqueness, and collaboration remained strong and effective through the year.

We controlled operating costs tightly and the timing of discretionary capital expenditure effectively. The Board also considered it prudent to suspend the 2019 final dividend. The small levels of government support the Group took in Q2 2020 were fully reimbursed in August 2020. Cash collections from customers remained strong throughout the period. Our leverage ratio (net debt to EBITDA) at 31 December is now 2.1x, down from the peak at mid-year of 2.6x, as operating performance improved and capital expenditure declined.

Insurance
The Group ensures that it has updated and sufficient insurance in place to cover capital restatement and loss of profits in the event of operational disruption caused by unforeseen events.

Maintenance strategy
We ensure that our assets are well looked after through a well-resourced maintenance team and proactive maintenance investment, including annual shutdowns and extensive fire prevention systems. Our pressure equipment is operated under prevailing regulations and is subject to systematic internal and frequent external inspections. Appropriate contingency plans are in place in the event of the failure of certain major pieces of equipment.

Operations outside the UK
Zotefoams has completed a large investment programme in manufacturing capability outside the UK, adding 60% capacity to that with which it started 2018. The Kentucky, USA site commissioned its first full manufacturing line in April 2018 and a second line became available in March 2020. These lines provide polyolefin foam capacity, in the first instance, but are specified to provide capacity for HPP foams if needed. We also started our third foam manufacturing location in Poland, the first line of which was commissioned in February 2021.

Seeking dual sources
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, particularly those used to manufacture high-performance products, and the machinery used. We continually monitor suppliers and search for new ones, have expanded our procurement department to support this, have identified new component suppliers in the USA as a result of our investment activities at our Kentucky, USA plant and continue to invest dedicated resources in the search for, and testing and approval of, alternative suppliers of critical materials. We also ensure we have sufficient levels of safety stock to mitigate short-term supply issues, which will be further supported by the recent start-up of our Poland plant, close to key European customers.

Investing in IT
We continue to invest in our IT systems and department. We operate the latest version of the Microsoft Dynamics AX ERP system. We have multiple redundancy points limiting failure of any one hardware or operating system, up-to-date policies and procedures and comprehensive documentation on all our critical assets and core configurations. We are accredited to the Cyber Essentials Plus certification, part of the UK Government's National Cyber Security Strategy, which requires an annual, fully independent assessment of our IT systems' ability to deal with common cyber-attacks. We also train our employees on a regular basis to spot potential cyber-attacks through communication and online training. The strong global IT set-up allowed a quick transition to home working for many of the Group's global staff and was critical in our COVID-19 response.

Control Committees

- Board
- Executive Committee
- Planning and Capacity Committee
- Health and Safety Steering Committee
- Environmental Steering Committee
- Key Supplier Review Steering Committee
- Contract Review Steering Committee
- IT Steering Committee

Sustainability and climate change

Strategy 1 2 3 4 Risk trend

Description and context

What is the risk?
Zotefoams' business model, strategy, investments or operations are assessed by stakeholders as having an unacceptable future impact on the natural environment and on national and international targets to tackle climate change, with consequences ranging from financial penalties and an inability to hire the right staff, up to business viability.

Material influencing factors
- Transitional risks relating to developments in political and regulatory requirements around the products that Zotefoams manufactures. As businesses progress towards a net-zero greenhouse gas target by 2050, there is potential for abrupt government intervention aimed at ensuring certain milestones are met. This intervention may involve legal and regulatory changes, including loss of financial incentives, new taxation, compliance costs relating to plastic products or enhanced reporting expenditure, with resulting financial impact.
- Growing global concerns over waste generated from the over-consumption, misuse and over-packaging of consumer goods. A lack of understanding that plastic can be the optimal solution that best benefits society when used appropriately (i.e. optimally) could lead to consumers rejecting end-products containing Zotefoams products.

Mitigating actions

Firm environmental footing
We consider Zotefoams to be well positioned environmentally. Our core materials offer improved product performance using less material than competitors and MuCell technology reduces polymer content and/or improves recycling. While there is understandable consumer concern at the environmental impact of what we consider ill-considered, single-use plastic, used predominantly in consumer packaging, products using our foams are primarily integral components in larger systems or products or used in the long-term storage of items. They are very rarely used in consumer disposable items. Our foams save weight and fuel in cars, trains and aircraft, save energy by insulating and provide protection to people and goods. Our products help our customers reduce emissions, lower energy usage, improve fuel efficiency and comply with increasingly stringent safety regulations. In the medium term, we anticipate our technology being used to meet the growing demand for improved sustainability, with foams which include recycled or renewable content polymers. We recognise the importance of reducing energy emissions in our production processes and pursue continuous improvement in our operations, supported by investment in capital additions or replacements which further this aim. This will be supported by effective reporting on our ESG performance, see below.

Sustainability-focused developments
The ReZorce® range of fully recyclable barrier packaging materials, currently under development, offers a unique solution to the 2025 recycling targets imposed on FMCG and retail businesses. We are improving our energy intensity and material consumption and adapting our product range to enter new markets where the benefits of our products are clearly understood and valued. We are establishing a parallel carbon accounting emissions methodology in 2021 to help us optimise our management of carbon emissions.

Effective reporting on ESG performance
With an environmentally friendly technology and material solutions focused on permanent applications, Zotefoams is uniquely positioned to help reduce customers' carbon footprints or increase material efficiency. Having recognised the need to provide stakeholders with financially material, decision-useful information relating to our ESG performance, we have engaged in a plan to adopt the Sustainability Accounting Standards Board (SASB) framework and will be reporting against it from 2021. Zotefoams also publicly supports the Task Force on Climate-related Financial Disclosures (TCFD) guidance and has embarked on implementing its recommendations.

Control Committees
- Board
- Executive Committee
- Environmental Steering Committee
- Key Supplier Review Steering Committee
- Zotefoams Inc Executive Committee
- MEL Executive Committee
- IT Steering Committee

Risk management and principal risks
Continued

Global capacity management

Strategy 1 2 3 4 Risk trend

Description and context

What is the risk?

As we grow our business at the rate we target, it is critical that we create the required capacity to match the anticipated demand. Failure to execute well and in a timely manner will impact both opportunity creation and the speed of growth. We face material risks due to the uncertainty of medium- to long-term demand, the high capital costs and long construction periods of our unique technology, the successful execution of our investment projects, the risk of loss of an important customer and the ability to finance these investments.

Material influencing factors

- Zotefoams' growth is founded upon its unique offering, its relevance to the global megatrends of environment, regulation and demographics, listed on pages 14 and 15, and its ability to create new markets and new applications. The nature of demand differs between our Polyolefin Foams and HPP Business Units. Polyolefin foam sales are very diversified and more aligned with GDP, but are boosted by the benefit of the aforementioned megatrends. HPP sales are more aligned with specific, often larger, opportunities with the end-user who also has a more direct involvement in the growth trajectory. Together, this can make the timing of growth difficult to predict, but not having the right capacity available at the right time may mean the opportunity cannot be realised. We plan to invest to maintain our range of performance and price for polyolefin foam products as we believe this is the best approach to ensure the future growth prospects of this profitable business unit.
- Our unique technology is highly capital intensive with long lead times. The Croydon, UK site is highly developed, with space limitations restricting further investment, meaning the next growth initiatives must come from other sites and geographies and may require sizeable infrastructural investment, accurate risk assessment and more time to implement. Foam is costly to transport, therefore a geographical mismatch of capacity and customers could impact sales growth and/or margins.
- The Group needs to have sufficient cash or be able to draw on loan facilities or access capital markets to finance this capacity expansion. Funds for investment are required up to a number of years before the assets start generating cash, which increases debt levels and leverage ratios.

Mitigating actions

New processes and longer-term planning

During the year, we have continued to refine our monthly sales and operations planning process, which generates high levels of cross-functional engagement to ensure collaboration and consistency in planning sales and production over the upcoming 24 months. We also meet quarterly as a planning and capacity steering committee, with a five-year view to reflect the longer time horizons related to capacity planning. Annually, our five-year strategic plan, which includes capacity considerations to meet projected sales growth, is rigorously tested by the Board. The last annual review meeting took place in October 2020.

Current investment programme completed

We have been engaged in a significant programme of capital investment, the latest phase of which is almost complete with the start-up of our Poland foam manufacturing facility in February 2021. The first stage of this programme was completed in the USA in 2018, comprising a high-pressure autoclave, ancillary equipment and infrastructure for two further lines. This was followed by the commissioning of a second high-pressure autoclave in March 2020. In the UK, two high-temperature, low-pressure autoclaves, together with ancillary equipment and infrastructure, were completed in December 2019. The Poland facility, a greenfield site sized to offer significant further capacity in the future, will initially expand frozen sheets manufactured by the UK and USA in its high-temperature low-pressure autoclave.

Building on our experiences in the USA, UK and Poland

The experiences gained through the recent investments in the Kentucky, USA and Brzeg, Poland sites, as well as the work performed around high-temperature low-pressure vessels in the UK, have provided a significant increase in know-how, spread across more personnel, which reduces uncertainty of future execution. We have identified new suppliers of critical equipment in the USA and mainland Europe, which were previously single sourced in the UK. In-house project management expertise has been developed or enhanced through either new hires or existing staff having been given the opportunity to grow. We have engaged and developed relationships with experienced consultants to lead and/or work alongside us.

Sufficient funding to support investment

An equity raise and debt refinancing in 2018 provided us with sufficient headroom and flexibility to complete our investments. As we go forward, we will consider further opportunities as they arise and draw upon similar funding options as we consider necessary.

Control Committees

- Board
- Executive Committee
- Planning and Capacity Steering Committee
- Capital Planning Steering Committee
- Zotefoams Inc Executive Committee

Technology displacement

Strategy 1 2 3 4 Risk trend

Description and context

What is the risk?
The loss of our technological advantage could increase competition and affect growth rates and margins. Either our foam manufacturing process or our MuCell® technology could be matched or bettered.

Material influencing factors
Our processes for the manufacture of our products are unique to the Group. We are not aware of anyone using autoclave technology to make similar products in commercial quantities. While the principles behind the processes are not confidential, the precise know-how is. Our autoclave technology is flexible, allowing us to manufacture foams from a range of polymers. For a product with substantial growth opportunities, or a product with a large consolidated market, a competitor could target an alternative, more economic, process. Critical to the success of MuCell Extrusion LLC (MEL) is the strength of its intellectual property and, on the back of that, its ability to grant commercial licences. Its intellectual property could become dated or its patents expire or be successfully challenged or circumvented.

Mitigating actions

Reinforcing high barriers to entry
There are high barriers to entry for the manufacturing of our unique foams. Significant capital investment, know-how and time are required to invest in autoclaves and related infrastructure. High-performance products are significantly more complex to manufacture than our polyolefin foams and certain materials require years to be qualified for supply.

We have reduced, and continue to seek to reduce, technology displacement risk by entering into new markets with significant barriers and cost of market entry for competitors. For example, the development of high-performance products and ReZorce® mono-material barrier technology using MuCell® processes, where the product offerings are unique and protected by patents and/or process know-how and capability, opens up new markets for the Group with potential significant and lasting differential advantages.

Investing in R&D capability and people
We invest in people to broaden our technical capability, research new ways to leverage our technology and accelerate the opportunities that make Zotefoams unique. We invest in people to ensure that know-how related to the design and efficient use of high-pressure autoclave systems and know-how related to polymer processing is retained by the business. We have introduced a Graduate Scheme and developed strong relationships with respected local universities to attract high-potential individuals in the fields of material science and engineering. We dedicate financial resource to testing materials and solutions to remain at the forefront of cellular materials technology.

Protecting our intellectual property
We actively maintain our intellectual property and patent our technology, wherever we believe it is appropriate to do so, and guard our know-how to sustain protection when technology is not subject to patent or patents are no longer applicable. This know-how spans multiple disciplines across our business, making it difficult to poach. We protect our know-how using confidentiality and contractual agreements with employees, suppliers and customers and by maintaining cyber security. The Group keeps a watching brief on competitor activity and maintains close contact with its customers and end-users of its products to understand market activity.

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. In some cases, our close connection with our customers and dedication to a customised solution has yielded new intellectual property opportunities.

MEL licences typically include a bundle of patents and know-how and therefore are not completely dependent on any particular patent. All licences are reviewed by senior personnel and the Group CEO to ensure that terms are appropriate. The portfolio is managed by the MEL Executive Committee.

Control Committees
- Executive Committee
- New Product Development Committee
- Zotefoams Inc Executive Committee
- MEL Executive Committee

Risk management and principal risks
Continued

Scaling up international operations

Strategy 1 2 3 4 Risk trend

Description and context

What is the risk?
Working more remotely with international operations and engaging with legal environments and cultures less familiar to us increases the risk of not delivering on our growth opportunities or suffering a compliance incident. We must ensure that we hire the right people and manage the span of control challenges.

Material influencing factors

- Our business is growing in Asia and our manufacturing facility in Poland commenced operations in February 2021.
- Until recently, most of Zotefoams' revenue was shipped from the UK. Following our investments in the USA, Europe and Asia, the Group now employs more people, holds more assets and generates a higher proportion of revenues outside the UK. We are hiring people globally at a faster rate than previously, with high expectations of material contributions to the Group's growth strategy.
- Failure to ensure responsible corporate behaviour in these new areas will undermine our reputation in these new regions, could bring substantial financial penalties and affect our growth path. Failure to provide these distant operations with effective financial and IT systems, educate them effectively on all aspects of Zotefoams' culture and ethics and align them on our strategic objectives could impact business performance.
- Critical to any Group's success is its people. The failure to attract, develop or retain the right calibre of staff will impact our ability to deliver. Getting this right from a distance, in cultures less familiar to us, will be challenging.
- COVID-19 has tightly restricted international travel, requiring management and recruitment by distance, making it more challenging to ensure the right people are in the right roles and that behaviours are aligned with those at the corporate centre.

Mitigating actions

Reinforcing high barriers to entry
The Board and Executive Committees have continued to review the Group's corporate culture, its communication and the embedding of controls across the organisation.

Key leaders, under normal circumstances, have travelled frequently to overseas locations to ensure that the right people are in the right roles and that behaviours are aligned with those at the corporate centre. Over the past year, as a result of the travel restrictions imposed by COVID-19, this engagement has taken place via the Group's videoconferencing capabilities.

Hiring and developing overseas leaders
The Group's USA operations, comprising Zotefoams Inc and MuCell Extrusion LLC, have been part of the Group since 2001 and 2008 respectively, have experienced management teams with significant tenure at Zotefoams and well-embedded reporting and control structures and engage in regular and effective communication with senior operational leaders of Zotefoams and the Board. The Zotefoams Inc President is a member of the Executive Committee.

The Group's China subsidiary was formed in 2016, while the India subsidiary was formed in 2019. With the exception of Finance, local management reports directly into the HPP Business President, who has created strong communication and reporting structures. The local finance teams report directly into the Group Financial Controller for independence, clearer leadership and greater assurance around governance.

Building up our global functions
We have invested significantly in human resource over the past few years as we build global functions and hire leaders with international and cross-cultural experience. In January 2020, an HR Executive was recruited as an addition to the Executive team, elevating the importance and representation of the function and charged with managing the challenge of a growing, international workforce.

Poland manufacturing site start-up
We recognise the importance and risks surrounding the operation of a new manufacturing site in a country we are less familiar with. In July 2019, we hired the Poland Plant Manager, in order that he gain experience with Zotefoams' unique technology, become familiar with the key functional support staff in the UK required to support the plant going forward, and understand and adopt the Zotefoams culture as staff are hired in Poland. While cut short by COVID-19, he was still able to spend a significant amount of his first seven months' tenure at the Croydon site. Key players in his leadership team, hired during H2 2019, were also able to spend considerable time in the UK. Since March 2020, project and risk management teams have maintained high levels of engagement, assisted by communication technology, between critical functions and leadership between both locations.

Upgraded IT
We have up-to-date IT systems which standardise information and improve communication and visibility. We implemented Microsoft Teams for effective videoconferencing engagement in Q1 2020 and have continued to roll out and educate the upgrades that Microsoft has introduced throughout the period. The systems are implemented into all new subsidiaries as they are set up. We have introduced a global training tool which provides training, in the local language, plus tracking mechanisms across all our locations on a risk-assessed basis.

Control Committees

- Board
- Audit Committee (in relation to Finance)
- Executive Committee
- HR and Training Steering Committee
- IT Steering Committee
- Zotefoams Inc Internal Control Steering Committee
- MEL Executive Committee

Loss of a key customer

Strategy 1 2 3 4 Risk trend

Description and context

What is the risk?

Group performance could be impacted by the loss, insolvency or divergence of interest with a key customer.

Material influencing factors

- Other than in our footwear business, the Group's largest customers have traditionally been converters of foam, none of whom have represented a material share of the Group's revenue or future opportunities. The Group has successfully grown its footwear business through an exclusive partnership with Nike, which in 2020 represented 26% of Group sales, and projects in the HPP portfolio have the potential to be much larger than with our typical AZOTE® customers. Divergence of interest with Nike represents a material risk if the business is lost, while our growth opportunities in HPP are also likely to reshape this risk profile.
- The Group's capacity expansion programme has completed, built in some cases to service growth from these customers. In an organisation with high operational gearing, filling capacity is critical to strong financial performance.
- COVID-19 threatens the existence of a key customer.

Mitigating actions

We have good knowledge of the end-users of our major customers for polyolefin foams and, with some additional short-term work and a stable macroeconomic environment, would expect to bring or identify additional converter capacity, supply routes and channel partners or take a direct approach to service these markets.

We are excited by the size of the opportunities offered by our ZOTEK® product portfolio and have the risk appetite to pursue them. Where we engage with large HPP customers, we seek to ensure that our interests are protected by balanced commercial contracts and strong relationship management such as with Nike.

The Board is heavily involved in such decisions. These relationships are by their nature longer term, providing a unique technical solution and competitive advantage to the ZOTEK foams customer or end-user. The loss of such a customer is likely to come with a reasonable notice period, allowing us time to take appropriate action. Continued investment in the portfolio could yield further successes that spread the risk of any single loss, while the T-FIT® insulation business provides further balancing with its more broadly spread global customer base.

Existing large HPP customers are blue-chip global organisations, which management considers to have the financial strength or strategic importance to withstand a pandemic.

We will continually review our customer spread and balance, particularly as the HPP business segment takes on more importance.

Control Committees

- Board
- Executive Committee
- Marketing Steering Committee

Risk management and principal risks
Continued

External

Strategy 1 2 3 4 Risk trend

Description and context

What is the risk?
Business growth prospects are vulnerable to movements in foreign exchange rates and geopolitical developments. These factors are often out of our control and may influence our business in a number of ways, including influencing the other key risks listed.

Material influencing factors

- COVID-19 has realised the previously considered low risk likelihood of a pandemic event severely impacting demand, affecting continuity of operations and the health of our staff, and restricting the ability to manage a business and people in different geographic locations.
- Our markets are exposed to general economic and political changes which have an influence on economic stability and market and consumer confidence, which in turn may impact the Group's performance and ability to achieve our strategic objectives. Being at the beginning of the value chain, the Group often sees the impacts of downturns early, accentuated as customers deplete their inventories, but it then benefits from seeing the recovery sooner too. The profit impact on such risk is accentuated by the Group's operational gearing and its demand for skilled employees, given the business's uniqueness, which makes short-term cost cutting often inadvisable. The timing of a downturn in the Group's performance coupled with completion of the capacity enhancement programme, and the resulting debt profile, could place pressure on debt facilities and banking covenants.
- Zotefoams is exposed to foreign exchange fluctuations. This is both transactional and on the translation of foreign currency balances and the consolidation of its foreign subsidiaries. Despite recent investments overseas, our operations remain substantially based in the UK and, therefore, most of our manufacturing assets and costs are sterling denominated. We normally invoice our customers in their local currencies and in 2020 a large proportion of the Group's revenue was in currencies other than sterling, mainly US dollars or euros. We therefore generate surpluses in US dollars and euros, which are converted into sterling.
- A trade deal has been concluded between the UK and the European Union, allowing for tariff-free trade; however, there remains a risk of short-term disagreements which could lead to disruption and tariff penalties or, in the longer term, tariff or non-tariff barriers being enacted. There also remains the risk of increased difficulty in attracting EU talent into our global headquarters in Croydon, UK as a result of the end of free movement of people.

Mitigating actions

COVID-19 response
See "Operational disruption" risk, above.

Diversifying our markets
Some of our markets can be cyclical. However, this risk is spread geographically and across a number of segments that are expected to diversify further with the growth of HPP and MEL. The Group is operationally geared, but our experience is that, during challenging times, certain operational labour costs can be reduced, polymer prices generally fall with reduced economic demand, giving a cost benefit, and cash can be generated from both reducing working capital and slowing capital expenditure projects to help offset the effects of a downturn. Decisions in this regard are, however, taken with respect to our assessment of the underpinning reasons for a downturn, our belief in the likely recovery and an assessment of the impact of short-term cost control on medium-term growth potential.

Managing exposure to the US dollar and euro
We reduce our net foreign exposure for transactional items by making purchases either in US dollars or euros. 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 or US dollars. With our significant capital investment in Kentucky, USA complete, we have reduced exposure for transactional items on the US dollar by increasing the operating cost base in the USA. Raw materials are now purchased locally and a larger workforce supports full process production. While on a smaller scale, at least to begin with, the same will apply for the euro as our Poland manufacturing facility ramps up production.

Currency hedging
The Group has a hedging policy which is approved by the Board. The Group hedges a proportion of its net exposure to transactional risk by using forward exchange contracts. We do not hedge for the translation of our foreign subsidiaries' assets or liabilities in the consolidation of the Group's financial statements. We are, however, increasingly focused on hedging our statement of financial position through matching, where possible, our foreign currency denominated assets with foreign currency denominated liabilities, such as by foreign currency debt financing.

Managing our debt facilities
We maintain close relationships with our supporting banks, meeting with them regularly and updating them on performance and outlook. Our 2018 refinancing and capital raise have given us sufficient liquidity to manage through a downturn, as demonstrated thus far during the current pandemic. With our capacity expansion programme complete and based on our most recent five-year strategic plan, we expect our net debt levels to fall. Our budgets and forecasts going forward include investments in growth opportunities, some of which can be slowed if necessary. We stress-test our possible outcomes and engage with our banks to ensure their continued support under all circumstances.

Control Committees

- Executive Committee
- Marketing Steering Committee
- Foreign Exchange Steering Committee
- Zotefoams Inc Internal Control Steering Committee
- MEL Executive Committee

Viability statement

The viability period

In accordance with provision 30 of the 2018 UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a longer period than the 12 months required by the going concern provision.

The Directors consider the timeline of five years to be appropriate, being the period upon which the Group actively focuses, has reasonable visibility over its opportunity portfolio and, given the nature of capital investment needed to support the Group's anticipated rate of growth, covers investment that in some cases requires long lead times as a result of the unique nature and capital intensity of its technology. A longer period of assessment introduces greater uncertainty since the variability of potential outcomes increases as the period considered extends. A shorter period of assessment impacts the Group's ability to put the right capacity in the right place on time.

Assessing viability

The Group is considered to be viable if it maintains interest cover and net borrowings to EBITDA ratios, as prescribed by its existing financial covenants, and if there is available debt headroom to fund operations.

The Directors' assessment of viability has been made with reference to Zotefoams' current position and prospects, our alignment with global trends, our strategy, the Board's risk appetite and Zotefoams' principal risks and how these are managed, as detailed on pages 36 to 42.

The Board reviews our internal controls and risk management policies as well as our governance structure. It also appraises and approves major financing and investment decisions as well as the Group's performance and prospects as a whole. The Board reviews Zotefoams' strategy and makes significant capital investment decisions over a longer-term time horizon, based on the Group's strategic growth objectives, individual project investment returns, the continuing performance of the business, the quality of its portfolio of opportunities, its financing arrangements and opportunities and a multi-year assessment of return on capital.

The bottom-up five-year plan is reviewed at least twice annually by the Directors. In assessing the future prospects of the Group and achievability of this plan, the Group has considered the potential effect of risks that could have a significant financial impact under severe but plausible scenarios. The risks considered were identified from the Group's principal risks and uncertainties assessment. While testing against each individual scenario, the Board has also considered the impact of a combination of the scenarios over the assessment period. This was in order to stress-test an aggregation of severe but plausible risks occurring that should represent the greatest potential financial impact both in the short-term and longer-term viability period.

The Directors considered mitigating factors that could be employed when reviewing these scenarios and the effectiveness of actions at their disposal. These include experiences and successes related to cost and capital expenditure management during 2020 in the face of the COVID-19 pandemic, adequate insurance coverage, the unwinding of working capital in a downturn and ceasing some activities.

We are satisfied that we have robust mitigating actions in place. We recognise, however, that the long-term viability of the Group could also be impacted by other, as yet unforeseen, risks or that the mitigating actions we have put in place could turn out to be less effective than intended.

Scenarios tested

The following downside scenarios have been evaluated:

Scenario 1:
Pandemic disruption. We applied our experiences of the 2020 pandemic and the cost and cash saving activities we successfully implemented to stress-test for Group revenue levels that breach banking covenants.

Read more Principal risk: Operational disruption page 36; External page 42.

Scenario 2:
Significant operational disruption over a long period. This risk focuses on the extreme scenario of a fire at the Croydon, UK plant requiring a significant rebuild over a period in excess of a year.

Read more Principal risk: Operational disruption page 36; Global capacity management page 38.

Scenario 3:
Business performance risks. These include both Polyolefin Foams and High-Performance Products growth at rates significantly below those included within the five-year plan.

Read more Principal risk: Technology displacement page 39; External page 42.

Scenario 4:
Loss of a key customer in HPP. This scenario reflects losing the footwear business.

Read more Principal risk: Operational disruption page 36; Global capacity management page 38; Loss of a key customer page 41.

Scenario 5:
Sterling returning to 20-year highs of two US dollars to one pound sterling. This scenario evaluates the cash impact on the Group as a result of forecast growth coming increasingly from US-denominated sales. The euro impact is not considered material given the natural hedge of euro sales against raw materials and the operating costs of the Poland plant.

Read more Principal risk: External page 42.

Confirmation of longer-term viability

Based on the assessment explained above, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, over the next five years.

Environmental, social and governance (ESG) report

Zotefoams considers that managing environmental, social and governance (ESG) impacts contributes to long-term value creation, supports resilience, enhances the Group's reputation and helps safeguard the business's future in an evolving climate. This report is a step forward in the Company's ESG reporting and is intended to provide our shareholders and other stakeholders with information about how Zotefoams manages relevant ESG topics. We will continue to focus on material sustainability and ESG metrics and objectives and will provide further information as they are developed.

"I am pleased to introduce our new environmental, social and governance (ESG) report. Zotefoams' purpose of providing optimal material solutions for the benefit of society encompasses our beliefs that plastics, when used appropriately, can be the optimal solution both functionally and environmentally for our customers' needs. We also recognise the importance of continuous improvement around product development and operating efficiency to reduce the Group's environmental impact. This report outlines our ESG governance framework and is intended to support decision-making by our stakeholders"

Steve Good
Non-Executive Chair

Environment

Our priorities

Integrating ESG considerations into a business strategy which inherently relies on the sustainable characteristics of Zotefoams' products.

2020 highlight

Adoption of the SASB framework and public declaration of support for TCFD.

- **Group CEO's review** page 24
- **New principal risk on sustainability and climate change** page 37
- **Our place in a lower-carbon economy** page 12
- **OHSE section** page 49

Zotefoams' ESG roadmap

1. ESG achievements to date

Our growth has created opportunities to make lighter, more efficient, less wasteful, longer-life products. We have the technical expertise to identify ways to reduce customers' carbon footprints or increase material efficiency.

For further details of our products' technical credentials, see pages 6 and 7.

We have set out to improve post-consumer recycling rates of single-use packaging by designing ReZorce® mono-material barrier packaging for full compatibility with HDPE recycling (Stream 2).

The solution is designed to keep material in use and support the principles of a circular economy.

For further details, see page 14.

Zotefoams' main three-stage process uses only pure nitrogen to expand foams and is inherently environmentally friendly. The process affords exceptional product characteristics that contribute to a long service life.

Further details of our manufacturing process are provided on pages 8 and 9.

Zotefoams achieved accreditation to ISO 45001:2018 ahead of the 2021 deadline.

2. Integrating ESG into our strategy – 2020

Zotefoams' sustainability strategy is based on the following principles:

1. We operate in markets where our products offer unique sustainability advantages which benefit society
2. We seek to minimise the use of natural resources through a series of measures such as reducing energy and optimising polymer usage.

2020 initiatives:

- Sustainability strategy approved
- SASB framework implementation planning in place, including completion of gap analysis, identification of owners and task allocation.

SASB – Sustainability Accounting Standards Board

3. Extending ESG considerations into the value chain – 2021

- Development of strategy based on SASB framework requiring adoption of TCFD recommendations.
- Establish an independent ESG committee responsible for longer-term ESG planning and for ESG disclosures to stakeholders.
- Switching to an electricity supplier signed up to the Renewable Energy Guarantees of Origin scheme to achieve 100% renewable sources.

TCFD – Task Force on Climate-Related Financial Disclosures

4. Beyond 2021

- Greenhouse gases mitigation strategy.
- Ongoing identification of risks and opportunities arising from climate change and wider sustainability concerns.

Social

Our priorities

Protecting our workforce and being guided by strong ethical principles that inform our activities.

2020 highlight

COVID-19 measures protected our workforce. Refer to pages 48 and 49 for details of our response to COVID-19.

Governance section page 60
Our people section page 54

Zotefoams ESG roadmap

1. ESG achievements to date

We adopted DART metrics from the US Department of Labor in 2018 as a global benchmark for staff absences resulting from workplace incidents and accidents. Globally, we were better than this benchmark of 2.4 in both 2019 (1.3) and in 2020 (1.6), although we continue to strive for zero workplace accidents.

Policies and internal controls are in place, and are monitored by the Board, on health and safety, modern slavery, ethics, bribery and anti-corruption, anti-fraud and equal opportunities.

www.zotefoams.com/downloads/policy-statements/

Biennial compliance training programmes are delivered globally to relevant staff on modern slavery, anti-bribery and corruption, money laundering and data protection.

2. Integrating ESG into our strategy – 2020

- Implementation and monitoring of COVID-19 safety measures in the workplace and safe working from home practices for relevant employees.
- In support of our Learning Organisation cultural pillar: launch of GO1 training programmes, offering all staff over 76,000 online courses for professional and personal development.
- Review of UK key suppliers compliance requirements to ensure alignment with Zotefoams standards on ethics, modern slavery, anti-fraud and anti-bribery and corruption requirements.
- Improved payment practices to UK suppliers by reducing average settlement period from 50 days to 33 days during 2020.
- In 2020, despite the challenges brought by COVID-19, no employee restructurings or salary sacrifices were implemented. Zotefoams maintained all contractual performance-related pay arrangements throughout 2020 for the general workforce. Executive staff agreed to delayed bonus and LTIP arrangements as detailed on page 47.

3. Extending ESG considerations into the value chain – 2021

- Continue to operate in COVID-19 secure sites and enhance controls by introducing rapid mass testing.
- Implementation of a new performance management system designed to support the development of a diverse workforce in a manufacturing environment.
- Develop an organisational development plan to improve our new product implementation process.
- Deployment of mental health first aiders complemented by extensive mental health awareness training.
- Expansion of safety engagement process with increased training and awareness of hazard identification and hazard controls.

4. Beyond 2021

- Safety culture assessment centered on competency and best practice to ensure safety behaviours are aligned to organisational values.
- Implementation of an incident and observation based software, for environment, health and safety, to provide greater visibility and monitor trends.
- Develop a holistic approach to employee wellbeing by fostering a culture of health which recognises and supports both physical and mental health.
- Ongoing monitoring of Zotefoams' compliance policies and processes affecting human rights.

76,000

online courses for professional and personal development are provided by GO1 training and are now at the disposition of Zotefoams employees

Governance

Our priorities

Managing Zotefoams by embedding robust corporate governance systems and principles in our business, led by a diverse and independent Board and operating under an effective and principled management team.

2020 highlight:

Zotefoams appointed two female directors, increasing diversity on the Board.

Risk management framework page 33
Corporate governance page 62
Audit Committee report page 66
Nomination Committee report page 69
Directors' Remuneration report page 70

Zotefoams ESG roadmap

1. ESG achievements to date

The Group complies with the requirements of the UK Corporate Governance Code 2018 and has due regard to best practice in governance matters.

In particular:

- 71% of the Board is independent, with 29% executive representation, supporting effective stewardship of the Company's assets
- All Board committees are fully independent
- Board and committee members in post at year end attended 100% of all meetings in 2020 (2019: 94%)
- Progression towards greater gender diversity is noted in senior roles
  - 33% of senior hires across the Group in 2020 were female
  - 29% of the Board is female, with Board Committees representation amounting to 45% female overall
- An annual performance evaluation was carried out for the Board and its committees with the support of the Company Secretary in Q4. The results were discussed by the Board and actions agreed for the following year.

The Remuneration Committee sets executive remuneration in light of prevailing conditions and takes into account wider workforce pay and conditions.

Zotefoams gained the Cyber Essentials Plus certification in 2018. The Cyber Essentials Scheme is part of the UK Government's National Cyber Security Strategy, which aims to make the UK a safer place to conduct business online.

2. Integrating ESG into our strategy – 2020

- Zotefoams did not benefit from government funding related to COVID-19, having repaid in August the small amount of furlough money it received.
- The active participation and engagement of Board members was maintained, and even increased during the pandemic, through virtual meetings.
- An updated IT strategy was adopted to support the development of the five-year strategic plan.
- Cyber security training was delivered to 431 employees worldwide.
- Despite the adoption of a new remuneration policy in 2019, the Remuneration Committee reflected on shareholders' concerns and the impact of COVID-19 in 2020 and deferred vesting of LTIP 2017 and executive bonus payments due. In 2020, there was no deferral of any performance-related or other pay to employees other than at executive level.
- A competitive tender process compliant with the FRC Revised Ethical Standard 2019 was carried out, following which a new External Auditor PKF Littlejohn LLP was appointed.

3. Extending ESG considerations into the value chain – 2021

Review the process for assessing the external auditor's effectiveness and independence in accordance with FRC guidance.

4. Beyond 2021

Ongoing succession planning
Make use of new technology to evolve systems of governance in accordance with prevailing best practice.

Consider, when appropriate, setting Group-wide diversity targets.

Environmental, Social and Governance
Continued

Sustainability Accounting Standards Board (SASB)

Having decided to put in place a system to collect standardised ESG data, we considered a number of internationally recognised frameworks. SASB standards and metrics were selected as we consider that they best reflect the presentation and disclosure of sustainability data for our business that is comparable, consistent and financially material. The framework is in the process of being implemented. By the end of 2021, we anticipate being able to report back on metrics identified and targets set against agreed objectives, including carbon emission reduction targets.

Task Force on Climate-Related Financial Disclosures

In June 2017, the Task Force on Climate-related Financial Disclosures (TCFD) published recommendations to encourage businesses to increase disclosure of climate-related information. These recommendations focus on governance, risk management and business strategies to manage climate-related risks and low-carbon opportunities, with an emphasis on financial disclosure and the use of scenario analysis. Zotefoams is already well positioned to support the long-term goal of reducing carbon emissions, with foam products delivering high performance, insulation and reduced weight which offer the potential for carbon emissions reduction in excess of the carbon emissions required to manufacture the product. We are improving our energy intensity and material consumption and adapting our product range to enter new markets where these benefits are clearly understood and valued. Measurement of energy consumption and polymer usage, which generate carbon emissions, are monitored monthly and we have clear actions to improve these as described further in this report.

Zotefoams is committed to testing the resilience of its strategy in 2021 by taking into consideration different climate-related scenarios where such information is material. We will report back on progress on compliance with TCFD recommendations in 2021.

Our response to COVID-19

The COVID-19 pandemic declared in March 2020 has brought significant human, social, economic and business uncertainty. The Board's initial focus was on identifying risks posed to the health and safety of staff within the Group, to the continued efficiency of the Group's global supply chain and to the impact on the Group's customers and then, ultimately, to the demand for Zotefoams' products. Since then, the Board has continued to monitor impacts from the ongoing situation on all business areas and continues to monitor risk through the risk management framework, further details of which may be found on page 33.

Area	Action taken
Health and Safety	▶ From March 2020, put in place working-from-home health and safety practices for those employees able to do so efficiently, in order to mitigate risk to the site-based workforce, and provided necessary home-working equipment where required ▶ Closed and reopened the China facility in line with local guidance, and closed the UK factory over Easter allowing time to identify COVID-19 safety measures required to continue operating safely ▶ Implemented a COVID-19 tracker to capture details of staff self-isolating for any reason (including return from travel, experiencing symptoms, family/household member experiencing symptoms, shielding or a positive test), to risk-assess contact with other staff ▶ Provided 'COVID-19 secure' sites by ensuring compliance with evolving governmental guidelines globally, which included, as a minimum, hygiene stations, social distancing and PPE where appropriate ▶ Restricted non-essential site visits to our sites ▶ Introduced a pre-arrival questionnaire for staff and contractors to assess COVID-19 status and determine safe access to site, together with temperature checking for staff and visitors ▶ Reviewed and risk-assessed staff travel arrangements, significantly restricted business travel and implemented measures to mitigate any risks ▶ Implemented scenario-planning to test the effectiveness of our response process ▶ Trained 11 mental health first aiders in the UK to provide first line support to staff affected by the impact of COVID-19
Financial	**Q1 2020** Given uncertainty and the likelihood of reduced demand levels in the short term, the Board: ▶ Secured agreement with banks to amend the net debt to EBITDA ('leverage') ratio covenant of 3.0x, tested semi-annually on a rolling 12-month basis, to 4.0x for the June test ▶ Suspended the final dividend for 2019, ordinarily payable in May 2020 ▶ Implemented appropriate and targeted cost reduction measures and deferred capital expenditure where feasible ▶ Sought new revenue opportunities **Q2 2020** ▶ Accessed UK Government support (furlough and tax-deferral schemes) ▶ Our products were selected for a number of PPE projects globally, the largest of which was for the UK Government **Q3 2020** ▶ With clearer visibility on the impacts of the pandemic, successful implementation of the cost and capital saving measures and confidence in future prospects, the Board declared an interim dividend for 2020. Immediately prior to this, the Group also repaid the small levels of government support it had secured in Q2 **As at 31 December 2020** ▶ The Board has continually monitored the situation to ensure early detection of any deteriorating trends which would affect the financial stability of the Group. Zotefoams' financial resilience means that the Group is well placed to withstand the economic shocks that COVID-19 might continue to bring. Further details are provided in the viability statement on page 43

Area	Action taken
Suppliers	▶ Worked collaboratively with capital suppliers where restrictions were preventing them from travelling to Zotefoams' Poland site. This included rephasing and remote-commissioning of equipment
Customers	Throughout the pandemic, Zotefoams' approach to customers remained consistent with our strategy: ▶ Responded to customer demand against a background of low customer inventory and limited demand visibility ▶ Offered commercial incentives and technical training to support customers diversifying into new markets ▶ Agreed extended payment terms and some shipment deferrals to customers in the worst affected industries, including aviation ▶ Group Executive and senior management worked closely to support a material customer contract with the UK Government for PPE: — Providing necessary technical information to visor manufacturers plus test houses and NHS direct contacts — Group CEO hosting government representatives and our customer at our UK site to set volume commitment — At our own risk, committing volume production prior to formal agreement with customer to allow high volume manufacture to commence in line with government expectations
Strategy	Reassessed strategy in light of the pandemic, concluding that it remained relevant. Reprioritised certain activities to balance long-term goals with short-term actions such as cost control implemented to manage risk

Occupational health, safety and the environment (OHSE)

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

Protecting the health of those employees who, due to the nature of their work, had to remain on site to perform their duties during COVID-19 was paramount.

Health and safety

Behavioural safety was a significant focus of the Group in 2019 and 2020. COVID-19 reaffirmed the importance of embedding safe behaviour in the workplace through maintaining physical distancing, proactively complying with hygiene measures in place and all staff being cognisant of the symptoms, risks and testing regime applicable to the virus.

Full details of our response to COVID-19 can be found on pages 48 and 49.

A programme of health surveillance in the UK, run by an external provider, resumed in Q4 2020 following suspension during the pandemic and is the subject of case study 1 on page 50.

Over the past few years, we have heightened our focus on health and safety and delivered a marked improvement in performance across the Group. Our chosen metrics allow benchmarking against similar industries and our performance is now better than average in these comparator industries. 2020 focused on strengthening our safety culture through the development of the behavioural aspects of health and safety. This focus will continue in 2021 and beyond. One of our core priorities in 2021 will be to review the risk assessment process around our equipment to ensure that all machinery is engineered in a way that minimises risk of injuries to operators, regardless of levels of skills and experience.

Environmental, Social and Governance
Continued

CASE STUDY 1

Focus on safe behaviour

In 2020, the Managing Director (Europe) and the Health and Safety Manager led over 897 factory floor behavioural safety engagements with the workforce, comprising coaching sessions, safety forums, individual and group training, surveys, safety suggestion boxes, safety drills and intervention on potential risk hazards. As a result, 1,705 safety-based observations were carried out (2019: 930). Improved safety awareness among the workforce has been noted as a result of these initiatives.

CASE STUDY 2

Employees' health surveillance programme

Health surveillance

Employees' health and wellbeing are a cornerstone of Zotefoams' success. Occupational health considers an individual's health, ability and fitness to perform a particular job. Its purpose is to protect each employee to ensure that the proposed work does not in any way impact their health negatively.

In the UK, a programme of health surveillance run by Maitland Medical has been in place since 2018. The programme supports Zotefoams in its compliance with legal and regulatory requirements and provides at-risk employees with medical monitoring and support to ensure that relevant medical conditions are identified and addressed promptly through the appropriate referral to medical specialists.

Employee working in below areas	Potential hazard exposed to	Maitland surveillance
Noisy areas (level of decibel over 85)	Hearing loss	Audio test repeated annually for the first two years. If no issues are detected, frequency switches to every 3 years
Areas in which talc is used	Lung function	Spirometer test repeated annually
Chemical exposure	Skin sensitivity	Skin assessment repeated annually
Forklift drivers	Physical harm to self and others in the vicinity arising from accidents	▶ Audiogram ▶ Blood pressure check ▶ Urinalysis ▶ Height/weight check ▶ Eye sight check ▶ General health questionnaire, medical history check

Achieving accreditations

ISO 9001: Quality Management
ISO 9001:2015 is a highly respected global standard that defines the requirements for a Quality Management System. Compliance with the standard supports Zotefoams' efficiency, provides strong foundations on which to grow, improves customer satisfaction and ensures the business meets and strives to exceed customer expectations.

Certification to ISO 9001 demonstrates Zotefoams' commitment to quality products and services and ensures all applicable regulatory requirements are verifiably met through external audit.

ISO 14001: Environmental Management
ISO 14001:2015 specifies the requirements for an environmental management system that Zotefoams operates to enhance its environmental performance and sustainability and maintain its commitment to the protection of the environment.

As part of this commitment, Zotefoams reviews the aspects of the business which could negatively impact the environment and ensures suitable control measures are in place to mitigate this. Through external audit, certification demonstrates that Zotefoams has a firm grasp of environmental legislation, aims to reduce environmental risk and validates a commitment to continually improving Zotefoams' environmental performance.

ISO 45001: Occupational Health and Safety
The new ISO Standard in Occupational Health and Safety, ISO 45001:2018, aligns with both ISO 9001 and ISO 14001 through an overarching structure. ISO 45001:2018 is an international standard and an evolution from the internationally recognised OHSAS 18001. ISO 45001 supports a proactive, holistic approach to the incorporation of a safety culture at every level of an organisation. It provides a structure to increase safety, reduce workplace risks and enhance health and wellbeing at work.

While the standard requires that OHS risks be addressed and controlled, it also takes a holistic risk-based approach to the OHS management system itself, to ensure that it is effective and is being continually improved. Certification is the endorsement that demonstrates to external parties that compliance to the Standard has been achieved.

Sustainability

In 2020, the Board updated its sustainability strategy centred on the twin principles of i) preferentially operating in markets where Zotefoams' products offer sustainability advantages which benefit society and ii) minimising the use of natural resources through a series of internal measures. The implementation of the strategy in 2021 will take into account the TCFD requirements and aim to align the internal risk management framework described on page 33 with the SASB framework, in order to set and implement clear targets for improvement.

Safety, Health and Environment (SHE)

The Board has in place separate policies relating to Safety, Health and Environment (SHE). The Company is certified to accredited standard ISO 45001:2018 for Health and Safety, following a migration from OHSAS 18001:2007, and ISO 14001:2015, the International Standard for Environmental Management Systems, and is regularly audited by certification bodies to ensure that the Company complies with those standards.

The Board has ultimate responsibility for SHE policy and performance and receives quarterly reports on SHE issues. The Board has set a very low risk appetite for safety, health and environmental matters. Annual performance objectives are agreed by the Board and performance against these is monitored as part of its quarterly reporting programme. RIDDOR reportable lost time accidents are reported immediately and discussed in detail at the Board meeting following any such incident. Additionally, the Board has a detailed review of SHE performance, targets, metrics and approach through monthly updates.

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

On joining the Group, all employees receive induction training on SHE matters, including the Group's OHSE 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, acts or 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 employees to report all incidents, including any near misses, as well as damage to plant or equipment which has not resulted in personal injury. The Group considers the reporting of near misses to be as equally important as actual incidents, since it raises situations to management that could cause, or might have caused, harm. It then ensures appropriate corrective action can be taken to eliminate or minimise the risk. The Group also ensures that appropriate safety practices are included in standard operating procedures to reduce the risk of SHE incidents occurring.

Few controlled substances are used in the manufacture of our foams, but where they are, the Group has established procedures, in which the relevant employees are trained, to ensure that the storage and handling of such substances are safe and in accordance with regulatory requirements. The manufacturing process involves manual handling and processing of materials. When new or altered equipment or materials are introduced, and at regular periods thereafter, the risks to the processes are assessed and improvements made wherever possible, such as to 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 autoclaves are subject to the Pressure Systems Safety Regulations 2000 in the UK and OSHA (Occupational Safety and Health Administration) in the USA. Tightly defined procedures and operational controls are in place to manage the safety of these pressure systems. Fail-safe mechanisms, known as pressure relief valves and bursting discs (which act like fuses in an electrical system), are included in the design of the pressure systems which, when triggered, allow depressurisation of sections of the system and prevent any further risks. Operation of these fail-safe mechanisms releases harmless nitrogen gas into the atmosphere. The air we breathe is composed of 78% nitrogen.

An increase in energy usage in the UK and USA arose from increased output levels in H2 2020, buoyed by the high volumes resulting from the Group's supply of polyolefin foams to a key customer to service its PPE contract with the UK Government, and increased footwear-related output. The USA showed a further increase against 2019 following the installation of a new high-pressure autoclave at the start of the year. The construction of the Poland facility also contributed to the global increase.

All SHE incidents are investigated by appropriate levels of management to ascertain the root cause of the incident and, wherever possible, working practices and procedures are improved to minimise the risk of recurrence. In 2020, there were no prosecutions, fines or enforcement actions taken as a result of non-compliance with SHE legislation (2019: none).

Health and safety performance

The primary metric used to monitor the number of reportable lost time injuries is RIDDOR. In 2020, the number of RIDDOR incidents across the Group remained at 1 (2019: 1).

The Zotefoams Group also uses metrics devised by the United States Department of Labor to measure staff absences resulting from workplace incidents and accidents. This allows comparison with a large, relevant peer group as well as provides an established methodology with which we can benchmark our performance annually. In 2020, there was a slight increase in Days Away From Work (DAFW) and Days Away Restricted Or Transferred (DART). To combat this in 2021, we will continue the programme of increasing risk and hazard awareness, which is also linked to the continuation of expanding the new safety engagement process. In both cases, the metrics are compared with the latest benchmark data for Rubber and Plastics Processors. Good performance against this benchmark was noted in both 2019 and 2020.

Year	**2020**	2019	2018	Industry
RIDDOR	**1**	1	4	n/a
DAFW	**1.3**	1.1	2.3	1.1
DART	**1.6**	1.3	3.1	2.4

SHE: Key metrics

	2020	2019	2018	2017	2016
Group: Reportable lost time injuries	**1**	1	4	6	13
Internally recorded environmental incidents					
Level 1	**0**	0	0	0	0
Level 2	**0**	0	0	0	0
Company metrics					
Energy usage (MWh)	**48,405**	44,570	52,225	49,085	46,912
Energy consumption (kWh/kg)	**9.89***	11.60*	11.03*	11.05	11.76
Group metrics					
Energy usage (MWh)	**62,740**	56,453	63,469	55,354	55,032

* Calculation shown as mix-neutral assessment of energy usage.

Environmental performance

There were no significant environmental incidents during the year (2019: none). Previous years have been analysed against an internal categorisation introduced in 2018, guided by the Environmental reporting guidelines at **https://www.gov.uk/report-an-environmental-incident**

Level 1 – Reported to Environment Agency (e.g. polluting incident)

Level 2 – Reported to local authority (e.g. waste concerns)

Level 3 – Internal report only (e.g. small granule spills)

Environmental, Social and Governance
Continued

In 2020, no incidents were reported at Level 1 or 2, meaning no significant impact to the environment. The Group ensures that all reports are taken seriously and investigated and that the responses given are appropriate to their level of impact or potential impact.

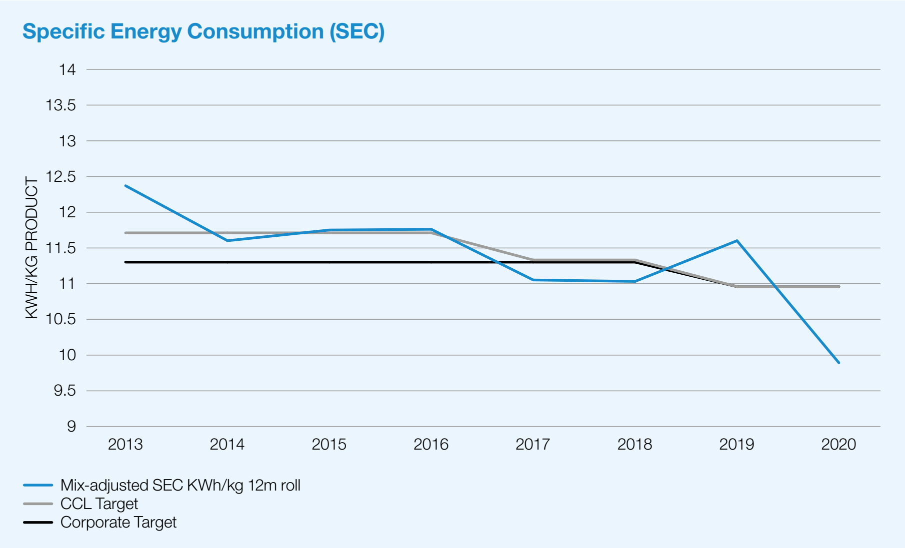
Some 24 internally reported Level 3 reports (2019: 10) relating to waste segregation and spill kit maintenance were recorded in 2020. The reports are captured by daily inspections and actioned as required. The increase in 2020 is due to greater environmental engagement and heightened observation, the result of a focus on improving behavioural awareness. A reduction in oil and granule spills has been noted following control action.

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

The Company measures energy efficiency by taking energy consumption and dividing it by the amount of material (in kg) that passes through high-pressure autoclaves. The increase in production of our HPP foams, which requires more energy than for polyolefin foams, prompted us to update these metrics to be product-mix neutral in 2018. In 2020, our adjusted energy efficiency measure Specific Energy Consumption (SEC) has decreased to 9.89kWh/kg (2019: 11.60kWh/kg), the lowest ever recorded. This value was higher during the first half of the year but significantly reduced due to the high throughput experienced in the second half, along with improvements on specific products (such as foams for footwear) and manufacturing processes.

In 2019, the Company completed its second assessment under the Energy Saving Opportunity Scheme (ESOS) and remains compliant in 2020.

Specific Energy Consumption (SEC) has decreased to 9.89 kWh/kg, the lowest recorded since 2015



The SEC value has been reported in the Annual Report as a mix-adjusted value since 2018 to reflect the growth of footwear and to show the energy efficiency improvements made.

In order to benefit from a CCL exemption, the Company has entered into Climate Change Agreements (CCAs) as set out by the Department for Business, Energy and Industrial Strategy. A CCA is a voluntary scheme setting targets to increase energy efficiency and reduce carbon dioxide (CO_2) emissions. For the plastics sector, the scheme is run by BPF Energy Limited, to which unadjusted SEC figures are reported quarterly. The scheme will run up to 2025.

The mix-adjusted value reported for SEC has significantly improved as we focused on better processing efficiency for new products, including footwear, in our UK facility.

Carbon emissions

Zotefoams' foams are used in applications globally to improve people's lives and reduce energy consumption, primarily through insulation and weight reduction. The processes we employ to create these foams allow us to use less raw material and produce lighter foams than competitive processes, both of which are beneficial for carbon reduction. In making these foams, energy (both gas and electricity) is the main source of carbon emissions from our facilities.

The efficiency with which we use energy to process polymer is measured in our specific energy consumption and our UK site, which processed approximately 80% of Group polymer by tonnage, reduced this energy consumption by over 14.7%. Overall emissions for 2020 were 14,637 metric tonnes (2019: 12,425 tonnes) with the main changes due to increases in the volume of foam produced (estimated increase 1,379 tonnes), a change in product mix with an increase in more energy-intensive foams such as those sold to the footwear segment (estimated increase 1,097 tonnes) and emissions directly related to the construction of our Poland facility (increase 892 tonnes). These specific emissions increases are offset by reductions, in the main related to reduced activity linked to COVID-19, resulting in the overall 2,212 tonne increase.

In 2020, 93.2% (2019: 98.5%) of the Group's carbon emissions arose from our use of electricity and gas, primarily in processing polymer with some use in facility heating and cooling, while 6.1%, 892 tonnes (2019: zero), was in relation to construction of our Poland facility. Direct carbon emissions from other sources were minimal (2.1% of Group emissions) as we do not operate our own fleet of vehicles.

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

Group: carbon emissions (CO_2 tonnes)	2020	2019	2018	2017	2016
Emissions arising directly from our operations (including fuel used in our vehicles)	**997**	190	288	134	136
Indirect emissions – use of energy (electricity and gas)	**13,640**	12,235	14,536*	16,291	16,006
Total	**14,637**	12,425	14,824*	16,425	16,142
Carbon emissions (kg) per material gassed (kg)	**1.6**	1.6	1.7	2.1	2.3

* These figures have been retrospectively amended to show the impact of 93 tonnes of emissions relating to our facility in China, which was not recorded in the 2019 Annual Report.

Water and waste

Usage of water and the amount of waste produced are key environmental metrics. During the year, there were a number of UK and USA site initiatives to improve the efficiency of polymer processes with respect to waste reduction, all of which represented personal objectives for the respective business unit leaders. Our water consumption is metered and again we have specific programmes to improve efficiency and reduce water, including, planned for 2021 during our plant shutdown, a significant overhaul of water systems in our UK facility.

Our water and waste data is kept up to date on our website: **https://www.zotefoams.com/investors/sustainability/**

Our people

We began the year with a plan: to continue developing the skills of our workforce and to acquire key talent in support of expected business growth. As COVID-19 developed, we had to refocus our attention on prioritising the wellbeing of our people and health of our business

Continuing operations to secure the business and the jobs of our people, while ensuring their safety, became the overriding theme of 2020. We made a conscious decision to embed our cultural pillars further into the business through our approach to leadership of our people during the pandemic: caring deeply for everyone's safety, supporting those who were self-isolating or working from home, appreciating their efforts in keeping the business operating and working together collaboratively.

Many of our people plans were postponed to later in the year to allow us to refocus effectively. The launch of the new performance management system for UK-based employees and global learning and development initiatives were deferred into 2021, although much of the foundation planning was completed in 2020.

2020 brought significant challenges. We had to learn, very quickly, to work remotely and engage with our customers from a distance. Communication with our people was key to allay fears and keep motivation high. We focused intense effort on health and safety behaviours and controls to minimise risks of infection on our sites globally. Above all, we leveraged our ability to pivot and change our approach as unpredictable events presented new problems. As a team, we overcame the challenges of H1 2020 and ended H2 2020 with our strongest sales performance ever for a six-month period, a testament to the determination of our people to take on the challenges and hold ourselves accountable for creating success together.

Our people vision

To fulfil our purpose of delivering "optimal material solutions for the benefit of society", we depend on the technical skills and capability of our people. Our vision is to develop and grow our people to be a resilient, international team with the business, technical and market knowledge to deliver these solutions to our customers and achieve our planned future growth in a rapidly changing environment. COVID-19 highlighted the importance of wellbeing and caring for each other. We want our people to share common values, be engaged in our business and genuinely feel they are part of the Zotefoams international family.

Our culture

Our values form the foundation of the way we work collaboratively together; we strive to be reliable, pioneering, responsible and trustworthy. We recognise there is still work to do to embed our culture within the business. We are implementing a manager academy in 2021 to focus on improving the leadership skills of our leaders. Key to our success is engaging our managers to embody our values and set the example for our people to follow; we plan to assess our leaders on cultural behaviours, through our new performance management system, and identify the areas we need to work on to improve.

To continue to embed our values into the fabric of the organisation, we reviewed and updated UK-focused HR policies, procedures, recruitment processes and training and development to ensure they are reflective of our values. Zotefoams' US subsidiaries already included values assessments in their appraisal system. We will review the feedback from this collated data and extend it to all other countries in 2021.

Action has the most potent impact on embedding values into an organisation. This year we committed to reflecting those values in our approach to handling the pandemic for our people and our customers. We held ourselves accountable by taking responsibility for keeping our people safe during the pandemic and introducing strong measures supported by education across all our international sites.

Staff engagement scores were lower on recognition and reward and specific action was taken to address this. In the second half of the year, a UK manufacturing bonus programme was implemented to incentivise and reward employees for meeting quality and production targets required to achieve a very challenging period of business activity. To recognise the selfless commitment of our UK and USA production staff, further initiatives were introduced:

In the UK:

- The Zotefoams Heroes Award granted up to three days' holiday to UK production employees for full attendance during the pandemic.
- A Recognition Award was given to other employees who had made a particularly high contribution in the March to July period, including taking on the work of colleagues who had been required to self-isolate.

In the USA:

- Staff participated in a recognition programme for perfect attendance.

COVID-19

Our most important objective this year was to safeguard our people during the pandemic. To enable the UK and USA businesses to continue production, we adopted a guiding principle of protecting manufacturing staff from an infection outbreak by removing all staff from our sites who could work effectively from home, carrying out detailed risk assessments and implementing stringent controls to ensure their wellbeing. Maintaining cultural cohesion was also key.

COVID-19 management in the UK

At the start of the outbreak, we set up a COVID-19 Committee with representatives from Occupational Health, Safety and Environment (OHSE), HR and Heads of Department. The team met weekly to review safety measures and monitor their implementation. They ensured we followed government guidelines and communicated advice and guidelines for staff and managers. In addition to the safety aspect of COVID-19, the committee also focused on employee wellbeing. We kept in touch with those who were vulnerable and self-isolating for 12 weeks on a regular basis and gave them updates on the Company – these calls were well received since many felt isolated.

To alleviate any staff member's financial concern, we committed to paying short-term self-isolators sick pay at the Company rate of 13 weeks on full pay. This allowed and encouraged staff who had been in contact with COVID-19 to stay at home. Staff classed as vulnerable, requiring to self-isolate for longer than 13 weeks, were paid at 80% of their full pay, which struck a fair balance between those attending work and those remaining at home, and allowed those who were vulnerable to stay safe.

Over the last 12 months, our employee assistance programme, available to all UK employees, offered advice, support and reassurance through a difficult year. The helpline, available to employees 24 hours a day and seven days a week, has offered assistance to employees requiring emotional support and provided access to practical support such as debt management and legal support. Throughout the year, usage of the helpline has been encouraged to support engagement among staff. An online Health Portal and Health e-Hub app also offers a virtual library of wellbeing information, with informative articles and self-help guides providing support on a range of health and advisory issues as well as instant guidance to aid an employee's physical and mental health.

Part of our wellbeing initiative, which commenced roll-out in December 2020, is the training of 11 mental health first aiders to offer support to employees on our UK site.

All staff who could work from home did so, reducing the numbers on our international sites to a minimum. We enabled home working through the Group's up-to-date Microsoft Teams communication software. Managers were requested to regularly check in with their team members.

For further details of our Occupational Health, Safety and Environment (OHSE) COVID-19 response, please refer to page 48.

The new normal

COVID-19 has been a stark reminder of the importance of organisational agility. From March 2020, we knew we would have to work differently to continue operating at optimal levels. We embraced remote and new ways of working, including leveraging inclusive technology to allow us to maintain team cohesion and to support staff working from home. The pandemic has changed the employment landscape dramatically. We are in the course of updating our working from home policy, to be launched H1 2021, with the dual objective of catering for the new normal and offering increased flexibility to create a wider geographic reach and increase our access to key talent. This new flexibility will allow us to recruit the skills and knowledge Zotefoams requires to take the organisation to the next level.

Organisation development

In January 2020, J Breingan joined our Executive leadership team as HR Director, responsible for all HR matters outside North America. A key objective of this role is to develop a cohesive international people strategy and HR support function which will underpin our growth strategy and maintain compliance.

We refocused the roles and capabilities of the HR team to support the growth agenda, dedicated HR support to UK manufacturing to improve their people management and set up an embryonic HR shared services team with a view to establishing more effective support for our international sites. We are developing our expertise in key areas such as performance management, talent recruitment, talent management and learning and development. A full HR strategy was established to underpin our talent growth agenda and have a clear roadmap to achieve it.

For our new factory in Poland, we established the start-up team and developed the HR policies, procedures, compensation strategy and HR systems to enable us to go into full operation in 2021. We also hired many of the operating staff to allow our successful start-up of February 2021. We managed COVID-19 with a similar approach to that taken at the UK site, albeit accounting for Polish legal requirements and recognising the higher share of contractors on site.

Our people
Continued

We pursued our T-FIT® business unit growth plans despite the pandemic; we focused on increasing the capability of our sales team through strategic recruitment to bring new customer acquisition skillsets into our international sales teams. We are building a truly global diverse team to support the business unit growth, especially focused on China, India and the USA. Our China team showed great resilience during the COVID-19 challenge, making considerable progress both operationally and commercially, led by strong local leadership, clear organisation and HR policies that ensure span of control without losing the agility to respond. In India, we are still building the sales entity but successfully navigated the first full year, creating the structure and systems to achieve growth.

International reach

As we have grown beyond the geographical regions of the UK and USA, we have recognised the need to extend our HR service. We began during the year to develop and document international HR policies and HR processes, adapted for country legislation to ensure we have cohesive guidance for management and a fair approach to all of our workforce. Our HR Shared Services team will use these documented procedures to support international sites to reduce the requirement for local administration. We are focusing on ensuring our HR structure, policies and procedures effectively support our international teams and that we develop international collaboration and support across the Zotefoams companies through embedding our shared values and culture in Poland, China and India.

People development

Graduate Scheme

Our Graduate Scheme is designed to develop the future leaders and technical specialists of Zotefoams. It is a two-year scheme, comprising two or three development roles chosen to complement each graduate's expected career path. Graduates undertake a programme of learning and hands-on exposure to all major functions in the business, to build broad business insight and give them the experience that will enable them to progress within the business.

Graduate Scheme

To help with their personal development and provide us with insights into how we might improve the scheme, we invited all members of the Graduate Scheme completing their two-year programme to share with the Executive team their experiences.

Our key learnings were:

- Mapping out placements in more detail and setting out key learning objectives for each one.
- Providing a mentor for graduates to benefit from the experience and knowledge of an experienced member of staff.
- Developing manager guidelines and training managers on how to effectively manage a graduate placement in their department.
- Extending the scheme beyond technical and operations into other functions.

We are implementing these changes in 2021.

Training and development

We introduced an online training library towards the end of the year to broaden our capacity to provide cost-effective learning to our people, widen the breadth of training available and support our development plans for 2021. Called GO1, it benefits our people by providing them with access to online courses, both for work-specific or personal development purposes, either at work or from home, and in a number of languages. We can now deliver cost-effective, tailor-made training via this portal to support our employee development programmes. In the UK, we launched the training portal at the end of 2020, focusing on wellbeing support and remote working skills, and plan to extend it internationally in 2021.

To build the future leadership of the Group, those identified as key talent are studying MBAs or taking other advanced qualifications at a world-class university, supported by Zotefoams. During 2020, we established the plans for our Management Academy, which will focus on developing leadership skills for our people managers. Laying this foundation in 2021 will enable us to grow these leaders.

Performance management

2020 was a difficult year for assessing and managing ever-changing performance objectives. Objectives set at the beginning of the year were cascaded to align individual and corporate objectives at that time. However, they were reset at the half-year in recognition of the significant change in environment. To improve our management of performance appraisal and objective setting, we reviewed systems available and selected a new performance management software system, which we will implement in 2021. The system will produce powerful data on organisational performance against corporate objectives, manage appraisals, assess competence and help us to address skills gaps by identifying learning and development opportunities.

LEAD Operational Business Toolbox

Our LEAD programme, which covers commercial, project management and lean techniques, and is intended to give a broad range of employees the skills to identify and address inefficiencies, as well as enhance cross-functional teamwork through integrated training and projects, was suspended due to COVID-19 but has been reinstated and will continue during 2021. We have 30 LEAD projects in progress, focused on improving our manufacturing and supply chain processes. These projects will conclude in spring 2021.

Following tuition provided by Zotefoams, 28 of our production operators passed the basic English and maths requirements to participate in the programme, supporting our diversity agenda to give those who do not have English as a first language improved communication and analytical skills to progress further in the organisation.

Production skills matrix

Both in the UK and USA we introduced a production skills matrix and assessed our staff against it, with the aim of achieving higher levels of competency and cross-functional flexibility within our operations staff through training and development to fill identified skills gaps.

Diversity

Zotefoams' culture allows and encourages every person to make a unique and positive contribution to the organisation irrespective of their differences. Our vision is a culture where diversity is recognised and respected: cultural differences are embraced, contributions from all groups are encouraged, people are empowered to reach their full potential and differences are celebrated. To achieve this, we are focusing on strategic leadership recruitment and the education and development of our workforce to foster this culture. As a business with global reach, we need a truly inclusive approach to people to be successful. As we grow in different countries, we recognise inclusiveness – feeling part of the Zotefoams team across cultural boundaries is an important part of our people strategy.

Gender

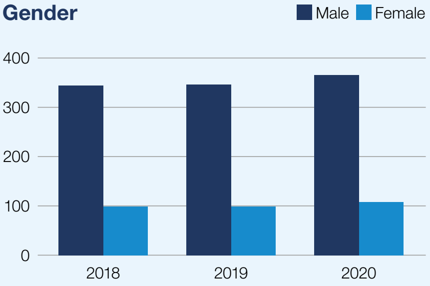
In 2020, we honoured our commitment to gender balance through the appointment of three women at the highest levels of the business. Two highly experienced female Board members, A Fielding and C Wall, were appointed in May and in January the Executive team was strengthened with the appointment of a female HR Director. Around a quarter of the total workforce are female. We recognise that we need a better gender balance at the managerial and professional levels of the business and will use our graduate recruitment and talent pool to develop more women into these levels. Our new working from home policy will allow us to attract a greater number of professional women with young families. In production, the shift patterns and physical nature of the work present a challenge to attracting women into the team. We are researching the possible changes we could make in production to improve our gender balance.

Our Gender Pay Gap report can be accessed at https://gender-pay-gap.service.gov.uk/Employer/nKjZzwd1. The change in pay quarters for men and women is a result of the recruitment of female professionals as part of Zotefoams' commitment to diversity in 2020.

Role by gender

	Female 2020	Male 2020	Female 2019	Male 2019
Non-Executive Director	2	3	1	3
Director	–	2	–	2
Senior management	2	5	1	5
Other staff	106	359	97	336
	110	**369**	**99**	**346**

Gender

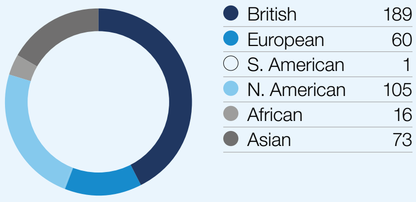


Ethnic diversity

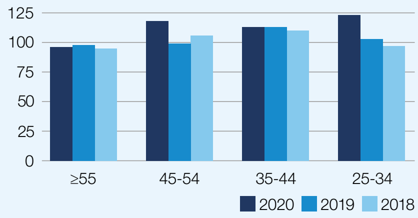
Overall, our international sites reflect the ethnic demographics of the country and region where they are based. Our China and India teams are Asian, in Poland the team are European and the majority of the US team are North American.

There is a greater mix of ethnic groups within our UK professional population, 31% of which are non-white. In the UK production team, there is a strong ethnic mix; 49% are non-white, which matches the demographics of the local Greater London area.

Workforce Cultural Diversity 2020



Age Distribution of Total Workforce



Age

We have a good spread of age groups across the majority of the business. An exception is the UK, where we have an ageing workforce and have planned that our apprenticeship and graduate recruitment schemes will allow us to transfer and grow knowledge from these experienced employees. The US, India, Poland and China businesses have a more balanced distribution of ages across their workforce, as they have been established for a shorter period of time.

Looking forward

For 2021, we have a strong people agenda. An important focus will be employee wellbeing as we continue to work through the COVID-19 pandemic. We will roll out our performance management system in the UK, China, India and Poland, which will help us identify where we need to focus our people development strategies. We will strengthen our international HR capability and develop our learning and development programmes to create strong leadership with the capability to support business growth. We will implement an organisational development plan to improve our new product implementation process. Overall, we are focused on increasing our people's engagement in the business through improved opportunities in recognition, learning and development and leadership training.

s172(1) statement
Our shareholders and stakeholders

Since 1 October 2007, the Board has been required to carry out its statutory duty to act in a way which it considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard to:

- The likely consequences of any decision in the long term
- Its environmental impact
- Key stakeholders (including employees, customers, suppliers and communities) and
- Maintaining a reputation for high standards of business conduct.

The Board has striven to embed these considerations in its decision-making process since the imposition of the duty and made its first report on compliance in the 2019 Annual Report.

Decision-making

The Board delegates day-to-day management and decision-making to its senior management team, but maintains oversight of the Group's performance and reserves to itself specific matters for approval, including significant new business initiatives. It monitors that management is acting in accordance with, and making progress on, the agreed Group strategy through regular Board meetings supported by information packs received in advance to enable effective preparation and consequent discussion, monthly reporting of business performance, direct engagement with the Executive team and attendance by a Board member at the Joint Consultative Committee representing workforce views. Processes are in place to ensure that the Board receives all relevant information to enable it to make well-judged decisions in support of the Group's long-term success.

2020 key events

The Board took key decisions in 2020 against a background of significant human, social, economic and business uncertainty. Retaining the loyalty and motivation of employees, suppliers, customers and local communities was a crucial consideration for the Board, while remaining aware of the need to address both the short- and long-term implications of the pandemic. Our COVID-19 response provided on pages 48 and 49 analyses the impact of the pandemic on our key stakeholders and explains the actions taken to mitigate it.

Having defined our organisational purpose as providing "optimal material solutions for the benefit of society" in 2019, Zotefoams focused on its sustainability proposition in 2020. Given the nature of the business, the Board takes a long-term approach to its decision-making to ensure that the Company is able to deliver its strategy of creating long-term sustainable value for the benefit of all of our stakeholders. As this approach needs to be supported by appropriate metrics and targets, the Board has approved the adoption of the Sustainability Accounting Standards Board (SASB) framework for implementation through the risk management framework in 2021.

Decision	Leveraging our optionality – personal protective equipment
Context	With demand impacted in many industrial markets in the wake of the pandemic, the optionality of the business was fully leveraged through the launch of a new Personal Protective Equipment (PPE) application in H2 2020 for the supply of a UK Government contract through our largest UK customer.
Stakeholders considerations	**Shareholders** The Group maintained its strong financial position in 2020 and reinstated dividends in October 2020. **Employees** Employment for all staff was maintained throughout 2020 and additional temporary workers were hired to support high levels of demand in H2 2020. **Environment** The provision of a reusable material for NHS staff supported Zotefoams' long-standing sustainability agenda. **Community** In a wider sense, the community benefited from a product aimed at protecting their safety and supporting the key work done by frontline medical workers. **Government** The effective cost and cash measures taken by the Group in H1 2020, coupled with a more confident assessment of the Group's financial position and future and supported by an expected record performance in H2 2020, allowed the Group to return the low amounts of government support it had received earlier in the year.
Strategic actions supported by the Board	Development of a visor application for AZOTE® polyolefin foam. Capacity pivot to accommodate PPE order. No employee restructurings or salary sacrifices and an adapted bonus plan to support high levels of operations activity in H2 2020.
Impact of these actions on the long-term success of the Company	The flexibility and resilience of the Company's portfolio helped secure a sizeable polyolefin foam opportunity, which provided confidence in the financial stability of the business and allowed it to recommence operating cost investment in support of future growth.

Decision	Supporting T-FIT® advanced insulation growth through a 5-year investment plan
Context	**Shareholders** The HPP Business Unit accounted for 36% of Group sales in 2020 (2019: 33%). The continued growth of T-FIT® advanced insulation will support future investor returns. **Employees** T-FIT growth will require additional headcount across operations, HR, marketing and sales. Recruitment was initiated in 2020 with the hire of a Global Marketing Manager, increased commercial headcount in China and first recruitments in the USA. The development of T-FIT capability at the Poland plant will also generate new employment opportunities. **Customers** T-FIT advanced insulation products are a range of bacteria-resistant insulation products, purpose-designed to perform in demanding environments. They provide solutions to customers in the food and personal care manufacturing, high-temperature processing and pharmaceutical, biotech and semi-conductor cleanroom environments.
Strategic actions supported by the Board	Approval of 5-year plan at the 2020 strategy day.
Impact of these actions on the long-term success of the Company	T-FIT insulation offers excellent potential over the short to medium term.

Decision	MEL: capturing a major opportunity in mono-material barrier packaging
Context	MuCell® technology offers the potential to reduce the plastic content of an article by around 15% by injecting inert gas to displace plastic with microcellular bubbles. Using this technology, in 2019 the team at MEL developed mono-material barrier packaging capability, which we have branded ReZorce®. ReZorce mono-material barrier packaging offers a readily scalable solution to recyclability, a significant environmental issue in the global consumer packaging market. In 2020, the Board approved ReZorce market assessment, focusing primarily on the aseptic liquid packaging market.
Stakeholders considerations	**Shareholders** The existing revenues generated by the MEL licensing model and the range of markets open to ReZorce mono-material barrier packaging offer significant potential opportunities over the long term. **Employees** The MEL team has been restructured to accommodate ReZorce development. Leaders with market-relevant experience have been hired during 2020 to support realisation of the ReZorce opportunity. **Environment** Our ReZorce product line can be made with significant recycled plastic content and, as it is classified as a mono-material, can be readily recycled to support a circular economy. This puts sustainability at the heart of our MEL development agenda.
Strategic actions supported by the Board	Close collaboration with external consultants and packaging industry experts to support the validation and evaluation of the ReZorce opportunity and strategy. Pivot a substantial portion of the MEL team in 2021 to be almost exclusively dedicated to ReZorce development. Continue to support existing licensees and current projects but accept redirection of most resources to ReZorce at this time.
Impact of these actions on the long-term success of the Company	The MEL business offers excellent potential to maintain and develop value creation over the medium term.

Decision	Developing the sustainability proposition
Context	The world must progress towards net-zero greenhouse gas emissions by 2050. Increasing corporate reporting expectations in sustainability and environmental matters must be met to demonstrate the continuing value of the Group's business model. (See our business model on page 10.)
Stakeholders considerations	**Environment** Zotefoams' products deliver high performance, insulation and reduced weight, which offer the potential for carbon emissions reductions in excess of the carbon emissions required to manufacture the product. **Customers** Our products, when used appropriately, remain the optimal solution both functionally and environmentally for many of our customers' needs. We have the technical expertise to identify ways to reduce our customers' carbon footprints or increase material efficiency. **Employees** A diverse group of employees supported the Board in 2019 in its articulation of Zotefoams' purpose as "optimal material solutions for the benefit of society". As brand ambassadors, employees remain a key stakeholder in the development of our sustainability proposition.
Strategic actions supported by the Board	Update a sustainability strategy centred on the twin principles of i) preferentially operating in markets where Zotefoams' products offer sustainability advantages which benefit society and ii) minimising the use of natural resources through a series of internal measures. Add a new principal risk category: sustainability and climate change. Establish a parallel carbon accounting emissions methodology in 2021 to help us optimise our management of carbon emissions. Contribute to the development of a circular economy by implementing the next phase of development of ReZorce mono-material barrier packaging. Evaluate a number of reporting ESG frameworks with a view to providing investors and other stakeholders with financially material information to support effective decision-making, following which the Sustainability Accounting Standards Board framework was adopted, with planned implementation in 2021. Commit to reporting on the Task Force on Climate-related Financial Disclosures from 2021.
Impact of these actions on the long-term success of the Company	Zotefoams views the transition to a lower carbon economy as an opportunity to demonstrate its competitive advantage through the nature of the existing business and the proactive pursuit of opportunities with outstanding sustainability credentials.

Board of Directors
The right skills to take us forward

Steve Good
Non-Executive Chair
N R

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

Skills
Strong and relevant international experience in the speciality chemicals and plastics industries, manufacturing and diverse industrial markets which enables him to give both guidance and challenge to management. He also has significant plc board experience.

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

External appointments
Non-Executive Director, Chair of the Remuneration Committee and member of the Nomination Committee, Elementis plc. Chair, Chair of the Nomination Committee and member of the Remuneration Committee, Devro plc.

David Stirling
Group CEO

Appointed
September 1997 (Finance Director) and May 2000 (Group CEO)

Skills
Global leadership, strategy and commercial experience, with a specific skillset in intellectual property, business development, finance and manufacturing. He has over 20 years' plc board experience.

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 appointments
None

Gary McGrath
Group CFO

Appointed
December 2015 (Executive Director) and February 2016 (Group CFO)

Skills
Diverse international experience across a range of manufacturing businesses. He has a track record of building world-class finance organisations and delivering commercial finance support and effective control environments to achieve board strategies.

Experience
Gary is a Chartered Accountant, qualifying with Arthur Andersen.

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

External appointments
None

Chair of Committee
A Member of the Audit Committee
R Member of the Remuneration Committee
N Member of the Nomination Committee

Douglas Robertson
Senior Independent Director
A N R

Appointed
August 2017

Skills
Extensive multinational experience in both public and private companies, strategic planning, acquisitions and divestments.

Experience
Doug was Group Finance Director of SIG plc until his retirement in January 2017. Prior to joining SIG, Doug had been Group Finance Director of Umeco plc and Seton House Group Limited, having spent his early career with Williams plc in a variety of senior financial and business roles.

External appointments
Non-Executive Director and Chair of the Audit Committee, member of the Remuneration and Nomination Committees, HSS Hire Group plc. Non-Executive Director, Chair of the Audit Committee, member of the Remuneration and Nomination Committee, Mpac plc.

Jonathan Carling
Non-Executive Director
A N R

Appointed
January 2018

Skills
Extensive engineering, manufacturing, operational and business experience at board level, having led the development and production of a number of luxury cars and aero engines before embarking on his current role in the fusion energy industry.

Experience
Jonathan is the CEO of Tokamak Energy, a technology business developing a faster route to fusion power. He was previously COO, Civil Large Engines at Rolls-Royce plc, COO at Aston Martin Lagonda Limited, and Chief Engineer with Jaguar Land Rover Limited. Jonathan has extensive engineering, operational and business experience. He was also a Non-Executive Director of Aga Rangemaster Group plc between 2011 and 2015.

External appointments
Chief Executive Officer, Tokamak Energy Ltd.

Alison Fielding
Non-Executive Director
A N R

Appointed
May 2020

Skills
Experienced entrepreneur and Non-Executive Director, with significant expertise in strategy development and implementation for start-ups, AIM/main market listed and not-for-profit organisations.

Experience
Alison is a Non-Executive Director and Chair of the Remuneration Committee at Nanoco plc and Maven Income and Growth VCT plc and a Non-Executive Director and Chair of the Audit Committee at Getech plc. Alison spent 13 years with IP Group plc as Chief Technology Officer, Chief Operating Officer and latterly as Director of Strategy and IP Impact and brings extensive investment, strategy development and execution experience in fast-growing, science-based businesses. Alison has a PhD in Organic Chemistry from Glasgow University.

External appointments
Non-Executive Director and Chair of the Remuneration Committee of Nanoco plc, Non-Executive Director and Chair of the Remuneration Committee of Maven Income and Growth VCT plc, Non-Executive Director and Chair of the Audit Committee of Getech plc.

Catherine Wall
Non-Executive Director
A N R

Appointed
May 2020

Skills
Skilled independent Chair and Non-Executive Director for private equity owned, quoted and family companies. Sectors: industrials, business services, consumer.

Experience
Catherine is a Non-Executive Director and Chair of Audit at Mobeus Income and Growth VCT plc. Catherine has 30 years' experience in the private equity industry, primarily with Equistone Partners Europe, where she led numerous management buy-outs and later became UK Portfolio Partner supervising the management of all the business's UK investments. Catherine also has extensive industrial markets and Non-Executive Director experience, working with and helping develop many management teams to deliver ambitious growth plans.

External appointments
Chair of the Audit Committee of Mobeus Income & Growth VCT plc.

Corporate governance
Committed to the highest standards of corporate governance

Dear Shareholder

The Board recognises the importance of being a well-managed business in the interests of our shareholders and stakeholders and is committed to the highest standards of corporate governance.

Corporate governance encompasses overseeing the Group's operations, ensuring compliance with statutory and regulatory obligations and developing an appropriate culture to deliver strong performance within a clearly defined risk appetite, with the objective of protecting the long-term economic viability of the business.

The COVID-19 pandemic has shone a spotlight on the vital role of the Board in supporting management to ensure that crisis response efforts are fully coordinated, while upholding a governance framework which continues to meet the 'business-as-usual' requirements. Management of the pandemic is ongoing and we continue to be vigilant about its ongoing impact.

Further details of our response to COVID-19 are provided on pages 48 to 49.

The Board has dedicated significant time to the Group's sustainability approach in 2020 and acknowledges that climate change is a key issue driving financial risk and opportunity against a background of scientific, macroeconomic and policy uncertainty. The Board has approved the adoption of the Sustainability Accounting Standards Board (SASB) framework for implementation through the risk management framework in 2021. Combined with climate change considerations being afforded due consideration during strategic discussions, this will ensure that the Board has appropriate oversight of the Group's response to climate change.

We are also pleased to publicly support the Task Force on Climate-related Financial Disclosures (TCFD) guidance and will begin to implement its recommendations in our 2021 Annual Report.

The Board has continued to develop Zotefoams' purpose in 2020: "optimal material solutions for the benefit of society". Further details are provided in our ESG report on pages 44 to 53.

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

Updated Articles of Association

The articles were last reviewed and updated in 2010.

The Company proposes to amend and update the existing Articles of Association for the following purposes:

- To provide more flexibility by allowing general meetings to be held partly through electronic facilities (Hybrid General Meetings). The new Articles of Association shall provide that, for general meetings held at a physical venue, simultaneous attendance and participation will be allowed through electronic means. The ability to do this would make participation at general meetings easier for shareholders. For the avoidance of doubt, the amendments being proposed to the Articles of Association do not permit wholly virtual general meetings and the Board of Directors do not intend to hold hybrid general meetings unless the circumstances require it.
- To align the articles to other current best practice requirements.

Full details of the proposed amendments are provided in the notes to the AGM notice on page 139.

Statement of compliance with the 2018 UK Corporate Governance Code

Corporate governance plays an essential part in the long-term success of the Group, and the Board and I are committed to upholding the highest standards of governance in our worldwide operations. Throughout the financial year ended 31 December 2020, the Board has considered the contents and requirements of the Code and confirms that the Group has been compliant with the provisions of the Code.

The Code can be downloaded here https://bit.ly/2AKGqTm.

Further details are provided in this report and in the Board Committee reports that follow on pages 66 to 70.

The disclosures required by Disclosure and Transparency Rules DTR 7.2.6R have been provided in the Directors' report.

Board leadership and effectiveness

In line with the Code, we conducted an internal review of Board effectiveness with the objective of assessing whether the Board's composition, operations and structure remained effective for the Group and its business environment, both in the short and long term.

The review confirmed that the Board and its Committees remained effective and continued to fulfil their remit, that the matters reserved for the Board were up to date and that appropriate Committees' terms of reference were in place.

Further information relating to the evaluation process can be found on pages 63 and 64.

Board and Committee composition

Following the appointment of A Fielding and C Wall on 14 May 2020, the Board now has 29% female membership. The Board members gained their business experience in a broad range of industries resulting in significant collective knowledge of business practices with a high degree of international exposure. The Board also benefits from the broad cultural, educational and professional backgrounds of its members, which collectively include industrial, engineering, energy, technology, intellectual property and financial services. The Board recognises that a significant benefit of diversity is that it counters 'groupthink' by informing debate from a range of perspectives. The structure, diversity and composition of the Board remain under review to ensure that we have the appropriate mix of skills and experience to best serve a dynamic, international company.

Director	Tenure at 31 December 2020
S Good	6 years and 3 months
J Carling	3 years
A Fielding	7 months
G McGrath	5 years and 1 month
D Robertson	3 years and 4 months
D Stirling	23 years and 4 months
C Wall	7 months

Accountability

The Board acknowledges its responsibility to give a fair, balanced and understandable view of the financial position and future prospects of the business. On behalf of the Board, at the recommendation of the Audit Committee, I confirm that we believe that the 2020 Annual Report presents a fair, balanced and understandable assessment of the Group's position, its performance and its prospects, as well as its business model and strategy.

AGM

The AGM provides our shareholders with the opportunity to engage with our Directors. We look forward to receiving shareholders' feedback at the AGM on 26 May 2021.

S P Good
Chair

7 April 2021

The Board and its Committees

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

As part of their role as members of a unitary Board, the Non-Executive Directors constructively challenge and develop proposals on strategy. The 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.

Three principal Committees report into the Board, functioning within defined Terms of Reference. These are the Audit, Remuneration and Nomination Committees. The Terms of Reference for these Committees are available on the Group's website, www.zotefoams.com.

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 November 2020.

Chair and Group CEO

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

The Board considers that S Good has sufficient time to devote to his role as Chair of the Group. S Good is currently a Non-Executive Director of Elementis plc and Chair of Devro plc.

The Group CEO is responsible for the running of the Group's business. He is supported by the Group CFO and the Executive team.

Board balance and independence

The Board currently comprises two Executive Directors, four independent Non-Executive Directors and the Non-Executive Chair. D Robertson was appointed Senior Independent Director at the AGM held on 16 May 2018. The Board considers D Robertson to be independent.

S Good is also Chair of the Nomination 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 Nomination Committees, but others may attend at the invitation of the Committee Chair. During the year, the Chair met with the Non-Executive Directors regularly without the Executive Directors present and the Non-Executive Directors met without the Chair present to carry out a review of the Chair's performance, in line with the principles of the Code.

Appointments to the Board and the Nomination Committee

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

The Nomination Committee report can be found on page 69.

The Board acknowledges the benefits of diversity, including that of gender. When considering appointments to the Board, appointments are made on merit and against objective criteria. Given the size of the Board and the Group, no specific policy or quotas have been set on diversity and, when search consultants are briefed on the search criteria, they are encouraged to cast their search sufficiently broadly to identify the best candidates to ensure that the Board has an appropriate mix of skills, knowledge, experience and background. This approach is mirrored in our wider recruitment strategy, which is having a positive impact on the talent pipeline in what has historically been a male-dominated industry.

More details can be found in Our people on pages 54 to 57.

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 provided in a timely manner to ensure they have due time to consider the information and act accordingly. New appointments to the Board receive an induction and, where appropriate, training. The Directors have access to the Company Secretary and independent professional advisers, at the Group's expense, if required for the furtherance of their duties.

Board evaluation

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

The Board considered the merits of retaining the services of an external facilitator and concluded that, given the Group's size and the Board's needs, this was not appropriate. The matter will be kept under review in 2021.

The 2020 Board evaluation covered all aspects of the Board's structure, composition and operation, Board interactions (external and internal) and business strategy, risks and priorities.

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

	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings	
Attendance at meeting	**Eligible**	**Attended**	**Eligible**	**Attended**	**Eligible**	**Attended**	**Eligible**	**Attended**
A Bromfield	6	4*	2	1*	8	8	2	2
J Carling	14	14	6	6	8	8	3	3
S Good	14	14	–	–	8	8	3	3
G McGrath	14	14	–	–	–	–	–	–
D Robertson	14	14	6	6	8	8	3	3
D Stirling	14	14	–	–	–	–	–	–
A Fielding	8	8	4	4	3	3	3	3
C Wall	8	8	4	4	3	3	3	3

* Absence from Board meetings on the part of A C Bromfield was due to ill health.

The Board and its Committees
Continued

The process involved the following steps:

- completion of a combined qualitative questionnaire for the Board and its Committees,
- a skills matrix and
- individual interviews and a group discussion.

The main observations from the evaluation were:

- Good arrangements were in place for the administration of the Board's business (including the flow and availability of information, the conduct of meetings and interactions with Executive Directors and the Executive team). The significant increase in the number of meetings during the COVID-19 pandemic had benefited engagement and Board effectiveness and had been satisfactorily handled through the use of technology.
- The skills matrix evidenced a strong mix of skills, experience and knowledge.
- The Board's culture enabled each Director to contribute fully and effectively to Board debate.
- Directors had clear sight of the Board's objectives, with a good balance between a short- and long-term focus.
- The quality of chairmanship was highly regarded.
- The response to the COVID-19 pandemic was highly rated, recognising the strength of the Board, Executive team and wider management in dealing with the situation safely and efficiently.

The outcome of the review highlighted that the Board and its committees are effective and well run and that all Directors contribute effectively and provide appropriate commitment to their role.

The Board considers that it is functioning well and that its current composition contains an appropriate balance and diversity of views, qualifications, skills, experience and personal attributes necessary to carry out its duties and responsibilities.

Re-election of Directors
The Code requires Directors to submit for re-election annually at the AGM. The Company implemented this practice in 2012 and will continue to observe it.

Remuneration Committee and executive remuneration
A report on the work of the Remuneration Committee is contained within the Directors' Remuneration report.

The report can be found on pages 70 to 80.

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

The report can be found on page 83.

Audit Committee and Auditor
The Audit Committee report provides details of the role and activities of the Committee and its relationship with the External Auditor.

The report can be found on pages 66 to 68.

Relations with shareholders
Our communication strategy with shareholders is guided by the principle of effective and transparent engagement.

Meetings with institutional shareholders are usually held twice a year following the announcement of the Group's interim and preliminary results, in August and March respectively. Other meetings are held at institutional shareholders' request. In 2020, these meetings were held virtually through video conferencing technology. To ensure that the Board, particularly the Non-Executive Directors, understands the views of the shareholders, the Group's corporate brokers provide summary feedback from the investor meetings, in particular the meetings held following the interim and preliminary results announcements. The Chair and the Senior Independent Director, as well as the other Non-Executive Directors, are available to meet institutional shareholders if requested.

The Board also recognises the importance of engaging with individual shareholders, and the Executive Directors now hold presentations through the Investor Meet Company digital platform at least twice per year. The platform provides individual investors with the same opportunity for two-way engagement as institutional investors through live, interactive presentations, as part of the investor roadshow.

The Annual Report, the AGM and the corporate website www.zotefoams.com also support communication with investors. The Chairs of the Board Committees will normally be available at the AGM to answer questions.

Internal control
The Board has applied the 2018 Code by establishing procedures to manage risk, overseeing the internal control framework, and determining the nature and extent of the principal risks the Group is willing to accept in order to achieve its long-term strategic objectives. The Board regularly reviews the process, which has been in place throughout the year to the date of approval of this report and which is in accordance with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with the 2018 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 and the Internal Control Committee to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied. The Board has also performed a specific assessment for the purpose of this Annual Report. This assessment considered all the significant aspects of internal control arising during the period covered by the report. The assessment also included a robust review of the principal risks facing the Group, including those that would threaten the Group's business model, future performance, solvency and liquidity.

The Audit Committee assists the Board in discharging its review responsibilities.

During the course of its review of the system of internal control and the principal risks facing the Group, the Board had not identified, nor been advised of, any failings or weaknesses it 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.

The Group's risk management framework is detailed on page 33.

Information and communication
The annual budget and quarterly forecast updates are a key part of the planning and performance management process and the Board reviews performance against these. In addition, the Board receives monthly management reports, which highlight financial results, performance against key performance indicators and significant activities and matters of note during the month under review. During 2020, the frequency of Board engagement was intensified to ensure the Board met via video conference at least twice each month, in recognition of the challenge presented by

COVID-19 and the value of timely information sharing and contributions from Board members.

Through these mechanisms, the performance of the Group is regularly monitored, risks are identified in a timely manner, their financial implications assessed, control procedures 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, and reviews by management, Internal Audit and the External Auditor. The effectiveness of these control procedures is tested by the Group's Internal Controls Committee (which is chaired by the Group CEO), the Audit Committee and the Board.

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 not less than 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 Auditor, Internal Audit and management.

Non-financial controls are reviewed regularly by executive management, which reports any issues and corrective actions taken.

Audit Committee report
Overseeing risk management in a volatile environment

Dear Shareholder
The Committee has reviewed the contents of the 2020 Annual Report and Accounts and advised the Board that it considers the Report to be fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Group maintained its financial resilience in 2020 despite challenging conditions. Commercial adaptability and sound cash flow risk management, the primary focus in H1, underpinned operational continuity and enabled the Group to re-engage the pursuit of its growth strategy in H2. Following a long period of significant capital investments by the Group in the UK and internationally, the final capital project, the investment in Poland, was largely completed by the end of 2020 and was commissioned in February 2021. While in line with budget, the timing was delayed to manage H1 cash flow and in reflection of travel restrictions related to COVID-19.

COVID-19
Following the emergence of COVID-19 in Q1 2020, the FCA issued a statement of policy in March 2020 recognising the unprecedented challenges faced by companies and their auditors in preparing audited financial information, and requesting companies to observe a moratorium of at least two weeks on the publication of their preliminary results to allow the opportunity to absorb the implications of the pandemic and give them due consideration in their disclosures. The Company complied with the request and issued a trading statement on 24 March 2020, followed by a full preliminary results announcement on 7 April 2020.

While the Board focused on the risks posed by the pandemic to the health and safety of staff within the Group, the continued efficiency of the Group's global supply chain, the impact on the Group's customers and, ultimately, the demand for Zotefoams' products, the Committee provided constructive challenge to the consideration of internal control mitigation and disclosure implications, with particular emphasis on going concern and ensuring that the control environment remained fit for purpose. Further details of the Group's response to COVID-19 may be found on pages 48 and 49.

Updated IT strategy
An updated IT strategy, structured to align with the Group's operating model, strategic priorities and key risks, was adopted in 2020. In the wake of the pandemic, the Committee had the opportunity to assess the effectiveness of the measures put in place to minimise operational disruption and address cyber risk issues arising from remote working conditions for staff able to do so effectively.

Internal audit
After due consideration, the Committee remains of the view that an outsourced internal audit function is more appropriate and effective than in-house provision at this stage of the Group's development. Having considered the impact of COVID-19 on working practices, and having regard to the importance of purchase-to-pay (P2P) as a key financial control, the Committee engaged Grant Thornton UK LLP ("Grant Thornton") in August 2020 to perform a review of the P2P policies, processes, procedures and controls in place in the UK. Its report was presented to the Audit Committee in December 2020 and due challenge was delivered by the Committee on areas requiring management actions. Following agreement, the actions were approved and are being implemented to an appropriate timetable. The Committee will keep under review and assess the continued independence and effectiveness of internal audit in 2021.

External Auditor
This year, the Company welcomed PKF Littlejohn LLP (PKF), which replaced PricewaterhouseCoopers LLP (PwC) as the External Auditor. PKF's appointment followed a competitive tender process, in which clear selection criteria were used to invite bids from a range of firms. PKF's excellent credentials and proficient use of technology were identified as key attributes in meeting the Company's auditing needs. Under the direction of Audit Partners, M Ling and J Archer and working closely with the Company and its material subsidiaries, PKF has implemented a comprehensive audit transition plan and carried out the audit for the year ended 31 December 2020. A resolution to re-appoint PKF as the Company's External Auditor will be put to the Company's 2021 Annual General Meeting.

The Committee continues to fulfil a key role in the Group's governance framework, providing valuable independent challenge and oversight across the Group's financial reporting and internal control procedures and protecting shareholders' long-term interests.

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its Terms of Reference and has ensured the independence and objectivity of the External Auditor. I am available to answer questions you may have about the work of the Committee. Please contact the Company Secretary in this regard.

D G Robertson
Chair of the Audit Committee

7 April 2021

Summary of the role of the Audit Committee
The main responsibilities of the Audit Committee are:

- To monitor significant financial reporting issues and judgements and the clarity and completeness of disclosures made in connection with the preparation of the Group's and Company's financial statements, assumptions for the going concern and viability statements, interim reports, preliminary announcements and related formal statements, including any matters which the External Auditor may wish to raise
- To review and challenge, where necessary, the application of significant accounting policies and any changes to them; the methods used to account for significant or unusual transactions where different approaches are possible; whether the Group has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the External Auditor's views on the financial statements; the clarity and completeness of disclosures in the financial statements and the context in which statements are made
- To review on behalf of the Board the integrity of the Group's internal financial controls and assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks and make recommendations to the Board
- To keep under review the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems
- To review the Group's systems and controls for the prevention of bribery and receive reports on non-compliance
- To review the adequacy and security of the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters
- To monitor and review the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system
- To review and approve the terms of engagement of the External Auditor, including any engagement letter issued at the start of each external audit and the scope of any audit before it begins
- To assess annually the qualification, skills and resources, effectiveness, objectivity and independence of the External Auditor
- To develop and implement a policy in relation to the provision of non-audit services by the External Auditor and the approval by the Committee of such services, in order to avoid any threat to the External Auditor's objectivity and independence and the impact that such services could have on the audited financial statements, while taking into account any relevant ethical guidance on the matter and
- To report to the Board on how it has discharged its responsibilities, including making recommendations, when necessary, on any actions or improvements required.

The Audit Committee's Terms of Reference, which are available on the Group's website, include all matters indicated by the Disclosure and Transparency Rule 7.1 and the UK Corporate Governance Code. The Terms of Reference are reviewed annually by the Audit Committee to ensure that they remain appropriate and reflect best practice. The Terms of Reference were last reviewed in August 2020.

Composition of the Audit Committee

In line with the Code, the Committee comprises four independent Non-Executive Directors, including the Chair. The Company Chair is not a member of the Audit Committee.

The members of the Audit Committee during 2020 were D Robertson (Chair), A Bromfield (resigned 13 May 2020), J Carling, A Fielding (appointed 14 May 2020) and C Wall (appointed 14 May 2020).

Their biographies can be found on pages 60 and 61.

D Robertson is a Fellow of the Institute of Chartered Accountants of England and Wales and was Group Finance Director of SIG plc until January 2017, having previously held that position at both Umeco plc and Seton House Group Limited. In the opinion of the Board, D Robertson has significant, recent and relevant financial experience to fulfil the requirements of the role. All current members of the Audit Committee have held, or currently hold, board-level positions in manufacturing industries with international reach.

The Audit Committee's membership, as a whole, has competence relevant to the sector in which the Group operates and is able to function effectively with the appropriate degree of challenge.

Meetings

The Audit Committee has a planned calendar, linked to events in the Group's financial calendar. The Audit Committee met six times in 2020.

The Company Secretary acts as secretary to the Audit Committee. The Company Chair, Group CEO, Group CFO, Group Financial Controller and senior representatives of the External and Internal Auditor 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 Auditor is given the opportunity to raise matters without 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 liaises with senior representatives of both the External and Internal Auditors to discuss matters outside the formal Committee meetings.

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

Since the beginning of 2020, the Audit Committee has:

- Reviewed the financial statements in the 2019 Annual Report, including the going concern and viability statements and the stress-testing of the viability statement, and received the External Auditor's report on the audit of the 2019 Annual Report
- Reviewed the Interim Report issued in August 2020 and received the report from the External Auditor on its review of the Interim Report
- Agreed a programme of work for 2020 to be performed by the Internal Auditor and received the Internal Auditor's reports on the work undertaken and management's responses to the recommendations therein
- Undertaken a retender of the External Audit and selected PKF Littlejohn LLP to replace PriceWaterhouseCoopers LLP
- Reviewed and agreed the scope of the audit work to be undertaken by the External Auditor
- Agreed the fees to be paid to the External Auditor for its audit and work on the Annual Report and Interim Report
- Undertaken an evaluation of the independence, objectivity and effectiveness of the External Auditor, including reviewing the amount of non-audit services provided by the External Auditor
- Reviewed and approved an updated policy in relation to the provision of non-audit services by the External Auditor compliant with the FRC Revised Ethical Standard 2019
- Considered the inventory management and working capital position of the Group
- Considered the risks impacting the Group, its customers and the economic environment, relating to Brexit and the Group's preparations to mitigate those risks
- Considered the output from the Group-wide process used to identify, evaluate and mitigate high-level business risks
- Considered the views of both the External and Internal Auditor on the effectiveness of the Group's internal financial controls
- Reviewed and challenged 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, having regard in particular to the impact of COVID-19 in 2020
- Received reports from J Carling in relation to his engagement with the Joint Consultative Committee (JCC), which comprises an employee representative from each department and meets regularly to consider a wide range of matters affecting the employees' current and future interests
- Reviewed the Group's policies on ethics, anti-bribery, corruption and fraud
- Satisfied itself that the requirements of the Regulations made under section 3 of the Small Business, Enterprise and Employment Act 2015 relating to payment practices reporting had been met, with a focus on improved payment terms for suppliers in 2020
- Considered the provisions of the 2018 UK Corporate Governance Code and the FRC Guidance on Audit Committees and
- Reviewed its own effectiveness by conducting a confidential evaluation through an online portal, the anonymised outcome of which was discussed by the Board. It was agreed that the Committee remained effective, had fulfilled its remit and had in place appropriate Terms of Reference.

Financial reporting and significant financial issues

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

A primary area of focus in the 2019 Annual Report, considered by the Audit Committee in 2020, was the going concern assumption and viability statement, elevated in significance due to the rapidly escalating COVID-19 outbreak across the world at the time, creating unprecedented uncertainty. In addition to the normal reviews of the Group's cash flow forecasts, consideration of strategic initiatives and sensitivity analysis based on reasonably possible changes in trading performance, the Committee also reviewed a severe but plausible downside scenario produced by management as a consequence of the pandemic and the mitigating actions identified. Under this severe but plausible downside scenario, while there was sufficient liquidity in the business for at least 12 months from the date of approval of these financial statements, there was the potential for a breach of the leverage covenant during the test period. The Audit Committee concluded from the scenario that there was a material uncertainty which might cast significant doubt over the Group's and Company's ability to continue as a going concern without further mitigating actions. However, the Committee was aware that lenders to the Group had expressed a strong commitment to support the business through this difficult period and government measures were also being implemented to support businesses economically through the downturn. This reinforced the Committee's view that the going concern principle remained appropriate in preparing the financial statements.

The subsequent performance of the Group, successful implementation of activities to manage this risk and covenant compliance confirm the Committee's view made at the time.

Another area of significant focus in the 2019 Annual Report, considered by the Audit Committee in 2020, was revenue recognition under IFRS15 in respect of a licence sold to customers of MEL. The Committee and the External Auditor considered whether revenue should be recognised as a right to access or a right to use the technology, and concluded it was the latter as the customer was able to directly use and obtain substantially all of the benefits from the licence on day one of the contract and there were few, if any, continuing performance obligations on MEL.

Audit Committee report
Continued

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

The Group is by virtue of the FRC Revised Ethical Standard 2019 subject to the requirement to put the audit to tender every ten years. A tender process for the external audit for the Group was undertaken in 2020, following which PKF Littlejohn LLP (PKF) was selected as the External Auditor. The Audit Committee intends to monitor PKF's performance and determine the most appropriate time to carry out a new tender process in due course, which will be, at the latest, in 2030. Any future tender will be carried out in line with the prevailing best practice. The 2020 Audit was PKF's first annual audit for the Group and was led by two Audit Partners, M Ling and J Archer.

The Committee confirms that there were no contractual obligations that acted to restrict the Committee's choice of External Auditor and that the agreement with PKF will not restrict the shareholders' choice of auditor in future general meetings.

Effectiveness of the External Auditor
The Audit Committee assesses the effectiveness of the external audit process in a number of ways. At least annually, the External Auditor presents a report, which includes an assessment and confirmation of its independence, as well as the activities that the External Auditor is 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 Auditor in relation to its fulfilment of the agreed audit plan, the robustness and perceptiveness of the External Auditor in handling key accounting and audit judgements and the thoroughness of the External Auditor's review of internal financial controls. As part of this assessment, management's opinions on the External Auditor are also considered.

In November 2020, the Audit Committee updated the policy in relation to the provision of non-audit services provided by the External Auditor. The policy requires that no non-audit services will be provided by the External Auditor without the prior approval of the Audit Committee, which will only be granted in compliance with the FRC Revised Ethical Standard 2019. Other than the review of the Group's Interim Report, PwC, as External Auditor in post at that time, did not provide any non-audit services in 2020. PKF, the External Auditor appointed by the Board on 6 October 2020, did not provide any non-audit services in 2020.

The Audit Committee, having conducted its review of the External Auditor, concluded that the External Auditor has performed in a satisfactory manner and continues to be objective and independent and, therefore, has recommended to the Board that a resolution be put to the shareholders at the 2021 AGM to re-appoint PKF as the External Auditor.

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 Auditor. Following a tender process in 2015, Grant Thornton UK LLP has continued to be used to provide internal audit services in 2020. 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 not undertaken any other work for the Group and, therefore, the Audit Committee considers it to be independent and objective in its judgement. The External Auditor is aware of the internal audit outsourcing arrangements and fully supports them.

Nomination Committee report
Cultivating agility

Dear Shareholder

I am pleased to present my report on the activities of the Nomination Committee in 2020.

Following the departure of A Bromfield on 13 May 2020, the Board was refreshed and strengthened by the appointment of two experienced Non-Executive Directors, A Fielding and C Wall, who brought a wealth of business experience aligned to the Group's strategy. A comprehensive induction programme was deployed to equip them with the tools required to understand the strategy, culture, risks and uncertainties of the Group. The potential disruption to onboarding that might have arisen from the social distancing measures implemented by the Group, in line with government directives, has been successfully mitigated for the most part by the effective use of modern technology at Zotefoams, ensuring strong communication, engagement and information sharing.

The Committee met the challenges of 2020 through a focus on optimising the breadth of the Board's skills, knowledge and experience, while continuing to consider talent development in a rapidly evolving external context.

Careful succession planning for the Board and the Executive Leadership team and a rigorous assessment of the Board and its Committees remain key to the long-term success of the Group. The Board's annual evaluation process in 2020 incorporated a skills matrix mapping the existing skillsets against those required to deliver the strategy. This demonstrated that the Board collectively continued to provide an appropriate balance of skills, knowledge and experience to ensure there was robust and effective challenge and stewardship of the Group's purpose and strategy. Further development opportunities are planned in 2021 to expand Directors' knowledge. Full details of the Board's annual evaluation process are provided in the corporate governance section on page 63.

Key position succession plans are in place for Executive roles and their direct reports. The Group continues to develop a pipeline of employees demonstrating high potential through a talent pool initiative. Further details are provided in our people section on page 54.

The principle of diversity is strongly supported and recognised by the Board and has clear linkages to the Group's ambitious growth strategy, which relies on a diverse workforce, spread across many geographies. It is the Board's policy that appointments to the Board will always be based on merit. The Board currently has not imposed a diversity quota. The gender balance of those in the Executive Leadership team and senior management are detailed on page 57.

The appointment of a Human Resources (HR) Director in January 2020 elevated the voice of this function to Executive Committee level and has supported the development and implementation of a more ambitious HR strategy, which has at its core growing people capability and supporting diversity and inclusion. The HR Director provides the Executive Committee with monthly updates and leads the quarterly HR risk steering committee that focuses on the mitigation of risks and optimisation of opportunities which might impact the Group's achievement of its business objectives. This person also reports to the Board at least twice a year with an update on progress in diversity, employee engagement and recruitment.

The Committee is satisfied that the separation of Executive and Non-Executive roles at the head of the Group has been maintained, with the Company Chair being responsible for leading the Board and the Group CEO being responsible for the executive leadership of the business.

Further details are provided in the Board and its Committees section on pages 63 to 65.

The Committee will continue to focus on succession planning and talent development in 2021.

S P Good
Chair of the Nomination Committee

7 April 2021

Key areas of focus

The Nomination Committee currently comprises the Chair and the four independent Non-Executive Directors.

The Nomination Committee operates within defined Terms of Reference and is responsible for putting in place succession plans for the Board, reviewing the continuation in office of the Directors and managing the recruitment of new Board members within criteria set by the Board. The Committee met three times in 2020. The Committee is supported by the Company Secretary in planning its activities, monitoring best practice and meeting its Terms of Reference.

The main responsibilities of the Committee are to:

- Evaluate and review the structure, size and composition of the Board, including the balance of skills, knowledge, experience and diversity of the Board, taking into account the Group's risk profile and strategy
- Identify and nominate suitable candidates for appointment to the Board, including Chair of the Board and its Committees, against a specification of the role and capabilities required for the position
- Lead on the annual performance evaluation of the Board and its Committees
- Identify and manage any potential conflicts of Directors' interests
- Review the external interests and time commitments of the Directors to ensure that each has sufficient time to effectively discharge his/her duties
- Manage succession planning for the Executive Leadership team and Non-Executive Directors and
- Seek engagement with shareholders on significant matters related to the Committee's areas of responsibility when appropriate to do so.

During 2020, the Committee:

- Reviewed and updated its Terms of Reference in line with current best practice
- Reviewed the composition of the Board and its Committees and assessed whether the Board required additional skills and/or experience which would complement those of the existing members having regard to the Group's risk profile and strategy
- Reviewed the performance and ability of J Carling and D Robertson to continue to contribute to the Board in light of the knowledge, skills and experience required and recommended to the Board that they be re-appointed for a three-year term subject to annual re-election by shareholders at the Company's 2020 AGM
- Discussed extensively the merits, strengths and weaknesses of the candidates shortlisted by Warren Partners, an independent executive search agency, for two Non-Executive Directors' roles and made a unanimous recommendation to the Board to appoint A Fielding and C Wall
- Considered and recommended to the Board the election/re-election of each Director ahead of their election/re-election by shareholders at the Company's 2020 AGM
- Continued to review succession and development plans for the Executive Leadership team and wider senior management team to ensure that a suitable talent pool remained in place and continued to be nurtured to meet the Group's strategic objectives
- Ensured that at least annually the Non-Executive Directors met without the Executive Directors present.

Directors' Remuneration report

While 2020 has been a challenging year, we are committed to shaping the reward structure for executive management to ensure it drives value for all stakeholders

Dear Shareholder

I am pleased to present the Remuneration report for the year ended 31 December 2020.

Introduction

This is my first report as Chair of the Remuneration Committee, after taking over from A Bromfield in May 2020.

Despite 2020 being an extremely challenging year due to the COVID-19 pandemic, Zotefoams demonstrated its resilience and flexibility and continued to make good strategic progress. Against a difficult global economic backdrop, Zotefoams' Executive team have ensured that the business remained well-managed and continued to deliver on the Group's strategy. Our recently opened facility in Poland completes our current investment programme and our short-term priority is growing sales to increase asset utilisation. In the medium term, improving our product mix to a higher proportion of ZOTEK® HPP foams and T-FIT® insulation products is expected to drive improved profitability.

In 2020, the Group achieved a Group revenue of £82.7m, up 2% on 2019, and profit before tax and exceptional item of £8.3m, down 5% on 2019. The Group's share price in the first quarter of 2021 was at a similar level to the price in the first quarter of 2020, prior to the date when the impact of COVID-19 precipitated a sharp decline in the market, and, as at the date of this report, has increased by over 283% since the lowest point in April 2020.

Impact of COVID-19 on implementation of Remuneration Policy in 2020

Management responded to the uncertainties arising from COVID-19 by prioritising staff welfare, managing costs and conserving cash to protect the business. Operational continuity was maintained throughout the year, supported by a resilient supply chain with focus on high levels of customer service and new opportunities, such as the supply of polyolefin foam to our largest UK customer in its delivery of a UK Government PPE contract.

Reflecting on the remuneration context, the Committee has been very mindful of balancing the need to attract, motivate and retain our Executive Directors and Executive team to ensure progress against our long-term goals with the interests of all stakeholders, including shareholders and employees.

In making its decisions on remuneration, the Committee has taken into account the experience of our wider stakeholders, shareholders and employees. Towards the start of the year, precautionary measures were taken to safeguard the business in light of heightened market uncertainty. As demand declined in many of our main markets, the Group prioritised maintaining cash flow and preserving cash balances. The Board also considered it prudent not to pay the 2019 final dividend, ordinarily payable in May 2020. However, as the ongoing impact of the pandemic and our responses to mitigate it became clearer, a more confident assessment of the Group's financial position and future was taken and resulted in the payment of an interim 2020 dividend. There was also no additional equity issued, no employee restructurings or salary sacrifices and the small amount of government support the Company received was fully repaid.

Long-term Incentive Plan (LTIP) 2020

The 2020 LTIP awards were deferred until after the publication of the interim results, to ensure that targets and levels of award could be set appropriately in the context of a rapidly evolving external environment. In determining the targets for the 2020 LTIP, the Remuneration Committee took into account a number of factors, including:

- Historical target ranges set for previous long-term incentive awards
- The initial targets that were being considered prior to the impact of COVID-19 on the business, which severely impacted the first six months and altered the likely shape of growth over the coming years
- The three-year business plan for the Group, extracted from the five-year strategic review approved by the Board
- The desire of the Remuneration Committee to set targets that balance the delivery of superior returns for our shareholders with being able to attract, retain and motivate the talent required to deliver this level of return.

Reflecting on the above, and following extensive debate by the Remuneration Committee, it was agreed that targets for the 2020 LTIP award would be as follows:

Metric	Weighting	Threshold target	Maximum target
Earnings Per Share	50%	5% p.a.	15% p.a.
Return on Capital Employed	20%	11%	12.5%
Relative Total Shareholder return[1]	30%	Median	Upper quartile

1 Relative to the FTSE Small Cap Index excluding investment trusts.

Reflecting on the targets set, and share price performance over 2019 and early 2020, including the impact of the trading announcement in October 2019 and the impact of COVID-19, the Committee reduced award levels by 17% from 150% to 125% of salary for both the Group CEO and Group CFO.

During September 2020, the Committee consulted with investors, who were supportive of the proposed changes to reflect the more challenging and uncertain environment.

2020 incentive outcomes

Annual bonus

In light of the performance delivered in 2020, the Committee determined that 28.0% and 38.0% of the maximum bonus should be paid to the Group CEO and Group CFO respectively. A detailed description of performance against the targets is set out on pages 74 and 75.

Long Term Incentive Plan: 2018 outcome

With regard to longer-term performance, the Group achieved EPS before exceptional item of 14.87p in 2020 and a relative TSR performance between median and upper quartile of the FTSE SmallCap Index (excluding investment trusts) over the three-year performance period. In line with performance delivered, 23.49% (solely on the TSR metric) of the 2018 LTIP award will therefore vest, in equal tranches on the third, fourth and fifth anniversaries of grant.

The Committee took into account the underlying financial performance of the Group when considering the out-turns against the annual bonus and the LTIP and determined that the formulaic outcome was an appropriate reflection of the performance delivered. It has, therefore, not exercised discretion in relation to incentive outcomes during the year.

Implementation of the Policy in 2021 and looking forward

Base salary

As many shareholders will recall, within the 2018 Directors' Remuneration report the Committee set out a phased approach to increasing the Executive Directors' base salaries, over a two-year period, to £323,000 for D Stirling and to £215,000 for G McGrath, with effect from 1 April 2020. This approach was supported by 99.9% of shareholders at the 2019 AGM.

The Committee postponed the implementation of the second phase of the increase, in light of the trading announcement on 3 October 2019. At the time, the Remuneration Committee Chair noted that it was important that shareholders understood that the decision was to postpone the second increase rather than cancel it, as the Committee felt that it was important that the significant discount to the market on base salaries for the Executive Directors be removed to avoid unnecessary risk to the execution of our strategy and the delivery of the major investment programmes which underpin it.

Reflecting on the performance delivered by the Executive Directors in this particularly challenging year (as highlighted above), the Committee considers it appropriate to proceed with the second phase of the increase. Base salaries will therefore increase in line with the original proposal, together with an inflationary adjustment in line with the anticipated base salary increases for the wider workforce for 2021. The base salaries will therefore increase to £331,075 for D Stirling and £220,375 for G McGrath, effective from April 2021.

Pension

In addition to the above, the Committee has reviewed D Stirling's employer's pension contributions in light of the 2018 Corporate Governance Code and developing shareholder expectations around the alignment of Executive Director pension contributions with those provided to the majority of the wider workforce.

As previously disclosed, following the closure of the Defined Benefit Pension Scheme in 2005, D Stirling was entitled to a pension contribution of 15.75% of salary, increasing by 3% every five years (with the next increase due to take effect from January 2021). This gradual increase in the pension contribution was in line with the approach agreed with all other employees in the plan. There are currently 36 active members in the scheme, with employers' contributions ranging from 14% to 20.5%.

Having considered his position, D Stirling has waived his entitlement to the periodic 3% increase and has accepted a reduction in his pension contribution to 15% of pensionable salary for 2021. This decision will be reviewed annually. Further consideration will be given to D Stirling's pension going forward.

During the course of 2021, the Committee intends to review the pension contribution rate for the wider workforce, which currently stands at 5% for the majority of UK employees.

During February 2021, the Committee consulted with shareholders on the proposed changes to base salaries and pension, who were supportive of the changes.

Incentive awards

Incentive award levels for the Executive Directors will be set in line with the Remuneration Policy.

With regard to the LTIP, the Committee considered the performance targets for the EPS and ROCE elements of the award, reflecting on the internal business plan, the impact of the recent planned capacity increases, external forecasts of performance and market uncertainties as a result of COVID-19. Details of the proposed targets are set out on page 72.

For ease of reference, a short summary of how the Remuneration Policy will be implemented in 2021 is included on page 72.

In line with the three-yearly cycle, the current Remuneration Policy is due to come to the end of cycle at the 2023 AGM, when a new Policy will be put to a vote. The Committee will review the Policy next year and ensure it remains fit for purpose.

The Committee and I would like to thank you for your continued engagement over the last year and look forward to receiving your support in respect of the Directors' Remuneration report at the AGM.

In the meantime, I am available to answer any questions you may have. Please contact the Company Secretary.

A M Fielding
Chair of the Remuneration Committee

7 April 2021

Directors' Remuneration report
Continued

Directors' Remuneration report

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

Directors' Remuneration Policy and Implementation in 2021

The current Directors' Remuneration Policy (the "Remuneration Policy") was approved at the 2020 AGM held on 8 June 2020 and is intended to remain in place until the AGM that will be held in 2023. A summary of the Remuneration Policy and how it will be implemented in 2021 has been set out below.

The full version may be found on pages 58 to 63 of the 2019 Annual Report. A copy of the 2019 Annual Report may be found by following this link: https://www.zotefoams.com/investors/annual-interim-reports/?category=2019

Element and purpose/ link to strategy	Implementation for 2021
Salary Positioned at a level needed to recruit and retain Executive Directors of the calibre required to develop and deliver the business strategy.	As set out in detail in the Remuneration Committee Chair's cover letter, base salaries will be increased as follows from 1 April 2021: D Stirling – £331,075 G McGrath – £220,375
Benefits Provide market-competitive benefits for the Executive Directors, to assist in carrying out their duties effectively.	Benefits to be provided in line with approved policy.
Retirement benefits Provide competitive post-retirement benefits and reward sustained contribution.	D Stirling – 15%[1] of salary G McGrath – 5% of salary 1 Following the closure of the Defined Benefit Pension Scheme (the "DB Scheme"), there was a commitment to increase the level of contribution to the replacement Defined Contribution Pension Scheme (the "DC Scheme") for the members of that scheme (which includes D Stirling) by 3% of pensionable salary every five years. The most recent increase was applicable from 1 January 2016. D Stirling has contractually waived his entitlement to a 3% increase from 1 January 2021 on an existing contribution level of 15.75% and has agreed to a reduction in the contribution level to 15% for 2021.

Annual bonus
Incentivise Executive Directors to achieve specific financial and predetermined strategic goals aligned with the Group's annual business plan.

Deferred proportion of annual variable pay provides a retention element and alignment with shareholders.

Maximum opportunity – 75% of salary.

25% of the bonus is deferred into shares in the Company for three years under the deferred bonus share plan.

For 2021, the bonus will be assessed against the following measures for both Executive Directors:

Measure	Weighting – D Stirling	Weighting – G McGrath
Profit before tax	60	60
Free cash flow delivery	15	20
Strategic financial	15	15
Safety	5	5
Sustainability	5	–

The underlying performance targets for these measures have not been disclosed in advance as they are considered to be commercially sensitive. Underlying targets will be provided, where appropriate, in next year's Directors' Remuneration report.

Long-Term Incentive Plan
To incentivise the delivery of long-term sustainable operational performance and the growth potential of the Group.

To align interests of Executive Directors and shareholders.

To attract and retain executives of the calibre required to drive the Group's long-term strategic ambitions.

Maximum opportunity – up to 150% of salary.

Awards granted subject to a three-year performance period and a subsequent two-year holding period such that no shares will normally be released until the end of year five.

Awards will be subject to three performance conditions:

Measure	Weighting	Threshold (20% vesting)[1]	Maximum (100% vesting)[1]
Adjusted EPS growth[3]	50%	5%	15%
Average Return on Capital Employed	20%	8%	10%
Relative Total Shareholder Return[2]	30%	Median	Upper quartile

1 Straight-line vesting occurs between threshold and maximum.
2 Relative to the FTSE Small Cap Index excluding investment trusts
3 Given the tax rebate to the Group in 2020 (as set out on page 30), which has resulted in a lower effective tax rate than normal, the base year EPS will be set based on a normalised tax rate of 19%. Performance will be assessed assuming a constant tax rate.

Element and purpose/ link to strategy	Implementation for 2021
Non-Executive Director fees	In light of the impact of COVID-19, fee increases for the Non-Executive Directors (including the Company Chair) were suspended in 2020. The Non-Executive Directors (including the Chair) will receive a fee increase of 2.3% effective 1 April 2021, in line with the general salary increase that was given to the Company's staff in the UK in 2019, as no general salary increase was awarded to the Company's staff in 2020 due to the uncertainty caused by COVID-19.
Shareholding requirement and post cessation shareholding policy Aligns the interests of Executive Directors and shareholders.	Executive Directors are required to hold shares in the Company equivalent to 200% of base salary. Executive Directors are expected to retain their full shareholding requirement for one year post cessation of employment and 50% in the second year after leaving.

The Committee considers that the remuneration framework in place at the Group appropriately addresses the following principles set out in the 2018 UK Corporate Governance Code:

Clarity	Incentive arrangements are based on clearly defined financial, non-financial and personal performance objectives which are aligned with the Group's long-term strategy. Incentive payments operate throughout the Group (with participation in the LTIP based on seniority) to ensure that there is alignment on key priorities throughout the Group.
Simplicity	Remuneration arrangements are simple, comprising the following key elements: ▶ Fixed pay: comprises base salary, benefits and pension. ▶ Annual bonus: bonus which incentivises the delivery of financial, non-financial and personal performance objectives. ▶ LTIP: which incentivises financial performance over a three-year period, promoting long-term sustainable value creation for shareholders. Awards are subject to a two-year holding period post vesting.
Risk	Performance targets for incentive plans are designed to reward outperformance, while at the same time being calibrated to ensure that they do not encourage excessive risk taking by the Executive Directors. The Remuneration Committee retains the flexibility to review formulaic outcomes under incentive plans to ensure that they are appropriate in the context of the overall performance of the Group.
Predictability	The Remuneration Policy sets out the threshold targets and maximum level of pay that the Executive Directors may earn in any given year. The actual incentive outcomes would vary depending upon the level of performance against pre-determined performance measures.
Proportionality	The Committee is satisfied that the remuneration framework does not reward poor performance. Incentives are directly aligned to the Group's strategic objectives, with performance targets calibrated to reward outperformance both over the short and long term. Furthermore, the Committee retains the discretion to adjust formulaic outcomes under the incentive plans in the event that it determines that the outcomes do not align with individual or Company performance. The Committee also takes account of the pay and conditions for the wider workforce when considering executive remuneration.
Alignment with culture	The Remuneration Policy has been set in the context of the nature, size and complexity of the Group. It has been designed to support the delivery of the Group's key strategic priorities and is in the best interests of the Group and its stakeholders.

Single total figure of remuneration (audited)

The following tables set out the single figure for total remuneration for Directors for the 2020 and 2019 financial years.

Executive Directors

	Salary (£)	Benefits (£)	Bonus[1] (£)	LTIP[2] (£)	CSOP (£)	Pension (£)	Total fixed pay (£)	Total variable pay (£)	Total (£)
D Stirling									
2020	**303,000**	**14,642**	**63,630**	**65,226**	**nil**	**47,722**	**365,364**	**128,856**	**494,220**
2019	290,500	13,057	84,272	204,128	nil	45,516	349,073	288,400	637,473
G McGrath									
2020	**200,500**	**12,754**	**57,143**	**43,955**	**nil**	**21,434**	**234,688**	**101,098**	**335,786**
2019	193,000	11,574	53,007	133,946	nil	20,632	225,206	186,953	412,159

1 None of the 2019 bonus was paid in cash. At the request of the Executive Directors, the proportion of the bonus that would normally have been paid in cash (75% of the award) was deferred into shares for a period of up to one year, exercisable by 20 April 2023. The proportion of the bonus that would normally be deferred into shares (25%) will continue as normal and be released three years after vesting.

2 The performance period for the 2017 LTIP award (granted in June 2017) ended on 31 December 2019 and has been included in the 2019 comparative figures above. Details on out-turns against the performance targets are set out on page 67 of the 2019 Annual Report. The final decision on the timing of vesting of the 2017 award was deferred for a period of up to one year. Following due consideration by the Committee, including taking into account the stability of the Group following the impact of COVID-19, the Remuneration Committee agreed that it would be appropriate to release the award in line with the formulaic outcome on 1 June 2021. As the awards would not normally have been due to vest until June 2020, and were subject to a holding period, for the purposes of this table, in line with the applicable regulations, the award has been valued using the average share price over the three months to 31 December 2019 of £3.75. This compares with a share price of £3.04 at the date of grant, with share price appreciation representing 23% of the overall value set out in the table above. Vested awards will be subject to holding periods, in line with the intention when the awards were granted. The LTIP awards made in May 2018 are not due to vest until 24 May 2021 but have been included in the 2020 table as the three-year performance period ended on 31 December 2020. For the purposes of this table, the award has been valued using the average share price over the three months to 31 December 2020 of £4.15. This compares with a share price of £5.67 at the date of grant.

Non-Executive Directors[1]

	Fees paid in respect of 2020 (£)	Fees paid in respect of 2019 (£)
A Bromfield[2]	15,427	41,707
J Carling	36,700	36,494
S Good	83,886	83,415
D Robertson	41,943	41,707
A Fielding[3]	26,395	Nil
C Wall[3]	23,284	Nil

1 Non-Executive Directors who also chair a Board Committee receive an additional fee.
2 A Bromfield retired from the Board on 13 May 2020.
3 A Fielding and C Wall joined the Board on 14 May 2020.

Directors' Remuneration report
Continued

Notes to the table (audited)

Base salary and pension contributions

The Company operates a Defined Contribution Pension Scheme (the "DC Scheme") or a cash contribution equivalent. When participating in the DC Scheme, individuals may elect to enter a salary sacrifice arrangement, whereby their salary is reduced and the Company makes a corresponding contribution into their DC Scheme. G McGrath opted for the salary sacrifice arrangement and the amounts shown for his base salary are after salary sacrifice. Similarly, the amounts shown for pension include the amounts of salary that were sacrificed. As at 31 December 2020, the base salary (before salary sacrifice) for G McGrath was £200,500 p.a. (£200,500 p.a. as at 31 December 2019).

D Stirling receives a cash contribution in lieu of pension contributions in accordance with the rules of the Scheme, which apply to all members. As at 31 December 2020, the base salary for D Stirling was £303,000 p.a. (£303,000 p.a. as at 31 December 2019).

Benefits

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

Annual bonus 2020

The targets for the annual bonus for 2020 for D Stirling and G McGrath are as set out in the below table:

	Weighting (% max)		Targets		Performance	Pay-out	
Measure	**D Stirling**	**G McGrath**	**Trigger point**	**Maximum**	**achieved**	**D Stirling**	**G McGrath**
Profit before tax and exceptional items[1]	60%	60%	£9.8m	£11.4m	£8.3m	Nil	Nil
Free cash flow delivery (before investment in MEL pilot line and capacity enhancements)	15%	20%	£6.8m	£8.4m	£9.4m	15%	20%
Strategic financial – HPP sales growth (excluding footwear)	5%	0%	25%	30%	Not achieved	0%	0%
Strategic financial – MEL	5%	0%	Improve EBITDA of MEL by $800k	Improve EBITDA of MEL by $1m	Not achieved	0%	0%
Strategic financial – fixed costs control	0%	5%	See below	See below	See below	0%	5%
Safety	5%	5%	See below	See below	See below	4%	4%
Sustainability	5%	5%	See below	See below	See below	5%	5%
Customer survey	5%	5%	See below	See below	See below	4%	4%
Total	**100%**	**100%**	**n/a**	**n/a**	**n/a**	**28%**	**38%**

1 The Group uses forward exchange contracts to hedge its foreign currency transaction risk. In 2020, the Group did not hedge for the translation of its foreign subsidiaries' assets or liabilities. The Committee set the targets and assessed the out-turn for the PBT element of the bonus measure. The reported PBT, before exceptional items, was £8.3m.

The below table sets out the targets and performance for the Executive Directors.

● Achieved in full or predominantly achieved ● Partially achieved ● Not achieved

Strategic financial metrics – D B Stirling & G C McGrath

	Weighting (% max)				Scoring	
Measure	**D Stirling**	**G McGrath**	**Objective**	**Performance**	**D Stirling**	**G McGrath**
Strategic financial – fixed costs control	0%	5%	Ensure there are control mechanisms to deliver fixed cost management.	Achieved. Fixed cost control significantly enhanced during the year, with cost improvement programmes identified during the budget process managed in a SMART manner and cost spend regularly reviewed against revised targets, with phased release of approved spending.	n/a	●
Safety	5%	5%	Achieve 95% attainment on documented safety tours carried out by members of the Executive team.	Awarded 80%, with alternative arrangements in place during the COVID-19 lockdown period and consideration of specific safety performance metrics by the Remuneration Committee.	●	●

	Weighting (% max)				Scoring	
Measure	**D Stirling**	**G McGrath**	**Objective**	**Performance**	**D Stirling**	**G McGrath**
Sustainability	5%	5%	Develop a foam using at least 20% recycled content by 31 December 2020 sufficient for market and commercial evaluation.	Achieved.		
Customer survey	5%	5%	Complete a customer survey (non-USA entities) identifying key areas for improvement (needs vs performance) and implement an improvement plan.	The survey was completed and key areas for improvement were identified. There were implementation delays due to disruption caused by Brexit.		

The annual bonus was based on base salary before salary sacrifice. The maximum opportunity for the bonus was 75% of salary. 25% of the bonus is deferred in shares held in trust for three years under the Deferred Bonus Share Plan (DBSP). Full details of the operation of the DBSP are set out in the Directors' Remuneration Policy.

2020	**Cash bonus (£)**	**Deferred bonus (£)**	**Total bonus (£)**
D Stirling	47,723	15,907	63,630
G McGrath	42,857	14,286	57,143

The Committee considered the bonus levels in view of the performance achieved and determined that no discretion should be exercised.

LTIP

The 2018 LTIP award was subject to two performance conditions measured over the three financial years ended 31 December 2020. 30% of the award was subject to relative total shareholder return against the FTSE SmallCap Index (excluding investment trusts). 70% of the award was subject to an EPS growth target. Performance is measured over a three-year period and a proportion of the restricted shares will be released to the participant, to the extent that TSR and EPS targets over the period have been met, together with additional shares that represent the dividends that would have been paid during the performance period on the restricted shares that have been released.

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

The table below summarises the performance criteria for the 2018 award, which is due to vest on 24 May 2021.

	Trigger point		Maximum			
	Performance target	**% of award vesting**	**Performance target**	**% of award vesting**	**Achievement**	**Level of vesting (% maximum)**
Relative TSR performance	Median performance against peer group	6	Upper quartile performance against peer group	30	Between median and upper quartile performance against peer group	23.49%
Annualised EPS growth	5%	14	22%	70	14.9p	0%

Based on the above level of performance, 23.49% of the total awarded vested. The Committee considered the overall performance of the Group when assessing the LTIP out-turn, including performance against the targets. The Committee noted that the TSR performance for the Company over the period was between median and upper quartile when compared with the FTSE SmallCap Index (excluding investment trusts) and determined that the pay-outs were reflective of the performance delivered. As such, the Committee determined that no discretion should be exercised.

Scheme interests granted during 2020 (audited)

The table below sets out details of scheme interest granted to the Executive Directors during 2020:

	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 Stirling	Deferred bonus[2] (Unconditional shares)	20.04.2020	11,835	21,066	n/a	n/a	n/a	n/a
G McGrath			7,444	13,250	n/a	n/a	n/a	n/a
D Stirling	Deferred bonus[3] (Unconditional shares)	20.04.2020	35,508	63,204	n/a	n/a	n/a	n/a
G McGrath			22,335	39,756	n/a	n/a	n/a	n/a

Directors' Remuneration report
Continued

	Type of award	Date of grant	Number of shares granted	Face value[4] (£)	Face value (% of salary)	Performance condition	Trigger point for vesting (% of face value)	End of performance period
D Stirling	LTIP[5] (Conditional shares)	21.09.2020	87,674	378,752	125	30% based on relative TSR growth[6]. 50% on annualised EPS growth[7] and 20% on Return on Capital Employed (ROCE)[8] growth	20% of maximum award for meeting the trigger points specified in notes 6, 7 and 8 below	31.12.2022
G McGrath			58,015	250,625	125			

1 Face value calculated using the average share price for the period 6 April 2020 to 17 April 2020 (£1.78). The share price was £2.37 on 20 April 2020.
2 Awards vest on the third anniversary of grant.
3 Awards are available for exercise from 1 January 2021 until 20 April 2023 and are not subject to Good Leaver/Bad Leaver provisions as defined under the DBSP's rules.
4 Face value calculated using the average share price for five days before the grant of the award (£4.32). The share price was £4.40 on 21 September 2020.
5 Award is subject to a three-year performance period and, subject to performance, is released after a two-year holding period.
6 Relative TSR growth is measured against the FTSE SmallCap Index (excluding investment trusts). The trigger point for relative TSR performance is median performance against the peer group, where 6% of the award will vest, to upper quartile performance against the peer group, where the maximum of 30% of the award will vest.
7 Annualised EPS growth is from the EPS for 2019. The trigger point is 5% annualised growth, where 10% of the award will vest, to the maximum of 15% annualised growth, where 50% of the award will vest.
8 ROCE is defined as operating profit before exceptional items divided by the average sum of equity, net debt and other non-current liabilities. This measure excludes acquired intangible assets and their amortisation costs. It is measured against the third year's performance. The trigger point is 11% growth, where 4% of the award will vest, to the maximum of 12.5% annualised growth, where 20% 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 Director was a member of the DB Scheme during the year.

	Accrued pension at 31 December 2019 (£ p.a.)	Gross increase in pension (£)	Increase in accrued pension net of CPI inflation (£)	Change in value over the year (£)
D Stirling	22,306	373	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), pensionable salary increases to 31 March 2018 (the date salary linkage ceased) and including statutory increases to the year end, but excluding any future increases under the Rules of the Scheme.
(2) As required by the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, 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 2020; and
– in the application of section 234 of the Act, the figure 20 is substituted for the figure 16.
(3) The following is additional information relating to the Director's pension from the DB Scheme:
(a) Normal retirement age is 65.
(b) 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.
(c) Members' Guaranteed Minimum Pensions increase at statutory rates. Other pensions increase in payment at 5% p.a., or the increase in the Retail Prices Index if lower.
(d) From 1 January 2006, active employee members were able to pay contributions to the Defined Contribution Pension Scheme set up by the Company in order to receive retirement benefits. The Company also contributes to this arrangement. Details of the contributions made into this Scheme 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 2020.

Payments for loss of office (audited)
No payments were made during 2020.

Statement of Directors' shareholding and share interests (audited)
Executive Directors are required to hold shares in the Company equivalent to 200% of base salary, with a five-year period to build up this holding from: (1) appointment to the Board; or (2) the date of the 2017 AGM (17 May 2017) for the current Executive Directors. The Remuneration Policy adopted at the 2020 AGM also requires 100% of the shareholding requirement to be held for one year following cessation of employment with the Group and 50% of the shareholding requirement to be held for two years following cessation of employment with the Group. The Committee intends to review the mechanism to enforce the post cessation shareholding requirement during the course of 2021. Throughout 2020, D Stirling and G McGrath complied with the Policy, holding 708% and 202% of base salary at 31 December 2020 respectively[1].

1 Includes shares owned outright and interest in share incentive schemes without performance conditions. Calculated on the basis of the average share price over the three months to 31 December 2020 of £4.15.

The tables below set out the Directors' interests (including those of their connected persons) in Zotefoams shares as at 31 December 2020. There were no changes in the Directors' interests between the year end and the date of this report.

Executive Directors

	Shares owned outright[1]	Interest in share incentive schemes without performance conditions[2]	Interest in share incentive schemes with performance conditions[3]
D Stirling	449,273	127,115	160,744
G McGrath	43,171	93,638	106,367

1 Includes Partnership Shares, Dividend Shares and vested Matching Shares under the SIP.
2 Comprises: vested CSOP awards; DBSP shares; unvested Matching Shares under the SIP; the unvested 2017 LTIP award that is due to vest on 1 June 2021; and the unvested 2018 LTIP award that is due to vest on 24 May 2021.
3 Comprises: unvested LTIP shares.

Non-Executive Directors

	Shares owned outright
J Carling	3,323
A Fielding	9,121
S Good	30,047
D Robertson	7,302
C Wall	7,936

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 Dec 2019	Date of exercise or release	Granted during the year	Exercised or released	Lapsed or cancelled	As at 31 Dec 2020	Market price on exercise date	Exercise price	Date from which exercisable	Expiry date
D Stirling	LTIP (2017)[1]	115,842	–	–	–	(61,408)[2]	**54,434**	–	–	01.06.2021[4]	n/a
	LTIP (2018)	66,908	–	–	–	(51,191)[3]	**15,717**	–	–	24.05.2021	n/a
	LTIP (2019)	73,070	–	–	–	–	**73,070**	–	–	20.05.2022	n/a
	LTIP (2020)	–	–	87,674	–	–	**87,674**	–	–	21.09.2023	n/a
	DBSP (2016)	10,061	07.04.2020	–	(10,061)	–	**–**	£1.59	–	27.03.2020	n/a
	DBSP (2017)	6,656	–	–	–	–	**6,656**	–	–	24.05.2021	n/a
	DBSP (2018)	2,677	–	–	–	–	**2,677**	–	–	20.05.2022	n/a
	DBSP (2019)[6] 25%	–	–	11,835	–	–	**11,835**	–	–	20.04.2023	n/a
	DBSP (2019)[6] 75%	–	–	35,508	–	–	**35,508**	–	–	See below[7]	n/a
	SIP[5]	484	–	125	–	–	**609**	–	–	–	n/a
G McGrath	CSOP	10,344	–	–	–	–	**10,344**	–	£2.90	05.04.2019	05.04.2026
	LTIP (2017)[1]	76,014	–	–	–	(40,295)[2]	**35,719**	–	–	01.06.2021[4]	n/a
	LTIP (2018)	45,090	–	–	–	(34,498)[3]	**10,592**	–	–	24.05.2021	n/a
	LTIP (2019)	48,352	–	–	–	–	**48,352**	–	–	20.05.2022	n/a
	LTIP (2020)	–	–	58,015	–	–	**58,015**	–	–	21.09.2023	n/a
	DBSP (2016)	6,533	07.04.2020	–	(6,533)	–	**–**	£1.59	–	27.03.2020	n/a
	DBSP (2017)	4,419	–	–	–	–	**4,419**	–	–	24.05.2021	n/a
	DBSP (2018)	2,497	–	–	–	–	**2,497**	–	–	20.05.2022	n/a
	DBSP (2019)[6] 25%	–	–	7,444	–	–	**7,444**	–	–	20.04.2023	n/a
	DBSP (2019)[6] 75%	–	–	22,335	–	–	**22,335**	–	–	See below[7]	n/a
	SIP[5]	436	–	125	–	–	**561**	–	–	–	n/a

1 30% based on relative TSR. 70% based on EPS growth. As set out in the 2018 Directors' Remuneration report, the base year EPS number for the 2017 award was adjusted to take into account the increased number of shares following the placing in 2018. The base year EPS was therefore adjusted by 8.7% (from 13.7p to 12.5p) to reflect that the weighted average number of shares had increased in full for the final year of the performance period (i.e. year ended 31 December 2019). No change was made to the relative stretch in the underlying targets agreed at the outset of the performance period – which remained as follows: trigger point of 5% p.a. growth; maximum of 22% p.a. growth.
2 As set out in the 2019 Directors' Remuneration report, 46.99% of the total awarded vested.
3 As set out above, 23.49% of the total awarded vested.
4 As set out in the Committee Chair's cover letter of the 2019 Directors' Remuneration report, the decision on the timing of the vesting of the 2017 award was deferred for a period of up to one year by the Committee. The Committee has now set an exercise date of 1 June 2021.
5 Matching Shares under the SIP. Participants buy Partnership Shares monthly under the SIP. The Company provides one Matching Share for every four Partnership Shares purchased. These Matching Shares are first available for vesting three years after being awarded or on leaving if the person is considered to be a "good leaver".
6 None of the 2019 bonus was paid in cash. At the request of the Executive Directors, the proportion of the bonus that would normally have been paid in cash (75% of the award) was deferred into shares for a period of up to one year. The proportion of the bonus that would normally be deferred into shares (25%) will continue as normal, and will be released after three years.
7 Not subject to Good Leaver/Bad Leaver provisions as defined under the DBSP rules. May not be exercised prior to 1 January 2021 and must be exercised by 20 April 2023.

Directors' Remuneration report
Continued

Details of Directors' service contracts and appointment letters (unaudited)
The following table sets out the details of the service contracts and appointment letters for the Directors as at 31 December 2020:

Director	Date of current service contract or appointment letter	Unexpired terms at 31 December 2020
J Carling[1]	10 August 2020	2 years and 5 months
A Fielding	19 March 2020	2 years and 5 months
S Good	4 September 2019	1 year and 3 months
G McGrath	15 April 2019	–
D Robertson[1]	6 August 2020	2 years and 5 months
D Stirling	13 May 2019	–
C Wall	19 March 2020	2 years and 5 months

1 Both J Carling and D Robertson were appointed by the Board in August 2020 for a second term to expire at the 2023 AGM and were re-elected by shareholders at the 2020 AGM. Copies of the Directors' service contracts and appointment letters are available for inspection at the Company's registered office.

A Bromfield service contract was terminated upon resignation effective 13 May 2020.

External appointments
During 2020, Executive Directors did not receive any fees from external appointments.

Change in remuneration of Group Directors and employees (unaudited)
The table below illustrates the percentage change in salary and benefits for the Group Directors and the UK workforce.

The employee subset consists of an average of the UK workforce employees for the period under review.

This group has been selected as this employee representative group is the largest group of employees within the organisation. The Non-Executive Directors receive no taxable benefits or annual bonus.

	% change in base salary (2020 to 2019)	% change in taxable benefits (2020 to 2019)[2]	% change in annual bonus UK employees only (2020 to 2019)
D Stirling	0	12.1	-24.5
G McGrath	0	10.2	7.8
A Bromfield[1]	n/a	n/a	n/a
J Carling	0	n/a	n/a
S Good	0	n/a	n/a
D Robertson	0	n/a	n/a
A Fielding[1]	n/a	n/a	n/a
C Wall[1]	n/a	n/a	n/a
Average employee	0	0	300

1 A Bromfield retired from the Board on 13 May 2020. A Fielding and C Wall joined the Board on 14 May 2020 and thus did not receive any remuneration in 2019.
2 The change in taxable benefits arose from an increase in premium by the health insurance provider.

The employees' salary review is negotiated with the unions, applied to all UK employees and a 0% increase was agreed in relation to 2020. The 2021 salary review for the employees has not yet been agreed.

The mean staff bonus in the UK was 3.15% of base salary in relation to 2020 (2019: 1.05% of base salary).

The staff bonus for all employees in FY 2019 has been restated to include bonuses paid to all employees in the UK.

CEO pay ratio
Companies with more than 250 employees are required to publish the CEO to employee pay ratio. The ratio compares the total remuneration of the Group CEO against the remuneration of the median employee, and employees in the lower and upper quartiles. These pay ratios form part of the information that is provided to the Committee on broader employee pay policies and practices. The Committee has considered the pay data and concluded that the current ratio is proportionate and allows the business to retain high calibre individuals capable of delivering the growth strategy.

The ratios were calculated using the Option A methodology which uses the pay and benefits of all UK employees as it provides the most accurate information and representation of the ratios. The employee pay data used was based on the total remuneration of all Zotefoams plc's full-time employees as at 31 December 2020. The Group CEO's total remuneration has been taken from the single total figure of remuneration for 2020, as disclosed on page 73.

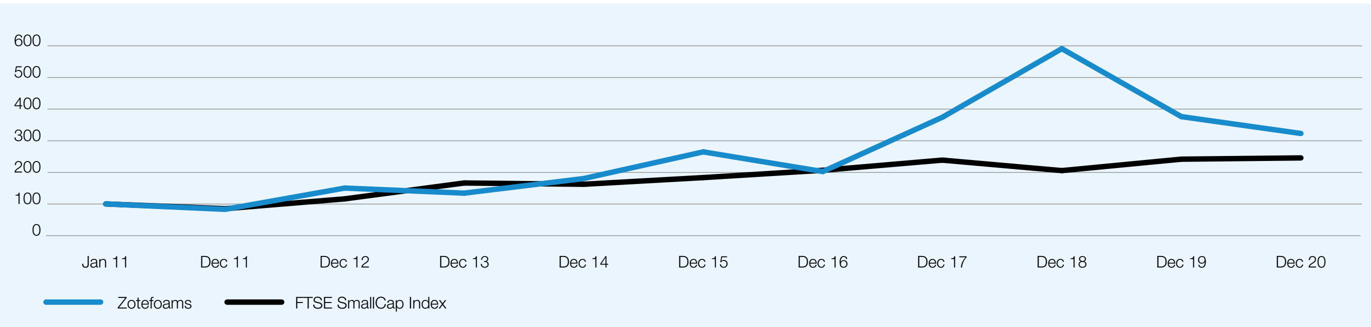
The Committee considers that the median CEO pay ratio at the 50th percentile is consistent with the relative roles and responsibilities of the Group CEO and the identified employees who are production operatives at this level, not professionals. Base salaries of all employees, including our Executive Directors, are set with reference to a range of factors, including market practice, location, experience and performance in role. The Group CEO's remuneration package is weighted towards variable pay (including the annual bonus, LTIP and DBSP) due to the nature of the role, which means that the ratio is likely to fluctuate depending on the outcomes of incentive plans in each year. The reduction in total pay ratio in comparison to 2019 is due to a reduction in the value of the LTIP award for 2020.

Year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2020 – Base salary	Option A	11:1	9:1	7:1
2020 – Total pay		17:1	14:1	10:1
2019 – Total pay		21:1	17:1	13:1

Pay data (£'000)	Base salary	Total pay
CEO's remuneration	303,000	494,220
UK employees 25th percentile	26,573	28,976
UK employees 50th percentile	33,759	35,680
UK employees 75th percentile	44,628	47,875

Historical TSR performance and Group CEO remuneration outcomes (unaudited)

The graph below compared the TSR of Zotefoams against the FTSE SmallCap Index (excluding investment trusts), which is considered the most appropriate choice of index by the Remuneration Committee due to the Group's size and membership of this index.



Workforce alignment

While it remains important to set base salaries on a market-competitive basis reflective of the size and complexity of the business, the Committee has considered alignment of executive remuneration with workforce reward structures.

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

	Group CEO's single figure of remuneration (£)	Annual bonus pay-out (% of maximum)	LTIP vesting (% of maximum)	EPS (p)	Average share price for the final quarter (p)
2020	**494,220**	**28.0**	**23.5**	**14.9**	**415.5**
2019	637,473	37.1	47.0	14.9	375.4
2018	794,905	35.1	100.0	18.7	570.5
2017	676,816	84.4	58.0	16.6[1]	389.2
2016	497,545	55.0	37.7	13.7	252.5
2015	418,568	44.4	50.0	11.1	344.3
2014	439,452	44.0	66.0	10.7	237.8
2013	270,687	–	24.8	8.0	182.4
2012	490,715	62.0	84.0	11.8	202.2
2011	572,969	33.3	88.7	11.8	121.1

1 While basic earnings per share before exceptional item for 2017 was 16.04p, the Remuneration Committee decided to eliminate the impact on deferred tax (the net operating losses which are carried forward) of the change in expected future US corporate tax rates, which resulted in an EPS of 16.59p being used for calculating the satisfaction of the EPS target for the vesting of the 2015 LTIP awards.

Directors' Remuneration report
Continued

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 with profit after tax and distributions to shareholders for 2020 and 2019.

	2020	2019
Total remuneration[1] £'000	19,900	19,270
Executive Directors' remuneration £'000	830	1,049
Profit after tax £'000 (including exceptional item)	7,163	8,217
Shareholder distributions[2] £'000	977	2,973

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. No final dividend was paid in respect of 2019 due to uncertainty caused by COVID-19.

Committee role and advisers (unaudited)
The Group has established a Remuneration Committee, which is constituted in accordance with the recommendations of the UK Corporate Governance Code. A Fielding (appointed 14 May 2020), S Good, D Robertson, J Carling, A Bromfield (retired 13 May 2020) and C Wall (appointed 14 May 2020) were members of the Committee during 2020 to the date of this report. All the members are independent Non-Executive Directors, with the exception of S Good, who was independent on appointment as Chair of the Company. The Committee was chaired by A Bromfield from 1 January 2020 to 13 May 2020, and A Fielding from 14 May 2020 to 31 December 2020. The Committee's Terms of Reference were last updated in August 2020 and may be found on the Group's website.

None of the Committee members have any personal financial interest (other than fees paid as disclosed on page 73 and as shareholders) in the Company, nor do they have any interests that may conflict with those of the Group, such as cross directorships. None of the Committee members are involved in the day-to-day management of the business. The Committee makes recommendations to the Board on remuneration matters. No Director is involved in any decision concerning his or her own remuneration.

The Remuneration Committee met eight times in 2020 with full attendance at each meeting. The Company Secretary acts as secretary to the Committee.

In 2020, the Remuneration Committee carried out the following work:

- Completed a review of the remuneration arrangements for the Executive Directors and the wider workforce and consulted with the Group's largest shareholders in relation to proposals arising out of the review
- Approved the 2019 Directors' Remuneration report
- Considered and approved the annual bonus for the Executive team, including deferral arrangements due to circumstances arising from COVID-19
- Considered and approved the grant of awards under the Long-Term Incentive Plan and the Deferred Bonus Share Plan in 2020 and the vesting of awards made in 2017 under the Long-Term Incentive Plan, including deferral arrangements due to circumstances arising from COVID-19
- Considered the salary reviews of the Executive team and concluded that no increases would be awarded
- Considered the salary review of the Company Secretary, and awarded an increase reflecting experience gained in the role
- Considered the performance targets for the 2020 Executive Directors' bonus and Long-Term Incentive Plan awards and
- Reviewed the terms of the MuCell Long-Term Incentive Plan to support the Group's sustainability agenda.

Deloitte LLP (Deloitte) was engaged in 2016 to assist and provide advice to the Remuneration Committee in relation to Directors' remuneration. They continued to work with the Committee through 2020 in respect of general remuneration advice. Deloitte is a member of the Remuneration Consultants Group and adheres to its Code on executive remuneration consulting in the UK. The Committee is comfortable that Deloitte does not have connections with Zotefoams plc that may impair its objectivity and independence. Deloitte provided no other services to the Company.

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

	2020 (£)	2019 (£)
Deloitte LLP	24,500	32,700
Total	**24,500**	**32,700**

Shareholder voting (unaudited)
The table below sets out the results of the votes received on the 2019 Directors' Remuneration report at the 2020 AGM as well as the previous Directors' Remuneration Policy (approved at the 2020 AGM):

	Directors' Remuneration Policy	%	Annual Report on remuneration	%
Votes in favour	20,542,091	89.76	22,866,741	99.90
Votes against	2,331,595	10.19	9,931	0.04
Discretion	12,699	0.05	12,699	0.06
Total votes	22,886,385	100.00	22,889,371	100.00
Votes withheld	4,520	–	1,384	–

Directors' report
The Directors present their Annual Report and audited consolidated financial statements for the year ended 31 December 2020

Results and dividends
Profit attributable to shareholders for the year amounted to £7.2m (2019: £8.2m). The Board has a progressive dividend policy, recognising the importance to our shareholders of the dividend as part of their overall return. However, the extraordinary uncertainty posed by the COVID-19 pandemic, particularly at the time the Directors were required to recommend a final dividend for the year ended 2019, meant that the Directors were focused on minimising cash outflows and strengthening the financial position of Zotefoams plc in the short term. As a consequence, no final dividend was recommended at that time. The impact of the pandemic became clearer during Q2 which, taken together with the Group's resilient and flexible response to it, resulted in a robust H1 performance. The Directors, having confidence in the future prospects, declared an interim dividend of 2.03p (2019: 2.03p) per share which was paid on 9 October 2020. The Directors recommend that a final dividend of 4.27p (2019: nil) per share be paid on 1 June 2021 to shareholders who are on the Company's register at the close of business on 7 May 2021, resulting in a total dividend of 6.30p per share for the year (2019: 2.03p). For further information on the performance of the entity, refer to the Strategic Report on pages 1 to 59, which should be read as forming part of the Directors' report.

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

With the exception of A Bromfield, who retired from the Board on 13 May 2020, details of Directors who were in office during the year and up to the date of signing of the financial statements are set out on pages 60 and 61. A Bromfield's details were provided on page 49 the 2019 Annual Report.

The Articles give the Directors power to appoint and replace Directors. Under the Terms of Reference of the Nomination Committee, any appointment must be recommended by the Nomination 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. Since 2012, the Board has required Directors to stand for annual re-election each year.

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

The Company maintained Directors' and Officers' Liability Insurance cover throughout 2020. The Company has issued Deeds of Indemnity in favour of all Directors. These Deeds were in force throughout the year ended 31 December 2020 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.

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.

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 to Directors who are not interested in the matter. No new conflicts of interest were noted during 2020 or between the year end and the date of signing of the financial statements.

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.

The Company will propose a special resolution at the 2021 AGM to amend and update the existing Articles of Association.

Full details of the proposed amendments are provided in the notes to the AGM notice on pages 136 to 139.

Corporate governance report
The corporate governance report on page 62 **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, until June 2020, Occupational Health and Safety (OHSAS 18001). In June, Zotefoams successfully migrated to ISO 45001:2018, as part of a continuous improvement plan.

Further details of our certifications are provided in our OHSE section on page 50.

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

Zotefoams places considerable value on the involvement of its people and holds formal and informal meetings to brief them on matters affecting them as employees and on the various factors (including financial and economic factors) affecting the performance of the Group; it also ensures that their views are taken into account in making decisions which are likely to affect their interests. In the UK, there is a Joint Consultative Committee (JCC), which comprises an employee representative from each department. The JCC meets regularly and considers a wide range of matters affecting the employees' current and future interests. From January 2019, J Carling has attended meetings of the JCC in his capacity as Board representative, to provide employees with an opportunity to engage with the Board and allow the Board to have regard to employees' views in their decision-making.

In order to encourage employees to share in the success of Zotefoams, an all-employee share incentive scheme was established in 2015 in the UK. Under the scheme, employees can purchase shares each month directly from their salary. For every four shares bought, one further share is awarded. The shares vest on the third anniversary of award and are normally exempt from tax after five years.

Relationships with others
The Board has had regard to the fostering of the Group's business relationships with suppliers, customers and others in its decision-making process in order to achieve good-quality outcomes.

Further information on this topic can be found on page 58 **of the Strategic Report (the s172(1) statement), which is incorporated into this Directors' report by cross-reference.**

Human rights
Zotefoams does not, at present, have a specific policy on human rights; however, it believes in recognising and respecting all human rights as defined in international conventions. This belief is embedded within the organisation's values and ethical policies. We conduct every aspect of our business with honesty, integrity and openness, respecting human rights and the interests of our employees, customers and other stakeholders, according to the principles set out in our Ethics Policy, which covers:

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

The Company operates an Equal Opportunities Policy and a Dignity at Work Policy, which promote the right of every employee to be treated with dignity and respect and not be harassed or bullied. We work hard to ensure that goods and services are from sources that do not jeopardise human rights, safety or the environment, and expect our suppliers to observe business principles consistent with our own.

Directors' report
Continued

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

- Operate within the law
- Not tolerate any discrimination or harassment
- Not make any political donations or grant public donation for the purpose of political advocacy of any kind
- Not make or receive bribes
- Avoid situations that might give rise to conflicts of interest
- Not enter into any activity that might be considered anti-competitive
- Aim to be a responsible company within our local communities and
- Support and encourage our employees to report, in confidence, any suspicions of wrongdoing.

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

In 2020, we introduced a declaration of adherence to the principles laid out in the Anti-Bribery and Corruption, Anti-Fraud and Ethics policies in the business dealings of all new suppliers. Suppliers' ethical matters will be reviewed further in 2021.

Substantial shareholdings
In accordance with the Disclosure and Transparency Rules DTR 5, the Company, as at 6 April 2021, had received notices of the following material interests of 3% or more in the issued ordinary share capital:

	Ordinary shares of 5.0p	Percentage of issued share capital
Schroders plc	6,036,096	12.41
Invesco Ltd	4,007,910	8.29
Premier Miton Group plc	3,561,760	7.37
BlackRock, Inc	5,506,830	5.18
Highclere International Investors LLP	2,432,527	5.04
Canaccord Genuity Group, Inc	2,317,334	4.90
Claire and Marc Downes	2,102,090	4.32
Nicholas Adrian Beaumont Dark	1,938,352	3.99
Pershing Securities Ltd	1,735,620	3.57

Directors' shareholdings are shown in the Directors' Remuneration report on pages 76 and 77.

Research and development
The amount spent by the Group on R&D in the year was £1,014k (2019: £1,357k). In the opinion of the Directors, £nil (2019: £121k) of this expenditure met the requirements for capitalisation under IAS 38, while £1,014k (2019: £1,236k) did not and was consequently expensed in the consolidated income statement.

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

At 31 December 2020, the Zotefoams Employees' Benefit Trust (EBT) held 459,201 shares (approximately 0.9% of issued share capital) (2019: 178,395 shares) to satisfy share plans as described in the Directors' Remuneration report. During the year, the EBT released 39,194 shares in respect of these share plans. The EBT acquired 320,000 shares on 14 May 2020. 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.

At the AGM held on 8 June 2020, authority was given to the Directors to allot unissued shares in the Company up to a maximum amount equivalent to approximately two-thirds of the issued share capital of the Company. Authority was also given to the Directors to allot equity securities in the Company for cash without regard to the pre-emption provisions of the Companies Act 2006. Both authorities expire at the AGM to be held on 26 May 2021. The Directors seek new authorities for a further year, in line with market practice.

The Company was given authority at the 2020 AGM to purchase up to 4,830,123 of its ordinary shares. This authority will also expire on 26 May 2021 and, at the date of this Report, had not been used. In accordance with normal practice for listed companies, a special resolution will be proposed at this year's AGM to seek a new authority to make market purchases up to a maximum of 10% of the issued share capital of the Company.

Subsidiaries and branches
Details of the joint ventures, subsidiaries and branches within the Group are given in the financial statements.

Treasury and financial instruments
Information in respect of the Group's policies on financial risk management objectives, including policies for hedging, as well as an indication of exposure to financial risk, is given in note 22 to the financial statements.

Future developments
Information on future developments for the Group has been set out in an Introduction from our Chair and the Group CEO's review on pages 22 to 27.

Greenhouse gas emissions
Information on the Group's greenhouse gas emissions may be found in the ESG report on page 52.

Pension schemes
Refer to the post-employment benefits section of the Group CFO's review and note 24 to the financial statements for information related to the Company's pension schemes.

In the UK, employees have access to a number of defined contribution pension schemes. New joiners are eligible to join the Zotefoams Stakeholder Pension Scheme.

Finance costs capitalised
Refer to note 7 to the financial statements for details of borrowing costs capitalised by the Group.

Events after the reporting period
Refer to note 29 to the financial statements for details of any events after the reporting period affecting the Group.

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

Independent Auditor
A resolution to re-appoint PKF Littlejohn LLP as the Company's Auditor will be proposed at the forthcoming AGM.

On behalf of the Board.

G C McGrath
Director

7 April 2021

Statement of Directors' responsibilities in respect of the financial statements

The Directors consider the Annual Report, taken as a whole, to be fair, balanced and understandable

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in 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 Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- State whether applicable international accounting standards, in conformity with the requirements of the Companies Act 2006 and, for the Group, international financial reporting standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union, have been followed, subject to any material departures disclosed and explained in the financial statements
- Make judgements and accounting estimates that are reasonable and prudent and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration report comply with the Companies Act 2006.

The Directors are also 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.

Directors' confirmations

The Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the position and performance, business model and strategy of the Group and Company.

Each of the Directors, whose names and functions are listed on pages 60 and 61 of the Annual Report, confirm that, to the best of their knowledge:

- The Consolidated and Company financial statements, which have been prepared in accordance with international accounting standards, in conformity with the requirements of the Companies Act 2006 and, for the Group, international financial reporting standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company and
- The Group CEO's review includes a fair review of the development and performance of the business and the position of the Group and Company. The Group CFO's review provides a description of the principal risks and uncertainties faced by the Group and the Company.

Independent auditor's report to the members of Zotefoams plc

Opinion

We have audited the financial statements of Zotefoams plc (the "parent company") and its subsidiaries (the "group") for the year ended 31 December 2020 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Cash Flows, the Company Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the Company Statement of Changes in Equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- The financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's and parent company's profit for the year then ended;
- The group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- The parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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 regard to the group financial statements, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Checking the mathematical accuracy of the spreadsheet used to model future financial performance, agreeing the underlying cash flow projections to management-approved forecasts, recalculating covenant compliance and liquidity headroom for the base case scenario;
- Evaluating the assumptions regarding the loss in revenue and associated EBITDA impact, the associated potential cost savings and the potential decrease in working capital levels that could be achieved in the downside scenario;
- Assessing the impact of the mitigating factors available to management in respect of the ability to restrict capital expenditure, cash payments associated with dividends, bonus and share options;
- Recalculating the impact on the group's and company's banking covenants; and
- Assessing whether management has adequately disclosed the conditions which cast significant doubt on the ability of the group and company to continue as a going concern in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's or parent company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

In relation to the entities reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our application of materiality

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

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

	Group financial statements	Company financial statements
Overall materiality	£400,000	£360,000
Performance materiality	£240,000	£216,000
Basis of materiality	5% of profit before tax (PBT)	5% of PBT capped at 90% of group
Rationale	This is the primary key performance indicator used by management in assessing the performance of the group. As a profit generating group, we consider the users of the financial statements, such as investors, will also consider PBT to be a key metric.	This is the primary key performance indicator used by management in assessing the performance of the company. As a profit generating company, we consider the users of the financial statements, such as investors, will also consider PBT to be a key metric.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £145,000 and £360,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality. We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £20,000 (group audit) and £18,000 (company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Our approach to the audit

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at areas involving significant accounting estimates and judgement by the directors and considered future events that are inherently uncertain such as the impairment of intangible assets and assumptions used in calculating the defined benefit pension scheme. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

The Group has nine trading companies (including one joint venture) within the consolidated financial statements, two based in the UK, four in Asia and three in the US (excluding Poland which was not trading at 31 December 2020). We identified three significant components, the parent company, Zotefoams Inc and MuCell Extrusion LLC, which were subject to a full scope audit by a team with relevant sector experience undertaken from our office based in London. We were not able to visit the overseas components due to the COVID travel restrictions in place so we engaged the assistance of PKF network firms to assist with verification of property, plant and equipment and inventory count procedures.

In addition, we identified components which were material but not significant to the group and performed an audit of specific account balances and classes of transactions to ensure that balances which were material to the group were subject to audit procedures, including:

- Property, plant and equipment in Zotefoams Poland Sp.z.o.o.;
- Inventory and revenue in Zotefoams T-FIT Material Technology (Kunshan) Co. Limited; and
- Revenue in Zotefoams Midwest LLC

The components identified as not significant and not material were subject to review procedures undertaken by the same audit team. The approach gave the audit team the following coverage:

Coverage of PBT

Coverage of gross assets

Independent auditor's report to the members of Zotefoams plc
Continued

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our scope addressed this matter
Impairment of intangible assets in MuCell Extrusion LLC (see notes 13 and 28) The consolidated statement of financial position as at 31 December 2020 includes intangible assets with a carrying value of £4.3m (2019: £4.5m) in respect of the cash generating unit, MuCell, which is comprised of goodwill that arose on the acquisition of MuCell in a previous accounting period, and other intangible assets. MuCell has historically been loss making and has continued to incur losses in 2020. Intangible assets with finite useful lives are considered for impairment when there is an indication that the asset has been impaired. Intangible assets with indefinite useful lives such as goodwill are tested annually for impairment and whenever there is an indication of impairment. An impairment review requires management estimation and judgement in determining the future cash flows. For this reason, along with the financial significance of the account balance (more than ten times group materiality), we have assessed this to be a key audit matter. This was also assessed as a key audit matter in the previous year.	Our work in this area included: ▶ Obtaining and reviewing the impairment assessment prepared by management; ▶ Challenging the assumptions used in the model by testing to supporting evidence, including internally approved budgets and external data where available; ▶ Corroborating growth assumptions to supporting documents such as sales pipelines and obtaining key contracts to verify minimum royalty/licence revenue; ▶ Critically reviewing and benchmarking the discount rate used in the net present value calculation for reasonableness; ▶ Requesting management to perform sensitivity analysis on the key assumptions in the model and challenging the effect on the impairment review; ▶ Performing our own sensitivity analysis on the model to understand the effect that key assumptions used have on the headroom to the model; and ▶ Discussion with management around the new business opportunity including an assessment of the potential upside. **Key observations** We concluded that the assumptions in the impairment models, specifically in the value-in-use calculations, were within an acceptable range, and no impairment charge is required.
Pension assumptions (see notes 24 and 28) The Group's closed defined benefit pension scheme represents one of the largest liabilities on the consolidated statement of financial position at £8,851k as at 31 December 2020. The valuation of the schemes liabilities requires management to use its judgement in making a number of key assumptions, being the rate of inflation (CPI and RPI), the discount rate and the life expectancy of the scheme members. While historical assumptions are noted as being within acceptable ranges, the liability is highly sensitive to small changes. Given the financial significance and the inherent estimation within the calculation, this has been assessed as a key audit matter. This was also assessed as a key audit matter in the previous year.	Our work in this area included: ▶ An assessment of the independence and competence of management's actuary to calculate the pension scheme liability; ▶ An assessment of the appropriateness of the key assumptions used by management to value the pension liability; ▶ A comparison of key assumptions to benchmarks performed by the PKF Actuarial team; ▶ Obtaining confirmations and control reports from the investment manager and custodian to confirm pension assets; ▶ Testing employee data used by the actuary; ▶ Testing contributions and payments/claims paid to bank statements; ▶ An assessment of whether adequate disclosures have been included in the annual report and accounting in line with IAS 19. **Key observations** We are satisfied that the overall methodology is appropriate and the assumptions applied in relation to determining the pension valuation are within an acceptable range. The discount rate has reduced from 1.9% p.a. in 2019 to 1.2% pa in 2020. We are comfortable that the proposed reduction is within the acceptable range, towards the prudent end of the scale. The RPI assumption is within the range we would expect, at the slightly optimistic end of the range (i.e. resulting in a lower value of deficit). CPI has been derived as 1% less than RPI until 2030 and 0.25% less than RPI thereafter. This is a change in approach compared with 31 December 2019 when CPI was set as 1% less than RPI at all future terms. The CPI assumption is within the range we would expect and the change suggests an increase in the level of prudence in this assumption.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the group and parent company financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's and parent company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- The Directors' statement with regards the appropriateness of adopting the going concern basis of accounting, set out on page 32 of this annual report;
- The Directors' explanation as to their assessment of the entity's prospects, the period this assessment covers and why the period is appropriate, set out on page 43 of this annual report;
- The Directors' statement that they consider the annual report and the financial statements, taken as a whole, to be fair, balanced and understandable, set out on page 83 of this annual report;
- The Board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on page 64 of this annual report;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 64 of this annual report; and
- The section describing the work of the Audit Committee set out on pages 66 to 68 of this annual report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the group and parent company financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the group and parent company financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Zotefoams plc
Continued

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the group and parent company and the sector in which they operate to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management, application of audit knowledge and experience of the sector.

Our audit procedures were designed to ensure the audit team considered whether there were any indications of non-compliance by the group and parent company with those laws and regulations. The group and parent company is subject to laws and regulations that directly affect the financial statements, including financial reporting legislation, pensions legislation, distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

In addition, the group and parent company are subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety; various regulations around the handling of chemicals and general environmental protection legislation; fraud; bribery and corruption; export control; Consumer Rights Act; and employment law recognising the nature of the group's and parent company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

We also identified the risks of material misstatement of the financial statements due to fraud. We considered, in addition to the non-rebuttable presumption of a risk of fraud arising from management override of controls, the recognition of revenue, posting of unusual journals and manipulating the group's alternative performance profit measures and other key performance indicators to meet remuneration targets and externally communicated targets.

As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to: the testing of journals; reviewing accounting estimates for evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by the Audit Committee on 6 October 2020 to audit the financial statements for the period ended 31 December 2020 and subsequent financial periods. Our total uninterrupted period of engagement is one year.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

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

Joseph Archer (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
15 Westferry Circus
Canary Wharf
London E14 4HD
7 April 2021

Consolidated income statement
For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Revenue	3	**82,652**	80,860
Cost of sales		**(54,874)**	(52,270)
Gross profit		**27,778**	28,590
Distribution costs		**(6,793)**	(8,008)
Administrative expenses before exceptional item		**(11,876)**	(11,481)
Exceptional item	4	**–**	1,050
Total administrative expenses		**(11,876)**	(10,431)
Operating profit		**9,109**	10,151
Operating profit before exceptional item		**9,109**	9,101
Finance costs	7	**(872)**	(462)
Finance income	7	**26**	50
Share of profit from joint venture	10	**38**	72
Profit before income tax		**8,301**	9,811
Profit before income tax and exceptional item		**8,301**	8,761
Income tax expense	8	**(1,138)**	(1,594)
Profit for the year		**7,163**	8,217
Profit for the year before exceptional item		**7,163**	7,167
Profit attributable to:			
Equity holders of the Company		**7,163**	8,217
		7,163	8,217
Earnings per share:			
Basic (p)	9	**14.87**	17.10
Diluted (p)	9	**14.63**	16.84

All activities of the Group are continuing.

The notes on pages 97 to 134 form an integral part of these financial statements.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the Company income statement and other comprehensive income.

Company number: 2714645

Consolidated statement of comprehensive income
For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Profit for the year		**7,163**	8,217
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial losses on defined benefit pension schemes	24	**(2,460)**	(319)
Tax relating to items that will not be reclassified		**467**	54
Total items that will not be reclassified to profit or loss		**(1,993)**	(265)
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation losses on investment in foreign subsidiaries		**(583)**	(1,146)
Change in fair value of hedging instruments		**952**	(349)
Hedging gains reclassified to profit or loss		**82**	939
Tax relating to items that may be reclassified		**(256)**	(101)
Total items that may be reclassified subsequently to profit or loss		**195**	(657)
Other comprehensive income for the year, net of tax		**(1,798)**	(922)
Total comprehensive income for the year		**5,365**	7,295
Total comprehensive income attributable to:			
Equity holders of the Company		**5,365**	7,295
Total comprehensive income for the year		**5,365**	7,295

The notes on pages 97 to 134 form an integral part of these financial statements.

Consolidated statement of financial position
As at 31 December 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Property, plant and equipment	11	**92,925**	85,652
Right-of-use assets	12	**1,397**	1,207
Intangible assets	13	**5,888**	6,614
Investments in joint venture	10	**183**	145
Trade and other receivables	16	**54**	166
Deferred tax assets	20	**509**	327
Total non-current assets		**100,956**	94,111
Current assets			
Inventories	15	**23,033**	18,604
Trade and other receivables	16	**22,150**	23,315
Derivative financial instruments	22	**1,580**	332
Cash and cash equivalents	17	**8,503**	6,656
Total current assets		**55,266**	48,907
Total assets		**156,222**	143,018
Current liabilities			
Trade and other payables	18	**(7,851)**	(6,831)
Derivative financial instruments	22	**(53)**	(134)
Current tax liability		**(101)**	(261)
Lease liabilities	12	**(420)**	(369)
Interest-bearing loans and borrowings	19	**(23,430)**	(15,717)
Total current liabilities		**(31,855)**	(23,312)
Non-current liabilities			
Lease liabilities	12	**(986)**	(836)
Interest-bearing loans and borrowings	19	**(19,263)**	(21,630)
Deferred tax liabilities	20	**(891)**	(674)
Post-employment benefits	24	**(8,851)**	(6,926)
Total non-current liabilities		**(29,991)**	(30,066)
Total liabilities		**(61,846)**	(53,378)
Total net assets		**94,376**	89,640
Equity			
Issued share capital	21	**2,431**	2,415
Share premium	21	**44,178**	44,178
Own shares held		**(23)**	(9)
Capital redemption reserve		**15**	15
Translation reserve		**2,324**	2,907
Hedging reserve		**909**	131
Retained earnings		**44,542**	40,003
Total equity		**94,376**	89,640

The notes on pages 97 to 134 form an integral part of these financial statements.

These financial statements on pages 89 to 96 were authorised for issue by the Board of Directors on 7 April 2021 and were signed on its behalf by:

G C McGrath
Group CFO

Company number: 2714645

Company statement of financial position
As at 31 December 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Property, plant and equipment	11	**41,960**	40,919
Right-of-use assets	12	**780**	1,064
Intangible assets	13	**1,546**	2,082
Investments in subsidiaries	14	**30,822**	30,576
Trade and other receivables	16	**54**	166
Total non-current assets		**75,162**	74,807
Current assets			
Inventories	15	**16,854**	14,362
Trade and other receivables	16	**49,502**	42,546
Derivative financial instruments	22	**1,580**	332
Cash and cash equivalents	17	**6,328**	4,107
Total current assets		**74,264**	61,347
Total assets		**149,426**	136,154
Current liabilities			
Trade and other payables	18	**(6,188)**	(4,905)
Derivative financial instruments	22	**(53)**	(134)
Current tax liability		**–**	(261)
Lease liabilities	12	**(279)**	(291)
Interest-bearing loans and borrowings	19	**(23,430)**	(15,717)
Total current liabilities		**(29,950)**	(21,308)
Non-current liabilities			
Lease liabilities	12	**(504)**	(769)
Interest-bearing loans and borrowings	19	**(19,263)**	(21,630)
Deferred tax liabilities	20	**(891)**	(675)
Post-employment benefits	24	**(8,851)**	(6,926)
Total non-current liabilities		**(29,509)**	(30,000)
Total liabilities		**(59,459)**	(51,308)
Total net assets		**89,967**	84,846
Equity			
Issued share capital	21	**2,431**	2,415
Share premium	21	**44,178**	44,178
Own shares held		**–**	–
Capital redemption reserve		**15**	15
Hedging reserve		**909**	131
Retained earnings			
At 1 January		**38,107**	34,107
Profit for the year attributable to the owners		**6,951**	7,013
Other changes in retained earnings		**(2,624)**	(3,013)
		42,434	38,107
Total equity		**89,967**	84,846

The notes on pages 97 to 134 form an integral part of these financial statements.

These financial statements on pages 89 to 96 were authorised for issue by the Board of Directors on 7 April 2021 and were signed on its behalf by:

G C McGrath
Group CFO

Company number: 2714645

Consolidated statement of cash flows
For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Profit for the year		**7,163**	8,217
Adjustments for:			
Depreciation and amortisation	11, 12, 13	**6,746**	5,769
Disposal of assets	5	**40**	77
Finance costs	7	**846**	412
Share of profit from joint venture	10	**(38)**	(72)
Net exchange differences		**(133)**	(999)
Equity-settled share-based payments	25	**300**	391
Taxation	8	**1,138**	1,594
Operating profit before changes in working capital and provisions		**16,062**	15,389
Decrease in trade and other receivables		**1,199**	2,659
Increase in inventories		**(4,536)**	(883)
Increase/(decrease) in trade and other payables		**980**	(3,720)
Employee defined benefit contributions	24	**(700)**	(1,674)
Cash generated from operations		**13,005**	11,771
Interest paid		**(456)**	(88)
Income taxes paid, net of refunds		**(1,113)**	(2,334)
Net cash flows generated from operating activities		**11,436**	9,349
Cash flows from investing activities			
Interest received	7	**26**	50
Interest paid	7	**(604)**	(933)
Purchases of intangibles	13	**(346)**	(914)
Purchases of property, plant and equipment		**(12,363)**	(23,473)
Net cash used in investing activities		**(13,287)**	(25,270)
Cash flows from financing activities			
Proceeds from options exercised and issue of share capital		**–**	92
Repayment of borrowings		**(8,053)**	(3,829)
Proceeds from borrowings		**13,180**	22,578
Principal elements of lease payments	12	**(433)**	(343)
Dividends paid to equity holders of the Company	9	**(977)**	(2,973)
Net cash generated from financing activities		**3,717**	15,525
Net increase/(decrease) in cash and cash equivalents		**1,866**	(396)
Cash and cash equivalents at 1 January		**6,656**	7,073
Exchange losses on cash and cash equivalents		**(19)**	(21)
Cash and cash equivalents at 31 December	17	**8,503**	6,656

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

During the year, the Group paid interest of £1,060k of which it capitalised £604k (2019: paid interest of £1,021k of which it capitalised £933k) on qualifying assets under IAS 23 "Capitalisation of Borrowing Costs". The interest paid has been split between operating activities of £456k (2019: £88k) and investing activities of £604k (2019: £933k) to reflect the Group's utilisation of the interest paid.

The net exchange differences of £133k within operating activities relate to the foreign exchange movement on borrowings and open forward contracts in the income statement (2019: £999k).

Refer to note 19 for a reconciliation of liabilities arising from financing activities.

The notes on pages 97 to 134 form an integral part of these financial statements.

Company statement of cash flows
For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Profit for the year		**6,951**	7,013
Adjustments for:			
Depreciation and amortisation	11, 12, 13	**3,958**	3,253
Disposal of assets		**38**	–
Finance costs		**574**	325
Net exchange differences		**(133)**	(999)
Equity-settled share-based payments	25	**300**	391
Taxation		**1,199**	1,279
Operating profit before changes in working capital and provisions		**12,887**	11,262
Decrease in trade and other receivables		**975**	3,372
Increase in inventories		**(2,492)**	(918)
Increase/(decrease) in trade and other payables		**1,481**	(3,468)
Employee defined benefit contributions	24	**(700)**	(1,674)
Cash generated from operations		**12,151**	8,574
Interest paid		**(451)**	(405)
Income taxes paid, net of refunds		**(1,095)**	(2,142)
Net cash flows generated from operating activities		**10,605**	6,027
Cash flows from investing activities			
Investment in subsidiaries	14	**(246)**	(7,027)
Interest received		**6**	26
Interest paid		**(166)**	(610)
Loans given to subsidiaries, net of prepayments		**(7,555)**	(8,431)
Purchases of intangibles	13	**(111)**	(707)
Purchases of property, plant and equipment		**(4,144)**	(6,400)
Net cash used in investing activities		**(12,216)**	(23,149)
Cash flows from financing activities			
Proceeds from options exercised and issue of share capital		**–**	92
Repayment of borrowings		**(8,053)**	(3,829)
Proceeds from borrowings		**13,180**	22,578
Principal elements of lease payments	12	**(318)**	(265)
Dividends paid to equity holders of the Company	9	**(977)**	(2,973)
Net cash generated from financing activities		**3,832**	15,603
Net increase/(decrease) in cash and cash equivalents		**2,221**	(1,519)
Cash and cash equivalents at 1 January		**4,107**	5,626
Cash and cash equivalents at 31 December	17	**6,328**	4,107

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

During the year, the Company paid interest of £617k of which it capitalised £166k (2019: paid interest of £1,015k of which it capitalised £610k) on qualifying assets under IAS 23 "Capitalisation of Borrowing Costs". The interest paid has been split between operating activities of £451k (2019: £405k) and investing activities of £166k (2019: £610k) to reflect the Company's utilisation of the interest paid.

The net exchange differences of £133k within operating activities relate to the foreign exchange movement on borrowings and open forward contracts in the income statement (2019: £999k).

Refer to note 19 for a reconciliation of liabilities arising from financing activities.

The notes on pages 97 to 134 form an integral part of these financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2020

	Note	Share capital £'000	Share premium £'000	Own shares held £'000	Capital redemption reserve £'000	Translation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 January 2019		2,415	44,178	(21)	15	4,053	(358)	34,799	85,081
Profit for the year		–	–	–	–	–	–	8,217	8,217
Foreign exchange translation gains on investment in subsidiaries		–	–	–	–	(1,146)	–	–	(1,146)
Change in fair value of hedging instruments recognised in other comprehensive income		–	–	–	–	–	(349)	–	(349)
Reclassification to income statement – administrative expenses		–	–	–	–	–	939	–	939
Tax relating to effective portion of changes in fair value of cash flow hedges, net of recycling		–	–	–	–	–	(101)	–	(101)
Actuarial loss on defined benefit pension scheme	24	–	–	–	–	–	–	(319)	(319)
Tax relating to actuarial loss on defined benefit pension scheme		–	–	–	–	–	–	54	54
Total comprehensive income for the year		–	–	–	–	(1,146)	489	7,952	7,295
Transactions with owners of the Parent:									
Options exercised		–	–	12	–	–	–	80	92
Equity-settled share-based payments net of tax		–	–	–	–	–	–	145	145
Dividends paid	9	–	–	–	–	–	–	(2,973)	(2,973)
Total transactions with owners of the Parent		–	–	12	–	–	–	(2,748)	(2,736)
Balance as at 31 December 2019		2,415	44,178	(9)	15	2,907	131	40,003	89,640
Balance as at 1 January 2020		**2,415**	**44,178**	**(9)**	**15**	**2,907**	**131**	**40,003**	**89,640**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**7,163**	**7,163**
Foreign exchange translation losses on investment in subsidiaries		**–**	**–**	**–**	**–**	**(583)**	**–**	**–**	**(583)**
Change in fair value of hedging instruments recognised in other comprehensive income		**–**	**–**	**–**	**–**	**–**	**952**	**–**	**952**
Reclassification to income statement – administrative expenses		**–**	**–**	**–**	**–**	**–**	**82**	**–**	**82**
Tax relating to effective portion of changes in fair value of cash flow hedges, net of recycling		**–**	**–**	**–**	**–**	**–**	**(256)**	**–**	**(256)**
Actuarial loss on defined benefit pension scheme	24	**–**	**–**	**–**	**–**	**–**	**–**	**(2,460)**	**(2,460)**
Tax relating to actuarial loss on defined benefit pension scheme		**–**	**–**	**–**	**–**	**–**	**–**	**467**	**467**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(583)**	**778**	**5,170**	**5,365**
Transactions with owners of the Parent:									
Options exercised		**–**	**–**	**2**	**–**	**–**	**–**	**(2)**	**–**
Proceeds of shares issued, net of expenses	21	**16**	**–**	**(16)**	**–**	**–**	**–**	**–**	**–**
Equity-settled share-based payments net of tax		**–**	**–**	**–**	**–**	**–**	**–**	**348**	**348**
Dividends paid	9	**–**	**–**	**–**	**–**	**–**	**–**	**(977)**	**(977)**
Total transactions with owners of the Parent		**16**	**–**	**(14)**	**–**	**–**	**–**	**(631)**	**(629)**
Balance as at 31 December 2020		**2,431**	**44,178**	**(23)**	**15**	**2,324**	**909**	**44,542**	**94,376**

The aggregate current and deferred tax relating to items that are credited to equity is £259k (2019: credited £293k).

The notes on pages 97 to 134 form an integral part of these financial statements.

Company statement of changes in equity
For the year ended 31 December 2020

	Note	Share capital £'000	Share premium £'000	Own shares held £'000	Capital redemption reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 January 2019		2,415	44,178	(21)	15	(358)	34,107	80,336
Profit for the year		–	–	–	–	–	7,013	7,013
Change in fair value of hedging instruments recognised in other comprehensive income		–	–	–	–	(349)	–	(349)
Reclassification to income statement – administrative expenses		–	–	–	–	939	–	939
Tax relating to effective portion of changes in fair value of cash flow hedges, net of recycling		–	–	–	–	(101)	–	(101)
Actuarial loss on defined benefit pension scheme	24	–	–	–	–	–	(319)	(319)
Tax relating to actuarial loss on defined benefit pension scheme		–	–	–	–	–	54	54
Total comprehensive income for the year		–	–	–	–	489	6,748	7,237
Transactions with owners:								
Options exercised		–	–	21	–	–	80	101
Equity-settled share-based payments net of tax		–	–	–	–	–	145	145
Dividends paid	9	–	–	–	–	–	(2,973)	(2,973)
Total transactions with owners		–	–	21	–	–	(2,748)	(2,727)
Balance as at 31 December 2019		2,415	44,178	–	15	131	38,107	84,846
Balance as at 1 January 2020		**2,415**	**44,178**	**–**	**15**	**131**	**38,107**	**84,846**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**6,951**	**6,951**
Change in fair value of hedging instruments recognised in other comprehensive income		**–**	**–**	**–**	**–**	**952**	**–**	**952**
Reclassification to income statement – administrative expenses		**–**	**–**	**–**	**–**	**82**	**–**	**82**
Tax relating to effective portion of changes in fair value of cash flow hedges, net of recycling		**–**	**–**	**–**	**–**	**(256)**	**–**	**(256)**
Actuarial loss on defined benefit pension scheme	24	**–**	**–**	**–**	**–**	**–**	**(2,460)**	**(2,460)**
Tax relating to actuarial loss on defined benefit pension scheme		**–**	**–**	**–**	**–**	**–**	**467**	**467**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**778**	**4,958**	**5,736**
Transactions with owners:								
Options exercised		**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Proceeds of shares issued, net of expenses	21	**16**	**–**	**–**	**–**	**–**	**–**	**16**
Equity-settled share-based payments net of tax		**–**	**–**	**–**	**–**	**–**	**348**	**348**
Dividends paid	9	**–**	**–**	**–**	**–**	**–**	**(977)**	**(977)**
Total transactions with owners		**16**	**–**	**–**	**–**	**–**	**(631)**	**(615)**
Balance as at 31 December 2020		**2,431**	**44,178**	**–**	**15**	**909**	**42,434**	**89,967**

The aggregate current and deferred tax relating to items that are credited to equity is £259k (2019: credited £293k).

The notes on pages 97 to 134 form an integral part of these financial statements.

Notes

1. General information

Zotefoams plc (the "Company") is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in England, UK. The registered office of the Company is 675 Mitcham Road, Croydon CR9 3AL.

The Company, its subsidiaries and joint venture (together referred to as the "Group") is engaged in the manufacturing and sale of high-performance foams and licensing of related technology for specialist markets worldwide.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of Zotefoams plc have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union. The financial statements have been prepared under the historical cost convention except for derivative financial instruments, which are measured at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 28.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 1 to 59 and the section entitled "Risk management and principal risks" on pages 33 to 42. These also describe the financial position of the Group, its cash flows and liquidity position. In addition, note 22 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, borrowing facilities and its exposure to credit risk and liquidity risk.

At 31 December 2020, the Group's gross finance facilities were £53.8m (2019: £55.2m), comprising a multi-currency term loan of £25.0m, a multi-currency revolving credit facility of £25.0m, and a remaining balance of £3.8m (2019: £5.2m) of a further £7.5m sterling annually renewable term loan, repayable in equal quarterly instalments. The bank facility is for a five-year period and expires in May 2023. At the date of the statement of financial position, £10.7m was undrawn on the facility (2019: £17.7m). At the same date, the Group also held £8.5m (2019: £6.7m) of cash and cash equivalents. The facility is subject to two covenants, which are tested semi-annually: net debt to EBITDA (leverage) and EBITDA to net finance charges.

The Directors believe that the Group is well placed to manage its business risks and, after making enquiries including a review of forecasts and predictions, taking account of reasonably possible changes in trading performance and considering the existing banking facilities, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months following the date of approval of the financial statements. The Directors have also drawn upon the experiences of 2020 and the Group's success in reacting to the challenges of COVID-19 through its safety protocols and cost and cash management, all of which could be replicated in a similar scenario.

After due consideration of the range and likelihood of potential outcomes, the Directors continue to adopt the going concern basis of accounting in preparing the Annual Report.

2.2 Basis of consolidation

i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which that control ceases.

ii) Transactions eliminated on consolidation

Intra-group balances and transactions, including any unrealised gains and losses or income and expenses arising from such transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Where necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

iii) Joint arrangements

The Group applies IFRS 11 to its joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Interests in the joint ventures are accounted for using the equity method, after initially being recognised at cost.

iv) Equity method

Under the equity method of accounting, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the change in net assets of the investee after the date of acquisition.

If the ownership interest in the joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised with a corresponding adjustment to the carrying amount of the investment. Where the Group's share of losses in the joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture. Distributions received from the joint venture reduce the carrying amount of the investment.

The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and it recognises the amount adjacent to "share of profit/(loss) of joint venture" in the income statement.

Gains and losses resulting from upstream and downstream transactions between the Group and the joint venture are recognised in the Group's financial statements only to the extent of an unrelated investor's interests in the joint venture. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint venture have been aligned where necessary to ensure consistency with the policies adopted by the Group.

Notes
Continued

2. Significant accounting policies (continued)
v) 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 the 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 interest in the acquiree less the net recognised amount of the identifiable assets acquired and liabilities assumed.

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

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured, and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

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 services.

2.3 Foreign currency
i) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates ("the functional currency"). The consolidated financial statements are presented in sterling, which is the Group's presentation currency.

The Company's financial statements are prepared and presented in sterling, which is its functional currency.

ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation (where items are remeasured). Foreign exchange gains and losses resulting from the settlement of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. All foreign exchange gains and losses are presented in the income statement within administrative expenses.

Translation differences related to items classified through other comprehensive income are recognised in other comprehensive income, while remaining translation differences are recognised in the income statement.

iii) Group companies
The results and financial position of all of the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of each transaction); and
- All resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity, and they are translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2.4 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.

Derivatives are initially recognised at fair value on the date when a derivative contract is entered into, and they are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates all derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 22. The full fair value of a hedging derivative is classified as a non-current asset or liability where the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability where the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

The fair value of forward exchange contracts is their quoted market price at the statement of financial position date, being the present value of the quoted forward price.

2. Significant accounting policies (continued)

Cash flow hedging

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the hedging reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within administrative expenses.

When forward contracts are used to hedge forecast transactions, the Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedging reserve within equity. The change in the forward element of the contract that relates to the hedged item ("aligned forward element") is recognised within other comprehensive income in the costs of hedging reserve within equity. In some cases, the entity might designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedging reserve within equity.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to the income statement.

2.5 Investments in subsidiaries and joint arrangements

The Company's investments in subsidiaries and joint arrangements are stated at cost less provision for impairment.

2.6 Property, plant and equipment

i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and any impairment losses.

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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

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

ii) Depreciation

Land is not depreciated. 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. The estimated useful lives are as follows:

Buildings	20–40 years
Plant and equipment	5–20 years
Fixtures and fittings	3–5 years

Assets under construction are depreciated from the month in which the asset is ready for its intended use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each financial year.

2.7 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.

Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the Group are recognised as intangible assets where the following criteria are met:

- It is technically feasible to complete the asset so that it will be available for use;
- Management intends to complete the asset and use or sell it;
- There is an ability to use or sell the asset;
- It can be demonstrated how the asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the asset are available; and
- The expenditure attributable to the asset during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the asset include the product development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

ii) Goodwill

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

iii) Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

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.

Development costs that are directly attributable to the design and development of internally generated intangible assets controlled by the Group are recognised when the relevant criteria are met. Internally generated intangible assets are amortised from the point at which the asset is ready for use.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred. Research expenditure and development expenditure that do not meet the criteria above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Notes
Continued

2. Significant accounting policies (continued)

The estimated useful lives of the Group's intangible assets are as follows:

Marketing related	5–15 years
Customer related	2–10 years
Technology related	5–20 years
Software related	3–10 years
Capitalised development	3–10 years, from the date the patent is granted

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

2.8 Financial assets

i) Classifications

The Group classifies its financial assets in the following categories: a) those to be measured subsequently at fair value; and b) those to be measured at amortised cost.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets subsequently measured at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling it in the short term. Derivatives are also categorised as held for trading, unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current assets.

b) Financial assets at amortised cost

Financial assets at amortised cost are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest and are measured at amortised cost.

ii) Recognition and measurement

Financial assets not carried at fair value through profit or loss are initially recognised at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Interest income from financial assets at amortised cost is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within administrative expenses in the financial year in which they arise.

iii) Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and it must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

iv) Impairment of financial assets carried at amortised cost

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Further details are provided in note 22.

2.9 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30–90 days and are therefore all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, in which case they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and so it measures them subsequently at amortised cost using the effective interest method.

Due to the short-term nature of current receivables, their carrying amount is considered to be the same as their fair value. Information about the impairment of trade receivables and the Group's exposure to credit risk and foreign currency risk can be found in note 22.

2.10 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. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. 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.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term highly liquid investments with an original maturity of three months or less.

2.12 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each statement of financial position date where there is an indication that the asset may be impaired. If any such indication exists, the asset's recoverable amount is estimated (see below).

For goodwill, property, plant and equipment 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.

2. Significant accounting policies (continued)

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

ii) Impairment losses

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

iii) Reversal 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.

2.13 Dividends

Final dividends are recognised as a liability in the financial year in which they are approved. Interim dividends are recognised when paid.

2.14 Interest-bearing loans and 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.

2.15 Employee benefits

i) Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

ii) Defined benefit plans

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the financial year, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using AA credit-rated bonds that have terms to maturity approximating to the terms of the related pension obligation.

The current service cost of the defined benefit plan, recognised in "staff expenses" in the income statement, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from service in the current year, benefit changes, curtailments and settlements.

Past service costs are recognised immediately in the income statement.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in finance costs in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the year in which they arise.

2.16 Share-based payment transactions

The Company operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (share awards) of the Company. The fair value of the employee services received in exchange for the grant of the share awards is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share awards granted:

- Including any market performance conditions (for example, an entity's share price);
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save or hold shares for a specific period of time).

Where material, share awards granted since 1 January 2006 with market-based vesting conditions are valued using a Monte Carlo model.

At the end of each reporting period, the Company revises its estimates of the number of share awards that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances, employees might provide services in advance of the grant date, and so the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement and grant date.

When the share awards vest or are exercised, the Employee Benefit Trust (EBT) will normally release the shares to the participant. This may involve selling all, or a portion of, the shares. The proceeds received from the sale, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

The grant by the Company of share awards over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

Any social security contributions payable in connection with the grant of the share awards are considered an integral part of the grant itself and the charge will be treated as a cash-settled transaction.

Own shares held by the EBT

Transactions of the EBT are treated as being those of the Group and are therefore reflected in the financial statements. In particular, the EBT's purchase and sale of shares in the Company are debited and credited directly to equity.

Notes
Continued

2. Significant accounting policies (continued)

2.17 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities. Trade and other payables are stated at cost.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

2.19 Revenue

Revenue comprises the sale of foam and equipment and licence and royalty income. All these revenue streams are revenues arising from contracts with customers. The recognition and measurement principles of IFRS 15 are applied as set out below.

Revenue excludes inter-company revenues and value added taxes and are stated net of discounts and returns.

i) Sale of foam

Revenue from the sale of foam is recognised when control of the goods has been transferred to a third party. This usually occurs when title passes to the customer, either on shipment or on receipt of goods by the customer, depending on agreed trading terms. Payment is due within credit terms which are consistent with industry practices, with no financing components.

ii) Sale of equipment

Revenue from the sale of equipment is recognised when control of the goods has been transferred to a third party. This usually occurs when title passes to the customer, either on shipment or on receipt of goods by the customer, depending on agreed trading terms.

iii) Licence and royalty income

Revenue from usage-based royalties in exchange for a licence of the Group's technology is recognised when the performance obligation is satisfied, which is at the time when the sale or usage occurs. Licence revenue from contracts, which include a minimum royalty guarantee to provide use of the Group's technology, is recognised at a point in time when the uptake of the minimum royalty becomes unconditional. Royalty income which does not include a minimum royalty guarantee is recognised when the usage occurs.

2.20 Leases

The Group leases offices and various equipment. Rental contracts are typically two to five years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the Group's incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar economic environment within similar terms and conditions. Lease payments are allocated between principal and finance costs. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Payments associated with short-term leases and leases of low value are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture and equipment.

2. Significant accounting policies (continued)

2.21 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

The current tax charge is calculated on the basis of the tax laws enacted at the statement of financial position date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realised, or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and joint arrangements, except for any deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and joint arrangements only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities and there is an intention to settle the balances on a net basis.

2.22 Share capital

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

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

2.23 Exceptional items

Exceptional items are disclosed separately in the financial statements, where it is necessary to do so to provide further understanding of the financial performance of the Group. These are items that are material, either because of their size or their nature, or that are non-recurring and are presented within the line items to which they best relate.

Notes
Continued

2. Significant accounting policies (continued)
2.24 New standards and interpretations
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.

i) New standards and amendments – applicable 1 January 2020
The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2020:

	Effective for accounting periods beginning on or after	Impact
Definition of Material – Amendment to IAS 1 "Presentation of financial statements"	1 January 2020	None
Definition of Material – Amendment to IAS 8 "Accounting policies"	1 January 2020	None
Definition of a Business – Amendments to IFRS 3 "Business Combinations"	1 January 2020	None
Revised Conceptual Framework for Financial Reporting	1 January 2020	None
Interest rate benchmark reform – Amendments to IFRS 9 "Financial Instruments"	1 January 2020	None
Interest rate benchmark reform – Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"	1 January 2020	None
Interest rate benchmark reform – Amendments to IFRS 7 "Financial Instruments: Disclosures"	1 January 2020	None

ii) Forthcoming requirements
As at 31 December 2020, the following standards and interpretations had been issued but were not mandatory for annual reporting periods ending on 31 December 2020.

	Effective for accounting periods beginning on or after	Expected Impact
COVID-19-related Rent Concessions – Amendments to IFRS 16	1 June 2020	None
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	1 January 2022	None
Reference to the Conceptual Framework – Amendments to IFRS 3	1 January 2022	None
Onerous Contracts: Cost of Fulfilling a Contract – Amendments to IAS 37	1 January 2022	None
Annual Improvements to IFRS Standards 2018 – 2020	1 January 2022	None
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	1 January 2023	None

3. Segment reporting

The Group's operating segments are reported in a manner consistent with the internal reporting provided to and regularly reviewed by the Group Chief Executive Officer, David Stirling, who is considered to be the 'chief operating decision maker' for the purpose of evaluating segment performance and allocating resources. The Group Chief Executive Officer primarily uses a measure of profit for the year (before exceptional items) to assess the performance of the operating segments.

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

- Polyolefin Foams: these foams are made from olefinic homopolymer and copolymer resin. The most common resin used is polyethylene.
- High-Performance Products (HPP): these foams exhibit high performance on certain key properties, such as improved chemical, flammability, temperature or energy management performance. Turnover in the segment is currently mainly derived from products manufactured from three main polymer types: polyvinylidene fluoride (PVDF) fluoropolymer, polyamide (nylon) and thermoplastic elastomers. Foams are sold under the brand name ZOTEK®, while technical insulation products manufactured from certain materials are branded as T-FIT®.
- MuCell Extrusion LLC (MEL): licenses microcellular foam technology and sells related machinery.

	Polyolefin Foams		HPP		MEL		Inter-segment eliminations		Consolidated	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
Group revenue	**50,904**	51,363	**30,016**	26,477	**1,813**	3,097	**(81)**	(77)	**82,652**	80,860
Segment profit/(loss) pre-amortisation	**4,836**	7,301	**7,907**	6,430	**(1,184)**	(1,270)	**–**	–	**11,559**	12,461
Amortisation of acquired intangible assets	**–**	–	**–**	–	**(262)**	(276)	**–**	–	**(262)**	(276)
Segment profit/(loss)	**4,836**	7,301	**7,907**	6,430	**(1,446)**	(1,546)	**–**	–	**11,297**	12,185
Foreign exchange (losses)/gains	**–**	–	**–**	–	**–**	–	**–**	–	**(300)**	(1,405)
Unallocated central costs	**–**	–	**–**	–	**–**	–	**–**	–	**(1,888)**	(1,679)
Operating profit before exceptional items									**9,109**	9,101
Financing costs	**–**	–	**–**	–	**–**	–	**–**	–	**(872)**	(462)
Financing income	**–**	–	**–**	–	**–**	–	**–**	–	**26**	50
Share of profit/(loss) from joint venture	**38**	72	**–**	–	**–**	–	**–**	–	**38**	72
Taxation (before exceptional items)	**–**	–	**–**	–	**–**	–	**–**	–	**(1,138)**	(1,594)
Profit for the year (before exceptional items)									**7,163**	7,167
Segment assets	**106,792**	100,497	**41,046**	34,088	**7,875**	8,106	**–**	–	**155,713**	142,691
Unallocated assets	**–**	–	**–**	–	**–**	–	**–**	–	**509**	327
Total assets									**156,222**	143,018
Segment liabilities	**(46,676)**	(44,530)	**(13,234)**	(7,254)	**(944)**	(659)	**–**	–	**(60,854)**	(52,443)
Unallocated liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**(992)**	(935)
Total liabilities									**(61,846)**	(53,378)
Depreciation of PPE	**4,478**	4,009	**813**	703	**115**	83	**–**	–	**5,406**	4,795
Depreciation of right-of-use assets	**307**	268	**71**	43	**36**	–	**–**	–	**414**	311
Amortisation	**494**	344	**153**	55	**279**	264	**–**	–	**926**	663
Capital expenditure:										
PPE	**9,928**	21,222	**2,401**	3,475	**447**	139	**–**	–	**12,776**	24,836
Right-of-use assets	**13**	804	**3**	126	**623**	–	**–**	–	**639**	930
Intangible assets	**89**	611	**22**	97	**235**	206	**–**	–	**346**	914

Unallocated assets relate to deferred tax assets of £509k (2019: £327k). Unallocated liabilities are made up of corporation tax £101k (2019: £261k) and deferred tax liabilities £891k (2019: £674k).

Segment profit/(loss) is made up of operating profit/(loss) before exceptional items, foreign exchange gains/(losses) and unallocated central costs. Unallocated central costs are not directly attributable or cannot be allocated to a segment.

Segment profit/(loss) pre-amortisation only excludes amortisation on acquired intangible assets.

Notes
Continued

3. Segment reporting (continued)
Geographical segments
Polyolefin Foams, HPP and MEL are managed on a worldwide basis but operate from UK, US and Asian 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	Continental Europe £'000	North America £'000	Rest of the world £'000	Total £'000
For the year ended 31 December 2020					
Group revenue from external customers	**19,106**	**17,856**	**17,629**	**28,061**	**82,652**
Non-current assets	**44,343**	**21,050**	**34,351**	**520**	**100,264**
Capital expenditure – PPE	**4,090**	**7,095**	**1,423**	**168**	**12,776**
For the year ended 31 December 2019					
Group revenue from external customers	12,875	25,503	22,010	20,472	80,860
Non-current assets	44,231	13,038	35,908	462	93,639
Capital expenditure – PPE	7,239	12,069	5,380	148	24,836

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

Major customer
Revenues from one customer of the Group located in the United Kingdom and one customer located in 'Rest of the world' contributed £13,904k and £21,608k respectively to the Group's revenue (2019: one customer located in 'Rest of the world' contributed £12,858k to the Group's revenue).

Analysis of revenue by category
Breakdown of revenues by products and services for the Group:

	2020 £'000	2019 £'000
Sale of foam	**80,920**	77,840
Licence and royalty income	**989**	836
Sale of equipment	**824**	2,261
Less: eliminations	**(81)**	(77)
Group revenue	**82,652**	80,860

4. Exceptional item

	2020 £'000	2019 £'000
Settlement income relating to legal claim	**–**	1,050

In the prior year, the Company was successful in a claim against the previous advisers to the Defined Benefit Pension Scheme (the "DB Scheme"), following legal advice that the linkage to future increases in salary had not been properly broken. The Company was awarded £1,050k following mediation and has recorded this as an operating exceptional item in the income statement. Of this amount, £941k was repaid to the DB Scheme and £109k expenses reimbursed to the Company.

5. Expenses by nature

	2020 £'000	2019 £'000
Included in profit for the year are:		
Changes in inventories of finished goods and work in progress	**297**	(784)
Changes in raw materials and consumables used	**4,132**	1,494
Inventory write-down	**17**	409
Employee benefits expenses	**22,784**	22,168
Operating lease charges (note 12)	**228**	233
Amortisation (note 13)	**926**	663
Depreciation of PPE and right-of-use assets (note 11 and note 12)	**5,820**	5,106
Disposal of assets	**40**	77
Research and development costs expensed	**1,014**	1,236
Development costs capitalised (note 13)	**–**	(121)
Net exchange losses/(gains)	**300**	1,405
External auditor's remuneration:		
Group – Fees payable to the Group's external auditor and its associates for the audit of the Company and consolidated financial statements		
PricewaterhouseCoopers LLP (PwC)	**38**	161
PKF Littlejohn LLP	**175**	–
Fees payable to the external auditor and its associates in respect of other services:		
– audit-related assurance services (PwC)	**30**	19
Total cost of sales, distribution costs and administrative expenses	**73,543**	70,709

6. Staff numbers and expenses

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

	Number of employees			
	Group		Company	
	2020	2019	**2020**	2019
Production	**225**	242	**153**	161
Maintenance	**36**	28	**23**	21
Distribution and marketing	**77**	78	**44**	46
Administration and technical	**114**	106	**88**	84
	452	454	**308**	312

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Wages and salaries*	**18,857**	18,132	**13,502**	12,959
Social security costs*	**2,584**	2,508	**1,488**	1,290
Share options granted to Directors and employees (note 25)	**300**	390	**300**	339
Pension costs, including past service costs	**1,043**	1,138	**759**	845
	22,784	22,168	**16,049**	15,433
* Net of directly attributable costs capitalised	**672**	898	**207**	411

Notes
Continued

6. Staff numbers and expenses (continued)
Details of aggregate Directors' emoluments are provided below:

	2020 £'000	2019 £'000
Aggregate emoluments	**652**	645
Aggregate gains made on the exercise of share options	**26**	740
Aggregate amounts receivable under long-term incentive schemes	**109**	338
Company contribution to money purchase pension scheme	**69**	66
	856	1,789

Further details on Directors' emoluments, including details of the highest-paid Director, are included in the Directors' Remuneration report on pages 72 to 80.

7. Finance income and costs
Finance income

	2020 £'000	2019 £'000
Interest income	**26**	50

Finance costs

	2020 £'000	2019 £'000
Finance costs on bank loans	**1,280**	1,164
Lease liabilities interest	**31**	28
Amount capitalised	**(604)**	(933)
Finance costs expensed	**707**	259
Interest on defined benefit pension obligation (note 24)	**165**	203
	872	462

Capitalised borrowing costs
The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year, in this case 2.46% (2019: 3.38%).

8. Income tax expense

	2020 £'000	2019 £'000
UK corporation tax	**1,105**	1,011
Overseas tax	**120**	11
Adjustment to prior year UK corporation tax charge	**(381)**	(405)
Total current tax	**844**	617
Deferred tax	**294**	977
Income tax expense	**1,138**	1,594

8. Income tax expense (continued)

Factors affecting the tax charge

The weighted average applicable tax rate for the Group is 19.65% (2019: 18.72%). Differences arise on account of the following factors:

	2020 £'000	2019 £'000
Tax reconciliation		
Profit before tax	**8,301**	9,811
Tax at the UK tax rate of 19% (2019: 19%)	**1,577**	1,864
Effects of:		
Expenses not deductible for tax purposes	**223**	90
Research and development and other tax credits	**(250)**	(133)
(Utilisation of) tax losses for which no deferred income tax asset recognised	**(147)**	225
Effect of different overseas tax rates	**(28)**	(77)
Changes in tax rates	**79**	–
Other differences	**65**	30
Adjustments to prior year UK corporation tax charge	**(381)**	(405)
	1,138	1,594

The main rate of UK corporation tax which was substantively enacted for the period was 19%. On 1 September 2016, a reduction of the main rate of UK corporation tax to 17% from 1 April 2020 was enacted. However, on 11 March 2020 the Chancellor of the Exchequer presented his Budget to Parliament which maintained the main rate at 19%.

The Group has not identified any uncertain tax positions as at 31 December 2020 (2019: none).

9. Dividends and earnings per share

	2020 £'000	2019 £'000
Prior year final dividend of nil (2019: 4.15p) per 5.0p ordinary share	**–**	1,996
Interim dividend of 2.03p (2019: 2.03p) per 5.0p ordinary share	**977**	977
Dividends paid during the year	**977**	2,973

The proposed final dividend for the year ended 31 December 2020 of 4.27p per share (2019: nil) 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 £2,057k if paid to all shareholders on the Company register at the close of business on 7 May 2021.

Earnings per ordinary share

Earnings per ordinary share is calculated by dividing consolidated profit after tax attributable to equity holders of the Company of £7,163k (2019: £8,217k) by the weighted average number of shares in issue during the year, excluding own shares held by the EBT, which are administered by independent trustees. The number of shares held in the trust at 31 December 2020 was 459,201 (2019: 178,395). Distribution of shares from the trust is at the discretion of the trustees. Diluted earnings per ordinary share adjusts for the potential dilutive effect of share option schemes in accordance with IAS 33 Earnings per Share.

	2020	2019
Weighted average number of ordinary shares in issue	**48,186,077**	48,054,819
Adjustments for share options	**779,660**	752,321
Diluted number of ordinary shares issued	**48,965,737**	48,807,140

10. Investments in joint venture

During 2013, the Group entered into joint-venture arrangements with INOAC Corporation. As a result, the Group has a 50% interest in Azote Asia Limited (a private company incorporated in Hong Kong) and Inoac Zotefoams Korea Limited (incorporated in South Korea). Azote Asia Limited commenced trading in 2014 and is the exclusive distributor of Zotefoams' AZOTE® products in the Far East. The registered address and principal place of business is 1318-22, Park-In Commercial Centre, 56 Dundas Street, Kowloon, Hong Kong. Inoac Zotefoams Korea Limited remains non-trading. The registered address is 100, Jayumuyeok 5-gil, Masanhoewon-gu, Chang-won-si, Gyeongsangnam-do, Republic of Korea. As at the end of the year, there were no contingent liabilities relating to the Group's interest in the joint venture.

The joint venture has share capital consisting solely of ordinary shares, which is held directly by the Group. Azote Asia Limited is a private company and there is no quoted market price available for its shares.

A summarised statement of financial position of Inoac Zotefoams Korea Limited is not presented as the company is dormant.

Notes
Continued

10. Investments in joint venture (continued)
Set out below is the summarised financial information for Azote Asia Limited, which is accounted for using the equity method.

Summarised statement of financial position:

	As at 31 December	
	2020 £'000	2019 £'000
Cash and cash equivalents	**371**	255
Other current assets (excluding cash)	**1,027**	981
Total current assets	**1,398**	1,236
Financial liabilities (excluding trade payables)	**(76)**	(40)
Other current liabilities (including trade payables)	**(956)**	(906)
Total current liabilities	**(1,032)**	(946)
Net assets	**366**	290

Summarised statement of comprehensive income:

	As at 31 December	
	2020 £'000	2019 £'000
Revenue	**2,694**	3,716
Finance costs	**(2)**	(3)
Profit before tax	**76**	144
Income tax expense	**–**	–
Profit after tax	**76**	144
Other comprehensive income	**–**	–
Total comprehensive income	**76**	144
Dividend received from joint venture	**–**	–

The information above reflects the amounts presented in the financial statements of the joint venture. There are no material differences in accounting policies between the Group and the joint venture.

Reconciliation of the summarised financial information presented to the carrying amount of the interest in the joint venture is provided below:

	2020 £'000	2019 £'000
Opening net assets	**290**	146
Profit for the year	**76**	144
Other comprehensive income	**–**	–
Closing net assets	**366**	290
Interest in joint venture @ 50%	**183**	145

	2020 £'000	2019 £'000
Information of the joint venture		
Carrying value at 1 January	**145**	73
Share of profit for the year	**38**	72
Carrying value at 31 December	**183**	145

11. Property, plant and equipment

Group

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Under construction £'000	Total £'000
Cost					
Balance at 1 January 2019	18,984	80,813	3,297	22,722	125,816
Additions	8	744	172	23,912	24,836
Disposals	–	(77)	(16)	–	(93)
Transfers	12,383	3,364	496	(16,243)	–
Effect of movement in foreign exchange	(300)	(870)	(34)	(859)	(2,063)
Balance at 31 December 2019	31,075	83,974	3,915	29,532	148,496
Balance at 1 January 2020	**31,075**	**83,974**	**3,915**	**29,532**	**148,496**
Additions	**159**	**720**	**115**	**11,782**	**12,776**
Disposals	**–**	**(51)**	**(2)**	**–**	**(53)**
Transfers	**1,857**	**15,866**	**36**	**(17,759)**	**–**
Effect of movement in foreign exchange	**(298)**	**(1,472)**	**(33)**	**1,178**	**(625)**
Balance at 31 December 2020	**32,793**	**99,037**	**4,031**	**24,733**	**160,594**
Accumulated depreciation					
Balance at 1 January 2019	10,961	45,441	2,113	–	58,515
Depreciation charge for the year	657	3,784	354	–	4,795
Disposals	–	(8)	(8)	–	(16)
Effect of movement in foreign exchange	(147)	(281)	(22)	–	(450)
Balance at 31 December 2019	11,471	48,936	2,437	–	62,844
Balance at 1 January 2020	**11,471**	**48,936**	**2,437**	**–**	**62,844**
Depreciation charge for the year	**1,277**	**3,642**	**487**	**–**	**5,406**
Disposals	**–**	**(13)**	**–**	**–**	**(13)**
Effect of movement in foreign exchange	**(170)**	**(370)**	**(28)**	**–**	**(568)**
Balance at 31 December 2020	**12,578**	**52,195**	**2,896**	**–**	**67,669**
Net book value					
At 1 January 2019	8,023	35,372	1,184	22,722	67,301
At 31 December 2019 and 1 January 2020	19,604	35,038	1,478	29,532	85,652
At 31 December 2020	**20,215**	**46,842**	**1,135**	**24,733**	**92,925**

Depreciation is included in cost of sales in the income statement.

During the year, the Group has capitalised borrowing costs amounting to £604k (2019: £933k) on qualifying assets. Borrowing costs were capitalised at the rate of its general borrowings of 2.46% (2019: 3.38%)

Bank borrowings are secured on property, plant and equipment. Refer to note 19 for details.

Notes
Continued

11. Property, plant and equipment (continued)
Company

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Under construction £'000	Total £'000
Cost					
Balance at 1 January 2019	9,698	54,944	2,347	16,292	83,281
Additions	2	352	84	6,801	7,239
Transfers	12,431	2,830	496	(15,757)	–
Balance at 31 December 2019	22,131	58,126	2,927	7,336	90,520
Balance at 1 January 2020	**22,131**	**58,126**	**2,927**	**7,336**	**90,520**
Additions	**130**	**31**	**53**	**3,876**	**4,090**
Disposals	**–**	**(51)**	**–**	**–**	**(51)**
Transfers	**1,795**	**6,136**	**36**	**(7,967)**	**–**
Balance at 31 December 2020	**24,056**	**64,242**	**3,016**	**3,245**	**94,559**
Accumulated depreciation					
Balance at 1 January 2019	6,896	38,619	1,469	–	46,984
Depreciation charge for the year	222	2,123	272	–	2,617
Balance at 31 December 2019	7,118	40,742	1,741	–	49,601
Balance at 1 January 2020	**7,118**	**40,742**	**1,741**	**–**	**49,601**
Depreciation charge for the year	**841**	**1,772**	**398**	**–**	**3,011**
Disposals	**–**	**(13)**	**–**	**–**	**(13)**
Balance at 31 December 2020	**7,959**	**42,501**	**2,139**	**–**	**52,599**
Net book value					
At 1 January 2019	2,802	16,325	878	16,292	36,297
At 31 December 2019 and 1 January 2020	15,013	17,384	1,186	7,336	40,919
At 31 December 2020	**16,097**	**21,741**	**877**	**3,245**	**41,960**

12. Leases

(i) Amounts recognised in the statement of financial position relating to leases:

Right-of-use assets

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Property	**560**	72	**–**	–
Equipment	**837**	1,135	**780**	1,064
	1,397	1,207	**780**	1,064

Lease liabilities

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Current	**420**	369	**279**	291
Non-current	**986**	836	**504**	769
	1,406	1,205	**783**	1,060

Additions to the right-of-use assets during the financial year were £639k for the Group and £16k for the Company (2019: £930k for the Group and £914k for the Company).

(ii) Amounts recognised in the income statement relating to leases:

Depreciation charge of right-of-use assets

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Property	**99**	61	**–**	–
Equipment	**315**	250	**300**	238
	414	311	**300**	238
Interest expenses (included in finance costs)	**31**	28	**24**	23
Expense relating to short-term leases (included in cost of sales and administrative expenses)	**228**	233	**28**	24
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	**22**	19	**22**	2
The total cash outflow for leases	**433**	343	**318**	265

Notes
Continued

13. Intangible assets
Group

	Marketing related £'000	Customer related £'000	Technology related £'000	Software related £'000	Goodwill £'000	Capitalised development £'000	Total £'000
Cost							
Balance at 1 January 2019	248	396	4,930	2,574	2,381	597	11,126
Additions	–	–	207	586	–	121	914
Effect of movement in foreign exchange	(8)	(9)	(168)	–	(77)	–	(262)
Balance at 31 December 2019	240	387	4,969	3,160	2,304	718	11,778
Balance at 1 January 2020	**240**	**387**	**4,969**	**3,160**	**2,304**	**718**	**11,778**
Additions	**–**	**–**	**234**	**112**	**–**	**–**	**346**
Effect of movement in foreign exchange	**(8)**	**(8)**	**(177)**	**1**	**(76)**	**–**	**(268)**
Balance at 31 December 2020	**232**	**379**	**5,026**	**3,273**	**2,228**	**718**	**11,856**
Accumulated amortisation							
Balance at 1 January 2019	211	396	2,605	1,399	–	–	4,611
Charge for the year	25	–	240	398	–	–	663
Effect of movement in foreign exchange	(8)	(9)	(93)	–	–	–	(110)
Balance at 31 December 2019	228	387	2,752	1,797	–	–	5,164
Balance at 1 January 2020	**228**	**387**	**2,752**	**1,797**	**–**	**–**	**5,164**
Charge for the year	**12**	**–**	**266**	**558**	**–**	**90**	**926**
Effect of movement in foreign exchange	**(8)**	**(8)**	**(106)**	**–**	**–**	**–**	**(122)**
Balance at 31 December 2020	**232**	**379**	**2,912**	**2,355**	**–**	**90**	**5,968**
Net book value							
At 1 January 2019	37	–	2,325	1,175	2,381	597	6,515
At 31 December 2019 and 1 January 2020	12	–	2,217	1,363	2,304	718	6,614
At 31 December 2020	**–**	**–**	**2,114**	**918**	**2,228**	**628**	**5,888**

Amortisation is included in cost of sales in the income statement.

Goodwill arising on acquisition is allocated to the cash-generating unit (CGU) that is expected to benefit, being MEL. The recoverable amount of the CGU has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial forecasts approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used in the value-in-use calculations are as follows:

Key assumptions:

Sales growth and forecast contribution margin
This is based on past performance and management's expectations of market development over the five-year forecast period plus perpetuity.

Other operating costs
These are the fixed costs of the CGU, which do not vary significantly with sales volumes or prices. Management forecasts these costs based on the current structure of the business, adjusting for inflationary increases, and these do not reflect any future restructurings or cost-saving measures.

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 12%
The pre-tax discount rate applied to the cash flow forecasts for the CGU is derived from the estimated pre-tax weighted average cost of capital for the MEL CGU.

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

If the long-term growth rate was reduced to zero, the headroom would decrease by 34% but there would still be sufficient headroom. If the discount rate was increased to 13%, the headroom would decrease by 20% but there would still be sufficient headroom.

13. Intangible assets (continued)
Company

	Customer related £'000	Software related £'000	Capitalised development £'000	Total £'000
Cost				
Balance at 1 January 2019	121	2,574	597	3,292
Additions	–	586	121	707
Balance at 31 December 2019	121	3,160	718	3,999
Balance at 1 January 2020	**121**	**3,160**	**718**	**3,999**
Additions	**–**	**111**	**–**	**111**
Balance at 31 December 2020	**121**	**3,271**	**718**	**4,110**
Accumulated amortisation				
Balance at 1 January 2019	121	1,398	–	1,519
Charge for the year	–	398	–	398
Balance at 31 December 2019	121	1,796	–	1,917
Balance at 1 January 2020	**121**	**1,796**	**–**	**1,917**
Charge for the year	**–**	**558**	**89**	**647**
Balance at 31 December 2020	**121**	**2,354**	**89**	**2,564**
Net book value				
At 1 January 2019	–	1,176	597	1,773
At 31 December 2019 and 1 January 2020	–	1,364	718	2,082
At 31 December 2020	**–**	**917**	**629**	**1,546**

14. Investment in subsidiaries
Company

	2020 £'000	2019 £'000
Shares in Group undertakings – at cost	**30,576**	23,549
Additions during the year	**246**	7,027
	30,822	30,576

During the year, the Company, through its subsidiary Zotefoams International Limited, increased its share capital in Zotefoams Poland Sp. z.o.o. for the consideration of £246k.

Notes
Continued

14. Investment in subsidiaries (continued)

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

	Registered office	Ownership	Incorporated in:
Zotefoams International Limited	675 Mitcham Road, Croydon CR9 3AL	100%	Great Britain
Zotefoams Pension Trustees Limited	675 Mitcham Road, Croydon CR9 3AL	100%	Great Britain
Zotefoams Inc. (indirectly owned)	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, Delaware	100%	USA
Zotefoams Midwest LLC (indirectly owned)	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, Delaware	100%	USA
MuCell Extrusion LLC (indirectly owned)	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, Delaware	100%	USA
Zotefoams Operations Limited (indirectly owned)	675 Mitcham Road, Croydon CR9 3AL	100%	Great Britain
Zotefoams Technology Limited (indirectly owned)	675 Mitcham Road, Croydon CR9 3AL	100%	Great Britain
KZ Trading and Investment Limited (indirectly owned)	15/F OTB Building, 160 Gloucester Road, Hong Kong	100%	Hong Kong
Zotefoams T-FIT Material Technology (Kunshan) Limited (indirectly owned)	181 Huanlou Road, Kunshan, Jiangsu	100%	China
Zotefoams France SAS (indirectly owned)	29 Boulevard Albert Einstein, Nantes	100%	France
Zotefoams Poland Sp. z o.o. (indirectly owned)	Al. Jerozolimskie 56C, 00-803, Warsaw	100%	Poland
T-FIT Insulation Solutions India Private Limited (indirectly owned)	335 Udyog Vihar Phase IV Gurgaon, Gurgaon, Haryana 122015	100%	India

The principal activities of the subsidiary undertakings are as follows: Zotefoams International Limited is a holding company. Zotefoams Pension Trustees Limited and Zotefoams Technology Limited are currently inactive. Zotefoams Inc. purchases, manufactures and distributes cross-linked block foams. Zotefoams Midwest LLC, based in Oklahoma, USA is a trading company with operations in Oklahoma, USA and supplies specialist materials, based on AZOTE® foams, for the construction industry. MuCell Extrusion LLC holds and develops microcellular foam technology which it licenses to customers. Zotefoams Operations Limited is a trading company that distributes T-FIT® technical insulation products. KZ Trading and Investment Limited is a holding and trading company for Zotefoams T-FIT Material Technology (Kunshan) Limited (previously known as Kunshan Zotek King Lai Limited), which is a trading company based in Kunshan, China, processing Zotefoams foams into T-FIT technical insulation products and distributing them. Zotefoams France SAS is a wholly-owned subsidiary of Zotefoams International Limited and did not engage in any trading activities in 2020. Zotefoams Poland Sp. z.o.o, is a wholly-owned subsidiary of Zotefoams International Limited and did not engage in any trading activities in 2020. T-FIT Insulation Solutions India Private Limited incorporated and began trading in 2019, distributing T-FIT technical insulation products. In the opinion of the Directors, the investments in the Company's subsidiary undertakings are worth at least the amount at which they are stated in the statement of financial position.

Zotefoams plc Employee Benefit Trust (EBT) is a wholly owned entity with its registered office at Gaspe House, 66-72 Esplanade, St Helier, Jersey, JE2 3QT. The EBT releases shares in the Company when share awards vest or are exercised.

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 2020 of these companies have been guaranteed by the Company and no liability is expected to arise under this guarantee.

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

15. Inventories

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Raw materials and consumables	**13,674**	9,542	**10,167**	8,131
Work in progress	**5,348**	4,827	**4,268**	3,302
Finished goods	**4,011**	4,235	**2,419**	2,929
	23,033	18,604	**16,854**	14,362
Inventories are shown net of:				
Provision for impairment losses	**1,773**	1,756	**1,100**	1,315

In 2020, the value of inventory recognised by the Group as an expense in cost of goods sold was £31,760k (2019: £31,152k).

15. Inventories (continued)

Movement in provision

Movements in the inventory provision during the financial year are set out below:

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Provision for impairment losses as at 1 January	**1,756**	2,232	**1,315**	1,784
Inventories written off against provision	**(633)**	(409)	**(633)**	(311)
Additional provisions recognised	**816**	422	**584**	312
Unused amounts reversed	**(166)**	(489)	**(166)**	(470)
Provision for impairment losses as at 31 December	**1,773**	1,756	**1,100**	1,315

16. Trade and other receivables

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Amounts falling due over one year:				
Prepayments and accrued income	**54**	166	**54**	166
Amounts falling due within one year:				
Trade receivables	**19,766**	19,448	**15,836**	13,736
Amounts owed by Group undertakings	**–**	–	**32,815**	27,979
Other receivables	**1,331**	2,832	**488**	490
Prepayments and accrued income	**1,053**	1,035	**363**	341
	22,204	23,481	**49,556**	42,712

Amounts owed by Group undertakings are payable on demand. The trading portion does not attract any interest. Unsecured loans provided to Group undertakings totalling £23,519k (2019: £15,683k) attract an interest charge of 2.32% for loans linked to US dollar LIBOR, 2.10% for euro and 1.81% for sterling (2019: 3.29% for loans linked to US dollar LIBOR, 1.35% for euro and 2.54% for sterling).

Bank borrowings are secured on the trade receivables of the Group. Refer to note 19 for details.

17. Cash and cash equivalents

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Cash at bank and in hand	**8,503**	6,656	**6,328**	4,107

18. Trade and other payables

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Trade payables	**3,864**	3,066	**3,276**	2,555
Amounts owed to Group undertakings	**–**	–	**30**	–
Other taxation and social security	**811**	460	**452**	377
Other payables	**809**	737	**687**	385
Accruals and deferred income	**2,367**	2,568	**1,743**	1,588
	7,851	6,831	**6,188**	4,905

Amounts owed to Group undertakings are unsecured, repayable on demand and attract no interest.

Notes
Continued

19. Interest-bearing loans and borrowings

	Note	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Current bank borrowings		**23,430**	15,717	**23,430**	15,717
Non-current bank borrowings		**19,263**	21,630	**19,263**	21,630
	22	**42,693**	37,347	**42,693**	37,347

In May 2018, the Group completed a debt refinancing to enable it to continue to grow capacity and meet its expected demand growth. These facilities are secured against the property, plant and equipment and trade receivables of the Group. The total facility of £53.8m comprises a £25.0m multi-currency term loan, repayable in two equal instalments of £5.0m during year four and year five, with the remainder at the end of year five, a £25.0m multi-currency revolving credit facility, repayable on demand, and a further £3.8m sterling term loan, renewable annually and repayable over five years in equal quarterly repayments over the term. The negotiated facility also includes a £25.0m accordion feature to provide additional flexibility to pursue further investment opportunities in the future.

At the end of the financial year, the Group has utilised £25.0m ($27.3m and £4.5m) of the multi-currency term loan, £14.8m (€16.5m) of the revolving facility and has an outstanding £3.8m on the sterling term loan. The total amount of £42.7m above is net of £0.4m loan origination fees paid upfront, being amortised over the period of the loan.

The Group and the Company have the following undrawn borrowing facilities:

	2020 £'000	2019 £'000
Floating rate:		
Expiring within one year	**–**	–
Expiring beyond one year	**10,191**	17,725
Total	**10,191**	17,725

The difference of £0.5m between the utilised amount of £43.6m and £43.1m (£42.7m + £0.4m loan origination fees) is due to the different exchange rates used by the Group and the bank.

Reconciliation of liabilities arising from financing activities:

		Non-cash changes					
Group	2019 £'000	Net cash inflows/ (outflows) £'000	Loan origination fee £'000	Loan restructure £'000	Recognition of lease liabilities £'000	Foreign exchange movement £'000	**2020 £'000**
Long-term borrowings	21,630	3,197	87	(5,000)	–	(651)	**19,263**
Short-term borrowings	15,717	1,930	(32)	5,000	–	815	**23,430**
Total liabilities	37,347	5,127	55	–	–	164	**42,693**

		Non-cash changes					
Group	2018 £'000	Net cash inflows/ (outflows) £'000	Loan origination fee £'000	Loan restructure £'000	Recognition of lease liabilities £'000	Foreign exchange movement £'000	2019 £'000
Long-term borrowings	5,231	7,846	(74)	9,108	–	(481)	21,630
Short-term borrowings	14,500	10,903	(60)	(9,108)	–	(518)	15,717
Non-current lease liabilities	306	–	–	–	(306)	–	–
Total liabilities	20,037	18,749	(134)	–	(306)	(999)	37,347

19. Interest-bearing loans and borrowings (continued)

Company	2019 £'000	Net cash inflows/ (outflows) £'000	Non-cash changes: Loan origination fee £'000	Loan restructure £'000	Recognition of lease liabilities £'000	Foreign exchange movement £'000	**2020 £'000**
Long-term borrowings	21,630	3,197	87	(5,000)	–	(651)	**19,263**
Short-term borrowings	15,717	1,930	(32)	5,000	–	815	**23,430**
Total liabilities	37,347	5,127	55	–	–	164	**42,693**

Company	2018 £'000	Net cash inflows/ (outflows) £'000	Non-cash changes: Loan origination fee £'000	Loan restructure £'000	Recognition of lease liabilities £'000	Foreign exchange movement £'000	2019 £'000
Long-term borrowings	5,231	7,846	(74)	9,108	–	(481)	21,630
Short-term borrowings	14,500	10,903	(60)	(9,108)	–	(518)	15,717
Non-current lease liabilities	306	–	–	–	(306)	–	–
Total liabilities	20,037	18,749	(134)	–	(306)	(999)	37,347

20. 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	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
Property, plant and equipment	**–**	–	**1,986**	1,480	**1,986**	1,480
Rolled-over gain	**–**	–	**613**	548	**613**	548
Inventories	**(374)**	(190)	**–**	–	**(374)**	(190)
Derivatives financial instruments	**–**	–	**295**	34	**295**	34
Defined benefit pension scheme	**(1,681)**	(1,177)	**–**	–	**(1,681)**	(1,177)
Share option charges	**(317)**	(211)	**–**	–	**(317)**	(211)
Tax value of recognised losses carried forward	**(140)**	(137)	**–**	–	**(140)**	(137)
	(2,512)	(1,715)	**2,894**	2,062	**382**	347
Set off	**2,003**	1,388	**(2,003)**	(1,388)	**–**	–
Deferred tax (assets)/liabilities	**(509)**	(327)	**891**	674	**382**	347

Unrecognised deferred tax assets

The Group has tax losses carried forward in the USA of $1,100k (2019: $1,608k) which expire between 2022 and 2037 under prevailing tax legislation. In addition to this, the Group has further tax losses in the USA of $15,622k (2019: $11,668k) which are carried forward indefinitely. At year-end exchange rates, these tax losses translate to £12,240k (2019: £10,047k). Of the above, the Board expects to utilise only tax losses of £667k (2019: £657k) in the upcoming years based on projections. Applying the enacted tax rate of 21% (2019: 21%), the Group has recognised a deferred tax asset of £140k (2019: £137k) on such tax losses expected to be utilised in future periods.

The Group can potentially recover £374k (2019: £190k) of the deferred tax asset within 12 months of the reporting period. The remainder of the deferred tax asset will be recovered more than 12 months after the reporting period.

The Group can potentially settle £295k (2019: £34k) of the deferred tax liability within 12 months of the reporting period. The remainder of the deferred tax liability will be settled more than 12 months after the reporting period.

Notes
Continued

20. Deferred tax assets and liabilities (continued)
Movement in deferred tax

	Property, plant and equipment £'000	Rolled-over gain £'000	Inventories £'000	Derivative financial instruments £'000	Defined Benefit Pension Scheme £'000	Share option charges £'000	Tax value of recognised losses carried forward £'000	Total £'000
Balance at 1 January 2019	1,121	548	(277)	(67)	(1,373)	(521)	(354)	(923)
Charged to the income statement	360	–	87	–	250	64	216	977
Recognised in other comprehensive income	–	–	–	101	(54)	246	–	293
Balance at 31 December 2019	1,481	548	(190)	34	(1,177)	(211)	(138)	347
Balance at 1 January 2020	**1,481**	**548**	**(190)**	**34**	**(1,177)**	**(211)**	**(138)**	**347**
Charged to the income statement	**505**	**65**	**(184)**	**5**	**(37)**	**(58)**	**(2)**	**294**
Recognised in other comprehensive income	**–**	**–**	**–**	**256**	**(467)**	**(48)**	**–**	**(259)**
Balance at 31 December 2020	**1,986**	**613**	**(374)**	**295**	**(1,681)**	**(317)**	**(140)**	**382**

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

	Assets		Liabilities		Net	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
Property, plant and equipment	**–**	–	**1,986**	1,481	**1,986**	1,481
Rolled-over gain	**–**	–	**613**	548	**613**	548
Derivative financial instruments	**–**	–	**290**	34	**290**	34
Defined benefit pension scheme	**(1,681)**	(1,177)	**–**	–	**(1,681)**	(1,177)
Share option charges	**(317)**	(211)	**–**	–	**(317)**	(211)
	(1,998)	(1,388)	**2,889**	2,063	**891**	675
Set off	**1,998**	1,388	**(1,998)**	(1,388)	**–**	–
Deferred tax (assets)/liabilities	**–**	–	**891**	675	**891**	675

Movement in deferred tax

	Property, plant and equipment £'000	Rolled-over gain £'000	Derivative financial instruments £'000	Defined Benefit Pension Scheme £'000	Share option charges £'000	Total £'000
Balance at 1 January 2019	1,121	548	(67)	(1,373)	(521)	(292)
Charged to the income statement	360	–	–	250	64	674
Recognised in other comprehensive income	–	–	101	(54)	246	293
Balance at 31 December 2019	1,481	548	34	(1,177)	(211)	675
Balance at 1 January 2020	**1,481**	**548**	**34**	**(1,177)**	**(211)**	**675**
Charged to the income statement	**505**	**65**	**–**	**(37)**	**(58)**	**475**
Recognised in other comprehensive income	**–**	**–**	**256**	**(467)**	**(48)**	**(259)**
Balance at 31 December 2020	**1,986**	**613**	**290**	**(1,681)**	**(317)**	**891**

21. Issued share capital

Issued, allotted and fully paid ordinary shares of 5p each:

	Number of shares	Par value £'000	Share premium £'000	Total £'000
At 1 January 2019 and 31 December 2019	48,301,234	2,415	44,178	46,593
Opening balance 1 January 2020	48,301,234	2,415	44,178	46,593
Share issue to Employee Benefit Trust	320,000	16	–	16
Closing balance 31 December 2020	**48,621,234**	**2,431**	**44,178**	**46,609**

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.

Nature and purpose of other reserves

Capital redemption reserve

On the buy-back and cancellation of preference shares, an amount equal to the par value was transferred from retained earnings to the capital redemption reserve for capital maintenance purposes.

Translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the income statement when the net investment is disposed of.

Hedging reserve

The hedging reserve includes the cash flow hedging reserve and the costs of hedging reserve (see note 22 for details). The cash flow hedging reserve is used to recognise the effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges. Amounts are subsequently reclassified to the income statement as appropriate.

22. Financial instruments and financial risk management

Policy

The Group's and Company's principal financial instruments include cash in hand and at bank and interest-bearing loans and borrowings, 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. Per the Group's and Company's policy, no trading in financial instruments is 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 consistent throughout the year.

Credit risk

Credit risk is managed on a Group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents and derivative financial instruments with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. A financial asset is considered in default when the counterparty fails to pay its contractual obligations. Financial assets are written off when there is no expectation of recovery.

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

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

Notes
Continued

22. Financial instruments and financial risk management (continued)
Credit quality of financial assets

Counterparties without external credit rating:	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Existing customers with no defaults in the past	**19,427**	18,219	**15,511**	13,143
Existing customers with some defaults in the past, net of impairment allowance	**339**	1,229	**325**	593
	19,766	19,448	**15,836**	13,736

Cash at bank	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Moody's P-1	**8,220**	6,656	**6,328**	4,107
Moody's P-3	**283**	–	**–**	–
	8,503	6,656	**6,328**	4,107

Derivative financial assets	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Moody's P-1	**966**	332	**966**	332
Moody's P-2	**614**	–	**614**	–
	1,580	332	**1,580**	332

While cash and cash equivalents are subject to impairment review under IFRS 9 "Financial Instruments", the identified impairment loss was immaterial (2019: immaterial).

Trade receivables are analysed as follows:

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Gross carrying amount	**19,798**	19,560	**15,847**	13,786
– due for less than 60 days	**19,324**	18,733	**15,841**	13,786
– due for more than 60 days	**474**	827	**6**	–
Expected loss rate				
– due for less than 60 days	**0.06%**	0.29%	**0.07%**	0.36%
– due for more than 60 days	**4.43%**	6.96%	**0.00%**	0.00%
Loss allowance	**32**	112	**11**	49
Trade receivables net of allowances	**19,766**	19,448	**15,836**	13,737

22. Financial instruments and financial risk management (continued)

Loss allowances analysed as follows:

	Group £'000	Company £'000
At 1 January 2019	25	25
Increase in loss allowance recognised in profit or loss during the year	177	114
Reversal of loss allowance on collection of dues	(90)	(90)
At 31 December 2019	112	49
At 1 January 2020	**112**	**49**
Increase in loss allowance recognised in profit or loss during the year	**11**	**11**
Receivable written off during the year as uncollectable	**(42)**	**–**
Reversal of loss allowance on collection of dues	**(49)**	**(49)**
At 31 December 2020	**32**	**11**

The normal terms of trade are between 30 and 90 days from the end of the month of invoice.

The credit quality of trade receivables that are neither past due nor impaired is assessed individually based on credit history and experience. In 2020 and 2019, the Group and Company insured a significant portion of their trade receivable balances to mitigate credit risk. The uninsured exposure as at 31 December 2020 for the Group was £12,037k (2019: £8,992k) and for the Company was £8,467k (2019: £5,813k). The Group and the Company make provisions against trade receivables, such provisions being based on the debtor's prior credit history and knowledge of any adverse conditions affecting the debtor (e.g. receivership or liquidation). The Directors believe an adequate provision has been made for trade receivables at the year end. None of the amounts owed by Group undertakings are impaired.

Interest rate risk

The Group's and Company's interest rate risk arises from long-term borrowings and short-term borrowings. Borrowings issued at variable rates expose the Group and Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group and Company have strong cash generation from their operations and closely monitor their borrowing levels to manage the interest rate risk.

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

	2020			2019		
Group	**Effective interest rate %**	**Fixed rates £'000**	**Variable rates £'000**	Effective interest rate %	Fixed rates £'000	Variable rates £'000
Dollar short-term borrowings	**2.35%**	**–**	**500**	–	–	–
Sterling short-term borrowings	**1.97%**	**–**	**8,250**	2.51%	–	5,250
Euro short-term borrowings	**2.10%**	**–**	**14,842**	1.37%	–	10,598
Dollar long-term borrowings	**2.35%**	**–**	**19,492**	3.34%	–	21,946
Total*		**–**	**43,084**		–	37,794

	2020			2019		
Company	**Effective interest rate %**	**Fixed rates £'000**	**Variable rates £'000**	Effective interest rate %	Fixed rates £'000	Variable rates £'000
Dollar short-term borrowings	**2.35%**	**–**	**500**	–	–	–
Sterling short-term borrowings	**1.97%**	**–**	**8,250**	2.51%	–	5,250
Euro short-term borrowings	**2.10%**	**–**	**14,842**	1.37%	–	10,598
Dollar long-term borrowings	**2.35%**	**–**	**19,492**	3.34%	–	21,946
Total*		**–**	**43,084**		–	37,794

* The total amount of £43,084k is gross of £391k loan origination fees paid upfront, being amortised over the period of the loan (2019: £37,794k is gross of £447k loan origination fees).

The impact on post tax profit of a 1% shift in the variable rate borrowings would be £349k (2019: £306k).

Notes
Continued

22. Financial instruments and financial risk management (continued)

Liquidity risk

Group Finance performs cash flow forecasting in the operating entities of the Group, which is then aggregated. Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure that it has sufficient cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities (note 19) at all times, so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and any applicable external regulatory or legal requirements.

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

	2020					2019				
Group	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	More than 2 years £'000	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	More than 2 years £'000
Non-derivative financial liabilities										
Interest-bearing loans and borrowings	**(42,693)**	**(44,388)**	**(24,199)**	**(5,400)**	**(14,789)**	(37,347)	(40,009)	(16,847)	(5,582)	(17,580)
Trade and other payables	**(4,673)**	**(4,673)**	**(4,673)**	**–**	**–**	(3,803)	(3,803)	(3,803)	–	–
Lease liabilities	**(1,406)**	**(1,467)**	**(448)**	**(399)**	**(620)**	(1,205)	(1,322)	(411)	(333)	(578)
Total non-derivative financial liabilities	**(48,772)**	**(50,528)**	**(29,320)**	**(5,799)**	**(15,409)**	(42,355)	(45,134)	(21,061)	(5,915)	(18,158)
Derivative financial liabilities	**(53)**	**(53)**	**(53)**	**–**	**–**	(134)	(134)	(134)	–	–

	2020					2019				
Company	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	More than 2 years £'000	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	More than 2 years £'000
Non-derivative financial liabilities										
Interest-bearing loans and borrowings	**(42,693)**	**(44,388)**	**(24,199)**	**(5,400)**	**(14,789)**	(37,347)	(40,009)	(16,847)	(5,582)	(17,580)
Trade and other payables	**(3,963)**	**(3,963)**	**(3,963)**	**–**	**–**	(2,940)	(2,940)	(2,940)	–	–
Lease liabilities	**(783)**	**(815)**	**(296)**	**(252)**	**(267)**	(1,060)	(1,117)	(316)	(292)	(509)
Total non-derivative financial liabilities	**(47,439)**	**(49,166)**	**(28,458)**	**(5,652)**	**(15,056)**	(41,347)	(44,066)	(20,103)	(5,874)	(18,089)
Derivative financial liabilities	**(53)**	**(53)**	**(53)**	**–**	**–**	(134)	(134)	(134)	–	–

Foreign currency risk

The Group and Company operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and euro. Foreign exchange risk arises from recognised assets and liabilities and future commercial transactions.

Foreign exchange risk is managed centrally by Group Finance. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Company's functional currency.

The Group's policy is to use forward currency contracts to cover approximately two-thirds of the estimated net cash foreign exchange trading exposure for the euro and US dollar for the next 12 months, as well as cover approximately 25% of the estimated net cash foreign exchange trading exposure for the following six months. The Group also hedges its exposure to foreign currency denominated assets, where possible, by offsetting them with same-currency liabilities, primarily through borrowing in the relevant currency. These foreign currency denominated assets, which are translated on a mark to market basis every month and the movement on which is taken to the income statement, include loans made by the Company to, and intercompany trading balances with, its overseas subsidiaries, the effect of which is cash neutral. They also include non-sterling accounts receivable, held on the Company's statement of financial position, the impact of which should reverse through forward currency contracts, but are subject to the timing between accounts receivable recording and cash received.

22. Financial instruments and financial risk management (continued)

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

	2020		2019	
	Average	Closing	Average	Closing
Euro/sterling	0.88	0.90	0.88	0.85
US dollar/sterling	0.78	0.73	0.79	0.76

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

Recognised assets and liabilities

The table below shows non-derivative financial instruments of the Group and Company in currencies other than sterling:

Group – 2020	Euro £'000	US dollar £'000	Other £'000	Total £'000
Cash and cash equivalents	834	3,391	542	4,767
Trade receivables	3,700	11,553	736	15,989
Trade payables	(2,254)	(522)	(123)	(2,899)

Group – 2019	Euro £'000	US dollar £'000	Other £'000	Total £'000
Cash and cash equivalents	2,085	1,940	518	4,543
Trade receivables	3,476	11,312	2,931	17,719
Trade payables	(803)	(937)	(81)	(1,821)

Company – 2020	Euro £'000	US dollar £'000	Other £'000	Total £'000
Cash and cash equivalents	512	2,063	36	2,611
Trade receivables	3,352	8,287	139	11,778
Trade payables	(2,133)	(244)	–	(2,377)

Company – 2019	Euro £'000	US dollar £'000	Other £'000	Total £'000
Cash and cash equivalents	1,219	718	174	2,111
Trade receivables	3,401	6,508	2,092	12,001
Trade payables	(786)	(567)	(32)	(1,385)

22. Financial instruments and financial risk management (continued)

Forecast transactions

The Group and the Company classify their forward exchange contracts used to hedge forecast transactions as cash flow hedges. The fair value of such forward exchange contracts is shown in the table below:

31 December 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Forward exchange contracts	**–**	**1,580**	**–**	**1,580**
Total assets	**–**	**1,580**	**–**	**1,580**
Liabilities				
Forward exchange contracts	**–**	**(53)**	**–**	**(53)**
Total liabilities	**–**	**(53)**	**–**	**(53)**

31 December 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Forward exchange contracts	–	332	–	332
Total assets	–	332	–	332
Liabilities				
Forward exchange contracts	–	(134)	–	(134)
Total liabilities	–	(134)	–	(134)

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as at 31 December 2020 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement. This is generally within 12 months of the end of the reporting period.

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. In hedges of forward exchange contracts, ineffectiveness mainly arises if the timing of the forecast transaction changes from what was originally estimated. There was no ineffectiveness during 2020 or 2019 in relation to the forward exchange contracts.

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).

Derivative financial instruments are valued using Handelsbanken and NatWest mid-market rate (2019: Handelsbanken and NatWest mid-market rate) at the statement of financial position date.

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

	2020				2019			
Group and Company:	**Foreign currency**	**Contract value £'000**	**Transaction fair value £'000**	**Contract fair value £'000**	Foreign currency	Contract value £'000	Transaction fair value £'000	Contract fair value £'000
Sell EUR	**€2,800**	**2,509**	**2,519**	**(10)**	–	–	–	–
Buy EUR	**€600**	**553**	**566**	**(13)**	–	–	–	–
Sell USD	**$33,600**	**26,101**	**24,551**	**1,550**	$23,751	18,172	17,974	198
Buy USD	**–**	**–**	**–**	**–**	–	–	–	–

22. Financial instruments and financial risk management (continued)

Sensitivity analysis

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

In respect of the retranslation of monetary items, at 31 December 2020, it is estimated that an increase of one percentage point in the value of sterling against the euro would increase the Group's profit before tax by approximately £11k (2019: decrease of £29k) before forward exchange contracts and £39k (2019: decrease of £20k) after forward exchange contracts are included.

In respect of the retranslation of monetary items, at 31 December 2020, it is estimated that an increase of one percentage point in the value of sterling against the US dollar would decrease the Group's profit before tax by approximately £251k (2019: £261k) before forward exchange contracts and £82k (2019: £20k) after forward exchange contracts are included.

Financial instruments by category

		2020			2019		
Group		**Financial assets at amortised cost £'000**	**Derivatives used for hedging £'000**	**Financial liabilities at amortised cost £'000**	Financial assets at amortised cost £'000	Derivatives used for hedging £'000	Financial liabilities at amortised cost £'000
Trade and other receivables		**21,097**	**–**	**–**	22,280	–	–
Cash and cash equivalents		**8,503**	**–**	**–**	6,656	–	–
Bank overdraft		**–**	**–**	**–**	–	–	–
Derivative financial instruments	– assets	**–**	**1,580**	**–**	–	332	–
	– liabilities	**–**	**(53)**	**–**	–	(134)	–
Interest-bearing loans and borrowings		**–**	**–**	**(42,693)**	–	–	(37,347)
Trade and other payables		**–**	**–**	**(4,673)**	–	–	(3,803)
Lease liability		**–**	**–**	**(1,406)**	–	–	(1,205)

		2020			2019		
Company		**Financial assets at amortised cost £'000**	**Derivatives used for hedging £'000**	**Financial liabilities at amortised cost £'000**	Financial assets at amortised cost £'000	Derivatives used for hedging £'000	Financial liabilities at amortised cost £'000
Trade and other receivables		**49,139**	**–**	**–**	42,205	–	–
Cash and cash equivalents		**6,328**	**–**	**–**	4,107	–	–
Bank overdraft		**–**	**–**	**–**	–	–	–
Derivative financial instruments	– assets	**–**	**1,580**	**–**	–	332	–
	– liabilities	**–**	**(53)**	**–**	–	(134)	–
Interest-bearing loans and borrowings		**–**	**–**	**(42,693)**	–	–	(37,347)
Trade and other payables		**–**	**–**	**(3,963)**	–	–	(2,940)
Lease liability		**–**	**–**	**(783)**	–	–	(1,060)

Capital management

The Group's objectives, when managing capital, are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group can adjust the amount of dividends paid to shareholders, issue new shares, sell assets or manage investment expenditure to reduce debt.

The Group monitors capital on the basis of the following leverage ratio: Net Borrowings divided by the previous 12 months' EBITDA (as per bank facility agreement).

Loan covenants

Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants:

- The ratio of net borrowings on the last day of the relevant period to Earnings before interest, tax, depreciation and amortisation, share of profit/(loss) from joint venture, equity-settled share-based payments and exceptional items (EBITDA) shall not exceed 3.00:1.00
- The ratio of EBITDA to net finance charges in respect of the relevant period shall not be less than 4.00:1.00

The Group has complied with these covenants throughout the financial year.

Notes
Continued

22. Financial instruments and financial risk management (continued)

	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Net borrowings	**34,190**	30,691
EBITDA	**16,156**	15,261
Net borrowings/EBITDA	**2.12**	2.01
Net finance charges	**681**	209
EBITDA/Net finance charges	**23.72**	73.16

Net borrowings comprise current and non-current interest-bearing loans and borrowings of £42,693k, as per note 19, and cash and cash equivalents of £8,503k as per note 17.

EBITDA comprises:

	2020 £'000	2019 £'000
Profit for the year	**7,163**	8,217
Depreciation and amortisation	**6,746**	5,769
Finance costs	**846**	412
Share of profit from joint venture	**(38)**	(72)
Equity-settled share-based payments	**300**	391
Taxation	**1,138**	1,594
Exceptional items	**–**	(1,050)
	16,155	15,261

Net finance charges comprise interest income of £26k and finance costs expensed of £707k as per note 7.

The Group's objective is to maintain leverage below the Board's appetite of 2.0. However, it has accepted that this ratio will increase as the Group's capacity expansion programme completes, while remaining below the covenant level. This will reduce quickly back below the Board's appetite, as this new capacity gets utilised.

The bank covenant definition does not include the impact of IFRS 16 "Leases", which would have moved the ratio from 2.12 to 2.20.

The Group defines its return on capital as operating profit before exceptional items divided by the average sum of its equity, net debt and other non-current liabilities. This measure excludes acquired intangible assets and their amortisation costs. The Group also excludes significant capacity investments under construction until they enter production. In 2020, the return on capital was 9.0% (2019: 10.5%). If the significant capacity investments were included, the return on capital was 7.1% (2019: 8.1%).

23. Commitments

	Group		Company	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:				
Property, plant and equipment	**1,475**	2,966	**471**	2,118

24. Post-employment benefits

Defined benefit pension plans

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

There are three categories of pension scheme members:

- Deferred members with salary linkage: current employees of the Company who have not consented to the break in their salary link;
- Deferred members: former and current employees of the Company not yet in receipt of pension; and
- Pensioner members: in receipt of pension.

The defined benefit obligation is valued by projecting the best estimate of future benefit outgoings (allowing for future salary increases for deferred members with salary linkage, revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the statement of financial position date. The majority of benefits received increases in line with inflation (subject to a cap of no more than 5% per annum). 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 2020 was 16 years (2019: 17 years).

Future funding obligation

The Trustees are required to carry out an actuarial valuation every three years.

The last actuarial valuation of the DB Scheme was performed by the DB Scheme Actuary for the Trustees as at 5 April 2017. This valuation revealed a funding shortfall of £4.175m.

In respect of the deficit in the DB Scheme as at 5 April 2017, the Company has agreed to pay £519,600 p.a. from 1 August 2018 for eight years and three months. In addition, the Company will pay £180,000 p.a. to cover administration expenses, Pension Protection Fund levies and premiums for death in service lump sums associated with the Scheme.

The Company therefore currently expects to pay £699,600 to the Scheme during the account year beginning 1 January 2021, however there is currently a valuation underway as at 5 April 2020 which, when finalised, will reveal a different funding level and therefore will likely result in a different recovery plan for the future.

Method and assumptions

The initial results of the valuation as at 5 April 2020 have been updated to 31 December 2020 by a qualified independent actuary.

The assumptions used were as follows:

	As at 31 December 2020	As at 31 December 2019
Discount rate	**1.20%**	1.90%
RPI inflation	**2.90%**	2.90%
CPI inflation	**2.30%**	1.90%
Salary increases	**2.30%**	1.90%
Pension increases		
– Post 88 GMP	**2.10%**	1.80%
– Non GMP	**2.90%**	2.90%
Revaluation of deferred pensions in excess of GMP	**2.30%**	1.90%
Mortality (pre and post-retirement)	**100% S3PMA_M/100% S3PFA_M CMI_2019_M/F 1.25% (yob)**	102% S3PMA/100% S3PFA CMI_2018_M/F 1.25% (yob)

Life expectancies (in years):

	Year ended 31 December 2020		Year ended 31 December 2019	
	Males	**Females**	Males	Females
For an individual aged 65 in 2020	**21.3**	**23.6**	21.7	23.4
At age 65 for an individual aged 45 in 2020	**22.6**	**25.2**	23.0	24.9

Notes
Continued

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

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

- Diversification: investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.
- Investment strategy: the Trustees are required to review their investment strategy on a regular basis.
- ALM: the Scheme invests in an asset-liability matching (ALM) framework that aims to achieve long-term investment returns in line with the obligations under the Scheme. This is achieved through around 25% of assets being invested in Liability Driven Investment funds.

	Change in assumption	Change in defined benefit obligation
Discount rate	+0.5%/–0.5% pa	–8%/+9%
RPI inflation	+0.5%/–0.5% pa	+7%/–7%
Assumed life expectancy	+1 year	+4%

These calculations provide an approximate guide to the sensitivity of results and may not be as accurate as a full valuation carried out on these assumptions. Each assumption change is considered in isolation, which in practice is unlikely to occur, as changes in some of the assumptions are correlated.

The assets of the Scheme are invested as follows:

	Year ended 31 December 2020		Year ended 31 December 2019	
Asset class	**Market value £'000**	**% of total Scheme assets**	Market value £'000	% of total Scheme assets
Equities and other growth assets	**16,319**	**51%**	14,634	50%
Diversified Credit Funds	**6,308**	**20%**	5,867	20%
Liability Driven Investments	**7,409**	**23%**	7,001	23%
Cash	**804**	**3%**	1,081	4%
Other	**1,078**	**3%**	977	3%
Total	**31,918**	**100%**	29,560	100%
Actual return on assets over the year	**2,949**		3,113	

Note: All assets listed above have a quoted market price in an active market (except for the reserve for insured pensioners).

The amounts recognised in the statement of financial position are determined as follows:

	2020 £'000	2019 £'000
Market value of plan assets	**31,918**	29,560
Present value of Defined Benefit Pension Scheme obligation	**(40,769)**	(36,486)
Deficit – recognised as a liability in the statement of financial position	**(8,851)**	(6,926)

24. Post-employment benefits (continued)

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

	2020 £'000	2019 £'000
Value of defined benefit obligation at the start of the year	**36,486**	33,728
Interest cost	**721**	899
Benefits paid	**(1,291)**	(877)
Actuarial (gains)/losses: experience differing from that assumed	**(117)**	355
Actuarial losses/(gains): changes in demographic assumptions	**19**	(827)
Actuarial losses: changes in financial assumptions	**4,951**	3,208
Value of defined benefit obligation at the end of the year	**40,769**	36,486

The movement in the value of the plan assets over the year is as follows:

	2020 £'000	2019 £'000
Market value of plan assets at the start of the year	**29,560**	25,650
Interest income	**556**	696
Actual return on plan assets	**2,393**	2,417
Employer contributions *	**700**	1,674
Benefits paid	**(1,291)**	(877)
Market value of assets at the end of the year	**31,918**	29,560

* The 2019 employer contributions amount includes £941k of the repayment made to the Defined Benefit Pension Scheme as per note 4.

	2020 £'000	2019 £'000
Statement of financial position for:		
– Defined benefit pension scheme obligations	**(8,851)**	(6,926)
Income statement charge for:		
– Defined benefit pension interest cost	**(165)**	(203)
Actuarial losses recognised in other comprehensive income for:		
– Defined benefit pension scheme	**(2,460)**	(319)

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. In addition to the above, the Company created two further stakeholder schemes for future joiners. The contributions paid by the Company in 2020 were £755k (2019: £828k).

For certain non-UK based employees of the Company, the Company makes contributions into individual schemes. The contributions paid by the Company in 2020 were £4k (2019: £17k).

For USA based employees, Zotefoams Inc. operates a 401(k) plan. The contributions paid by Zotefoams Inc. in 2020 were £263k (2019: £246k).

Notes
Continued

25. Share-based payments

The Company has a share option scheme that entitles senior management personnel to purchase shares in the Company. Options are exercisable at a price equal to the lower of the mid-market price of the Company's shares the day before the option is granted or the average mid-market price for 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 will expire. Depending on the circumstances, options are normally forfeited if the employee leaves the Group before the options vest.

In 2007, the Company introduced an LTIP scheme for senior management personnel. Shares are awarded in the Company and vest after three years to the extent performance conditions are met. Dependent on the circumstances, awards are normally forfeited if the employee leaves the Group before the award vests. A new LTIP scheme was introduced in 2017, which operates in a similar way to the LTIP scheme introduced in 2007. No new awards are made under the 2007 scheme. Depending on the circumstances, options are normally forfeited if the employee leaves the Group before the options vest.

In 2007, the Company introduced a Deferred Bonus Share Plan. Originally under the Plan executive bonuses over 40% of eligible salary were held as deferred shares for three years. In 2014, the Remuneration Committee amended the Deferred Bonus Share 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. A new Deferred Bonus Share Plan scheme was introduced in 2017, which operates in a similar way to the old Plan introduced in 2007. No new awards are made under the 2007 Plan. 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 72 to 80.

Movements in share options during the year are as follows:

The options outstanding at 31 December 2020 have an exercise price between 245.7p and 572.0p and a weighted contractual life of six years (2019: seven years).

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

	2020		2019	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Outstanding at the beginning of the year	**97,120**	**331**	116,198	278
Exercised during the year	**–**	**–**	(27,584)	290
Granted during the year	**–**	**–**	15,164	572
Forfeited during the year	**(7,854)**	**382**	(6,658)	375
Outstanding at the end of the year	**89,266**	**327**	97,120	331
Exercisable at the end of the year	**77,598**	**290**	55,236	262

Movements in LTIP awards during the year are as follows:

	2020		2019	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Outstanding at the beginning of the year	**741,767**	**–**	706,868	–
Exercised during the year	**–**	**–**	(176,062)	–
Granted during the year	**264,615**	**–**	216,250	–
Forfeited during the year	**(178,717)**	**–**	(5,289)	–
Outstanding at the end of the year	**827,665**	**–**	741,767	–
Exercisable at the end of the year	**–**	**–**	–	–

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

	2020		2019	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Outstanding at the beginning of the year	**49,135**	**–**	50,796	–
Exercised during the year	**(33,014)**	**–**	(12,220)	–
Granted during the year	**139,763**	**–**	10,559	–
Outstanding at the end of the year	**155,884**	**–**	49,135	–
Exercisable at the end of the year	**–**	**–**	–	–

25. Share-based payments (continued)

Fair value of share options and assumptions

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

	30-Mar-15	17-Aug-15	05-Apr-16	27-Mar-17	24-Aug-17	16-Apr-19
Share price (p)	285	310	290	305.5	305.5	572
Exercise price (p)	285	301.7	290	305.5	327.5	572
Expected volatility	35%	35%	35%	35%	35%	25%
Option life	Five years	Five years	Five years	Five years	Five years	Three years
Expected dividends (p) (assumed to be increasing at 2.5% p.a.)	5.5	5.5	5.6	5.7	5.7	5.5
Risk free interest rate (based on national government bonds)	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Fair value at grant date (p)	80	90	80	103.1	111.1	103

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 Share Plan awards are granted under a service condition.

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

	2020 £'000	2019 £'000
Within administrative expenses – share-based payment charge	**300**	390
– related National Insurance	**57**	(21)

Of the above, amounts relating to Directors of Zotefoams plc aggregate to £177k (2019: £199k).

26. Related parties

Directors

The Directors of the Company as at 31 December 2020 and their immediate relatives control approximately 1.1% (2019: 1.2%) of the voting shares of the Company. Details of Directors' pay and remuneration are given in the Directors' Remuneration report on pages 72 to 80. Executive Directors are considered to be the only key management personnel. Details of compensation paid to key management personnel are included in note 6.

Subsidiaries and joint venture

Details of the joint venture and subsidiaries of the Company are set out in notes 10 and 14. These companies are considered to be related parties.

The following material transactions were carried out with related parties:

	2020 £'000	2019 £'000
Sale of goods: subsidiaries of the Company	**6,465**	7,481
Sale of services: subsidiaries of the Company	**760**	1,636
Loans given (net of repayments): subsidiaries of the Company	**8,606**	15,683
Interest income: subsidiaries of the Company	**569**	101
Sale of goods: joint venture of the Company	**2,155**	3,112
Sale of services: joint venture of the Company	**407**	813
Total	**18,962**	28,826

Notes
Continued

26. Related parties (continued)
Balances between the Company and its active subsidiaries and joint venture are as follows:

	Receivable from/(payable to)		Investment in	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Zotefoams Inc	**9,426**	9,204	**–**	–
KZ Trading and Investment Ltd	**1,498**	1,895	**–**	–
Azote Asia Limited	**896**	907	**–**	–
MuCell Extrusion LLC	**3,424**	96	**–**	–
Zotefoams International Limited	**15,087**	14,317	**30,822**	30,576
Zotefoams Operations Limited	**76**	1	**–**	–
Zotefoams T-FIT Material Technology (Kunshan) Limited	**2,402**	22	**–**	–
Zotefoams Poland Sp. z o.o.	**523**	809	**–**	–
Zotefoams France SAS	**(30)**	–	**–**	–
T-FIT Insulation Solutions India Private Limited	**379**	131	**–**	–

27. Changes in accounting estimates
Following a review of the Group's assets, the Directors believe it appropriate to increase the estimated useful life of a number of items within plant and machinery from 15 years to 20 years. This change has resulted in a depreciation expense £881k lower than under the previous estimate. A similar impact is anticipated in future accounting periods.

28. Accounting estimates and judgements for the Group and Company
In the application of the Group's accounting policies, which are described in note 2, 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.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

i) Estimated impairment of goodwill and intangibles
The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.12. The recoverable amounts of cash-generating units (CGUs) have been determined based on value-in-use calculations. These calculations require the use of estimates (see note 13).

The determination of impairment in the carrying value of goodwill and intangible assets requires judgements to be made by Directors. These 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 estimation of short-term business performance. In respect of assessing intangibles associated with the MEL segment and ReZorce barrier technology, the Directors have drawn upon their own experiences, in addition to those of external consultants and packaging industry experts, in making these judgements and have concluded that the opportunity and strategy supports the carrying value of the underlying intangible assets.

ii) Pensions assumptions
The present value of the defined benefit pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The Company engages an independent actuary to perform the valuation and assist in determining appropriate assumptions at the end of each year. 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 24 contains information about the assumptions relating to retirement benefit obligations.

Key judgements
i) Unrecognised deferred tax assets
At year-end exchange rates, the Group has tax losses carried forward of £12,240k in the USA. Currently, tax losses of £667k have been recognised on the balance sheet. Based on projections, the Group is expected to utilise all carried forward tax losses, however management has taken a prudent approach based on historical performance by the entities in this tax jurisdiction and recognised a lower figure. If the Group makes a second consecutive year of profit in the USA, then the Group will re-assess the amount that should be recognised.

ii) Exceptional item
Due to the material and non-recurring nature of the items, the Group disclosed the decrease in past service costs as an exceptional item in 2019.

29. Events after the reporting period
There are no events after the reporting period affecting these financial statements, other than those disclosed in note 9.

Five-year trading summary

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Group revenue	**82.7**	80.9	81.0	70.1	57.4
Operating profit (excluding exceptional item)	**9.1**	9.1	11.6	9.4	7.6
Profit before tax (excluding exceptional item)	**8.3**	8.8	10.8	8.8	7.2
Profit before tax	**8.3**	9.8	9.9	7.5	7.0
Profit after tax	**7.2**	8.2	7.9	6.0	5.7
Capital expenditure (including intangibles)	**12.7**	24.4	16.1	12.2	12.6
Cash generated from operations	**13.0**	11.8	7.1	10.0	6.4
Basic earnings per share excluding exceptional item (p)	**14.87**	14.91	18.66	16.04	13.69
Basic earnings per share (p)	**14.87**	17.10	16.96	13.70	13.25
Dividends per ordinary share (p)	**6.30**	2.03	6.12	5.93	5.75

Notice of the 2021 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 financial advice from your stockbroker, bank manager, solicitor, accountant or other independent adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the UK or, if you reside elsewhere, another appropriately authorised financial adviser.

If you have sold or otherwise transferred your shares in Zotefoams plc, you should forward this document and other documents enclosed as soon as possible either to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

ZOTEFOAMS PLC

Notice of Annual General Meeting

COVID-19

Zotefoams plc considers it vital to engage with investors and other stakeholders through the most appropriate channels. Shareholders' views are important and we want to ensure that they are given as much information as possible in good time to enable them to participate in the decision-making process.

In light of the COVID-19 pandemic and the UK Government's current guidance regarding social distancing and the prohibition of public gatherings, the arrangements and format of the Annual General Meeting (AGM) have been altered this year in order to protect the health and wellbeing of shareholders and other attendees. Accordingly, the Company will make arrangements such that the legal requirements to hold the AGM can be satisfied through the attendance of a minimum number of people.

While it is with regret that shareholders are requested not to attend the AGM, a separate presentation open to all existing and potential shareholders will be held after the AGM on 26 May 2021 at 11.00am on the Investor Meet Company platform: https://www.investormeetcompany.com/zotefoams-plc/register-investor

Investors who already follow Zotefoams plc on the Investor Meet Company platform will automatically be invited.

In addition, new articles provisions are being proposed to allow hybrid AGMs to be held in the future.

Shareholders are strongly encouraged to submit a proxy form indicating their votes in accordance with the notes below and email any question for the Board to investorinfo@zotefoams.com a minimum of 48 hours prior to the AGM. The Board will do its best to answer these questions either during, or immediately after, the AGM, by email.

The Board is monitoring the situation and will make any further announcement required through the release of an RNS and on the AGM page of its website: https://www.zotefoams.com/agm/.

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 26 May 2021 at 10.00 am** for the following purposes. **In light of social distancing restrictions, no access will be granted to the premises to shareholders or proxy holders.**

All resolutions will be proposed as ordinary resolutions, save for resolutions 14, 15, 16, 17 and 18, which will be proposed as special resolutions.

Ordinary business

1. To receive the Annual Report of the Company for the year ended 31 December 2020.
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 2020 set out on pages 70 to 80 of the Annual Report.
3. To declare a final dividend for the year ended 31 December 2020 of 4.27 pence per ordinary share, such dividend to be payable on 1 June 2021 to shareholders on the register of members of the Company at the close of business on 7 May 2021.
4. To re-elect S P Good as a Director.
5. To re-elect D B Stirling as a Director.
6. To re-elect G C McGrath as a Director.
7. To re-elect J D Carling as a Director.
8. To re-elect A M Fielding as a Director.
9. To re-elect D G Robertson as a Director.
10. To re-elect C A Wall as a Director.
11. That PKF Littlejohn LLP be and is hereby re-appointed as Auditor of the Company to hold office from the conclusion of the AGM until the conclusion of the next general meeting at which accounts are laid before the Company.
12. To authorise the Audit Committee to determine the Auditor's remuneration.

Special business

To consider and, if thought fit, to pass the following resolutions of which resolution 13 will be proposed as an ordinary resolution and resolutions 14, 15, 16, 17 and 18 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 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 £810,353 (such amount to be reduced by the nominal amount of any allotments or grants made under paragraph (b) below in excess of £810,353), and further

    (b) to allot equity securities (as defined in Section 560 of the Act) up to an aggregate nominal amount of £1,620,706 (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,

    provided that, unless previously revoked, varied or extended, this authority shall expire on the earlier of 30 June 2022 and the conclusion of the next AGM of the Company, except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if this authority had not expired.

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

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

    (b) to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (a) above) up to a nominal amount of £121,553,

    such authority to expire at the conclusion of the next AGM of the Company (or, if earlier, on 30 June 2022) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

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

    (a) limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £121,553 and

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

    such authority to expire at the conclusion of the next AGM of the Company (or, if earlier, on 30 June 2022) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

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

    (a) the maximum number of ordinary shares authorised to be purchased is 4,862,123, representing approximately 10% of the issued ordinary share capital as at 6 April 2021,

    (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 2022 and the conclusion of the next AGM, but the Company may enter into a contract for the purchase of ordinary shares before the expiry of this authority which would or might be completed (wholly or partly) after its expiry.

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

18. That, with effect from the conclusion of the AGM and pursuant to Section 21(1) of the Companies Act 2006, the Articles of Association produced to the meeting, and for the purpose of identification signed by the Chair, be approved and adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association of the Company.

Dated: 7 April 2021
By order of the Board

Registered Office:
675 Mitcham Road
Croydon
CR9 3AL

L Harratt
Company Secretary

The following notes are subject to social distancing measures prohibiting attendance of the AGM by a Member or Proxy:

(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 24 May 2021 (or if the AGM is adjourned, 48 hours before the time fixed for the adjourned AGM) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time. In each case, changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the AGM.

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

(iii) A member who is entitled to attend, speak and vote at the AGM may appoint a proxy to attend, speak and vote instead of him or her. A member may appoint more than one proxy, provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A proxy need not be a member of the Company but must attend the AGM in order to represent you. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. Appointing a proxy will not prevent a member from attending in person and voting at the AGM (although voting in person at the AGM will terminate the proxy appointment). A proxy form is enclosed or has been sent to you separately. The notes to the proxy form include instructions on how to appoint the Chair 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 24 May 2021.

(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.

Notice of the 2021 Annual General Meeting
Continued

(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 6 April 2021, the Company's issued share capital comprised 48,621,234 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 6 April 2021 is 48,621,234.

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

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

Explanatory notes to the resolutions

Ordinary business

Resolution 1 – Receiving the Annual Report

Shareholders will be asked to receive the Company's Annual Report for the financial year ended 31 December 2020, 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 2020 which can be found on pages 72 to 80 of the Annual Report. The Company's External Auditor, PKF Littlejohn LLP, has audited those parts of the Directors' Remuneration report that are required to be audited and its report may be found on pages 84 to 88 of the Annual Report.

The shareholders approved the current Directors' Remuneration Policy at the AGM held on 8 June 2020 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 2023, unless, in the interim, there are specific changes that require shareholder approval. The Directors' Remuneration Policy may be found in the 2019 Annual Report on pages 58 to 63.

Resolution 3 – Declaration of dividend

This resolution concerns the Company's final dividend payment. The Directors are recommending a final dividend of 4.27 pence per ordinary share in respect of the year ended 31 December 2020 which, if approved, will be payable on 1 June 2021 to the shareholders on the register of members on 7 May 2021.

Resolutions 4 to 10 – Re-election of Director

Biographies for the Directors are set out on pages 60 to 61 of the report and financial statements for the year ended 31 December 2020. With the Chair having undertaken performance reviews of the Directors, and the Non-Executive Directors having undertaken a performance review of the Chair, the Board is satisfied that each Director continues to be effective and demonstrates commitment to the role and recommends that each Director should be re-elected.

Resolutions 11 and 12 – Re-appointment of Auditor and its remuneration

Resolution 11 concerns the re-appointment of PKF Littlejohn LLP as the Company's Auditor, to hold office until the conclusion of the Company's next general meeting where accounts are laid. Resolution 12 authorises the Audit Committee to determine the Auditor's 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 £810,353, representing approximately one-third of the nominal value of the issued ordinary share capital of the Company as at 6 April 2021, being the latest practicable date before publication of this notice. In addition, in accordance with the latest institutional guidelines issued by the Investment Association, paragraph (b) of resolution 13 grants the Directors authority to allot further equity securities up to an aggregate nominal value of £1,620,706 representing approximately two-thirds of the nominal value of the issued ordinary share capital of the Company as at 6 April 2021, being the latest practicable date before publication of this notice. This additional authority may only be 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 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, which may include the allotment of shares to the Employee Benefit Trust for the purpose of fulfilling future potential awards.

Unless revoked, varied or extended, this authority will expire at the conclusion of the next AGM of the Company or 30 June 2022, whichever is the earlier.

Resolutions 14 and 15 – Authority to allot shares disregarding pre-emption rights

These resolutions authorise the Directors in certain circumstances to allot equity securities for cash other than in accordance with the statutory pre-emption rights (which require a company to offer all allotments for cash first to existing shareholders in proportion to their holdings). Resolution 14 authorises the Directors to issue shares either where the allotment takes place in connection with a rights issue or the allotment is limited to a maximum nominal amount of £121,553, representing approximately 5% of the nominal value of the issued ordinary share capital of the Company as at 6 April 2021, being the latest practicable date before publication of this notice. Resolution 15 authorises the Directors to issue a further 5% of the issued ordinary share capital of the Company, but only to be used to raise finance for an acquisition or a specified capital investment (within the meaning given in the Pre-Emption Group's Statement of Principles) which is announced contemporaneously with the allotment, or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

Unless revoked, varied or extended, these authorities will expire at the conclusion of the next AGM of the Company or 30 June 2022, whichever is the earlier.

The Directors consider that the powers proposed to be granted by these resolutions are necessary to retain flexibility, although they do not have any intention at the present time of exercising them. In accordance with the Pre-Emption Group's Statement of Principles, the Directors confirm that they do not intend to issue more than 7.5% of the issued ordinary share capital of the Company on a non-pre-emptive basis in any rolling three-year period without prior consultation with Shareholders.

Resolution 16 – Authority to purchase shares (market purchases)

This resolution authorises the Board to make market purchases of up to 4,862,123 ordinary shares (representing approximately 10% of the Company's issued ordinary shares as at 6 April 2021, 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 2022, 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 and will result in an increase in earnings per ordinary share. 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 6 April 2021, being the latest practicable date before publication of this notice, there were outstanding awards under the Company's long-term incentive schemes (excluding the Share Incentive Plan) in respect of 900,363 ordinary shares in the capital of the Company representing 1.9% of the Company's issued ordinary share capital. If the authority to purchase the Company's ordinary shares were exercised in full, such awards would represent 2.1% of the Company's issued ordinary share capital.

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, the Act enables general meetings (other than AGMs) to be held on shorter notice of not less than 14 days, provided the shareholders have given their consent at the previous AGM or a general meeting held since the last AGM. Resolution 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 and otherwise for non-routine business, where merited, in the interests of shareholders as a whole. If the authority is used, the Company will offer the ability, as required by the Companies Act 2006, to vote electronically.

Resolution 18 – New articles of association

Resolution 18 proposes that the Company adopts updated Articles of Association (the "New Articles"), principally in order to reflect developments in law and practice since the Company's current articles (the "Current Articles") were adopted in 2010. A copy of the New Articles, together with a copy marked to show the changes from the Current Articles, is available for inspection and can be viewed on the Company's website.

A summary of the principal changes is set out below:

Hybrid General Meetings: The New Articles give the Directors the power to convene a hybrid general meeting, being a meeting which has the facilities for shareholders to attend either wholly by electronic platforms or by both in a physical place and via electronic platforms. The New Articles do not give the Directors the power to hold a solely electronic General Meeting. The provisions included in the New Articles include, for example, the details that need to be provided to shareholders if such a meeting is to be held and a requirement that all resolutions must be taken on a poll in the event of a hybrid meeting. The Directors consider that the Company should properly have the ability to convene hybrid general meetings should the circumstances require this.

Untraced members: In line with market practice, the New Articles provide additional flexibility in relation to the sale of shares owned by shareholders who are untraced after a period of at least 12 years. Under the Current Articles, the Company is required to give notice to untraced shareholders of an intention to sell their shares by way of an advertisement in one national daily newspaper and one local newspaper circulating in the area in which the shareholder's last known address is known by the Company. Under the New Articles, the Company must instead send a notice to the last registered or known address of the shareholder and use reasonable steps to trace the shareholder including, if considered appropriate, using a professional asset reunification company or other tracing agent.

Additionally, under the New Articles, in respect of the proceeds of shares sold on behalf of an untraced member, the Company may use or invest such proceeds as the Directors see fit.

Sub-division of shares: The New Articles, in line with market practice, provide that a resolution to sub-divide shares may include the creation of deferred shares, so as to make administering any sub-division of shares more straightforward.

Postponement/Change of general meeting: The New Articles now expressly permit the Directors, in line with current market practice, to give notice of any change or postponement to be advertised in the manner that the Directors (in their discretion) decide.

Votes of members: To reflect guidance published by The Chartered Governance Institute, the New Articles confirm that the Company is not required to ascertain whether a proxy or corporate representative has voted in accordance with the member's instructions.

Scrip dividends: In accordance with the IA Share Capital Management Guidelines 2016, the expiry period for an ordinary resolution authorisation in respect of a scrip dividend has been limited to three years.

Minor amendments: Some additional minor changes have been made to the New Articles, including to clarify the position in relation to the annual retirement of Directors and how to deal with fractional entitlements on a sub-division of shares.

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.

Company information

Registered office
675 Mitcham Road
Croydon CR9 3AL
cosec@zotefoams.com

Registered number
2714645

Financial adviser and broker
Investec Bank plc
30 Gresham Street
London EC2V 7QP

Joint broker
Peel Hunt LLP
Moor House, 120 London Wall
London EC2Y 5ET

Financial Public Relations
IFC Advisory Limited
24 Cornhill
London EC3V 3ND

Auditor
PKF Littlejohn LLP
15 Westferry Circus
Canary Wharf
London E14 4HD

Bankers
Handelsbanken plc
3 Thomas More Square
London E1W 1WY

National Westminster Bank plc
Turnpike House, 123 High Street
Crawley RH10 1DD

Solicitors
Collyer Bristow LLP
4 Bedford Row
London WC1R 4TF

Registrars
Computershare Investor Services plc
The Pavilions
Bridgwater Road
Bristol BS13 8AE
www.computershare.com

Financial calendar

AGM	26 May 2021
Payment of final dividend	1 June 2021 to shareholders on the register at the close of business on 7 May 2021
Payment of interim dividend	October 2021
Announcement of 2021 results	March 2022

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

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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 BS13 8AE.

Telephone: 0370 707 1424

www.investorcentre.co.uk/contactus

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