

Tuesday 6 March 2007



ZOTEFOAMS

Preliminary Results for the Year Ended 31 December 2006

Strong underlying performance

Zotefoams plc, which manufactures and sells high-performance foams, announces its preliminary results for the 12 months ended 31 December 2006.

The Company's foams are made by a unique process and are used in a wide variety of applications worldwide. In 2006, Zotefoams continued investment in high performance products under the ZOTEK® brand name complementing our strengths in polyolefin foams. ZOTEK® foams can be used in a wider range of applications due to their flammability and temperature performance, light weight and good chemical resistance. As such, ZOTEK® foams are targeted at highly technical and demanding applications in markets such as aerospace, pharmaceutical, semi-conductor and chemical processing thereby broadening the sales base outside of the traditional applications in such areas as sport and leisure, premium packaging, building, automotive and industrial goods.

Financial Highlights

- Revenue of £30.1 million (2005: £28.0 million), up 7%
- Operating profit* of £2.8 million (2005: £2.0 million), up 40%
- Profit before tax* of £2.7 million (2005: £1.8 million), up 45%
- Gross margin of 26% (2005: 23%)
- Cash generated from operations of £4.7 million (2005: £4.1 million), up 16%
- EPS excluding exceptional items was 5.4p (2005: 3.5p), up 54%
- EPS including exceptional items was 3.4p (2005: 6.7p)
- Proposed final dividend of 3.0p per share making a total for 2006 of 4.5p (2005: 4.5p)

**Excludes an exceptional charge of £1.1 million in 2006 for costs incurred in terminating commercial relationships with the Sekisui Group and an exceptional gain of £1.4 million in 2005*

Operational Highlights

- Strong overall sales growth, particularly in continental Europe;
- Direct sales team in place after termination of a major distribution and agency agreement;
- A number of new higher-margin, high-performance ZOTEK® products launched, with orders for these products in 2007 already exceeding total sales for 2006.

Commenting on the results, Nigel Howard, Chairman, said:

"Zotefoams' strategy is to create sustained profit growth by expanding its sales internationally and by broadening its potential market with unique new products.

Trading in the first two months of 2007 is in line with our expectations. Compared with 2006 foreign exchange rates have moved adversely for our business and these will impact our profitability in 2007. However, our expectation is for continued profit growth as the combination of a solid foundation in polyolefin foams combined with the very encouraging signs from our high-performance polymers offer exciting prospects for the future."

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Financial Dynamics

Ben Brewerton

Tel: 020 7831 3113**INTRODUCTION**

During 2006 we grew profit before tax and exceptional items by 45% to £2.67m (2005: £1.84m) and sales increased 7% to £30.05m (2005: £27.98m). We restructured the worldwide sales and marketing of polyolefin foams terminating a major agency and distribution agreement and investing in additional dedicated sales staff in Europe and Asia. In high-performance polymers we have made good progress in product and business development providing exciting prospects for the future.

We intend to grow sales in our core polyolefin business in excess of the rate of inflation in Europe and achieve double digit percentage growth in North America and Asia. Our sales growth in America is supported by our factory in Kentucky which opened in mid-2001 while in Asia we will consider a similar operation, either under a license or as a joint venture, as sales increase to a level where such an investment is sensible. We are also committed to developing a portfolio of unique foam products from high-performance materials which will enjoy significant advantages over competitive materials. This will allow higher margins for Zotefoams and confirm our position as the pre-eminent foam technology company. We intend to achieve this growth while continuing to improve our operating margins and our return on capital employed.

Outlook

Trading in the first two months of 2007 is in line with our expectations. Compared with 2006 foreign exchange rates have moved adversely for our business and these will impact our profitability in 2007. However, our expectation is for continued profit growth as the combination of a solid foundation in polyolefin foams combined with the very encouraging signs from our high-performance polymers offer exciting prospects for the future.

BUSINESS REVIEW

Zotefoams plc is the world's leading manufacturer of cross-linked block foams. Its products are used in a wide range of markets including sports and leisure, packaging, transport, healthcare, building, marine and the military.

Through a unique production process, the Company produces foams which have controlled properties and are of a strength, consistency, quality and purity superior to foams produced by other methods.

Business Overview

Zotefoams considers its business falls into two distinct categories: polyolefin foams and high-performance polymers.

Both businesses rely on our unique production process which uses nitrogen gas at high temperature and pressure to foam solid plastics.

Polyolefin foams are mainly made from polyethylene which, when foamed, produces a versatile material used in a wide variety of applications. Typically our products are sold to foam converters who process the foam by a variety of techniques such as cutting, welding, moulding and routing into finished or semi-finished parts based on end-user requirements. The benefits of Zotefoams' products are evident at both foam processors and end-users and include purity, consistency of processing,

good performance to weight ratio and aesthetics. Key to growing this business successfully is close relationships with the converters combined with business development activities at end-users to highlight the benefits of our materials and track industry trends for future development.

High-performance polymers use the processing technology developed for polyolefin foams applied to other materials. This is an emerging business which offers an improved return on capital in new business segments. We have developed, patented and launched world leading products made from fluoropolymer and nylon which are branded ZOTEK® our high-performance foams trademark. These foams are targeted at highly technical and demanding applications in markets such as aerospace, pharmaceutical, semi-conductor and chemical processing and market development lead times are long. Timing of revenue generation is therefore difficult to predict.

Strategy and Objectives

Zotefoams' strategy is to grow our existing business in polyolefin foams while developing a portfolio of high-performance polymers. We will seek to profitably grow the business through a combination of organic growth in both polyolefin and high-performance polymers and acquisitions or partnership deals in related technologies, products or markets.

Our stated objectives are:

1. Grow sales in our polyolefin business in excess of the rate of inflation in Europe and achieve double digit percentage growth in North America and Asia.
2. Develop a high-performance polymers portfolio to deliver enhanced margins.
3. Improve our operating margins.
4. Improve our return on capital employed.

Performance in 2006 against these objectives was:

1. Sales performance was as follows:
 - a. Sales in the UK and Europe grew by 10% which was significantly above the average inflation rate;
 - b. Sales in North America grew 4% in constant currency which was below our expectations due to a slow-down in the US economy in the second half of 2006; and
 - c. Sales in Asia declined slightly. We view 2006 as a year of transition, exiting a regional distribution agreement and forming more direct relationships with foam converters and end-users. While we believe that Asia offers significant potential for growth, we anticipate that currently the best opportunities lie in more niche, higher added-value products and we are focusing our resources here.
2. Sales of high-performance polymers in 2006 were similar to 2005 with substantial progress made in three areas:
 - a. We developed and launched three promising variants of our ZOTEK® F fluoropolymer foams in response to market feedback;
 - b. We developed and launched a world first nylon foam, ZOTEK® N, designed for areas where higher temperature performance is critical; and
 - c. Our business development activities should result in a significant uplift in demand during 2007, with confirmed orders received already in excess of 2006 sales.
3. Group operating margins, pre-exceptional items, improved from 7% to 9% of sales revenue.
4. Pre-tax return on capital employed, pre-exceptional items, increased from 7% to 11%.

Financial Results

Group turnover increased by 7% to £30.05m (2005: £27.98m) and profit before tax and exceptional items increased by 45% to £2.67m (2005: £1.84m).

Our sales growth resulted from a 5% increase in volumes shipped along with the positive impact of price rises in all our major markets offset, particularly in the second six months of the year, by somewhat adverse foreign exchange rates.

On 21 March 2006 we announced the termination of the Group's commercial relationships with the Sekisui Chemical Company Ltd and subsidiaries ("Sekisui") which sold Zotefoams' polyolefin products as an agent in Continental Europe and North America and as a distributor in Asia. The costs of this termination are shown as an exceptional charge of £1.10 million.

Group gross profit margin increased to 26% of sales revenue (2005: 23%), despite an 11% rise in basic polymer prices and a 26% increase in energy costs compared with last year, with benefits from commission savings following the termination of the Sekisui relationship and better operational efficiency.

Distribution costs increased by 11% as we increased our own sales resources following the termination of the commercial agreement with Sekisui. Administrative expenses include a foreign exchange loss of £147,000 (2005: gain of £111,000).

The overall effective tax rate is 23% (2005: 26%) as shown in note 6.

Earnings per share and Dividend

Group earnings per share after exceptional items were 3.4p (2005: 6.7p). The Directors are recommending the final dividend is maintained at 3.0p per share payable on 24 May 2007 to shareholders on the Company register at 27 April 2007. This would bring the total dividend to 4.5p per ordinary share for the year (2005: 4.5p).

Cash flow

Cash generated from operations was £4.72m (2005: £4.06m). Capital expenditure of £2.64m was higher than in recent years with the refurbishment of one of our large high-pressure vessels and the purchase of a nylon extruder. After the dividend payment of £1.63m this left us with a cash outflow of £0.36m, increasing net debt to £1.43m (2005: £1.07m). Gearing remains low at 6% (2005: 4%).

Markets and Operations

In 2006 overall sales grew 7% to £30.05m (2005: £27.98m).

Our high-performance polymers are unique foams for technically demanding requirements. They offer properties such as improved chemical, flammability or temperature performance compared to other foam materials. The applications for these products are often much larger in value than a typical polyolefin foam application, however the performance requirements and test conditions are very demanding and evaluation can take many months or sometimes years. Therefore the inherent uncertainty of such projects, particularly their timing and the unique requirements of specific applications which will vary from project to project, makes projecting revenues and success rates extremely difficult, especially at this early stage of their development. In 2006 high-performance polymers accounted for 2% of Group sales. We continued to increase both technical and marketing resource, the additional investment appropriate to the potential size and profitability of this segment, and during the year good progress was made on the launch of new grades and development of applications, particularly in the aerospace and high-performance insulation markets.

The polyolefin foams business grew to £29.56m (2005: £27.42m). The UK, which we generally regard as our most mature market, performed well with a 3% sales increase. Continental Europe, which required the most significant sales team restructuring after the termination of the Sekisui relationship, grew 14% with particularly pleasing growth in Germany, Italy and the Benelux markets. North America, which was affected by a weak economy in the second six months, grew by 4%

The termination of the Sekisui relationship in polyolefin foams marked a significant change in Zotefoams' approach to our customers in Europe and, on a smaller scale, in Asia. We have now completed the recruitment and training of a direct sales organisation across all product lines worldwide which is giving us better visibility and influence over business development activities in many markets. We expect the termination cost of £1.10 million, which is shown as an exceptional charge, and the ongoing costs of establishing and operating our own sales team will be more than offset by the end of 2007 through a reduction in commissions payable to the Sekisui Group.

At our Croydon site we continue to invest to enhance both production capacity and capability. During 2006 we spent £2.64m on capital expenditure. Major projects included installing a new extrusion line to support the launch of our ZOTEK® N nylon foams and completing the refurbishment and upgrade of one of our large high-pressure vessels where we had discovered corrosion. This reduces to approximately 26% the proportion of our high-pressure capacity which operates on a water-cooling mechanism where corrosion may be present and as part of an ongoing programme to address this we are currently refurbishing a further vessel which is due to be re-instated during the second half of 2007.

**Consolidated income statement
for the year ended 31 December 2006**

	Note	2006			2005		
		Pre- exceptional items £000	Exceptional items (see note 4) £000	Post- exceptional items £000	Pre- exceptional items £000	Exceptional items (see note 4) £000	Post- exceptional items £000
Revenue	2	30,052	—	30,052	27,975	—	27,975
Cost of sales		(22,257)	—	(22,257)	(21,640)	—	(21,640)
Gross profit		7,795	—	7,795	6,335	—	6,335
Distribution costs		(2,117)	—	(2,117)	(1,905)	—	(1,905)
Administrative expenses		(2,842)	(1,074)	(3,916)	(2,407)	1,449	(958)
Operating profit		2,836	(1,074)	1,762	2,023	1,449	3,472
Financial income	5	884	—	884	813	—	813
Finance costs	5	(1,047)	—	(1,047)	(997)	—	(997)
Profit before tax		2,673	(1,074)	1,599	1,839	1,449	3,288
Taxation	6	(682)	322	(360)	(569)	(292)	(861)
Profit for the year	3	1,991	(752)	1,239	1,270	1,157	2,427
Attributable to:							
Equity holders of the parent		1,991	(752)	1,239	1,270	1,157	2,427
Earnings per share							
Basic (p)	7			3.4			6.7
Diluted (p)	7			3.4			6.7

**Consolidated statement of recognised income and expense
for the year ended 31 December 2006**

	2006 £000	2005 £000
Foreign exchange translation differences on investment in foreign subsidiary	(905)	846
Effective portion of changes in fair value of cash flow hedges net of recycling	163	(79)
Actuarial gains/(losses) on defined benefit schemes	426	(42)
Tax on items taken directly to equity	(159)	13
Net (expense)/income recognised directly in equity	(475)	738
Profit for the year	1,239	2,427
Total recognised income and expense for the year	764	3,165
Attributable to equity holders of the parent	764	3,165

**Consolidated balance sheet
as at 31 December 2006**

	Note	2006 £000	2005 £000
Non-current assets			
Property, plant and equipment		27,018	28,364
Deferred tax assets		99	132
Total non-current assets		27,117	28,496
Current assets			
Inventories		3,785	3,933
Trade and other receivables		6,163	6,182
Cash and cash equivalents		82	432
Total current assets		10,030	10,547
Total assets		37,147	39,043
Equity			
Issued share capital		(1,816)	(1,816)
Share premium		(13,753)	(13,753)
Capital redemption reserve		(5)	(5)
Translation reserve		635	(270)
Hedging reserve		(84)	79
Retained earnings		(9,815)	(9,857)
Total equity attributable to the equity holders of the Company		(24,838)	(25,622)
Non-current liabilities			
Interest-bearing loans and borrowings		(700)	(1,100)
Employee benefits	9	(4,240)	(5,220)
Deferred tax liabilities		(2,764)	(2,730)
Total non-current liabilities		(7,704)	(9,050)
Current liabilities			
Interest-bearing loans and borrowings		(400)	(400)
Bank overdraft		(411)	—
Tax payable		(307)	(698)
Trade and other payables		(3,487)	(3,273)
Total current liabilities		(4,605)	(4,371)
Total liabilities		(12,309)	(13,421)
Total equity and liabilities		(37,147)	(39,043)

**Consolidated cash flow statement
for the year ended 31 December 2006**

	2006	2005
	£000	£000
Cash flows from operating activities		
Profit for the year	1,239	2,427
Adjustments for:		
Depreciation, amortisation and impairment	3,251	3,322
Financial income	(884)	(813)
Financial expense	1,047	997
Equity-settled share-based payments	64	(14)
Taxation	360	861
Operating profit before changes in working capital and provisions	5,077	6,780
Increase in trade and other receivables	(107)	(346)
Decrease/(increase) in inventories	51	(704)
Increase in trade and other payables	314	334
Decrease in provisions and employee benefits	(619)	(2,003)
Cash generated from the operations	4,716	4,061
Interest paid	(126)	(151)
Tax paid	(823)	(713)
Net cash from operating activities	3,767	3,197
Proceeds on disposal of property, plant and equipment	3	—
Interest received	8	26
Acquisition of property, plant and equipment	(2,641)	(1,070)
Net cash used in investing activities	(2,630)	(1,044)
Proceeds from the issue of share capital	—	49
Repayment of borrowings	(400)	(400)
Payment of finance lease liabilities	—	(57)
Dividends paid	(1,634)	(1,631)
Net cash used in financing activities	(2,034)	(2,039)
Net (decrease)/increase in cash and cash equivalents	(897)	114
Cash and cash equivalents at 1 January	432	298
Effect of exchange rate fluctuations on cash held	136	20
Cash and cash equivalents at 31 December	(329)	432

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

Notes to the financial statement

1. Accounting policies

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

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group').

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

The financial information does not constitute the Company's statutory accounts for the year ended 31 December 2006 or 2005 but is derived from those accounts. Statutory accounts for 2005 have been delivered to the Registrar of Companies, and those for 2006 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under Section 237 (2) or (3) of the Companies Act.

2. Segment reporting

The Group manufactures and sells high-performance foams for specialist markets worldwide. These fall into two main business segments best categorised by their constituent raw materials.

- Polyolefins: these foams are made from olefinic homopolymer and copolymer resin. The most common resin used is polyethylene.
- High-performance polymers (HPP): these foams exhibit high-performance on certain key properties, such as improved chemical, flammability or temperature performance, due to the resins on which they are based. Turnover in the segment is currently mainly derived from our ZOTEK® F foams made from PVDF fluoropolymer. Other polymers either commercially launched or being assessed in development include polyamide (nylon) and silicone.

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

	Polyolefins		HPP		Consolidated		
		2006	2005	2006	2005	2006	2005
	Note	£000	£000	£000	£000	£000	£000
Revenue		29,558	27,420	494	555	30,052	27,975
Pre-exceptional profit/(loss)		3,369	2,219	(533)	(196)	2,836	2,023
Exceptional items	4	(1,074)	—	—	—	(1,074)	1,449
Post-exceptional profit/(loss)		2,295	2,219	(533)	(196)	1,762	3,472
Net financing costs						(163)	(184)
Taxation						(360)	(861)
Profit for the period						1,239	2,427
Segment assets		35,716	38,026	1,332	885	37,048	38,911
Unallocated assets		—	—	—	—	99	132
Total assets						37,147	39,043
Segment liabilities		(9,123)	(9,752)	(115)	(241)	(9,238)	(9,993)
Unallocated liabilities		—	—	—	—	(3,071)	(3,428)
Total liabilities						(12,309)	(13,421)
Depreciation		3,188	3,272	63	50	3,251	3,322
Capital expenditure		2,287	1,053	354	17	2,641	1,070

Geographical segments

	UK and Eire	Europe	North America	Rest of the World	Total
	£000	£000	£000	£000	
For the year ended 31 December 2006					
Revenue from external customers	7,543	14,391	7,504	614	30,052
Segment assets	29,746	—	7,401	—	37,147
Capital expenditure	2,574	—	67	—	2,641
For the year ended 31 December 2005					
Revenue from external customers	7,332	12,604	7,336	703	27,975
Segment assets	29,876	—	9,167	—	39,043
Capital expenditure	1,046	—	24	—	1,070

3. Expenses and auditor's remuneration

	2006	2005
	£000	£000
Included in profit for the year are:		
Research and development costs expensed	924	776
Net exchange losses/(gains)	147	(111)
Auditor's remuneration:		
Group – audit of these financial statements	80	84
– fees receivable by the auditor and their associates in respect of other services:		
– other services pursuant with legislation	18	39
– other services relating to taxation	5	11
– services relating to corporate finance transactions	—	8
	103	142

4. Exceptional items

The Company has classified the following items as exceptional:

Commercial agreement termination costs

Relating to the termination payment, legal, advisory and other costs to end the commercial relationship with the Sekisui Group which was announced in March 2006.

Bid costs

Relating to legal, advisory and other costs incurred in respect of a preliminary approach for the share capital of the Company which was announced in January 2005 and terminated in November 2005.

Pension curtailment costs

On 31 December 2005, the Zotefoams Defined Benefit Pension Scheme for UK employees was closed to future accrual of benefits. The actuarial gain on closing the scheme to future accrual of benefits and the associated costs have been classified as an exceptional item.

Tax adjustment to exceptional items in prior year

In 2001 and 2002, the Group recorded an exceptional profit on insurance proceeds following a fire in 2000 at the Group's Croydon site. The tax computations relating to 2001 and 2002 have been agreed with the Revenue resulting in a £267,000 release on the deferred tax provided in relation to these proceeds. This was released as an exceptional item in 2005 because it relates to a previous exceptional item.

	2006	2005
	£000	£000
Bid costs	30	(413)
Commercial agreement termination	(1,104)	—
Pension curtailment:		
Actuarial gain	—	1,972
Associated costs borne by the Company	—	(110)
Exceptional items before taxation	(1,074)	1,449
Tax on above	322	(559)
Adjustment to tax on prior year exceptional item	—	267
Exceptional items after taxation	(752)	1,157

5. Finance income and costs

Financial income

	2006	2005
	£000	£000
Interest on bank deposits	8	26
Expected return on assets of defined benefit pension fund	876	787
	884	813

Finance costs

	2006	2005
	£000	£000
On bank loans and overdrafts	125	120
On finance leases	—	16
Interest on defined benefit pension obligation	922	861
	1,047	997

6. Taxation

	2006	2005
	£000	£000
UK corporation tax	484	917
Overseas taxation	6	2
Adjustment to prior year UK tax charge	(60)	(84)
Current taxation	430	835
Deferred taxation	(70)	26
Total tax charge	360	861

Factors affecting the tax charge

The tax charge for the period is lower (2005: lower) than the standard rate of corporation tax in the UK of 30% (2005: 30%). The differences are explained below:

	2006	2005
	£000	£000
Tax reconciliation		
Profit on ordinary activities before tax	1,599	3,288
Tax at 30% (2005: 30%)	480	986
Effects of:		
Research and development tax credits less expenses not deductible for tax purposes	(53)	115
Partial recognition of US tax losses	(1)	(54)
(Lower)/higher tax rates on overseas earnings	(6)	15
Adjustments to tax charge in respect of previous periods	(60)	66
Adjustment to tax charge on prior year exceptional items	—	(267)
Total tax charge	360	861

7. Dividends and earnings per share

	2006	2005
	£000	£000
Final dividend prior year of 3.0p (2004: 3.0p) net per 5.0p ordinary share	1,087	1,087
Interim dividend of 1.5p (2005: 1.5p) net per 5.0p ordinary share	547	544
Dividends paid during the year	1,634	1,631

The proposed final dividend for the year ended 31 December 2006 of 3.0p per share (2005: 3.0p) is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

Earnings per ordinary share

Earnings per ordinary share is calculated by dividing profit after tax of £1,239,000 (2005: £2,427,000) by the weighted average number of shares in issue during the year. Diluted earnings per ordinary share adjusts for the potential dilutive effect of share option schemes in accordance with IAS 33.

	2006	2005
Average number of ordinary shares issued	36,319,924	36,276,976
Deemed issued for no consideration	339,875	—
Diluted	36,659,799	36,276,976

Shares deemed issued for no consideration have been calculated based on the potential dilutive effect of the Executive Share Option Scheme and options granted under the HMRC Approved Share Option Scheme:

Date from which exercisable	Exercise price	Number of shares under option	
		2006	2005
18 March 2006	80.0p	—	872,865
7 April 2007	72.5p	1,130,034	1,130,034
22 December 2008	77.0p	1,026,320	1,026,320
27 March 2009	80.5p	111,801	—
		2,268,155	3,029,219

The average fair value of one ordinary share during the year was considered to be 88.3p (2005: 72.0p).

8. Financial instruments

Policy

The Group does not enter into significant derivative transactions. The Group's principal financial instruments comprise bank loans, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. It is and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

Credit risk

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

In 2006 and 2005, the Group had credit insurance to mitigate this risk. However, not all the exposure is covered so elements of risk remain.

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

Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group borrows in the desired currency generally at a variable rate of interest.

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

	2006				2005			
	Effective	Fixed	Variable	Total	Effective	Fixed	Variable	Total
	interest	rates	rates		interest	rates	rates	
	rate	£000	£000		£000	rate	£000	
Sterling	6%	—	1,511		1,511	6%	—	
		—	1,511	1,511		—	1,500	1,500

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

Liquidity risk

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

The Group has a short-term facility of £5.0 million which is freely transferable and convertible into sterling.

This facility expires in April 2007 and is utilised by Zotefoams plc and its subsidiary undertakings under a cross-guarantee structure.

On 25 August 2004 Zotefoams plc borrowed £2.0 million under a five year mortgage, repayable in equal quarterly instalments. This facility is secured over specific plant assets.

Foreign currency risk

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

The Group hedges a proportion of its estimated cash exposure in respect of trade and other receivables, trade and other payables and forecast sales receipts and purchase payments for the next nine months. The Group uses forward exchange contracts to hedge its foreign currency risk. As at 31 December 2006 these forward currency contracts covered approximately two-thirds of the estimated net cash foreign exchange exposure for the next nine months.

In respect of other monetary assets and liabilities held in currencies other than the euro and the US dollar, the Group ensures 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.

Forecasted transactions

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The net fair value of forward exchange contracts used as hedges of forecasted transactions at 31 December 2006 was a net asset of £84,000 (2005: net liability of £79,000) comprising assets of £85,000 (2005: £17,000) and liabilities of £1,000 (2005: £96,000) that were recognised in fair value derivatives in 2006.

Recognised assets and liabilities

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the Income Statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of administrative expenses (see note 3).

Sensitivity analysis

In managing currency risks the Group aims to reduce impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

Short-term fluctuations in interest rates are not hedged as the Group, at present, does not consider them material. At 31 December 2006 it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before tax by approximately £15,000 (2005: £15,000).

At 31 December 2006 it is estimated that an increase of one percentage point in the value of sterling against the euro and the dollar and would decrease the Group's profit before tax by approximately £44,000 (2005: £43,000) and £30,000 (2005: £45,000) respectively. The forward exchange contracts have been included in this calculation.

The Group has significant undertakings in the USA whose revenue and expenses are denominated in US dollars. Zotefoams plc makes a significant proportion of its sales to European customers and these revenues are predominantly in euros. It was the Group's policy in 2006 to hedge a proportion of the foreign currency cash flows of invoiced sales net of expected foreign expenditure. Hedging is achieved by the use of foreign currency contracts expiring in the month of expected cash flow.

Fair values

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

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Trade and other receivables	6,078	6,078	6,165	6,165
Cash and cash equivalents	(329)	(329)	432	432
Forward exchange contracts				
– assets	85	85	17	17
– liabilities	(1)	(1)	(96)	(96)
Secured bank loans	(1,100)	(1,100)	(1,500)	(1,500)
Trade and other payables	(3,486)	(3,486)	(3,177)	(3,177)

Estimation of fair values

The following summarises the major methods and assumptions used in estimating fair values of financial instruments reflected in the table.

Derivatives

Forward exchange contracts are marked to market using listed market prices.
Interest-bearing loans and borrowings and trade and other receivables/payables
Carrying amounts equals the fair value.

9. Employee benefits

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

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

Contributions to the plan for the year from the Company have been agreed with the Trustees at £50,000 per month from January 2006 to December 2010.

The Company has opted to recognise all actuarial gains and losses immediately via the Statement of Recognised Income and Expenditure (SORIE). An actuarial valuation of the scheme was carried out as at 5 April 2005 and the results have been updated to 31 December 2006 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	As at 31 December 2006	As at 31 December 2005
Discount rate	5.10%	4.80%
Expected return on plan assets	6.58%	6.13%
Rate of salary increase	n/a	4.40%
Rate of increase to pensions in payment	3.00%	2.80%
Rate of inflation	3.10%	2.90%
Mortality assumption	90% of PA92	90% of PA92

The assumptions used in determining the overall expected return of the scheme have been set with reference to yields available on government bonds and appropriate risk margins.

The assets in the scheme and the expected rates of return were:

	Long-term rate of return expected at 31 December 2006	Value at 31 December 2006 £000	Long-term rate of return expected at 31 December 2005	Value at 31 December 2005 £000
Equities	7.1	12,402	6.6	11,387
Bonds	4.6	2,437	4.1	1,915
Other	5.0	1,022	4.5	957
		15,861		14,259

Present value of defined obligation:

	Value at 31 December 2006 £000	Value at 31 December 2005 £000
Funded plans	(20,101)	(19,479)
Total	(20,101)	(19,479)
Deficit in the scheme	(4,240)	(5,220)
Related deferred tax asset	1,272	1,566
Net pension liability	(2,968)	(3,654)

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

	Value at 31 December 2006 £000	Value at 31 December 2005 £000
Benefit obligation at beginning of year	19,479	18,721
Service cost	—	440
Interest cost	922	861
Contributions by plan participants	—	209
Actuarial loss	233	1,621
Benefits paid	(552)	(401)
Past service costs	19	—
Curtailments and settlements	—	(1,972)
Benefit obligation at end of year	20,101	19,479

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

	Value at 31 December 2006 £000	Value at 31 December 2005 £000
Fair value of plan assets at beginning of year	14,259	11,529
Expected return on plan assets	876	787
Actuarial gain	659	1,579
Contributions by employers	619	556
Contributions by plan participants	—	209
Benefits paid	(552)	(401)
Fair value of plan assets at end of year	15,861	14,259

The amounts recognised in the Income Statement are:

Current service cost	—	440
Interest on obligation	922	861
Expected return on plan assets	(876)	(787)
Gains on settlements and curtailment	—	(1,972)
Past service cost	19	—
Total expense/(gain)	65	(1,458)

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

	2006	2005
	£000	£000
Cost of sales	19	242
Distribution costs	—	38
Administrative expenses	—	160
Financial income	(876)	(787)
Finance costs	922	861
Exceptional gain in administrative expenses	—	(1,972)
	65	(1,458)

Actuarial gains/(losses) shown in SORIE since 1 January 2004:

	2006	2005
	£000	£000
Balance as at 1 January	222	264
Actuarial gains/(losses)	426	(42)
Balance as at 31 December	648	222

History of scheme assets, obligations and experience adjustments

	As at	As at	As at
	31 December	31 December	31 December
	2006	2005	2004
Present value of defined benefit obligation (£000)	20,101	19,479	18,721
Fair value of scheme assets (£000)	15,861	14,259	11,529
Deficit in the scheme (£000)	(4,240)	(5,220)	(7,192)
Experience adjustments arising on scheme liabilities (£000)	233	1,621	93
Experience item as a percentage of scheme liabilities	1%	8%	0%
Experience adjustments arising on scheme assets (£000)	659	1,579	299
Experience item as a percentage of scheme assets	4%	11%	3%

Other pension schemes

On 1 January 2006 a separate stakeholder scheme was set up for those employees who were originally in the closed defined benefit scheme. The contributions paid by the Company in 2006 were £534,000 (2005: nil).

In addition to this scheme, Zotefoams plc operates a stakeholder scheme which is open to employees who joined after 1 October 2001. The contributions paid by the Company in 2006 were £20,000 (2005: £12,000).

For US based employees Zotefoams Inc. operates a 401(k) plan. The contributions paid by Zotefoams Inc in 2006 were £85,842 (2005: £106,000).