



Zotefoams plc interim report 2007

INVESTING
DEVELOPING
STRENGTHENING

CORPORATE STATEMENT

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WHAT WE DO

HOW WE DO IT

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ZOTEFOAMS IS THE WORLD'S LEADING MANUFACTURER OF CROSS-LINKED BLOCK FOAMS. OUR STRATEGY IS TO CREATE SUSTAINED PROFIT GROWTH BY EXPANDING SALES INTERNATIONALLY AND BROADENING OUR POTENTIAL MARKET WITH NEW UNIQUE PRODUCTS.

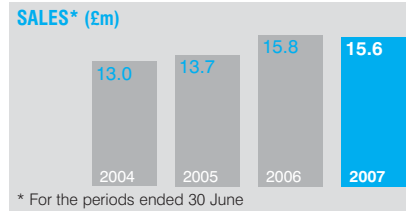
ZOTEFOAMS MANUFACTURES AND SELLS HIGH-PERFORMANCE FOAMS. THESE FOAMS ARE USED AS THE RAW MATERIALS FOR A WIDE VARIETY OF APPLICATIONS IN MANY DIFFERENT MARKETS GLOBALLY.

ZOTEFOAMS ARE FOAM TECHNOLOGISTS. WE OPERATE A UNIQUE PROCESS USING NITROGEN GAS AT HIGH TEMPERATURES AND PRESSURES, WHICH ALLOWS US TO PRODUCE FOAM MATERIALS BEYOND THE CAPABILITIES OF OTHER FOAMING PROCESSES.

HIGHLIGHTS

	Six months ended	
	30 June 2007	30 June 2006
Turnover (£m)	15.6	15.9
Profit before tax excluding exceptional items (£m)	1.8	1.5
Profit before tax including exceptional items (£m)	1.8	0.4
Basic earnings per ordinary share excluding exceptional items (p)	4.5	2.9
Basic earnings per ordinary share including exceptional items (p)	4.5	0.8
Net dividend per share declared (p)	1.5	1.5

CHAIRMAN'S STATEMENT



RESULTS

I am pleased to announce a healthy set of results for the business and, importantly, continued progress on our strategy to develop sales of new products outside our core polyolefin foam business. For the six months ending 30 June 2007 revenues were £15.65 million (2006: £15.88 million). Gross margin increased to 28.3% (2006: 26.8%) and profit before tax and exceptional items increased 18% to £1.80 million (2006: £1.52 million). Basic earnings per share were 4.5p (2006: 2.9p before and 0.8p after exceptional items).

REVENUE

Revenue for the six months ended 30 June 2007 was £15.65 million (2006: £15.88 million). Polyolefin foam sales increased by 1% in constant currency, although in sterling this changed to a 2% decline principally because of the strength of sterling in the period compared to the US dollar. High-performance

polymer sales increased by 61% in what is still a nascent business. In all markets our approach is to work on end-user market development as well as support our direct customers in developing specific market segments. We plan to continue to invest our marketing resources in this manner.

POLYOLEFIN FOAMS

In Europe we built on our very strong performance in 2006, achieving a sales growth rate of 3% for the six months to 30 June 2007. Within Europe our two largest national markets, Germany and the UK, both exhibited good overall growth. North America was affected by lower levels of spending in the construction and military sectors combined with a temporary decline in purchases by a medical customer, resulting in an overall decline in sales of 15% in local currency. In Asia, which is currently around 3% of our business, we benefited from directly employed sales resource with sales increasing by 87%.



NIGEL HOWARD
Chairman

THE BUSINESS HAS **PERFORMED WELL** IN THE FIRST SIX MONTHS OF 2007 WITH **GOOD PROFIT GROWTH AND IMPROVED GROSS MARGINS**

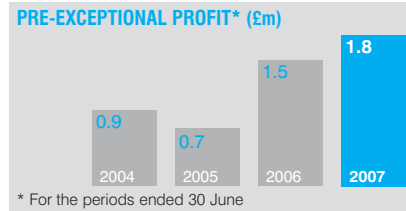
HIGH-PERFORMANCE POLYMER FOAMS

Our product strategy exploits our unique manufacturing technology in the development of high-performance polymer foams. This business is at an early stage of development and revenues are expected to be lumpy and remain difficult to predict for some time. In our high-performance polymers business sales growth of 61% was primarily driven by a good performance in our ZOTEK® F fluoropolymer foams in the North American aerospace market. Applications for ZOTEK® F foams were also developed in markets such as high-performance insulation where prospects for the future appear promising. Sales from our “world-first” polyamide (nylon) foam are developing slowly with the initial product considered too stiff for many of the applications trialled. However, we remain confident of the potential for polyamide foam as market trials have shown there is a substantial opportunity for a product which combines high-temperature performance and

hydrocarbon resistance. We are in the process of developing a second generation polyamide foam and ultimately believe that we will develop a portfolio of polyamide products, similar to our polyolefin business, to address the needs of the marketplace.

OPERATIONS

Sales volumes for the six months to 30 June 2007 were at similar levels to the same period last year. Gross margins increased to 28.3% (2006: 26.8%) with the benefit of reduced sales commissions and operational improvements more than offsetting energy price increases and the adverse impact of a stronger pound. Prices of LDPE, our major raw material, have remained at similar levels to those experienced during the first six months of 2006. Zotefoams continues to invest in the rolling refurbishment and upgrading of major items of plant and expects to bring additional refurbished high-pressure capacity on-line late in 2007.



TAX, CASH FLOW AND BALANCE SHEET

The effective tax charge fell from 30% of pre-tax profit to 10% due to a reduction in the deferred tax liability reflecting the change in the future corporation tax rate from 30% to 28% and an adjustment in respect of prior periods. Both these adjustments were taken in full in the six month period and their effect is less pronounced over a year

Cash generated from operations was £1.74 million (2006: £1.72 million). This was after payment of the final instalment of the termination agreement with Sekisui of €0.70 million in March 2007 (the first half of the termination payment was paid following the signing of the agreement in March 2006). Capital expenditure of £1.48 million was at a similar level to the same period last year and was less than the depreciation charge of £1.65 million (2006: £1.62 million). At 30 June 2007 net debt was £2.52 million (2006: £2.55 million) giving a strong balance sheet with gearing of 10%.

BOARD CHANGES

On 23 July 2007 Richard Clowes joined the Board as a non-executive Director. Richard has become a member of the Remuneration, Nominations and Audit Committees. Richard is an engineer and was previously a main Board Director of GKN plc from 2001–2005. He brings a wealth of operational, general management and international commercial experience to the Board. Chris Ryan, currently a non-executive Director of Zotefoams plc, announced in July 2007 his intention to resign as a Director at the end of 2007 at which point he will have served eight years as a Director of the Company. Although he will remain a member of the Remuneration, Nominations and Audit Committees until his departure, David Campbell has succeeded Chris as Chairman of the Remuneration Committee. David Campbell is a non-executive Director and the Board regards Richard Clowes, Chris Ryan and David Campbell as being independent according to the definitions of the Combined Code on corporate governance.

WE BELIEVE THE BUSINESS IS **DEVELOPING WELL**
IN MANY AREAS AND WE LOOK FORWARD
TO THE FUTURE WITH **OPTIMISM**

DIVIDEND

The Directors have declared an interim dividend of 1.5p net per share (2006: 1.5p). The dividend will be paid on 27 September 2007 to shareholders who are on the Company's register at the close of business on 31 August 2007.

OUTLOOK

The business has performed well in the first six months of 2007 with good profit growth and improved gross margins. With a significant portion of our revenues denominated in US dollars and euros we are exposed to fluctuations in exchange rates. Currency hedging contracts in place for 2007 will mitigate the negative transactional impact of the recent weakening of these currencies against sterling, although we choose not to hedge translational impacts and remain exposed to these. Prices of LDPE, our major raw material, which were high in early 2006, have remained at high levels for the first six months of 2007 and we anticipate that these levels could be sustained throughout 2007.

Zotefoams' continued investment in capacity and in the development and marketing of new products shows the Board's confidence in the business. We see encouraging signs with many customers and applications for both our polyolefin and ZOTEK[®] foams. We therefore believe the business is developing well and we look forward to the future with optimism.

N G HOWARD
Chairman
6 August 2007

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Note	Six months ended 30 June 2007		
		Pre-exceptional items £000	Exceptional items £000	Post-exceptional items £000
Revenue	2	15,645	—	15,645
Cost of sales		(11,219)	—	(11,219)
Gross profit		4,426	—	4,426
Distribution costs		(1,184)	—	(1,184)
Administrative expenses		(1,402)	—	(1,402)
Operating profit		1,840	—	1,840
Financial income		525	—	525
Finance costs		(563)	—	(563)
Profit before tax		1,802	—	1,802
Taxation	3	(184)	—	(184)
Profit for the period		1,618	—	1,618
Attributable to:				
Equity holders of the parent		1,618	—	1,618
Earnings per share				
Basic (p)	5			4.5
Diluted (p)	5			4.4

Six months ended 30 June 2006			Year ended 31 December 2006		
Pre-exceptional items £000	Exceptional items £000	Post-exceptional items £000	Pre-exceptional items £000	Exceptional items £000	Post-exceptional items £000
15,875	—	15,875	30,052	—	30,052
(11,616)	—	(11,616)	(22,257)	—	(22,257)
4,259	—	4,259	7,795	—	7,795
(1,031)	—	(1,031)	(2,117)	—	(2,117)
(1,618)	(1,092)	(2,710)	(2,842)	(1,074)	(3,916)
1,610	(1,092)	518	2,836	(1,074)	1,762
441	—	441	884	—	884
(528)	—	(528)	(1,047)	—	(1,047)
1,523	(1,092)	431	2,673	(1,074)	1,599
(458)	328	(130)	(682)	322	(360)
1,065	(764)	301	1,991	(752)	1,239
1,065	(764)	301	1,991	(752)	1,239
		0.8			3.4
		0.8			3.4

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Note	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000	Year ended 31 December 2006 £000
Foreign exchange translation differences on investment in foreign subsidiary		(158)	(514)	(905)
Effective portion of change in fair value of cash flow hedges net of recycling		(34)	147	163
Actuarial gains on defined benefit schemes	1	—	92	426
Tax on items taken directly to equity		11	(28)	(159)
Net expense recognised directly in equity		(181)	(303)	(475)
Profit for the period		1,618	301	1,239
Total recognised income and expense for the period		1,437	(2)	764
Attributable to equity holders of the parent		1,437	(2)	764

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2007

	Note	30 June 2007 £000	30 June 2006 £000	31 December 2006 £000
Assets				
Property, plant and equipment		26,649	27,841	27,018
Deferred tax assets		83	147	99
Total non-current assets		26,732	27,988	27,117
Current assets				
Inventories		4,144	3,824	3,785
Trade and other receivables		7,073	7,275	6,163
Cash and cash equivalents		117	124	82
Total current assets		11,334	11,223	10,030
Total assets		38,066	39,211	37,147
Equity				
Issued share capital	6	(1,820)	(1,816)	(1,816)
Share premium	6	(13,941)	(13,753)	(13,753)
Capital redemption reserve	6	(15)	(5)	(5)
Hedging reserve	6	(50)	(68)	(84)
Retained earnings	6	(9,363)	(8,928)	(9,180)
Total equity attributable to the equity holders of the Company		(25,189)	(24,570)	(24,838)
Non-current liabilities				
Interest-bearing loans and borrowings		(500)	(900)	(700)
Employee benefits		(3,931)	(4,873)	(4,240)
Deferred tax liabilities		(2,438)	(2,721)	(2,764)
Total non-current liabilities		(6,869)	(8,494)	(7,704)
Current liabilities				
Interest-bearing loans and borrowings		(400)	(400)	(400)
Bank overdraft		(1,739)	(1,373)	(411)
Tax payable		(585)	(330)	(307)
Trade and other payables		(3,284)	(4,044)	(3,487)
Total current liabilities		(6,008)	(6,147)	(4,605)
Total liabilities		(12,877)	(14,641)	(12,309)
Total equity and liabilities		(38,066)	(39,211)	(37,147)

CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000	Year ended 31 December 2006 £000
Cash flows from operating activities			
Profit for the period	1,618	301	1,239
Adjustments for:			
Depreciation, amortisation and impairment	1,646	1,623	3,248
(Gain)/loss on sale of property, plant and equipment	(12)	3	3
Financial income	(525)	(441)	(884)
Finance expense	563	528	1,047
Equity-settled share-based payments	50	40	64
Taxation	184	130	360
Operating profit before changes in working capital and provisions	3,524	2,184	5,077
Increase in trade and other receivables	(982)	(975)	(107)
(Increase)/decrease in inventories	(377)	29	51
(Decrease)/increase in trade and other payables	(125)	665	314
Decrease in provisions and employee benefits	(300)	(186)	(619)
Cash generated from the operations	1,740	1,717	4,716
Interest paid	(46)	(49)	(126)
Tax paid	(198)	(551)	(823)
Net cash from operating activities	1,496	1,117	3,767
Proceeds on disposal of property, plant and equipment	12	—	3
Interest received	3	4	8
Acquisition of property, plant and equipment	(1,479)	(1,541)	(2,641)
Net cash used in investing activities	(1,464)	(1,537)	(2,630)

CONSOLIDATED CASH FLOW STATEMENT CONTINUED

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000	Year ended 31 December 2006 £000
Proceeds from the issue of share capital	38	—	—
Repurchase of own shares	(77)	—	—
Repayment of borrowings	(200)	(200)	(400)
Dividends paid	(1,091)	(1,090)	(1,634)
Net cash used in financing activities	(1,330)	(1,290)	(2,034)
Net decrease in cash and cash equivalents	(1,298)	(1,710)	(897)
Cash and cash equivalents at 1 January	(329)	432	432
Effect of exchange rate fluctuations on cash held	5	29	136
Cash and cash equivalents at the end of period	(1,622)	(1,249)	(329)

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 INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

1. BASIS OF PREPARATION

This interim financial information has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2006.

The comparative figures for the financial year ended 31 December 2006 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

There were no significant changes to the pension scheme or significant changes to market conditions during the period and therefore the Company did not update its actuarial valuation during this period. The Income Statement charge is based on the set of assumptions laid out in the consolidated financial statements for the year ended 31 December 2006. However, no actuarial gains/losses have been recognised and therefore there is no movement on the Statement of Recognised Income and Expense for the half year ending 30 June 2007.

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: 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 derived from our ZOTEK® F foams made from PVDF fluoropolymer. Other polymers 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 the high-performance polymers business is currently in its early stages with development and marketing costs exceeding revenues.

Six months ended 30 June 2007	Polyolefins £000	High-performance polymers £000	Consolidated £000
Revenue	15,218	427	15,645
Pre-exceptional operating profit/(loss)	1,994	(154)	1,840

2. SEGMENT REPORTING (CONTINUED)

Six months ended 30 June 2006	Polyolefins £000	High-performance polymers £000	Consolidated £000
Revenue	15,609	266	15,875
Pre-exceptional operating profit/(loss)	1,885	(275)	1,610
Exceptional item*	(1,092)	—	(1,092)
Post-exceptional operating profit/(loss)	793	(275)	518

* The exceptional item relates to costs incurred in respect of the termination of a commercial relationship with the Sekisui Group which was announced in March 2006.

3. TAXATION

	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000
Current tax:		
UK corporation tax	476	170
Foreign tax	—	12
	476	182
Deferred tax	(292)	(52)
	184	130

The Group's consolidated effective tax rate for the six months ended 30 June 2007 was 10% (2006: 30%) due to a £0.2m release of deferred tax to reflect the change in the future corporation tax rate from 30% to 28% and a £0.1m adjustment in respect of prior periods.

NOTES TO THE INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 30 JUNE 2007

4. DIVIDENDS

	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000
Final dividend for the year ended 31 December 2006 of 3.0p (2005: 3.0p) per share	1,091	1,090

The final dividend for the year ended 31 December 2006 was paid on 24 May 2007.

A proposed interim dividend for the year ended 31 December 2007 of 1.5p per share (2006: 1.5p) was approved by the Board on 26 July 2007 and has not been included as a liability as at 30 June 2007.

5. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000
Earnings		
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	1,618	301
Earnings for the purposes of diluted earnings per share	1,618	301
Number of shares	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	36,347,325	36,319,924
Effect of dilutive potential ordinary shares:		
Share options and Long Term Incentive Plans	701,017	66,041
Weighted average number of ordinary shares for the purposes of diluted earnings per share	37,048,342	36,385,965

6. CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves

	Share capital £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Hedging reserve £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2007	1,816	13,753	5	(635)	84	9,815	24,838
Shares issued	14	188	—	—	—	(242)	(40)
Shares purchased	(10)	—	10	—	—	—	—
Total recognised income and expense	—	—	—	(158)	(34)	1,629	1,437
Equity-settled share-based payment transactions net of tax	—	—	—	—	—	45	45
Dividends	—	—	—	—	—	(1,091)	(1,091)
Balance as at 30 June 2007	1,820	13,941	15	(793)	50	10,156	25,189

During the six month period ending 30 June 2007 431,848 share options vested and 279,014 were exercised at 72.5p. Zotefoams plc repurchased 196,330 ordinary 5p shares which were subsequently cancelled in the period. Zotefoams plc did not hold any of its own shares in treasury at 30 June 2007.

INDEPENDENT REVIEW REPORT TO ZOTEOFAMS PLC

INTRODUCTION

We have been instructed by the Company to review the financial information for the six months ended 30 June 2007 which comprises the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

DIRECTORS' RESPONSIBILITIES

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

REVIEW WORK PERFORMED

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the UK. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Statements on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

REVIEW CONCLUSION

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

KPMG AUDIT PLC

Chartered Accountants

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6 August 2007



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