



ZOTEFOAMS

Tuesday 12 August 2014

Zotefoams plc

Interim Results for the Six Months Ended 30 June 2014

Zotefoams plc (“Zotefoams”, or “the Group” or “the Company”), a world leader in cellular material technology, today announces its interim results for the six months ended 30 June 2014.

Highlights

In constant currency:

- Total Revenue¹ increased by 12%
- High-Performance Products revenue growth of 51%
- Profit before tax and exceptional items up 28%

Other:

- MuCell® technology adopted by Unilever
- Interim dividend increased by 3% to 1.75 pence

Financial highlights

	Six months ended 30 June 2014	Six months ended 30 June 2013	Change	Change in constant currency ⁴
	£m	£m	%	%
Total Revenue ¹	24.70	23.22	6	12
Group revenue	24.65	23.22	6	12
Adjusted profit ² before tax excluding exceptional ³ items	3.02	2.68	13	27
Profit before tax excluding exceptional items	2.87	2.52	14	28
Profit before tax	1.61	2.52	(36)	(22)
Basic eps excluding exceptional items (p)	5.8	5.1	14	
Basic eps (p)	3.2	5.1	(37)	
Interim dividend (p)	1.75	1.70	3	

Commenting on the results, Nigel Howard, Chairman said:

“I am pleased to report that the first half of 2014 has delivered a constant currency increase of 12% in Total Revenue with record High-Performance Products sales, up 51% in constant currency.

We enter the second half of the year with a good order book across all segments of our business and a strong portfolio of products to deliver further organic growth. Zotefoams continues to maintain a consistent strategy and approach while being mindful of economic uncertainty and the impact of foreign exchange in particular. We therefore remain confident in the long-term prospects for the business.”

¹ Total Revenue consolidates all external sales made by the joint ventures as well as those made by Zotefoams plc and its subsidiaries.

² Before amortisation of intangible assets.

³ The non-cash impairment charge made following the decision to curtail manufacturing activity on the microZOTE® extrusion line has been treated as an exceptional item.

⁴ Estimated impact of restating 2014 at 2013 average foreign currency exchange rates, including the restatement of gains/losses on maturing forward exchange hedges in the period at 2013 average rates which reduces the profit impact by £0.37m. Balance sheet foreign exchange translation differences have not been restated.



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About Zotefoams plc

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

www.zotefoams.com

microZOTE® and ZOTEK® are registered trademarks of Zotefoams plc. MuCell® is a registered trademark of Trexel Inc. T-Tubes® is a registered trademark of UFP Technologies Inc.



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CHAIRMAN'S STATEMENT

In the first six months of 2014 profit before tax and exceptional items increased 14% to £2.87m (2013: £2.52m). The non-cash impairment charge of £1.27m made following the decision announced in June 2014 to curtail manufacturing activity on the microZOTE® extrusion line has been treated as an exceptional item. After this exceptional charge profit before tax was £1.61m (2013: £2.52m). Total Revenue increased by 6% to £24.70m (2013: £23.22m). Group revenue increased by 6% to £24.65m (2013: £23.22m). Basic earnings per share excluding exceptional items were 5.8 pence (2013: 5.1 pence). After exceptional items basic earnings per share were 3.2 pence. The Directors have decided to increase the interim dividend by 3% to 1.75 pence per share (2013: 1.7 pence) reflecting the Board's continued confidence in the Company's future.

Macroeconomic Environment

As a predominantly UK-based exporter Zotefoams has approximately 80% of sales denominated in US Dollars and Euros. With most costs incurred in GBP, other than our main raw materials which are denominated in Euros and some staff and operational costs which are in US Dollars, movements in foreign exchange rates can have a significant impact on our results. The average Euro rate was 1.22:£1 for the first six months of 2014 (equivalent 2013 rate 1.17:£1) and US Dollar rate was 1.67:£1 (equivalent 2013 rate 1.53:£1).

In constant currency Total Revenue would have increased by 12% to £26.00m and we estimate profit before tax and exceptional items would have increased by 28% to £3.23m.

Financial and operational review

Polyolefin Foams

Overall volumes increased by 9% compared with the first six months of 2013. North America performed strongly with sales growing 11% in constant currency. Most of the remainder of our growth was attributable to continental Europe and Asia, where constant currency Total Revenue grew by approximately 12% and 36% respectively against a comparative period impacted by some customer destocking. Sales volumes in UK increased very slightly over 2013 which was in line with expectations.

During the period we began trading in our sales joint venture in Asia. This has been accounted for as a joint venture within the financial statements. Currently Asia represents approximately 5% of Polyolefin Total Revenue and, together with our joint venture partner, we expect that targeted product and market development will produce the significant growth trajectory in this market that is necessary before making a final commitment to invest in local production capacity.

We ended the period with a particularly strong order book as demand for our Polyolefin foams, led by the automotive market, outstripped short-term supply, with a capacity constraint mainly attributable to a single extruder which was out of operation intermittently from mid-March to early July. Planned investment in additional extrusion capacity, which would have alleviated this shortfall, was delayed by problems at a supplier and is now due for commissioning in the fourth quarter of 2014. Inventory levels at our customers are therefore slightly below the normal levels for this time of year. Prices for our main raw material, low density polyethylene ('LDPE'), were relatively stable in the period and at a similar average level to the same period in 2013. Operating profit in Polyolefin foams before exceptional items declined 3% to £2.60m (2013: £2.68m) despite the increase in sales volumes. The main reason for this is the adverse movement in exchange rates and we estimate that operating profit in constant currency would be approximately £2.83m, an increase of 6% over the first six months of 2013.

High-Performance Products ('HPP')

Our strategy is to exploit our unique manufacturing process in the development of HPP foams. I am pleased to report that HPP recorded another period of record sales with turnover increasing to £2.76m, an increase of 40% over 2013 (equivalent to 51% increase in constant currency). Segment operating profit increased to £0.69m (2013: £0.12m) and, with a 25% operating margin, HPP is now



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firmly established as a high growth, profitable part of our business. Our fire-retardant ZOTEK® F fluoropolymer foams, which are sold mainly into the aviation market in North America, remain the largest part of this segment with growth driven from new applications, increased adoption of existing uses and an increasing number of aircraft being built. Sales of T-Tubes®, our advanced insulation products for clean-rooms, more than doubled in the period with the majority of growth recorded in China, India and South Korea in pharmaceutical and biotech installations. Revenue from our ZOTEK® N nylon foams, designed for high-temperature performance, while still small relative to other products in this segment, tripled in constant currency terms and encouragingly this growth was broadly based by geography and application.

MuCell Extrusion LLC ('MEL')

MEL licenses microcellular foam technology and sells related machinery. With sales of £0.72m (2013: £0.92m) MEL represents 3% of Group revenues and remains an early stage growth business. The main reasons for the decline in revenues were the timing of equipment sales and the less favourable exchange rate of the US Dollar. Underlying progress is good and we expect equipment shipments for the third quarter to be twice the level achieved in the first half (H1 2014: \$0.45m). There is particular interest in blow-moulded bottles, following our announcement in April 2014 of the use of our technology by Unilever in bottles for their Dove® body wash range, and in flat sheet for moulded consumer packaging. Other uses of the technology, including films and low-density sheet, are also showing encouraging progress. MEL represents a strong platform for future growth and we have increased our investment in people and intellectual property development. MEL made an operating loss before amortisation costs of £0.14m in the period (2013: £0.05m profit).

Exceptional Item

As announced in June this year, recent technical innovations at MEL have shown extremely promising results in foaming a variety of polymers outside MEL's core focus on the consumer packaging market. Many of these materials are used in technical applications and have synergy with Zotefoams' HPP business but require further technical and market development. Given their longer-term nature Zotefoams has decided that the best way to exploit these innovations is to develop further expertise at its Croydon, UK site. This allows MEL to retain focus on existing products and markets while benefiting from our UK-based marketing and technical resources. Zotefoams' existing microZOTE® extrusion line, which was initially specified for the dual purposes of development and manufacturing, will now be used as a development line with manufacturing activity on this line curtailed. Following this decision by the Board, the Company has taken a one-off charge of £1.27m for the write-down of these assets as described in note 7 to the interim financial statements. This charge, which has no cash effect, is treated as an exceptional item.

Tax and Cash Flow

Zotefoams' estimated effective tax rate for the period was 21% (2013: 21%) which is below the UK corporation tax rate of 22% due to the benefit of brought forward tax losses in North America and UK research and development tax credits. Cash generated from operations was £3.40m (2013: £3.34m) after a £1.12m increase in working capital with higher sales in the period. Capital expenditure at £4.61m (2013: £1.54m) was £2.99m higher than depreciation and this increased net debt (cash less bank overdrafts and other bank borrowings) from £1.12m at 31 December 2013 to £4.26m. Gearing was 11% (30 June 2013: 2%).

Capital Expenditure

In May we completed the first stage of our Croydon site reorganisation, increasing our factory space by approximately 13%. This will accommodate our relocated foam fabrication department as well as providing space for increased technical services. Relocation of fabrication releases flexible space for further investment in speciality extrusion to support longer-term growth in our HPP and high-end Azote® polyolefin products. As previously mentioned an additional polyolefin extruder will be available later this year and this will increase extrusion capacity by approximately 17%. To support our medium-term growth potential the Board is currently assessing further investment in high-pressure gassing capacity, either in Kentucky, USA or Croydon, UK. The other major capital project in 2014 is investment in a new Enterprise Resource Planning system. Our existing system was implemented in 2002 when Zotefoams was less than half its current size. We anticipate the main part of the new



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system, Microsoft Dynamics AX, will go live at the start of the fourth quarter this year with further development stages reaching into 2015.

Board changes

Alex Walker, one of our non-executive directors, resigned at the close of the Annual General Meeting on 20 May 2014. I would like to thank Alex for his valued contribution to the Board and wish him well for the future. Recruitment of a successor for Alex is currently underway and we expect to make an appointment within the next few months.

Employees

On behalf of the Board, I would like to thank all of our employees for their continued contribution to Zotefoams in the period.

Dividend

Reflecting the Board's continued confidence in the Company's future, the Directors have increased the interim dividend by 3% to 1.75 pence per share (2013: 1.70 pence). The dividend will be paid on 9 October 2014 to shareholders on the Company's register at the close of business on 5 September 2014.

Risks and uncertainties

Zotefoams' business and share price may be affected by a number of risks, not all of which are within our control. The process Zotefoams has in place for identifying, assessing and managing risks is set out in the Company statement of Principal Risks and Uncertainties on pages 16 and 17 of the 2013 Annual Report and Accounts. The specific principal risks (which could impact Zotefoams' sales, profits and reputation) and relevant mitigating factors, as currently identified by Zotefoams' risk management process, have not changed significantly since the publication of the last Annual Report and detailed explanations of these can be found in the 2013 Annual Report. Broadly, these risks include operational disruption, supply chain disruption, technological change and competitor activity, pension liabilities, foreign exchange, macro-economic factors, financing and IT.

Outlook

Demand remains strong in our Azote® Polyolefin foams business and we expect that this, along with some inventory increases at customers, will result in volume growth in all major regions in the second six months of the year. The price of LDPE, which has been relatively stable this year, has increased in July reacting to short-term supply constraints. However we expect the Euro prices for the remainder of the year to be relatively similar to 2013 unless driven by changes in the price of crude oil. In our HPP business sales grew by 51% in constant currency due to uses in aviation, clean-room insulation and general industrial markets and applications in these areas provide a solid base for second half sales to exceed those of the first six months. MEL's record order book also provides a leading indicator of strong future growth justifying our continued investment in this business. Foreign exchange rates are currently unfavourable for our business and, if they remain at the current levels, we expect second half sales to be adversely impacted by approximately 4% compared to exchange rates for the same period in 2013.

In the first half of 2014 we delivered a constant currency increase of 12% in Total Revenue and made significant capital investments to support our medium and longer-term growth potential. We enter the second half of the year with a good order book across all segments of our business and a strong portfolio of products to deliver further organic growth. Zotefoams continues to maintain a consistent strategy and approach while being mindful of economic uncertainty and the impact of foreign exchange in particular. We therefore remain confident in the long-term prospects for the business.

N G Howard
Chairman
11 August 2014

ZOTEK®, Azote® and microZOTE® are registered trademarks of Zotefoams plc. T-Tubes® is a registered trademark of UFP Technologies Inc. MuCell® is a registered trademark of Trexel Inc. Dove® is a registered trademark of Unilever N.V.



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STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm that this consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of consolidated interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Zotefoams plc are listed in the Zotefoams plc Annual Report for 31 December 2013, with the exception that Alex Walker resigned as a director on 20 May 2014. A list of current directors is maintained on the Zotefoams plc website: www.zotefoams.com

The maintenance and integrity of the Zotefoams plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board:

N G Howard
Chairman
11 August 2014

C G Hurst
Finance Director
11 August 2014



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CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Six months ended 30 June 2014	Six months ended 30 June 2014	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
	Note	Pre- exceptional items (unaudited) £000	Exceptional items (see note 7) (unaudited) £000	Post- exceptional items (unaudited) £000	(unaudited) £000	(audited) £000
Total Revenue	6	24,698		24,698	23,218	44,634
Adjustment for joint venture sales		(50)	-	(50)	-	-
Group revenue	6	24,648	-	24,648	23,218	44,634
Cost of sales		(17,915)	(1,265)	(19,180)	(16,996)	(33,015)
Gross profit		6,733	(1,265)	5,468	6,222	11,619
Distribution costs		(1,723)	-	(1,723)	(1,814)	(3,587)
Administrative expenses		(2,011)	-	(2,011)	(1,729)	(3,868)
Operating profit	6	2,999	(1,265)	1,734	2,679	4,164
Finance income		1	-	1	4	7
Finance costs		(110)	-	(110)	(165)	(315)
Share of loss from joint ventures		(19)	-	(19)	-	-
Profit before tax		2,871	(1,265)	1,606	2,518	3,856
Taxation	8	(583)	253	(330)	(527)	(695)
Profit for the period		2,288	(1,012)	1,276	1,991	3,161
Attributable to:						
Equity holders of the parent		2,288		1,276	1,991	3,161
Earnings per share:						
Basic (p)	10	5.8		3.2	5.1	8.0
Diluted (p)	10	5.7		3.2	5.0	7.9

The notes below form part of these financial statements.



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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Six months ended 30 June 2014 (unaudited) £000	Six months ended 30 June 2013 (unaudited) £000	Year ended 31 December 2013 (audited) £000
Profit for the period	1,276	1,991	3,161
Other comprehensive (expense)/income			
<i>Items that will not be reclassified to profit or loss</i>			
Foreign exchange translation (losses)/gains on investment in foreign subsidiaries and joint ventures	(269)	657	(187)
Actuarial gains on defined benefit scheme	-	-	2,526
Tax relating to items that will not be reclassified	-	-	(505)
Total items that will not be reclassified to profit or less	(269)	657	1,834
<i>Items that may be classified subsequently to profit or loss</i>			
Effective portion of changes in fair value of cash flow hedges net of recycling	(28)	(281)	283
Tax relating to items that may be reclassified	6	65	(57)
Total items that may be classified subsequently to profit or loss	(22)	(216)	226
Other comprehensive (expense)/income for the period, net of tax	(291)	441	2,060
Total comprehensive income for the period	985	2,432	5,221
Attributable to equity holders of the parent	985	2,432	5,221

The notes below form part of these financial statements.



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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	30 June 2014 (unaudited) £000	30 June 2013 (unaudited) £000	31 December 2013 (audited) £000
Non-current assets			
Investments in joint ventures	219	-	-
Property, plant and equipment	28,559	26,133	27,333
Intangible assets	4,643	5,446	4,916
Deferred tax assets	474	460	477
Total non-current assets	33,895	32,039	32,726
Current assets			
Inventories	8,509	7,207	8,019
Trade and other receivables	13,067	11,645	10,991
Cash and cash equivalents	454	2,968	1,957
Total current assets	22,030	21,820	20,967
Total assets	55,925	53,859	53,693
Current liabilities			
Interest-bearing loans and borrowings	(709)	(1,186)	(865)
Tax payable	(655)	(733)	(506)
Bank overdraft	(2,156)	-	-
Trade and other payables	(6,765)	(4,771)	(5,557)
Total current liabilities	(10,285)	(6,690)	(6,928)
Non-current liabilities			
Interest-bearing loans and borrowings	(1,851)	(2,559)	(2,207)
Employee benefits	(4,047)	(6,996)	(4,280)
Deferred tax liabilities	(1,067)	(657)	(1,264)
Total non-current liabilities	(6,965)	(10,212)	(7,751)
Total liabilities	(17,250)	(16,902)	(14,679)
Total net assets	38,675	36,957	39,014
Equity			
Issued shared capital	1,992	1,992	1,992
Own shares held	(18)	(23)	(21)
Share premium	16,090	16,090	16,090
Capital redemption reserve	15	15	15
Translation reserve	(111)	1,002	158
Hedging reserve	217	(319)	245
Retained earnings	20,490	18,200	20,535
Total equity attributable to the equity holders of the parent	38,675	36,957	39,014

The notes below form part of these financial statements.



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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Six months ended 30 June 2014 (unaudited) £000	Six months ended 30 June 2013 (unaudited) £000	Year ended 31 December 2013 (audited) £000
Cash flows from operating activities:			
Profit for the period	1,276	1,991	3,161
Adjustments for:			
Depreciation, amortisation and impairment	3,035	1,753	3,609
Finance income	(1)	(4)	(7)
Finance costs	110	165	315
Loss from joint venture	19	-	-
Equity-settled share-based payments	86	216	232
Taxation	330	527	695
Operating profit before changes in working capital and provisions	4,855	4,648	8,005
(Increase)/decrease in trade and other receivables	(2,183)	106	763
Increase in inventories	(538)	(479)	(1,430)
Increase/(decrease) in trade and other payables	1,599	(606)	(45)
Employee benefit contributions	(330)	(330)	(660)
Cash generated from operations	3,403	3,339	6,633
Interest paid	(13)	(12)	(24)
Tax paid	(336)	(537)	(1,013)
Net cash from operating activities	3,054	2,790	5,596
Interest received	1	4	7
Investment in joint ventures	(238)	-	-
Acquisition of intangible assets	(6)	-	(71)
Acquisition of property, plant and equipment	(4,608)	(1,538)	(4,141)
Net cash used in investing activities	(4,851)	(1,534)	(4,205)
Proceeds from issue of share capital	3	110	153
Repurchase of own shares	-	(70)	(113)
Repayment of borrowings	(512)	(670)	(1,340)
New loans taken out	-	90	90
Dividends paid	(1,421)	(1,378)	(2,048)
Net cash used in financing activities	(1,930)	(1,918)	(3,258)
Net decrease in cash and cash equivalents	(3,727)	(662)	(1,867)
Cash and cash equivalents at 1 January	1,957	3,698	3,698
Effect of exchange rate fluctuations on cash held	68	(68)	126
Cash and cash equivalents at the end of period	(1,702)	2,968	1,957

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

The notes below form part of these financial statements.



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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Share capital	Own shares held	Share premium	Capital redemption reserve	Translation reserve	Hedging reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2014	1,992	(21)	16,090	15	158	245	20,535	39,014
Foreign exchange translation loss on investment in foreign subsidiaries and joint ventures	-	-	-	-	(269)	-	-	(269)
Effective portion of changes in fair value of cash flow hedges net of recycling	-	-	-	-	-	(28)	-	(28)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling	-	-	-	-	-	-	6	6
Profit for the period	-	-	-	-	-	-	1,276	1,276
Total comprehensive (loss)/income for the period	-	-	-	-	(269)	(28)	1,282	985
Transactions with owners of the Parent								
Shares issued	-	3	-	-	-	-	-	3
Shares acquired	-	-	-	-	-	-	-	-
Equity-settled share-based payment transactions net of tax	-	-	-	-	-	-	94	94
Dividends paid	-	-	-	-	-	-	(1,421)	(1,421)
Total transactions with owners of the Parent	-	3	-	-	-	-	(1,327)	(1,324)
Balance at 30 June 2014 (unaudited)	1,992	(18)	16,090	15	(111)	217	20,490	38,675

During the six months period ended 30 June 2014, 68,501 shares vested and were issued from the Zotefoams Employee Benefit Trust ("EBT") following the exercise of these options.



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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Share capital	Own shares held	Share premium	Capital redemption reserve	Translation reserve	Hedging reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2013	1,992	(36)	16,090	15	345	(38)	17,322	35,690
Foreign exchange translation gains on investment in foreign subsidiaries	-	-	-	-	657	-	-	657
Effective portion of changes in fair value of cash flow hedges net of recycling	-	-	-	-	-	(281)	-	(281)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling	-	-	-	-	-	-	65	65
Profit for the period	-	-	-	-	-	-	1,991	1,991
Total comprehensive income for the period	-	-	-	-	657	(281)	2,056	2,432
Transactions with owners of the Parent								
Shares issued	-	15	-	-	-	-	95	110
Shares acquired	-	(2)	-	-	-	-	(68)	(70)
Equity-settled share-based payment transactions net of tax	-	-	-	-	-	-	173	173
Dividends paid	-	-	-	-	-	-	(1,378)	(1,378)
Total transactions with owners of the Parent	-	13	-	-	-	-	(1,178)	(1,165)
Balance at 30 June 2013 (unaudited)	1,992	(23)	16,090	15	1,002	(319)	18,200	36,957

The notes below form part of these financial statements.



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NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

1. GENERAL INFORMATION

The Company is a public limited liability company incorporated and domiciled in the UK. The address of the registered office is 675 Mitcham Road, Croydon, CR9 3AL. The Group is principally engaged in manufacturing and selling cellular materials and, through MuCell Extrusion LLC ('MEL'), licensing microcellular foam technology and supplying related equipment. The Group has manufacturing sites in the UK and the USA and sells into worldwide markets. The Company is listed on the London Stock Exchange and is registered in England and Wales with Company Number 2714645.

2. BASIS OF PREPARATION

This condensed set of consolidated interim financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed set of consolidated interim financial statements 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 2013. Those consolidated financial statements were prepared in accordance with IFRSs as adopted by the EU.

This condensed set of consolidated interim financial statements has been reviewed, not audited, and was approved for issue on 11 August 2014. This condensed set of consolidated interim financial statements does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2013 were approved by the Board of Directors on 17 March 2014 and delivered to the Registrar of Companies. The Independent Audit on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

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 2013.

Forward-looking statements

Certain statements in this condensed set of consolidated interim financial statements are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to be correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Going Concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis of accounting in preparing its condensed consolidated interim financial statements.



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3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the Company's published consolidated financial statements for the year ended 31 December 2013, as described in those consolidated financial statements with the exception of tax which is accrued based on an estimated tax rate that would be applicable to estimated annual earnings.

Exceptional items

Exceptional items are items which due to their size, incidence and non-recurring nature have been classified separately in order to draw them to the attention of the reader of the financial statements and, in management's judgement, to show more accurately the underlying profits of the Group. Such items are included within the statement of comprehensive income caption to which they relate, and are separately disclosed either in the notes to the consolidated financial statements or on the face of the consolidated statement of comprehensive income.

Joint ventures

Joint ventures are jointly controlled entities whose activities the Group has the power to control jointly, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised income and expense and changes in equity of joint ventures on an equity accounted basis, from the date that joint control or significant influence respectively commences until the date that it ceases. Joint ventures are recorded at cost as adjusted for post-acquisition changes in the Group's share of net assets of the entity including goodwill net of accumulated impairment loss. When the Group's share of losses exceeds the carrying amount of the joint venture, the carrying amount is reduced to £nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture or associate.

4. CYCLICAL NATURE OF BUSINESS

Zotefoams traditionally makes more profit in the first six months of the year. This cyclical nature of the business can be attributed to a number of factors, namely:

- Reduced polyolefin sales in the second half of the year due to customer holiday periods and factory shutdowns in August and December.
- Timing of maintenance/servicing cost which is concentrated around shutdown periods.

However, the Company is also subject to a number of other factors such as customer demand which can affect this cyclicity.

The Company's subsidiary, MEL, traditionally has had a stronger first six months of the calendar year due to the profile of its licence agreements but this is also subject to a number of other factors which can affect this cyclicity including changes to its licence portfolio.

5. ESTIMATES

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results for which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2013.



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6. SEGMENT REPORTING

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

- Polyolefins: these foams are made from olefinic homopolymer and copolymer resin. The most common resin used is polyethylene. Included in this segment are microZOTE® foams made using polyolefin resins.
- High-Performance Products (HPP): these foams exhibit high-performance on certain key properties, such as improved chemical, flammability or temperature performance, due to the resins on which they are based. Turnover in the segment is currently mainly derived from our ZOTEK® F foams and T-Tubes® insulation both made from PVDF fluoropolymer. Other products either commercially launched or being assessed in development include foams made from polyamide (nylon) and polyether block amide (PEBA).
- MEL: licenses microcellular foam technology and sells related machinery.

Due to our unique manufacturing technology Zotefoams can produce polyolefin foams with superior performance to other manufacturers. Our strategy is to use the capabilities of our technology to produce foams from other materials in addition to polyolefins. There were no transactions within the period between reportable segments apart from the sale of minor equipment from MEL to microZOTE®, within our Polyolefins segment.

Six months ended 30 June 2014 (unaudited)	Polyolefins £000	HPP £000	MEL £000	Consolidated £000
Total Revenue*	21,217	2,757	724	24,698
Adjustment for joint venture sales	(50)	-	-	(50)
Group revenue	21,167	2,757	724	24,648
Segment profit/(loss) before amortisation	2,599	688	(139)	3,148
Amortisation	-	-	(149)	(149)
Operating profit before exceptional items	2,599	688	(288)	2,999

Six months ended 30 June 2013 (unaudited)	Polyolefins £000	HPP £000	MEL £000	Consolidated £000
Total Revenue*	20,325	1,973	920	23,218
Adjustment for joint venture sales	-	-	-	-
Group revenue	20,325	1,973	920	23,218
Segment profit before amortisation	2,678	118	46	2,842
Amortisation	-	-	(163)	(163)
Operating profit before exceptional items	2,678	118	(117)	2,679

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



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7. EXCEPTIONAL ITEM

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

	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000
Fixed asset impairment	1,175	-
Inventory impairment	90	-
	1,265	-

8. TAXATION

	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000
Current tax:		
UK corporation tax	475	464
Foreign tax	10	5
	485	469
Deferred tax	(155)	58
	330	527

The Group's consolidated effective tax rate for the six months ended 30 June 2014 was 21% (2013: 21%)

Tax is accrued based on an estimated tax rate that would be applicable to estimated annual earnings.

9. DIVIDENDS

	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000
Final dividend for the year ended 31 December 2013 of 3.6p (2012: 3.5p) per share	1,421	1,378

The final dividend for the year ended 31 December 2013 was paid on 28 May 2014.



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10. EARNINGS PER SHARE

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

	Six months ended 30 June 2014 £000	Six months ended 30 June 2013 £000
Earnings		
Earnings for the purpose of basic earnings per share pre-exceptional items being net profit attributable to equity holders of the parent pre-exceptional items	2,288	1,991
Earnings for the purposes of diluted earnings per share pre-exceptional items	2,288	1,991
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	1,276	1,991
Earnings for the purposes of diluted earnings per share	1,276	1,991
Number of shares	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	39,444,150	39,257,986
Effect of dilutive potential ordinary shares: Share options and Long-Term Incentive Plans	660,253	673,441
Weighted average number of ordinary shares for the purposes of diluted earnings per share	40,104,403	39,931,427

11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks including credit risk, interest rate risk, liquidity risk and foreign currency risk.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 December 2013. There have been no changes in any risk management policies since the year end.

Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).



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The following table presents the Group's financial instruments that are measured at fair value at 30 June 2014.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets				
Forward exchange contracts	-	216	-	216
Total assets	-	216	-	216
Liabilities				
Forward exchange contracts	-	-	-	-
Total liabilities	-	-	-	-

The following table presents the Group's financial instruments that are measured at fair value at 30 June 2013.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets				
Forward exchange contracts	-	-	-	-
Total assets	-	-	-	-
Liabilities				
Forward exchange contracts	-	320	-	320
Total liabilities	-	320	-	320

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

Group's valuation process

The Group's finance department performs the valuation of forward exchange contracts required for financial reporting purposes. This is reported to the Audit Committee.

The results of the valuation processes are included in the Group's monthly reporting to the directors which includes all members of the Audit Committee.

Fair value of financial assets and liabilities measured at amortised cost

The fair value of borrowings is as follows:

	30 June 2014 £000	30 June 2013 £000
Current	687	1,158
Non-current	1,826	2,514
Total	2,513	3,672



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The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables
- Other current financial assets
- Cash and cash equivalents
- Trade and other payables
- Other current liabilities

12. RELATED PARTY TRANSACTIONS

There were no material related party transactions for the periods ended 30 June 2014 and 30 June 2013.



ZOTEFOAMS

Independent review report to Zotefoams plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed the condensed consolidated interim financial statements, defined below, in the Interim Results of Zotefoams plc for the six months ended 30 June 2014. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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

What we have reviewed

The condensed consolidated interim financial statements, which are prepared by Zotefoams plc, comprise:

- the consolidated statement of financial position as at 30 June 2014;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

As disclosed in note 2, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The consolidated interim financial statements included in the half-yearly financial report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of condensed consolidated financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

Responsibilities for the condensed consolidated interim financial statements and the review

Our responsibilities and those of the directors

The Interim Results including the condensed consolidated interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Results in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.



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Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial statements in the Interim Results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
11 August 2014
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