ZOTEFOAMS

Tuesday 7 August 2018

Zotefoams plc

Interim Report for the Six Months Ended 30 June 2018

Continuing strong organic sales growth
Capacity investment projects on track

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 2018.

Highlights

- Record Group Revenue of £37.89m, up 12% on prior year (2017: £33.84m) and 17% in constant currency:
  - 4% increase in Polyolefin Foams supported by new USA capacity
  - 82% growth in High Performance Products ("HPP"), which now represents 24% (2017: 15%) of Group sales
  - MuCell Extrusion sales of £0.86m (2017: £1.96m) with 20% underlying growth excluding the large, one-off capital equipment sale in 2017
- Profit before tax and exceptional item up 21% to £4.60m (2017: £3.81m)
- Profit before tax up 64% to £4.60m (2017: £2.81m)
- Successful bank refinancing and £20.6m equity raise (before expenses) completed in May
- Three major capital projects to expand capacity to support growth are on schedule
- Interim dividend increased by 3.1% to 1.97 pence
- The Group continues to trade in line with Board expectations

Financial highlights

	Six months ended 30 June 2018	Six months ended 30 June 2017	Change
	£m	£m	%
Group Revenue	37.89	33.84	12
Gross Profit	12.92	12.02	7
Gross Profit margin	34.1%	35.5%	(4)
Adjusted[1] Operating Profit	5.17	4.26	21
Operating Profit pre exceptional item	5.02	4.10	22
Operating Profit	5.02	3.10	62
Adjusted[1] Profit before tax	4.75	3.97	20
Profit before tax pre exceptional item	4.60	3.81	21
Profit before tax	4.60	2.81	64
Basic EPS (p) pre exceptional item	8.07	7.04	15
Basic EPS (p)	8.07	5.20	55
Interim dividend (p)	1.97	1.91	3

[1] Before amortisation of acquired intangible assets £0.15m; (2017 £0.16m) and exceptional items £nil; 2017: £1.0m)

Commenting on the results, David Stirling, Group CEO, said:

"Zotefoams' ambition is to be the world leader in cellular materials technology in our chosen markets and, in the period, we have delivered strong organic growth and accelerated our investment plans to realise this ambition.

In the first half of 2018 we also commissioned the initial phase of capacity expansion in Kentucky, USA, which allowed us to increase sales volumes in what remains a capacity constrained environment. Sales of higher value High Performance Products have grown very strongly and now represent 24% (2017: 15%) of Group sales. We enter the second half of the year with a strong order book, a differentiated product portfolio and continued growth expectations across all business units.

The Group continues to trade in line with the Board's expectations and the Board remains confident in the future prospects for the business".

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About Zotefoams plc

Zotefoams plc (LSE – ZTF) is a world leader in cellular materials technology. Utilising a variety of unique manufacturing processes, including environmentally friendly nitrogen expansion for lightweight AZOTE® polyolefin and ZOTEK® high-performance foams, Zotefoams sells to diverse markets worldwide. Zotefoams uses its own cellular materials to manufacture T-FIT® advanced insulation for demanding industrial markets. In addition, Zotefoams owns and licenses patented MuCell® microcellular foam technology, developed specifically for extrusion applications, from a base in Massachusetts, USA to customers worldwide.

Zotefoams is headquartered in Croydon, UK, with additional manufacturing sites in Kentucky and Oklahoma, USA (foam products manufacture and conversion), Massachusetts, USA (MuCell Extrusion) and Jiangsu Province, China (T-FIT®). A third foam-manufacturing site, in Poland, is planned to begin operations in 2020.

www.zotefoams.com

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Results overview
In the first six months of 2018 Group revenue increased by 12% to a record £37.89m (2017: £33.84m). In constant currency, growth was 17%, with particularly strong sales performance in our HPP business and continued good progress in Polyolefin Foams.

Gross profit increased by 7% to £12.92m (2017: £12.02m) with improved volumes, a strong positive mix impact from our HPP business growth and price increases in polyolefin foams across the UK and Europe. Our gross margin percentage moved from 35.5% in 2017 to 34.1%, reflecting unfavourable foreign exchange movements and higher overhead and non-optimal running costs as we started up polyolefin capacity in the USA.

In H1 2018 profit before tax and exceptional item grew by 21% to £4.60m (2017: £3.81m), while profit before tax was up 64% to £4.60m (2017: £2.81m). In H1 2017 the Group reported an exceptional item in relation to the breakage of salary linkage of its Defined Benefit Pension Scheme, amounting to £1.0m.

Basic earnings per share before exceptional item increased to 8.07p (2017: 7.04p) and includes the two-month impact of the equity raise completed in May 2018. The Directors have decided to increase the interim dividend to 1.97p per share (2017: 1.91p), an increase of 3.1%, reflecting the Board's continued confidence in the Group's future.

Financial and operational review

High-Performance Products ('HPP')
HPP sales almost doubled in constant currency, to £9.70m (2017: £4.98m). This increase was predominantly a result of very strong growth in footwear products as our foam becomes established in more shoe models. Footwear is now the largest market within HPP. We also saw strong growth in ZOTEK® F fluoropolymer foams, against a weaker comparative which had been adversely affected by an aviation customer destocking. ZOTEK® N nylon foam and our T-FIT® insulation products reported small absolute declines in revenue, although these were timing-related, and we remain excited about the long-term growth prospects of these products. In reporting currency sales of £9.04m were 82% above the previous year (2017: £4.98m).

The segment profit in HPP is an aggregate of products and markets at different stages of development. Within this portfolio ZOTEK® PEBA and ZOTEK® F foams, mainly used for footwear and aviation respectively, have both reached a scale such that they are now profitable, and we are focusing on cycle time and material efficiency in advance of additional equipment commissioning to increase capacity for these products scheduled in H1 2019. T-FIT® insulation has a mixture of profitable lines and earlier stage products, with investment in operational capability in China and sales teams globally. We intend to continue with both this investment and that in nylon foam, both of which we believe offer good potential to support our long-term ambition. Segment profit in HPP increased by 158% to £1.68m (2017: £0.65m), delivering a 19% segment profit margin for the period (2017: 13%).

Polyolefin Foams
In constant currency, sales in Polyolefin Foams increased by 7% to £29.4m (2017: £27.5m), with volumes 3% ahead of 2017. This sales increase was tempered as we operated at capacity during the period, as HPP took a higher allocation of UK capacity and our USA facility ramped up output in the second quarter. As a consequence of this, some capacity allocation decisions were required across the product range and in most geographical markets. In continental Europe, our largest market, sales increased by 12% with transportation and industrial sales particularly strong. In the UK revenue grew 3% while in North America, which was most impacted by capacity allocation, sales increased 2%. Sales in other geographies, representing 7% of Polyolefin Foams revenue, were relatively flat due to our allocation policies. In reporting currency, Polyolefin Foams sales increased 4% to £27.98m (2017: £26.90m).

Segment profit in Polyolefin Foams, before exceptional items, declined by 21% to £4.55m (2017: £5.73m), as the benefit of increased sales volume, better average sales prices and lower average input costs for our main raw material, low density polyethylene ('LDPE'), was more than offset by additional depreciation and operating costs in the recently commissioned USA capacity expansion.

While the additional costs of operating this facility were expected, a slower than planned ramp-up of capacity resulted in less favourable operating leverage, additional shipping costs from the UK to support North American customers and higher than normal scrap levels. This situation is largely resolved at this time and we are continuing to work through a sales backlog and deliver operational efficiency improvements, the last of which will come on line late in Q4. This delivered a segment profit margin of 16% (2017: 21%).

MuCell Extrusion LLC ('MEL')
MEL licenses microcellular foam technology and sells related machinery. Sales in the period were £0.86m (2017: £1.96m) with 2017 benefiting from the shipment of a full extrusion line to a customer in Japan, representing MEL's largest individual equipment order. Excluding the extruder shipment from 2017, in constant currency total sales increased by 20%, with licence and royalty fees also increasing by 20%. We continue to make progress in developing our technology and selling equipment to convert additional licensee lines but at a pace which has not been in line with the longer-term goals of the Zotefoams Group. A recent review has resulted in a more focused organisational structure with clarity on the required engineering and support staff to deliver to the potential of the technology.

MEL reported a segment loss after amortisation costs of £0.78m (2017: loss £0.87m, which included a one-off charge of £0.31m arising from inventory adjustments).

Currency review
As a predominantly UK-based exporter, Zotefoams has over 80% of its sales denominated in US dollars and euros. With most costs incurred in sterling, other than the main raw materials processed at the Croydon, UK, plant, which are in euros, and the operating costs of the Group's US and Chinese activities, which are in US dollars, movements in foreign exchange rates can have a significant impact on the Group's results. The average Euro rate was 1.14:£1 for the first six months of 2018 (equivalent 2017 rate 1.16:£1) and the average US dollar rate was 1.38:£1 (equivalent 2017 rate 1.27:£1).

The period-end exchange rates and the movement between the period opening and closing rates generated a combined forward contract and non-cash translation gain of £0.67m (2017: loss of £0.27m), offsetting movements related to trading activity, which is included in administration expenses.

Investment in organisation
The Group continues to pursue its expansion strategy, founded on proprietary cellular-materials technology with an increasing portfolio of differentiated products.

Organic growth with unique products requires the Group to actively invest in manufacturing, processing and engineering capability to deliver the new capacity coming on-stream around the world. Within cost of sales, these costs increased by £1.5m in H1 2018 vs the previous period.

This organic growth also requires investment in, and reprioritisation of technical, sales-focused and administration resources to create, execute and manage this growth. Included within distribution and administrative expenses in the Group's Income Statement are sales and marketing, warehousing, technical development, finance, information systems and administration costs as well as the impact of foreign exchange hedges maturing in the period and non-cash foreign exchange translation expenses. These costs, excluding the impact of foreign exchange hedges and translation, increased by a further £0.92m to £8.56m in H1 2018 (2017: £7.65m). The Group expects this investment to continue as it progresses its strategy of mix enrichment and completes its ongoing capital investments.

Group financing
In May 2018 the Group completed a debt refinancing to enable it to continue to grow capacity and meet its expected demand growth securing increased facilities of £57.5m (up 64% from previous facilities of approximately £35m) at improved pricing. The Facility comprises a £25 million multi-currency term loan, a £25 million multi-currency revolving credit facility and a further £7.5 million sterling annually renewable term loan. The negotiated facility also includes a £25 million accordion feature to provide additional flexibility to pursue further investment opportunities in the future.

Simultaneously, the Group successfully raised £20.6m (before expenses) of equity through a placing, with proceeds intended for investment in a new Central European foam manufacturing facility.

Tax and cash flow
Zotefoams' estimated average annual tax rate used for the period to 31 December 2018 is 21.41% (31 December 2017: 20.40%), which is above the UK corporation tax rate for the period of 19% due to differences in tax rates across jurisdictions. Cash used in operations was £0.63m (2017: generated from operations £5.80m), impacted by net investment in working capital in the period of £7.82m, mainly growth, mix and timing related. Capital expenditure was £5.75m (2017: £4.96m), primarily related to completing the capacity expansion project in Kentucky, USA as well as investing in high-temperature low-pressure vessels at the Croydon, UK, manufacturing facility.

After the net cash inflow of £20.08m from the May equity raise, net debt (cash less bank overdrafts and other bank borrowings) decreased by £10.82m from £17.96m (December 2017) to £7.14m.

Pensions
A full actuarial valuation of the Defined Benefit Pension Scheme (DB Scheme) as at 5 April 2017, in line with the requirement to have a triennial valuation, was completed during the period and calculated a deficit for the DB Scheme, on a Statutory Funding Objective basis, of £4.18m (up from the previous deficit of £2.50m). As a result, the Company has agreed with the Trustees to make contributions to the DB Scheme of £43,300 per month until October 2026 to eliminate this deficit, up from £41,000 per month previously. In addition, the Company will pay the ongoing DB Scheme expenses of £15,000 per month (previously £10,600).

In the previous period, following legal advice received by the pension trustees and an estimate calculated by the actuaries, the Company provided £1m for potential additional liabilities, which was treated as an exceptional item. In the period to June 2018 the process of obtaining informed consent from members of the DB Scheme, to close the scheme effectively, was completed. 70% of the affected members of the scheme consented and a majority of these members are in the higher salary bands, resulting in a low risk of material exposure.

Capital expenditure
Zotefoams is investing significantly in capacity to support future growth. In March 2018 the Group successfully commissioned its full process capability in Kentucky, USA, which cost a total of approximately $33m, including a second high-pressure autoclave for future commissioning, and increases global capacity by approximately 20%. In March 2018 the Group announced the investment of $9m to proceed with the commissioning of that second autoclave, with an expected commissioning date of late 2019. Furthermore, the Group has been investing, since December 2017, in additional high-temperature, low-pressure capacity at its Croydon, UK, plant, expected to come on stream during 2019, with a total investment cost of approximately £12m which, although capable of expanding all foams produced by Zotefoams, is targeted at the fast-growing HPP business. And most recently, in May 2018, the Group raised new equity and debt to support investment in a new foam manufacturing plant in Poland, expected to become operational in 2020 and to cost approximately £23m to cover land, buildings and the first phase of capacity. All capital projects remain on target for their scheduled completion dates.

Employees and talent management
Talent management continues to be very important to Zotefoams as it grows and evolves, both in the UK and overseas. The opportunities we have, in new products, markets and geographies, require that we identify and develop the right people to define and deliver to our potential. Over the past six months we have continued to recruit to meet the needs of our business.

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

Dividend
Reflecting the Board's continued confidence in the Group's future, the Directors have increased the interim dividend by 3.1%% to 1.97 pence per share (2017: 1.91 pence). The dividend will be paid on 11 October 2018 to shareholders on the Company's register at the close of business on 14 September 2018.

Principal risks and uncertainties
Zotefoams' business and share price may be affected by a number of risks, not all of which are within its control. The process Zotefoams has in place for identifying, assessing and managing risks is set out in the Risk Statement and Principal Risks section on pages 23 to 29 of the 2017 Annual Report. 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 2017 Annual Report. Broadly, these risks include operational disruption, operational execution, technology change and competitor activity, people, operational span of control, supply chain disruption, foreign exchange, macro-economic factors, financing, commercial, pension and operational cyber threats.

Current trading and prospects
In our AZOTE® Polyolefin Foams business the additional capacity from our Kentucky facility will allow us to deliver against a strong order book through to the end of 2018. In HPP we anticipate sales to increase further with demand for all product lines expected to be higher than first half shipments. In MEL we expect sales to be higher than in the first half as there is a normal seasonality in this business and underlying growth, although with both MEL and T-FIT® there is a higher than normal timing risk to revenue linked to customer project completions. Foreign exchange rates are currently at similar levels to those experienced in the second half of 2017 and therefore we anticipate no significant transactional impact for the remainder of the year. Indications are that pricing of Low Density Polyethylene ("LDPE"), our major raw material, will remain at a similar level to the first six months of this year.

Outlook
We enter the second half of the year with a strong order book, a differentiated product portfolio, continued good growth expectations across all business units, and progressing as expected with our capacity expansion projects in the USA, UK and Poland.

The Group continues to trade in line with the Board's expectations and the Board remains confident in the future prospects for the business.

S P Good	D B Stirling
Chairman	Group CEO
6 August 2018	6 August 2018

ZOTEK®, AZOTE® and T-FIT® are registered trademarks of Zotefoams plc. MuCell® is a registered trademark of Trexel Inc.

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that these condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' 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 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 2017, with the exception of the following change in the period: Mr Richard Clowes retired on 16 May 2018. A list of current Directors is maintained on the Zotefoams plc website: www.zotefoams.com

By order of the Board:

S P Good	G C McGrath
Chairman	Group CFO
6 August 2018	6 August 2018

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CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Notes	Six months ended 30-Jun-18 (Unaudited) £'000	Six months ended 30-Jun-17 (Unaudited) £'000	Year ended 31-Dec-17 (Audited) £'000
Revenue	6	**37,888**	33,842	70,146
Cost of sales		**(24,972)**	(21,826)	(44,659)
Gross profit		**12,916**	12,016	25,487
Distribution costs		**(3,432)**	(2,603)	(5,754)
Administrative expenses before exceptional item		**(4,460)**	(5,313)	(10,359)
Exceptional item		**-**	(1,000)	(1,265)
Administrative expenses after exceptional item		**(4,460)**	(6,313)	(11,624)
Operating profit		**5,024**	3,100	8,109
Operating profit before exceptional item		**5,024**	4,100	9,374
Finance costs		**(419)**	(287)	(508)
Share of loss from joint venture		**(3)**	(6)	(53)
Profit before income tax		**4,602**	2,807	7,548
Profit before income tax and exceptional item		**4,602**	3,807	8,813
Income tax expense	7	**(983)**	(530)	(1,540)
Profit for the period/year		**3,619**	2,277	6,008
Profit for the period/year before exceptional item		**3,619**	3,084	7,033
Profit attributable to:				
Owners of the Parent		**3,619**	2,277	6,008
		3,619	2,277	6,008
Earnings per share attributable to the equity holders of the parent during the period/year (expressed in pence per share)				
Basic earnings per share	10	**8.07**	5.20	13.70
Diluted earnings per share	10	**7.94**	5.11	13.52

The notes below form an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended		Year ended
	30-Jun-18	30-Jun-17	31-Dec-17
	(Unaudited)	(Unaudited)	(Audited)
	£'000	£'000	£'000
Profit for the period/year	**3,619**	2,277	6,008
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss			
Actuarial gains on defined benefit pension schemes	**-**	-	2,080
Tax relating to items that will not be reclassified	**-**	-	(502)
Total items that will not be reclassified to profit or loss	**-**	-	1,578
Items that may be reclassified subsequently to profit or loss			
Effective portion of changes in fair value of cash flow hedges	**(372)**	497	508
Tax relating to items that may be reclassified	**63**	(94)	(93)
Foreign exchange translation gains/(losses) on investment in foreign subsidiaries	**371**	(2,081)	(3,336)
Total items that may be reclassified subsequently to profit or loss	**62**	(1,678)	(2,921)
Other comprehensive income/(expense) for the period/year, net of tax	**62**	(1,678)	(1,343)
Total comprehensive income for the period/year	**3,681**	599	4,665
Total comprehensive income attributable to owners of the parent for the period/year	**3,681**	599	4,665

The notes below form an integral part of these condensed consolidated interim financial statements.

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Notes	**30-Jun-18 (Unaudited) £'000**	30-Jun-17 (Unaudited) £'000	31-Dec-17 (Audited) £'000
Assets				
Non-current assets				
Property, plant and equipment		**58,533**	50,975	54,116
Intangible assets		**6,582**	7,080	6,681
Investments in joint venture		**86**	136	89
Deferred tax assets		**442**	859	362
		65,643	59,050	61,248
Current assets				
Inventories		**16,516**	12,244	14,710
Trade and other receivables		**25,631**	19,844	19,733
Derivative financial instruments		**4**	223	213
Cash and cash equivalents		**5,802**	2,530	4,360
		47,953	34,841	39,016
Total assets		**113,596**	93,891	100,264
Liabilities				
Current liabilities				
Trade and other payables		**(10,641)**	(11,730)	(10,429)
Derivative financial instruments		**(222)**	(80)	(59)
Current tax liability		**(1,939)**	(1,489)	(1,662)
Interest-bearing loans and borrowings	12	**(7,477)**	(10,251)	(11,316)
Bank overdraft		**-**	(1,104)	(2,550)
		(20,279)	(24,654)	(26,016)
Non-current liabilities				
Interest-bearing loans and borrowings	12	**(5,466)**	(4,869)	(8,450)
Deferred tax liabilities		**(614)**	(550)	(540)
Post-employment benefits		**(5,986)**	(8,311)	(6,168)
		(12,066)	(13,730)	(15,158)
Total liabilities		**(32,345)**	(38,384)	(41,174)
Total net assets		**81,251**	55,507	59,090
Equity				
Issued share capital	14	**2,415**	2,221	2,221
Share premium	14	**44,178**	24,340	24,340
Own shares held		**(21)**	(27)	(26)
Capital redemption reserve		**15**	15	15
Translation reserve		**2,982**	3,866	2,611
Hedging reserve		**(213)**	84	96
Retained earnings		**31,895**	25,008	29,833
		81,251	55,507	59,090

The notes below form an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended		Year ended
	30-Jun-18	30-Jun-17	31-Dec-17
	(Unaudited)	(Unaudited)	(Audited)
	£'000	£'000	£'000
Cash flows from operating activities			
Profit for the period/year	**3,619**	2,277	6,008
Adjustments for:			
Depreciation and amortisation	**2,289**	1,649	3,496
Finance costs	**419**	287	508
Share of loss from joint venture	**3**	6	53
Employee defined benefit service charges	**-**	1,000	1,235
Equity-settled share-based payments	**182**	240	459
Taxation	**983**	530	1,540
Operating profit before changes in working capital and provisions	**7,495**	5,989	13,299
Increase in trade and other receivables	**(6,045)**	(326)	(99)
Increase in inventories	**(1,938)**	(341)	(2,795)
Increase in trade and other payables	**166**	796	190
Decrease in post-employment benefits	**(309)**	(318)	(619)
Cash (used in)/generated from operations	**(631)**	5,800	9,976
Interest paid	**(272)**	(108)	(301)
Income taxes paid	**(773)**	(208)	(943)
Net cash flows (used in)/ from operating activities	**(1,676)**	5,484	8,732
Cash flows from investing activities			
Purchases of intangibles	**(119)**	(78)	(360)
Proceeds on disposal of property, plant and equipment	**-**	-	4
Purchases of property, plant and equipment	**(5,629)**	(4,885)	(11,385)
Net cash used in investing activities	**(5,748)**	(4,963)	(11,741)
Cash flows from financing activities			
Proceeds from options exercised and issue of share capital	**31**	-	30
Proceeds of share issue, net of expenses	**20,078**	-	-
Repayment of borrowings	**(43,294)**	(651)	(1,309)
Proceeds from borrowings, net of expenses	**36,476**	1,500	6,605
Dividends paid	**(1,763)**	(1,710)	(2,547)
Cash flows from/ (used in) financing activities – net	**11,528**	(861)	2,779
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	**4,104**	(340)	(230)
Cash, cash equivalents and bank overdrafts at start of period/year	**1,810**	2,063	2,063
Exchange losses	**(112)**	(297)	(23)
Cash and cash equivalents at end of period/year	**5,802**	1,426	1,810
Cash and cash equivalents comprises:			
Bank overdrafts	**-**	(1,104)	(2,550)
Cash at bank and in hand	**5,802**	2,530	4,360
Cash and cash equivalents	**5,802**	1,426	1,810

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

The notes below form an integral part of these condensed consolidated interim financial statements.

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Notes	Share capital £`000	Share premium £`000	Own shares held £`000	Capital redemption reserve £`000	Translation reserve £`000	Hedging reserve £`000	Retained earnings £`000	Total equity £`000
Balance as at 1 January 2018		2,221	24,340	(26)	15	2,611	96	29,833	59,090
Profit for the period		-	-	-	-	-	-	3,619	3,619
Foreign exchange translation gains on investment in subsidiaries		-	-	-	-	371	-	-	371
Effective portion of changes in fair value of cash flow hedges net of recycling		-	-	-	-	-	(372)	-	(372)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		-	-	-	-	-	63	-	63
Actuarial loss on defined benefit pension scheme		-	-	-	-	-	-	-	-
Tax relating to actuarial loss on defined benefit pension scheme		-	-	-	-	-	-	-	-
Total comprehensive income/(expense)		-	-	-	-	371	(309)	3,619	3,681
Transactions with owners of the Parent:									
Options exercised		-	-	5	-	-	-	26	31
Proceeds from shares issued, net of expenses	14	194	19,838	-	-	-	-	-	20,032
Equity-settled share-based payments net of tax		-	-	-	-	-	-	180	180
Dividends	9	-	-	-	-	-	-	(1,763)	(1,763)
Total transactions with owners, recognised directly in equity		194	19,838	5	-	-	-	(1,557)	18,480
Balance at 30 June 2018 (Unaudited)		2,415	44,178	(21)	15	2,982	(213)	31,895	81,251

	Notes	Share capital £`000	Share premium £`000	Own shares held £`000	Capital redemption reserve £`000	Translation reserve £`000	Hedging reserve £`000	Retained earnings £`000	Total equity £`000
Balance at 1 January 2017		2,221	24,340	(31)	15	5,947	(319)	24,210	56,383
Profit for the period		-	-	-	-	-	-	2,277	2,277
Foreign exchange translation losses on investment in subsidiaries		-	-	-	-	(2,081)	-	-	(2,081)
Effective portion of changes in fair value of cash flow hedges net of recycling		-	-	-	-	-	497	-	497
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		-	-	-	-	-	(94)	-	(94)
Total comprehensive (expense)/ income		-	-	-	-	(2,081)	403	2,277	599
Transactions with owners of the Parent:		-	-	-	-	-	-	-	-
Options exercised		-	-	4	-	-	-	(4)	-
Equity-settled share-based payments net of tax		-	-	-	-	-	-	235	235
Dividends	9	-	-	-	-	-	-	(1,710)	(1,710)
Total transactions with owners, recognised directly in equity		-	-	4	-	-	-	(1,479)	(1,475)
Balance at 30 June 2017 (Unaudited)		2,221	24,340	(27)	15	3,866	84	25,008	55,507

During the six months period ended 30 June 2018, 117,593 (June 2017: 79,512) shares vested and were issued from the Zotefoams Employee Benefit Trust (‘EBT’) following the exercise of these options.

The notes below form an integral part of these condensed consolidated interim financial statements.

ZOTEFOAMS

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. GENERAL INFORMATION

Zotefoams plc ('the 'Company') and its subsidiaries and joint venture (together, 'the Group') manufacture and sell high-performance foams and license related technology for specialist markets worldwide.

The Group has manufacturing sites in the UK, the US and China.

The Company is a public limited company which is listed on the London Stock Exchange and incorporated and domiciled in the UK. The address of the registered office is 675 Mitcham Road, Croydon, CR9 3AL.

These condensed consolidated interim financial statements were approved for issue on 7 August 2018.

These condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2017 were approved by the Board of Directors on 6 April 2018 and delivered to the Registrar of Companies. The report of the auditors 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.

These condensed consolidated interim financial statements have been reviewed, not audited.

These condensed consolidated interim financial statements for the six months ended 30 June 2018 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim financial reporting', as adopted by the European Union. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with IFRSs as adopted by the European Union.

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. As 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 basis

The Group both refinanced its debt facilities and raised new equity in May 2018 generating sufficient liquidity to support its medium-term growth expectations. The Group meets its day-to-day working capital requirements through its bank facilities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance and accounting for the Group's ability to control the timing of its capital expenditure projects, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. Having reassessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing its condensed consolidated interim financial statements.

2. BASIS OF PREPARATION

ACCOUNTING POLICIES
The accounting policies adopted are consistent with those of the previous financial year except as described below.

- The Group has had to change its accounting policies as a result of adopting the following new standards:
  - IFRS 9 'Financial Instruments'
  - IFRS 15 'Revenue from Contracts with Customers'

  The above accounting standards became effective from 1 January 2018. No material retrospective adjustments have been made or prospective adjustments expected as of date.

- A number of amendments to IFRSs became effective for the financial year beginning on 1 January 2018. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments. The Group has made further progress in assessing the potential impact of IFRS 16 and expects to complete its assessment before end of year.

- Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

Standards issued but not yet applied
IFRS 16 'Leases' is effective and will be applied for the financial year beginning on 1 January 2019. The interim results for FY19 will be IFRS 16 compliant with the first annual report published in accordance with IFRS 16 being the 31 December 2019 report.

On the adoption of IFRS 16, lease agreements will give rise to both a right-of-use asset and a lease liability for future lease payables. The lease liability will be initially measured based on the present value of lease payments to be made, excluding any contingent rentals, over the lease term. The lease term includes any extension options reasonably certain of being exercised. The right-of-use asset will be initially measured at the value of the lease liability plus any initial direct costs, less any impairment provisions and will be depreciated on a straight-line basis over the life of the lease. Interest will be recognised on the lease liability as the discount unwinds, resulting in a higher interest expense in the earlier years of the lease term. The total expense recognised in the Income Statement over the life of the lease will be unaffected by the new standard. However, IFRS 16 will result in the timing of lease expense recognition being accelerated for leases which would be currently accounted for as operating leases.

The Group plans to adopt a modified retrospective transition approach and so comparative information will not be adjusted. Rather the cumulative effect of initially applying the standard is recognised as an adjustment to the opening Statement of Financial Position. On transition the Group will measure the right-of-use asset at the value of the lease liability plus any initial direct costs, less any impairment provisions.

The Group also plans to take advantage of the following practical expedients in adopting IFRS 16:
- application of a single discount rate to a portfolio of leases with similar characteristics and
- electing not to apply IFRS 16 requirements to leases with a lease term that ends within 12 months of the date of initial application.

3. ESTIMATES AND JUDGEMENTS

The preparation of 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 expense. 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 for the year ended 31 December 2017, with the exception of changes in estimates that are required in determining the provision for income taxes.

4. FINANCIAL RISK MANAGEMENT

Financial risk factors
The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The condensed consolidated 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 2017.

There have been no changes in the risk management department or in any risk management policies since the year end. Refer to note 13 for changes to the Group's risks arising from developments during the six-month period ended 30 June 2018.

5. SEASONALITY OF OPERATIONS

The seasonality of the Groups' business has been largely eliminated, with most variability derived from order timing from HPP and MEL, and customer inventory management according to their specific business needs. There remains an underlying cyclical nature of our markets, over the longer macroeconomic business cycle, as the Group sells into a wide variety of business segments, many of which are themselves cyclical.

ZOTEFOAMS

6. SEGMENT REPORTING

The Group's operating segments are reported in a manner consistent with the internal reporting provided to and regularly reviewed by the Group Chief Executive Officer, David Stirling, who is considered to be the 'chief operating decision maker' for the purpose of evaluating segment performance and allocating resources.

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

- Polyolefins foams: these foams are made from olefinic homopolymer and copolymer resin. The most common resin used is polyethylene.
- High-Performance Products ('HPP'): these foams exhibit high-performance on certain key properties, such as improved chemical, flammability or temperature performance or energy management performance. Turnover in the segment is currently mainly derived from products manufactured from three main polymer types: PVDF fluoropolymer, polyamide (nylon) and polyether block amide (PEBA). Foams are sold under the brand names ZOTEK® while technical insulation products manufactured from certain materials are branded as T-FIT®.
- MuCell Extrusion LLC ('MEL'): licenses microcellular foam technology and sells related machinery.

	Polyolefins		HPP		MEL		Eliminations		Consolidated	
Six months ended 30 June (Unaudited)	**2018 H1 £'000**	2017 H1 £'000	**2018 H1 £'000**	2017 H1 £'000	**2018 H1 £'000**	2017 H1 £'000	**2018 H1 £'000**	2017 H1 £'000	**2018 H1 £'000**	2017 H1 £'000
Group revenue	**27,982**	26,905	**9,044**	4,979	**862**	1,958			**37,888**	33,842
Segment profit/(loss) before amortisation	**4,552**	5,728	**1,683**	652	**(633)**	(704)			**5,602**	5,676
Amortisation of acquired intangible assets	**-**	-	**-**	-	**(150)**	(165)			**(150)**	(165)
Segment profit/(loss)	**4,552**	5,728	**1,683**	652	**(783)**	(869)	**-**	-	**5,452**	5,511
Foreign exchange gains/ (losses)									**672**	(266)
Unallocated central costs									**(1,100)**	(1,145)
Operating profit before exceptional items									**5,024**	4,100
Financing costs									**(419)**	(287)
Share of loss from joint venture									**(3)**	(6)
Taxation (before exceptional items)									**(983)**	(723)
Profit for the year (before exceptional items)									**3,619**	3,084
Segment assets	**81,090**	73,535	**23,829**	10,576	**8,145**	8,562	**-**	-	**113,064**	92,673
Unallocated assets									**532**	1,218
Total assets									**113,596**	93,891
Segment liabilities	**(18,394)**	(33,855)	**(10,671)**	(1,606)	**(505)**	(804)	**-**	-	**(29,570)**	(36,265)
Unallocated liabilities									**(2,775)**	(2,119)
Total liabilities									**(32,345)**	(38,384)

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

	United Kingdom	Europe	North America	Rest of the world	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	£`000	£`000	£`000	£`000	£`000
For the period ended 30 June 2018					
Group revenue from external customers	**6,217**	**14,748**	**9,300**	**7,623**	**37,888**
Non-current assets	**32,766**	**-**	**32,480**	**396**	**65,642**
For the period ended 30 June 2017					
Group revenue from external customers	6,409	12,454	9,757	5,222	33,842
Non-current assets	30,082	-	28,345	623	59,050

Analysis of revenue by category
Breakdown of revenues by products and services for the Group:

	Six months ended	
	30-Jun-18	30-Jun-17
	(Unaudited)	(Unaudited)
	£'000	£'000
Sale of foam	**37,026**	31,884
Licence and royalty income	**536**	464
Sale of equipment	**326**	1,494
Total	**37,888**	33,842

7. INCOME TAX EXPENSE

	Six months ended	
	30-Jun-18	30-Jun-17
	(Unaudited)	(Unaudited)
	£'000	£'000
UK corporation tax	**1041**	611
Overseas tax	**9**	27
Total current tax	**1,050**	638
Deferred tax	**(67)**	(108)
Income tax expense	**983**	530

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 31 December 2018 is 21.41% (the effective tax rate for the year ended 31 December 2017 was 20.40%).

8. EXCEPTIONAL ITEMS

Items that are material either because of their size or their nature or that are nonrecurring are considered as exceptional items and are presented within the line items to which they best relate. During the current period, no exceptional items have been recorded in the Income Statement.

During the prior period, following legal advice received by the pension trustees, the Company increased its defined benefit pension scheme liability by £1,000k, to reflect the fact that the Scheme may not have been closed to future accrual in 2005. This cost was included in the Condensed Consolidated Interim Income Statement as an operating exceptional item. At 31 December 2017, after further review, the Company increased its defined benefit pension scheme liability by a further £235k and provided £30k for related expenses.

9. DIVIDENDS

A dividend of £1,763k (2017: £1,710k) that relates to the period to 31 December 2017 was paid in May 2018.

An interim dividend of 1.97 pence per share (2017: 1.91 pence per share) was proposed by the Board of Directors on 2 August 2018. It is payable on 11 October 2018 to shareholders who are on the register at 14 September 2018. This interim dividend, amounting to £944k (2017: £837k), has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the year to 31 December 2018.

10. EARNINGS PER SHARE

Earnings per ordinary share is calculated by dividing the consolidated profit after tax attributable to equity holders of the Parent Company of £3,619k (2017: £2,277k) by the weighted average number of shares in issue during the period, excluding own shares held by employee trusts which are administered by independent trustees. The number of shares held in the trust at 30 June 2018 was 403,758 (2017: 549,467). Distribution of shares from the trust is at the discretion of the trustees. Diluted earnings per ordinary share adjusts for the potential dilutive effect of share option schemes in accordance with IAS 33 Earnings per share.

	Six months ended	
	30-Jun-18	30-Jun-17
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue	**44,839,931**	43,819,872
Deemed issued for no consideration	**777,033**	777,305
Diluted number of ordinary shares issued	**45,566,964**	44,597,177

11. RELATED PARTY TRANSACTIONS

There were no material related party transactions requiring disclosure for the periods ended 30 June 2018 and 30 June 2017.

12. BORROWINGS

In May the Group completed a debt refinancing to enable it to continue to grow capacity and meet its expected demand growth. Switching to Handelsbanken and NatWest, the Group secured increased facilities of £57.5m (up 64% from previous facilities of approximately £35m) at improved pricing. These facilities are secured against the property, plant and equipment, and debtors, of the Group. The facility comprises a £25 million multi-currency term loan, repayable in two equal instalments of £5m in year four and year five, with the reminder at the end of year five, a £25 million multi-currency revolving credit facility, repayable at the end of five years and a further £7.5 million sterling term loan, renewable annually and repayable over five years in equal quarterly repayments over the term. The negotiated facility also includes a £25 million accordion feature to provide additional flexibility to pursue further investment opportunities in the future.

Group	2017	Cashflows	Non-cash changes Transaction costs and foreign exchange movement	**30-Jun-18**
Long-term borrowings	8,155	**(2,926)**	**-**	**5,229**
Short-term borrowings	11,228	**(3,843)**	**(5)**	**7,380**
Lease liabilities	383	**(49)**	**-**	**334**
Total liabilities	19,766	**(6,818)**	**(5)**	**12,943**

Group	2016	Cashflows	Non-cash changes Transaction costs and foreign exchange movement	30-Jun-17
Long-term borrowings	5,464	(281)	(314)	4,869
Short-term borrowings	9,156	1,130	(35)	10,251
Total liabilities	14,620	849	(349)	15,120

13. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Interest rate risk

The Group's interest rate risk arises from long-term borrowings and short-term bank overdraft. All the Group's current borrowings are issued at variable rates and expose the Group to cash flow interest rate risk. The Group has strong cash generation from its operations and closely monitors its borrowing levels to manage the interest rate risk. The Group's interest rate risk profile changed due to the debt refinancing explained in note 12.

The interest rate profile of the Group's borrowings at 30 June is shown below:

	30-Jun-18			30-Jun-17		
	Effective interest rate (Unaudited) %	**Fixed rates (Unaudited) £'000**	**Variable rates (Unaudited) £'000**	Effective interest rate (Unaudited) %	Fixed rates (Unaudited) £'000	Variable rates (Unaudited) £'000
Dollar long-term borrowings	**3.92%**	**-**	**5,229**	3.95%	5,409	-
Sterling long-term borrowings	**2.80%**	**-**	**7,380**	3.50%	383	-
Multi-currency RCF	**-**	**-**	**-**	2.37%		8,224
Bank overdraft	**-**	**-**	**-**	2.40%	-	1,104
Total		**-**	**12,609**		5,792	9,328

Liquidity risk

Group Finance performs cash flow forecasting in the operating entities of the Group, which is then aggregated. Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure that it has sufficient cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times, so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and any applicable external regulatory or legal requirements.

During the period ended 30 June 2018 the Group completed a debt refinancing on improved terms, as well as raised new equity of £20,032k, net of fees. This has changed the liquidity risk profile of the Group.

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

Group	**30-Jun-18**				
	Carrying amount	**Contractual cash flows**	**1 year or less**	**1 to 2 years**	**More than 2 years**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Non-derivative financial liabilities					
Interest-bearing loans and borrowings	**(12,943)**	**(12,943)**	**(7,500)**	**(49)**	**(5,394)**
Trade and other payables	**(10,641)**	**(10,641)**	**(10,641)**	**-**	**-**

Group	30-Jun-17				
	Carrying amount	Contractual cash flows	1 year or less	1 to 2 years	More than 2 years
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	£'000	£'000	£'000	£'000	£'000
Non-derivative financial liabilities					
Interest-bearing loans and borrowings	(15,120)	(15,120)	(10,251)	(540)	(4,329)
Trade and other payables	(11,730)	(11,730)	(11,730)	-	-

Fair value estimation

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2018 and 30 June 2017:

	Level 1	**Level 2**	**Level 3**	**Total**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
30 June 2018	**£'000**	**£'000**	**£'000**	**£'000**
Assets				
Forward exchange contracts	**-**	**4**	**-**	**4**
Total assets	**-**	**4**	**-**	**4**
Liabilities				
Forward exchange contracts	**-**	**(222)**	**-**	**(222)**
Total liabilities	**-**	**(222)**	**-**	**(222)**

30 June 2017	Level 1 (Unaudited) £'000	Level 2 (Unaudited) £'000	Level 3 (Unaudited) £'000	Total (Unaudited) £'000
Assets				
Forward exchange contracts	-	223	-	223
Total assets	-	223	-	223
Liabilities				
Forward exchange contracts	-	(80)	-	(80)
Total liabilities	-	(80)	-	(80)

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

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted marked price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over–the–counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Group's valuation process

Derivatives financial instruments are valued using Barclays Bank's mid-market rate at the Statement of Financial Position date.

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.

The Group also has a number of financial instruments which are not measured at fair value in the balance sheet. For the majority of these instruments, the fair values are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short-term in nature. The fair value of the following financial assets and liabilities approximate to their carrying amount:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

Fair value of financial assets and liabilities measured at amortised cost

The fair value of borrowings (excluding bank overdraft) is as follows:

	30-Jun-18 (Unaudited) £'000	30-Jun-17 (Unaudited) £'000
Current	**7,477**	10,251
Non-current	**5,466**	4,869
Total	**12,943**	15,120

14. SHARE CAPITAL

	Six months ended	
	30-Jun-18 (Unaudited) £'000	30-Jun-17 (Unaudited) £'000
Allotted, called up and fully paid		
At 30 June:		
Equity: 48,301,234 (30 June 2017: 44,414,442) ordinary shares of 5.0p each	**2,415**	2,221

In May 2018 Zotefoams plc raised £20,032k of equity, net of fees, through a placing of 3,886,792 shares at £5.30 per share.

15. CAPITAL COMMITMENTS

Capital expenditure commitments of £3,848K (2017: £3,200K) have been contracted for at the end of the reporting period but not yet incurred, and are in respect of Property, Plant and Equipment.

16. EVENTS OCCURING AFTER THE REPORTING PERIOD

There are no material events occurring after the reporting period except for those given in note 9.