Zotefoams plc

Preliminary Results (unaudited) for the Year Ended 31 December 2019

7 April 2020 – Zotefoams plc ("Zotefoams" or "the Company" or "the Group"), a world leader in cellular material technology, today announces its unaudited preliminary results for the financial year ended 31 December 2019.

Continued strategic progress

Financial highlights

- Group revenue broadly in line with previous year at £80.86m (2018: £81.04m)
- Growth in HPP and MEL offset challenging market conditions which impacted Polyolefin Foam sales in the second half of the year
    - HPP sales up 20% to £26.48m (2018: 22.01m)
    - MEL revenue increased by 59% to £3.10m (2018: £1.95m)
    - Polyolefin Foams sales declined by 10% to £51.36m (2018: £57.16)
- Gross profit margin robust at 35.4% (2018: 35.8%) with positive mix offsetting higher depreciation and operating costs from new strategic assets
- Profit before tax and exceptional item* of £8.76m (2018: £10.81m)
- Profit before tax broadly in line with previous year, at £9.81m (2018: £9.86m)
- Basic EPS before exceptional item* down 20% to 14.91p (2018: 18.66p)
- EPS up 1% to 17.10p (2018: 16.96p)

Strategic and operational highlights

- Higher margin HPP sales now account for 33% of Group revenue (2018: 27%) and 53% of consolidated segment profit (2018: 43%)
- Return to growth for MuCell Extrusion LLC and significant new opportunity created with ReZorce® mono-material barrier packaging
- Sales entity established in India to capitalise on the potential for T-FIT® technical insulation products
- Capacity increases completed in the UK (commissioned Q4 2019) and the USA (commissioned in Q1 2020), both on time and to budget and capacity increase in Poland on time and to budget, with commissioning anticipated in H2 2020 subject to current COVID-19 uncertainty
- Launch of AZOTE® Adapt, an entirely new category of polyolefin foams
- In light of the unprecedented macroeconomic uncertainty at the current time, the Group is focused on cash and cost management:
    - Seeking appropriate cost reduction measures in the business
    - Deferring capital expenditure
    - Suspension of dividend in the short term
    - Relaxation of leverage covenant and sufficient liquidity to provide flexibility to navigate through current uncertainties.

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

Zotefoams has a clear purpose and an organic growth strategy to generate sustainable long-term value. Despite the difficult trading conditions in our Polyolefin Foams business in the latter part of 2019, we have remained focused on delivery of this strategy and the continued demonstrable progress in HPP and MEL underline the scale of opportunities available to the Group. The strategic capacity investments to support our long-term growth expectations are on track and while market demand and the unprecedented macroeconomic uncertainty will affect the pace of ramp-up in utilisation in the near term, these assets provide a platform for significantly enhanced returns over the medium term.

Outlook

On 24 March 2020 we made the statement below.

The challenging market conditions experienced in the latter part of 2019, particularly within our Polyolefin Foams business, have yet to improve noticeably. Adding to this, the outbreak of the COVID-19 virus is causing additional disruption.

Based largely on the expected demand profile for HPP products across a number of markets, the Board anticipates a stronger performance during the second half of the year. We are, however, mindful that the further spread of the virus, and responses to this, have created significant uncertainty in the near term with likely adverse trading impacts on operations and demand patterns.

In light of these exceptional circumstances, Zotefoams is currently focused on cash, including cost and capital management, and maintaining core operational capability across our business. We have a diverse customer base and strong competitive position, with our proprietary product portfolio focused on long term structural growth applications. This enables Zotefoams to continue to develop attractive new markets for its products and underpins the Board's confidence in the Group's future prospects.

As expected, since 24 March 2020 market conditions have remained challenging, with high levels of customer uncertainty, subdued market demand and rapid response times expected by customers. Using recently commissioned Group capacity, Zotefoams has aggressively targeted market share in discrete segments, the benefit of which is slowly being realised. We have also implemented strict cost and capital control throughout the business and are considering all elements of government support across our operating sites around the world. As a result of the measures the Group is taking, we believe we have sufficient liquidity to navigate through this uncertain period.

* Exceptional item represents a credit of £1.05m from a Defined Pension Scheme litigation award (2018: £0.95m charge related to the legal ruling around guaranteed minimum pensions).

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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 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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An introduction from our Chair

Making good strategic progress

Overview
In a year which ended with a very challenging demand environment, we have made good strategic progress. We continued to deliver strong growth in our High-Performance Products (HPP) business, improved our revenue base and opportunities for future growth in MuCell Extrusion LLC (MEL) and all capacity expansion investments to support our medium-term growth ambitions completed as planned or are on track to do so. In our Polyolefin Foams business, following a good start to the year, market demand, particularly in continental Europe, deteriorated rapidly in the second half of the year. This situation was exacerbated by significant customer de-stocking and while cost actions were taken, the Group's overall financial performance was weaker than the previous year as a result.

Performance
In 2019, Group revenue was £80.86m, broadly in line with 2018 (£81.04m). Operating profit before exceptional item was down 21% at £9.10m (2018: £11.57m) and operating profit was down 4% at £10.15m (2018: £10.62m). Basic earnings per share before exceptional item was down 20% at 14.91p (2018: 18.66p) and basic earnings per share was up 1% at 17.10p (2018: 16.96p).

HPP is our fastest growing business unit and sales grew 20%, in line with our strategic targets. MEL, while still small, grew sales by 59%, driven by increased equipment revenue. The Polyolefin Foams business, which is the largest part of the business and whose volumes provide significant cost absorption to drive profitability, declined 10% amid macroeconomic and geo-political uncertainty.

Being a manufacturing exporter, the Group is subject to foreign currency volatility, which it seeks to mitigate through hedging of its net operating cash flows and using foreign currency denominated debt to offset the Company's exposure on its third party net assets as well as its intercompany loans and trading positions. While not affecting the cash profitability of the business, the impact of foreign exchange translation losses in 2019 of £0.47m (2018: gains of £0.99m) represented a significant adverse swing from the prior period.

The equity raise and refinancing of 2018 have provided Zotefoams with funds to complete our major capacity investment programme and finance the additional working capital required for growth. The timing of the cyclical downturn in Polyolefin Foams, exacerbated by the unprecedented economic uncertainty from COVID-19, at the same time as these capacity investments complete, has adversely impacted returns on capital and will result in peak debt levels and debt leverage (net debt to EBITDA) being higher than previously anticipated. We believe the Group has sufficient liquidity and expect to remain within revised covenant levels.

Delivering our strategy
The Board reviews strategic plans throughout the year and this forms the basis for our decision-making. We have a clear and consistent long-term strategy for organic growth, based around the three long-term megatrends of regulation, environment and demographics, all of which drive demand for our products. We use our unique technology to deliver stakeholder value by creating a portfolio of differentiated products which provide demonstrable benefits to our customers. Our strategic objective is to achieve annual growth in our Polyolefin Foams business of at least twice global GDP and develop HPP and MEL businesses that offer enhanced growth rates and margins, while growing operating margins and our return on capital over the investment cycle. During 2019, we have materially grown our HPP and MEL businesses in line with our strategy and have further developed our pipeline of opportunities to sustain high rates of growth. We have also maintained our focus on completing our capital expansion programme, expected to provide the capacity to support demand through our strategic plan period. We successfully completed our investment in the USA and the UK and expect to commission our Polish manufacturing facility in H2 2020.

The Board is very aware of the current plastics debate and the importance of sustainability with respect to driving desired outcomes for all stakeholders in the future. Zotefoams' products are used almost exclusively for permanent solutions and often form part of our customers' sustainability agenda. They are seldom used for single-use purposes which, understandably in certain applications, is causing most public concern. We believe that plastics, used appropriately, remain the optimal solution both functionally and environmentally for our customers' needs. We also recognise the importance of continuous improvement around product development and operating efficiency to reduce the Group's environmental impact.

Governance and the Board
The Board sets out to deliver the highest standards of corporate governance and has remained abreast of developing governance standards. We have continued to prioritise a safe working environment for our staff across all global locations and have improved the visibility and quality of safety performance data across the business. We continue to support and empower our employees and are meeting our commitment to enhancing the employee voice in the boardroom through the appointment of Mr Carling as Board representative for workforce engagement. With the help of a diverse group of employee representatives and seeking to represent the interests of all stakeholder groups, we have articulated the purpose of Zotefoams to be "Optimal material solutions for the benefit of society". We feel this perfectly encapsulates all three business units and reflects our alignment with the megatrends of environment, regulation and demographics. The Board considers that it has fully applied all the principles and provisions of the UK Corporate Governance Code during 2019.

During the year there were no changes to the experienced and engaged Board who have continued to provide challenge, support and guidance to the Executive Directors on the delivery of our strategy. Board succession planning is key to preserving this position and to that end we are pleased to be appointing Catherine Wall and Alison Fielding to the Board with effect from 14 May 2020. Both will bring highly relevant skill and experience to the Board. Mrs Fielding will replace Mrs Bromfield as Chair of the Remuneration Committee, who will leave the Board on 13 May 2020. Mrs Bromfield has served Zotefoams since 2014 and departs with our sincerest thanks for her wise counsel and leadership of the Remuneration Committee and her valuable strategic and cultural insights.

People
Our people are key to our success. During the year we have welcomed the first group of employees who will help ensure the success of our Poland manufacturing location, as well as the first group of employees to our new Indian organisation who will help achieve our ambitious growth targets in our T-FIT® technical insulation business. Having the right people at Zotefoams, who understand and

promote our culture, act at all times with integrity, safety-consciousness and dedication and possess the right knowledge and skills, is critical to our future success. I would like to welcome the new employees who have joined us around the world during the past 12 months and extend my thanks, once again, to all our hard-working employees and their supportive families who have helped the Group continue to make good strategic progress while managing the challenges faced by our Polyolefin Foams business unit.

Dividend

The Board has a progressive dividend policy, recognising the importance to our shareholders of the dividend as part of their overall return. However, as described above, the extraordinary uncertainty posed by the COVID-19 outbreak means that we are focused on minimising cash outflows and strengthening our financial position in the short term. As such, the Board believes it is prudent not to recommend a final dividend for the year ended 31 December 2019 (2018: 4.15p). The Board will keep this situation under review and will determine the timing for resumption of dividends as economic conditions stabilise.

Summary

In 2019, Zotefoams delivered good strategic progress in the face of very challenging macroeconomic conditions. Looking ahead, while the ongoing impact of the COVID-19 virus is generating significant uncertainty, we continue to benefit from an attractive product portfolio, strong competitive positions in our markets, and a broad range of growth opportunities which maintain our optimism in the future prospects of the business, our commitment to the Group's strategy, and the investments which underpin it.

Steve Good
Chair

7 April 2020

Group CEO's review

Good strategic progress in a weaker demand environment

2019	United Kingdom	Continental Europe	North America	Rest of the World	Total
Change %	**(2)%**	**(13)%**	**3%**	**19%**	**0%**
Group revenue (£'000)	**£12,875**	**£25,503**	**£22,010**	**£20,472**	**£80,860**
% of Group revenue	**16%**	**32%**	**27%**	**25%**	**100%**
2018					
Group revenue (£'000)	£13,137	£29,342	£21,340	£17,218	£81,037
% of Group revenue	17%	36%	26%	21%	100%

Zotefoams takes a long-term approach to delivering organic growth through investment in our product portfolio, unique technology, people and processes. Our strategy is focused around key market trends in an increasingly global business. In 2019, we delivered good growth from our HPP and MEL business units, while Polyolefin Foams sales decreased by 10%, reflecting much lower levels of demand in key Western Europe and North American markets in the second half of the year. As a predominantly UK-based exporter, the impact of movements in foreign exchange rates can also be material, particularly the non-cash impact of translation differences, which negatively impacted profit before tax in the period by £0.47m (2018: benefit of £0.99m). Group revenue was at a similar level to 2018, £80.86m (2018: £81.04m), while profit for the year before income tax and exceptional item declined by 19% to £8.76m (2018: £10.81m). Adjusting for the aforementioned FX movement, profit for the year before income tax and exceptional item declined by 6% to £9.23m (2018: £9.82m).

Strategy update

Zotefoams' strategy is to invest in flexible assets with unique capability, to initially fill these assets with relatively lower margin business where required, then pursue longer-term mix enrichment strategies to generate higher returns and margins. This is more difficult to achieve during a short-term cyclical downturn, but we expect benefits from an initial improvement in utilisation once the macroeconomic environment improves, followed by further enhancement in return from increasing proportions of higher margin business.

As the world around us changes we regularly re-test our strategy. The significant decline in the demand for polyolefin foams during the second half of 2019, we believe, is largely cyclical and exacerbated by inventory reductions through the supply chain. Since 2017, we have made significant, long-term investments in further capacity for our unique manufacturing process. These have been recently commissioned, or are in the latter stages of commissioning, and the fall in demand for polyolefin foams means that some of these assets are currently under-utilised. We believe we have the product portfolio and underlying market potential to grow to planned levels of utilisation and that our existing strategy will deliver stakeholder value over the coming years. Investing in long-term assets at the appropriate time in the right places is one of the core challenges to implementing our strategy, alongside allocation of resource across a portfolio of products and markets, development of an organisation with flexible, talented people and a culture to support growth.

Zotefoams remains well positioned competitively and environmentally. Our core materials offer improved product performance using less material than competitors, and MEL licenses technology specifically to reduce polymer content. The emergence of what we see as a strongly negative public perception of plastic is now becoming more nuanced beyond the environmental impact of ill-considered, single-use plastic, used predominantly in consumer packaging. Zotefoams' current markets are not immediately impacted by this, as products using our foams are primarily integral components in larger systems or products (such as cars, planes, footwear, medical parts) or used in the long-term storage of items. They are very rarely used in consumer disposable items. Our foams save weight and fuel in cars, trains and aircraft, save energy by insulating, and provide protection to people and goods. Our products help our customers reduce emissions, lower energy usage, improve fuel efficiency and comply with increasingly stringent safety regulations. In common with other businesses, we seek to minimise the use of natural resources through measures such as reducing energy and polymer usage, which benefits the environment and reduces our costs. In the medium term, we anticipate our technology being used to meet the growing demand for improved sustainability, with foams which include recycled or renewable-content polymers.

The markets in which we operate are driven by global trends – demographic, environmental and regulatory – which we believe offer potential for high rates of market growth as well as opportunity for our disruptive technology solutions.

We measure strategic progress on four metrics, all before exceptional items:

1. Our HPP and MEL Business Units, which offer these unique, disruptive products and solutions, together now account for 37% (2018: 30%) of Group revenues. HPP and MEL increased combined sales by 23% to £29.57m (2018: £23.95m), which is a pleasing performance. The unique benefits offered by these products combined with a focus on selling into structural growth niches means that we expect strong further growth in these product lines in the future.

2. Sales of our highly differentiated AZOTE® polyolefin foam products declined by 10% (2018: growth of 8%), against our target rate of twice global GDP growth. Decreasing demand in the main markets of Western Europe and North America, specifically in the second half of the year, significantly impacted our sales in the Polyolefin Foams Business Unit. Reductions in inventory levels of customers, which contributed to the sharp decline in the second half of 2019, would normally be expected to reverse as underlying demand improves, although the uncertainty in the current economic environment is likely to contribute to lower levels of inventory at customers for the foreseeable future.

3. Group operating margins before exceptional item were 11.3% (2018: 14.3%). Despite the flat sales performance, gross margins remained robust, with the structural mix benefit of continued growth in HPP being offset slightly by increased depreciation from new assets. Continued investment in sales teams globally, to ensure we have the commercial platform to maximise the opportunity from a growing product range, led to a significant increase in distribution costs, and adverse foreign exchange translation movements increased administration costs. We expect future sales growth to improve operating margins, although recent investments add to fixed depreciation and production overheads, which will now take longer to absorb in this weaker demand environment for polyolefin foams. We also expect licensing revenues at MEL to increase, which will have a positive impact on profit margins, and are optimistic about opportunities from our recently launched ReZorce® technology in the medium term.

4. Group return on capital, which excludes large asset investments not yet commissioned, declined to 10.5% (2018: 16.5%). The Group has invested in a large capacity enhancement programme over recent years, including significant expenditure in the supporting infrastructure that will be sufficient to support further capacity at much lower incremental cost. The committed large-scale increases in capacity ends with the commissioning of our Poland facility, at which point the Group will be well invested to support future growth, and capital spending will return to more normal, lower levels, broadly in line with depreciation. The net assets of the business will have increased significantly and improvements in the return on capital over the coming years will largely arise from planned profitable sales growth which will gradually deliver improved utilisation of this additional investment.

We believe Zotefoams' investments are consistent with our strong portfolio of business opportunities and will support strong organic growth in line with our stated strategic intent.

People and embedding our culture to deliver

The top priority for Zotefoams is ensuring the health and safety of employees and site visitors. The Board tolerance for risk is set accordingly and health and safety is an agenda item at every Board and Executive Committee meeting. We recognise that culture, and specifically the behaviour of all employees, has a significant impact on safety risk and performance. Management therefore has a clear priority to ensure that safety behaviour and culture are continuously improved across our business and we will not be satisfied until we achieve our goal of no-one getting hurt while working at Zotefoams. In 2019, the number of reportable lost time incidents across the Group reduced to 1 (2018: 4).

Following a few years of rapidly increasing headcount to support new business and initiatives, 2019 was a year of consolidation. Developing our organisational capability and culture globally is something which has, over the past few years, been essential for delivering our strategy. We have made significant investments over the past five years in increasing and developing our workforce which, by the end of 2019, numbered 445 people (2018: 443), an increase of 33% since 2015 (334 people). In 2019, 84% of our revenues came from outside the UK and our non-UK headcount comprises 33% of our global workforce. Continuing to manage non-UK based employee growth, such as in our Poland facility, as we scale up our international operations, ensuring governance and building a strong culture remain a primary focus for management. Zotefoams' culture is based around our four brand values: pioneering, reliable, responsible and trustworthy. It also strives for further development as a learning organisation, where lessons from failure may be the first step forward, where employees understand how we all contribute to the business and where we celebrate success and value the contributions of others. Within this structure, business units and brand leaders have significant autonomy to operate in a dynamic environment.

Key investments

To match Zotefoams' growth ambition and attractive pipeline of opportunities we require sufficient capacity to meet projected demand for our products. A key challenge we face is that our capacity investments, which involve significant infrastructure and bespoke machinery, take time to bring on stream and are costly. The first increment of capacity on any site requires disproportionately high investment in infrastructure, but subsequent investment on the site can then be made more cost-effectively and quickly. As foams are bulky and can be expensive to transport over long distances, the manufacturing location also plays a major part in any investment decision as customers want optimised transport and swift service.

Since 2014 we have invested £53.4m in growth capital, including two high-pressure autoclaves and matched extrusion capacity in Kentucky, USA, two high-temperature, low-pressure autoclaves in the UK, again with associated extrusion capacity, and our new facility in Poland. This Poland facility is planned to be available for production during the second half of 2020, albeit at lower utilisation rates than initially anticipated in the early stages of operation given the current challenging polyolefin foams market. Since 2017, we will have increased Group capacity by approximately 60% and, with investment in latest generation technology, significantly improved the capability of our assets to produce the full range of Zotefoams' innovative products. This is particularly important to support the fast growing HPP Business Unit, which is currently supplied from our UK site and, as this business grows, will utilise more of the available capacity on site. The Poland site is ideally placed to support and grow the Polyolefin Foams business in Europe.

Both the USA and Poland sites have been constructed with the option for further investment. For example, the Poland site could double its capacity for polyolefin foams with cost-effective investment on approximately an 18-month lead time. This gives Zotefoams the ability to react to increases in demand for all products, with an increase in HPP foams supplied via the UK and increasing supply to European customers from Poland.

COVID-19

While our China-based customers and our own relatively small processing facility for T-FIT® technical insulation in China returned to work at the beginning of March, following an extended closure post Chinese New Year, the global outbreak of COVID-19 is a constantly developing situation. We are not in a position at this stage to speculate on the duration nor its future impact on the broader global customer base of the Group; however, we have put appropriate measures in place as we continue to monitor developments. The health and safety of our colleagues, their families and our business partners remain our primary concern and public health measures advised by governments are being followed in support of their efforts to contain the spread of the virus. The supply chain is being proactively managed as are operating costs and the timing of capital expenditure. We believe the Group has sufficient liquidity and expect to remain within revised covenant levels.

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

Current trading and outlook
On 24 March 2020 we made the statement below.

The challenging market conditions experienced in the latter part of 2019, particularly within our Polyolefin Foams business, have yet to improve noticeably. Adding to this, the outbreak of the COVID-19 virus is causing additional disruption.

Based largely on the expected demand profile for HPP products across a number of markets, the Board anticipates a stronger performance during the second half of the year. We are, however, mindful that the further spread of the virus, and responses to this, have created significant uncertainty in the near term with likely adverse trading impacts on operations and demand patterns.

In light of these exceptional circumstances, Zotefoams is currently focused on cash, including cost and capital management, and maintaining core operational capability across our business. We have a diverse customer base and strong competitive position, with our proprietary product portfolio focused on long term structural growth applications. This enables Zotefoams to continue to develop attractive new markets for its products and underpins the Board's confidence in the Group's future prospects.

As expected, since 24 March 2020 market conditions have remained challenging, with high levels of customer uncertainty, subdued market demand and rapid response times expected by customers. Using recently commissioned Group capacity, Zotefoams has aggressively targeted market share in discrete segments, the benefit of which is slowly being realised. We have also implemented strict cost and capital control throughout the business and are considering all elements of government support across our operating sites around the world. As a result of the measures the Group is taking, we believe we have sufficient liquidity to navigate through this uncertain period.

POLYOLEFIN FOAMS

AZOTE®

Group revenue: £51.36m. **2018:** £57.16m. **Change:** -10%
Segment profit margin: 14%. **2018:** 17%
Segment profit: £7.30m. **2018:** £9.45m. **Change:** -23%

Sales in Polyolefin Foams declined by 10% to £51.36m (2018: £57.16m). Sales volume fell by 14%, while improvements in product mix combined with the benefit of modestly better exchange rates to moderate this fall. Segment profit declined to £7.30m (2018: £9.45m), with improvement activities unable to overcome the lower absorption levels of fixed manufacturing costs, distribution and administration costs arising from the lower activity level. Included within manufacturing costs is additional depreciation, consistent with our investment in capacity, which increased allocated costs by £0.5m.

Zotefoams uses a commodity polymer, mostly low-density polyethylene (LDPE) and, utilising unique autoclave technology, creates AZOTE® polyolefin foams. These foams are more consistent, lighter and possess higher purity than foams manufactured using traditional chemical foaming technology. These attributes make our foams ideal for multiple use or permanent product protection, lightweight parts in aircraft, cars and trains, construction applications and medical equipment.

The commercial focus of our AZOTE® Business Unit is to grow revenues through closer collaboration with end users and channel partners, to continually enhance our product range and deliver capacity and efficiency improvements from production.

In the second half of the year, market conditions for polyolefin foams in the UK and continental Europe deteriorated rapidly, leading to a 15% decline in sales to these markets for the full year, while sales in North America and Asia were relatively flat. Supply chain destocking contributed to the fall in demand, particularly in continental Europe. Customers for AZOTE® foams are remarkably diverse, both geographically and in their use of our foams, and in the second half we saw a broad decline in demand across all major applications, such as product protection, industrial and transportation (which includes automotive, rail and aviation).

During the year, we delivered improvements in material and energy usage in the UK and USA facilities, as well as improved cycle times to increase efficiency and free up capacity, which will improve business flexibility in the future. These improvements, combined with an improved sales mix and active management of costs, including labour, in the second half, were critical in reducing the profit impact of the fall in sales in a highly operationally geared business.

HIGH-PERFORMANCE PRODUCTS

ZOTEK® T-FIT®

Group revenue: £26.48m. **2018:** £22.01m. **Change:** +20%
Segment profit margin: 24%. **2018:** 26%
Segment profit: £6.43m. **2018:** £5.81m. **Change:** +11%

HPP comprises ZOTEK® technical foams and T-FIT® insulation products. Sales increased by 20% to £26.48m (2018: £22.01m) and segment profit increased by 11% to £6.43m (2018: £5.81m). HPP is a portfolio of products, where our unique autoclave technology is applied to a variety of high-performance polymers to create foams with specific attributes. These attributes, such as energy management, excellent fire resistance, high-temperature performance etc, are designed to meet the exacting needs of industries such as sports equipment, aviation, automotive, biotech and pharmaceutical. We see excellent opportunities to continue the growth experienced to date and we allocate resource and development priority accordingly.

The HPP Business Unit accounted for 33% of Group sales in 2019 (2018: 27%), with the two largest applications being footwear and aviation. All major applications and products grew in the period with the strongest performance coming from fluoropolymer foams, which are largely used in aviation and in our T-FIT® technical insulation range. Around half of HPP sales revenue is derived from footwear products where, beginning in 2017, we have an exclusive relationship with Nike.

We continue to work under an exclusive agreement with Nike, where we believe we are able to optimise existing products and to develop new materials to prove Zotefoams' wider capability as a unique technology in this exciting market. With additional equipment now commissioned in the UK, we have the capacity to meet the planned demand increases for our product range that we anticipate in the second half of 2020.

Sales of ZOTEK® F fluoropolymer foams increased by 28% compared with 2018. Pleasingly, this was achieved despite the backdrop of a more difficult aviation market due to the well-publicised slowdown in demand from Boeing. Growth came from a combination of new applications as well as increased penetration of existing applications for aviation customers.

We have invested significantly in the sales resource and manufacturing support for T-FIT® advanced insulation. In 2019, sales increased by 33%, including a very strong performance from India where we set up a sales office. These products are sold mainly into biotech and pharmaceutical markets, with further opportunity for strong growth in food, dairy and general process industries.

Segment margin has been impacted somewhat by the allocation of additional fixed manufacturing costs, primarily depreciation, from newer assets and a lower absorption of such costs by the Polyolefin Foams Business Unit as a result of that business unit's lower volumes during the year. Further investment has also been made in sales and administration costs, primarily for T-FIT® products, increasing the losses in this product line but with a view to accelerating growth, as well as in technical development costs primarily related to second generation footwear products.

MEL

MuCell®

Group revenue: £3.10m. **2018:** £1.95m. **Change:** +59%
Segment loss before amortisation: £1.27m. **2018:** £1.63m. **Change**: +22%
Segment loss after amortisation: £1.55m. **2018:** £1.89m. **Change:** +18%

MuCell Extrusion LLC (MEL) licenses microcellular foam technology and sells related machinery. Sales increased by 59% to £3.10m (2018: £1.95m) and segment loss, before amortisation, declined to £1.27m (2018: loss of £1.63m).

MEL's business model is to develop and license intellectual property (IP). MuCell® technology offers the potential to reduce the plastic content of an article by around 15% by injecting inert gas to displace plastic with microcellular bubbles. Using similar technology, the team at MEL recently developed mono-material barrier packaging technology, which we have branded ReZorce®. While MuCell® technology can be used with most common plastics, ReZorce® technology is specifically designed for high-density polyethylene ("HDPE"). In both cases, MEL will sell equipment to augment an existing extrusion line and, when the licensee is in production, MEL will collect a share of the value created as a licence fee and/or royalty payment. Occasionally, MEL will source an entire extrusion line at the request of the customer, who considers this a better way to leverage fully the MuCell® technology, in which case it also charges a small margin on the entire contract.

2019 was a year of good strategic progress for MEL. Revenue increased, driven by increased equipment sales, losses reduced and we developed and filed patents around the mono-material barrier technology. This improvement is on the back of 2018 where the business was restructured mid-year to improve clarity over the development of new accounts, delivery of machinery and financial management.

Late in 2019 we began the construction of a $1m pilot production line for MEL to develop customer applications on a commercial scale. One of the major barriers to developing our technology in the past has been the inability to run large-scale commercial trials on customers' equipment, something outside the control of MEL and often linked to the high utilisation rates of the customers' production lines. The pilot line, which is expected to be commissioned in the second quarter of 2020, addresses these issues and will be available for customer trials prioritised for the development of ReZorce® mono-material barrier packaging.

David Stirling
Group CEO

7 April 2020

Group CFO's review

Macroeconomic challenges delay financial progress

Overview

Following H1 growth in all business units and continued strong performance from both our HPP and MEL businesses through H2, Zotefoams experienced difficult H2 trading conditions within its Polyolefin Foams business.

Group revenue for the year was £80.86m (2018: £81.04m), in line with the previous year but 3% down in constant currency. HPP had another very strong year, growing 20% (constant currency: 15%) from £22.01m to £26.48m and MEL saw a pleasing growth rate of 59% (constant currency: 56%), up from £1.95m to £3.10m. The Polyolefin Foams business was impacted in H2 by a cyclical decline in demand, including inventory depletion across all geographies, resulting in a 10% decline in revenue (constant currency: 12%) from £57.2m to £51.4m. This was after the business unit reported H1 performance up 3% vs H1 2018 (constant currency: up 1%).

Operating profit before exceptional item was £9.10m (2018: £11.57m), down 21%, while operating profit was £10.15m (2018: £10.62m), down 4%. Excluding FX translation losses, operating profit before exceptional item was down 10% at £9.57m (2018: £10.58m), and operating profit was up 10% at £10.62m (2018: £9.63m). Underlying performance was impacted by the rapid decline in polyolefin foam sales in the latter part of the year and the resulting adverse operational gearing impact. Once the cyclical downturn became clear we managed certain costs lower in line with the lower scale of operations but refrained from taking measures which would have materially impacted our expected future growth prospects once the macroeconomic environment improves. Given the uniqueness of our business, a well-trained and experienced workforce is important and cannot be replaced easily.

Zotefoams is in the final stages of an extensive strategic capacity expansion programme. Our range of differentiated products requires a unique technology which is capital intensive, has long lead times and needs high levels of utilisation to leverage strong returns. Timely investment is essential to meet our anticipated organic growth opportunities. In 2019, the Group invested a total of £25.3m, after investing £16.1m in the previous year. The final major capacity expansion project, a new manufacturing facility in Poland, is on track for completion later in 2020 at a total cost of approximately £23m. A sizeable part of the Group's investments during this capacity expansion period has been directed towards generating the necessary infrastructure to run the equipment, infrastructure which will be leverageable to support future growth. This will moderate achievable returns on capital in the medium term but provides high return opportunities as incremental capacity is required to support further growth opportunities at the same locations.

At 31 December 2019, net debt was £31.90m, (2018: £12.96m) and leverage (net debt to EBITDA) was 2.0x (2018: 0.7x). Under the definition of the bank facility agreement net debt, which adjusts for the impact of IFRS 2 and IFRS 16, was £30.69m (2018: £12.96m) and leverage was 2.0x (2018: 0.7x). While net cash inflows from operating activities were £9.35m (2018: £4.49m), the aforementioned investment programme required the Group to draw down on its debt facilities, as expected.

Group revenue

Group revenue was at a similar level to the previous year, at £80.86m (2018: £81.04m).

Polyolefin Foams sales decreased 10% versus 2018, with a decline of 22% in H2 following an increase of 3% in H1, reflecting the significant adverse change in demand conditions across a range of our markets together with significant de-stocking by customers. Regionally, all geographies were impacted as well as most sectors within these geographies, with the UK down 12% and Europe, the largest market for the business unit, down 16% (constant currency: -16%). A North American slowdown in manufacturing demand was also evident late in the year, with full-year sales ending up in line with the previous year (constant currency: -5%). The single largest impact globally came from German automotive, which was also the earliest to show weakness.

HPP sales increased 20%. Footwear is the largest application currently within HPP and revenue in this market grew 13% (constant currency: +7%), benefiting from the full year impact of sales programmes initiated late Q1 2018. ZOTEK® F fluoropolymer foams delivered strong growth of 28% (constant currency: +23%) and T-FIT® advanced insulation grew 33% (constant currency: +31%), albeit from a lower base. During the year, Zotefoams established a subsidiary in India, primarily to support T-FIT® sales, and sales from this country surpassed $1m.

MEL sales increased 59% (constant currency: 52%), again from a relatively low base, with equipment sales driving growth.

Revenue by market (%)	**2019**	2018
Product protection	**29**	30
Transportation	**22**	22
Sports and leisure	**20**	19
Building and construction	**12**	12
Industrial	**9**	9
Medical	**6**	6
Other	**2**	2

Within the transportation segment, aviation represented 15% (2018: 13%) and automotive 7% (2018: 9%) of Group revenue.

Gross margin

Gross margin remained stable at 35.4% (2018: 35.8%). The increased proportion of sales from HPP had a positive benefit on gross margin, in line with strategy, but the lower plant utilisation rates following the Polyolefin Foams downturn, coupled with full-year depreciation charges from the Group's new US assets, amounting to an additional £0.5m, and additional operating cost from the Group's investment in its international operations, amounting to £0.8m, offset this benefit. Zotefoams' strategy is to fill these assets, with relatively lower margin business where required, then pursue longer-term mix enrichment strategies to generate higher returns and margins.

Distribution and administrative costs

The Group continues to pursue its expansion strategy, founded on proprietary cellular materials technology linked to longer-term demand growth in our chosen markets. Organic growth with a portfolio of unique and highly differentiated products requires that we invest actively in, and reprioritise where needed, technical, sales-focused and administration resources to create, execute and manage this growth.

Included within distribution costs in the consolidated income statement are sales and marketing, and warehousing expenses. These costs increased by 11% to £8.00m (2018: £7.19m) during the year, mostly reflecting investment in sales capability in the China and India locations of the T-FIT® Business Unit, as well as the full-year impact of sales capability in other ZOTEK® business units. Included within administrative expenses before exceptional item are technical development, finance, information systems and administration costs as well as the impact of foreign exchange hedges maturing in the period and non-cash foreign exchange translation expenses. These costs increased by 12% to £11.50m in 2019 (2018: £10.24m); however, they include a combined net loss from foreign exchange hedging contracts and foreign exchange translation of £1.41m (2018: net gain £0.82m). See Currency review for further information and context. Without these foreign currency factors, administrative expenses before exceptional item were down £0.98m, reflecting reduced variable pay awards and H2 cost management.

The Business Unit results do not include central plc costs, which are not considered to be segment specific. In 2019, central plc costs were £1.68m (2018: £2.62m).

Finance costs

The total interest charge for the year was £0.46m (2018: £0.75m) and includes £0.20m (2018: £0.14m) of interest on the Company's Defined Benefit Scheme (the "DB Scheme") pension obligation. It also includes £0.03m (2018: nil) related to the impact of IFRS 16. The Group capitalised £0.93m (2018: £0.03m) of interest in relation to the financing of its capacity enhancement projects still under construction. Capitalised interest in 2018 was significantly lower as a result of a lower net debt level following the equity raise of £20.00m (after directly attributable costs) in May of that period.

Profit before tax

Profit before tax and exceptional item decreased by 19% to £8.76m (2018: £10.81m). Profit before tax was similar to the previous year at £9.81m (2018: £9.86m).

Exceptional item

During the year, the Company was successful in a claim against the previous advisers to the DB Scheme following legal advice that the linkage to future increases in salary had not been properly broken. The Company was awarded £1.05m, including £0.11m of expenses, following mediation and has recorded this as an operating exceptional item in the income statement.

In the previous year, the Company recognised an additional liability in respect of a legal ruling around guaranteed minimum pensions. This represented a charge of £0.95m, including £0.01m of expenses, and was considered an operating exceptional item in the income statement.

Currency review

Zotefoams is a predominantly UK-based exporter. In most cases, we invoice in local currency. In 2019, approximately 87% of sales were denominated in currencies other than sterling, mostly US dollars or euros. Most operating costs are incurred in sterling, other than the main raw materials for polyolefin foams used for production in the UK, which are euro-denominated, and US subsidiary production, operating cost, other subsidiaries staff, operational cost and some HPP raw materials, which are US dollar-denominated.

Movements in foreign exchange rates can have a significant impact on results. The Group therefore uses forward exchange contracts to hedge its foreign currency transaction risk and hedges its exposure to foreign currency denominated assets, where possible, by offsetting them with same-currency liabilities, primarily through borrowing in the relevant currency. These foreign currency denominated assets, which are translated on a mark to market basis every month and the movement taken to the income statement, include loans made by the Company to, and intercompany trading balances with, its overseas subsidiaries, the effect of which is cash neutral. They also include non-sterling accounts receivable, held on the Company's statement of financial position, the impact of which should reverse through forward currency contracts, but are subject to the timing difference between accounts receivable recording and cash received. The Group does not currently hedge for the translation of its foreign subsidiaries' assets or liabilities. This policy is kept under regular review and is formally approved by the Board on an annual basis.

During the year, the sterling average exchange rate against the US dollar weakened by 4.6%, while the sterling average exchange rate against the euro strengthened by 0.9%. The sterling spot rate against the US dollar from December 2018 to December 2019 strengthened by 3.2% and the sterling spot rate against the euro from December 2018 to December 2019 strengthened by 5.3%. Net revenues benefited from £2.06m of currency effect, which were offset by £0.93m of operating costs to yield a net benefit before hedging of £1.13m. The Group generated a net loss on forward contracts of £0.94m (2018 loss: £0.18m), resulting in a positive net transactional foreign currency impact of £0.19m in the year (2018: negative impact of £1.12m), a year-on-year positive swing of £1.31m.

In addition, the Group recorded a translation loss of £0.47m (2018 gain: £0.99m), representing a year-on-year negative swing of £1.46m, and resulting in a total net FX impact on the income statement year-on-year of £0.1m. The Group's borrowings facility is held by Zotefoams plc, the parent company, which has provided intercompany funds to the USA and Poland to complete the Group's capacity expansion projects. Together with a growing footwear business, which is invoiced in US dollars, the net exposure to foreign currency denominated net assets has increased.

The combined income statement impact in the year of transactional and translational foreign currency movements was a charge of £1.41m (2018: gain of £0.82m).

We expect future growth to come mainly from outside the UK and recognise that one of our key risks is our exposure to foreign currency fluctuations, particularly in the US dollar. While this exposure will increase as the Group grows faster outside of the UK, we are mitigating this transaction risk short term through hedging activities and longer term through investment in overseas operating locations. We recognise, however, that inherent risk will remain. Based on 2019, it is estimated that, with respect to transaction risk and for every one percentage point movement in the USD/£ rate, profit moves by £0.26m unhedged and £0.02m hedged. In the year, it is assumed that the transaction exposure from euro/sterling movements continue to be substantially naturally hedged, with sales revenues offset by costs, primarily related to raw material purchases and certain further processing costs.

The translation movements of foreign currency denominated net assets in the Company's statement of financial position are, to the extent possible, hedged firstly through drawing down debt in the relevant currency. This debt has steadily grown through the year, helping to reduce exposure. With the Group's capacity investments close to completion, intercompany debt and intercompany trading accounts will peak and begin to fall as cash flows from those subsidiaries are used to pay back these positions.

Currency impact on business segments in 2019

Group revenue £m

	2019 Reported	2019 Adjusted*	2018 Reported	Net change % Reported	Net change % Adjusted
Polyolefin Foams	**51.36**	**50.48**	57.16	**(10)**	**(12)**
HPP	**26.48**	**25.37**	22.01	**20**	**15**
MEL	**3.10**	**3.03**	1.95	**59**	**56**
Eliminations	**(0.08)**	**(0.08)**	(0.07)	**–**	**–**
Group	**80.86**	**78.80**	81.04	**0**	**(3)**

* Constant currency, adjusting 2019 values to 2018 rates.

Exchange rates

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

	2019	2018
GBP to euro – average	**0.88**	0.88
GBP to euro – year-end spot	**0.85**	0.90
GBP to USD – average	**0.79**	0.75
GBP to USD – year-end spot	**0.76**	0.78

Tax and earnings per share

The effective tax rate for the year, before exceptional item, is 18.20% (2018: 18.54%), which is in line with the Group's weighted average corporate tax rate for the year of 18.72% (2018: 17.99%). The effective tax rate for the year is 16.25% (2018: 20.32%), the decline being due to larger 2017 R&D expense reclaims than calculated in the estimated tax charge for that period. Net income tax paid during the year was £2.33m (2018: £2.14m).

Basic earnings per share before exceptional item was 14.91p (2018: 18.66p), a decrease of 20%. Basic earnings per share was 17.10p (2018: 16.96p), an increase of 1%. In May 2018, the Group increased its share capital by 8.8% (3,886,792 shares) to 48,301,234 shares through a placing, and the dilutive impact of this is 1.32p on basic earnings per share before exceptional item (2018: 1.03p) and 0.71p on basic earnings per share (2018: 0.93p).

Dividend

The Board has a progressive dividend policy, recognising the importance to our shareholders of the dividend as part of their overall return. However, as described within these preliminary results, the extraordinary uncertainty posed by the COVID-19 outbreak means that we are focused on minimising cash outflows and strengthening our financial position in the short term. As such, the Board believes it prudent not to recommend a final dividend for the year ended 31 December 2019 (2018: 4.15p). The Board will keep this situation under review and will determine the timing for resumption of dividends as economic conditions stabilise.

Investments

Zotefoams' strategy is focused primarily on organic growth. Over the past five years, Zotefoams has invested £72.4m in property, plant and equipment, including capitalised interest, 75% of which has been to increase capacity in its unique technology. In 2020, the new manufacturing facility in Poland will be completed, at which point the scale of growth capital will significantly reduce. With infrastructure in place in the USA and Poland for incremental capacity expansion at significantly lower cost, cash flow and return on capital employed will improve quickly as revenue grows.

	2015	2016	2017	2018	2019	Total
Growth capital	6.1	6.9	7.8	12.8	**19.8**	**53.4**
Capitalised interest	-	-	-	-	**0.9**	**0.9**
Maintenance capital	2.6	5.2	3.6	3.0	**3.7**	**18.1**
Total investment in property, plant and equipment	8.7	12.1	11.4	15.8	**24.4**	**72.4**

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

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

Zotefoams defines the return on capital employed (ROCE) as operating profit before exceptional items divided by the average sum of its equity, net debt and other non-current liabilities. This measure excludes acquired intangible assets and their amortisation costs. We also exclude significant capacity investments under construction until they enter production. We do not attempt to adjust for the first phase inefficiencies as mentioned above. In 2019, the return on capital employed decreased to 10.5% (2018: 16.5%). The cause of this movement is reduced operating profit resulting from a reduction in polyolefin foam sales and consequent reduced rate of asset utilisation, at the same time as an increasing capital base from the full year impact of the first production line and infrastructure in the USA. If the capacity investments still under construction were also included, the return on capital employed reduced to 8.1% from 12.8% in 2018.

Zotefoams is reaching the end of this significant investment programme. Completing the Poland investment, with a 2020 estimated expenditure of £7.3m and an expected start-up date in late 2020, both subject to current COVID-19 uncertainty, is the final stage of this programme, after which we expect capital investment to return to lower levels more in line with the depreciation charge.

Cash flow and net debt

Net cash inflow from operations before investment in working capital decreased 12% to £15.39m (2018: £17.48m). Without the award of £1.05m following successful litigation specific to the DB Scheme, see Post-employment benefits below, net cash inflow from operations before investment in working capital decreased 18% to £14.34m, reflecting the downturn in the Polyolefin Foams business but still demonstrating the strong cash-generative nature of the business. £1.94m (2018: £9.75m) of this was re-invested in working capital. Trade and other receivables reduced £2.66m (2018: increased £6.36m), reflecting a more stabilised position for the HPP footwear business following the very strong final quarter of the previous year, and the lower level of Polyolefin Foams activity in Q4. Inventories increased £0.89m, with increased HPP raw material, in preparation for 2020 growth, being offset by the underlying lower level of Polyolefin Foams activity, with its shorter lead times. HPP raw materials are significantly more expensive than their polyolefin counterparts and their uniqueness requires a different approach to minimum holding quantities. Trade and other payables decreased £3.72m (2018: increased £0.37m), related to the timing of raw material purchases. Zotefoams recognises the importance of its supplier relationships and continues to honour agreed payment terms. As a result of the above, cash generated from operations was £11.77m (2018: £7.11m), up 66%.

Zotefoams continued to invest significantly in property, plant and equipment during the year, with a net cash outflow of £23.47m, following investments of £15.80m, £11.39m, £12.14m and £8.70m in 2017, 2016, 2015 and 2014 respectively. The 2019 expenditure was mostly on completing the second high-pressure autoclave project, with accompanying extruder, in the USA, completing the two high-temperature, low-pressure autoclaves and infrastructure in the UK, and making significant progress towards completion of the Group's final, major, capacity expansion project, a new manufacturing facility in Poland. In addition, interest of £0.93m was capitalised, specific to these assets under construction. The Group also invested £0.91m (2018: £0.29m) in intangible assets, mostly related to the upgrade of the Group's Microsoft AX ERP system to the latest version.

After dividends paid in the year amounting to £2.97m (2018: £2.71m) and the inclusion of £1.21m (2018: £nil) of lease liabilities in accordance with IFRS 16, closing net debt was £31.90m (2018: £12.96m). Under the definition of the bank facility agreement, which adjusts for the impact of IFRS 2 and IFRS 16, net debt was £30.69m (2018: £12.96m). At the year end, the Group remains comfortably within its bank facility covenants, with a ratio of EBITDA to net finance charges of 73 (2018: 29), versus a covenant minimum of 4 and net debt to EBITDA (leverage) of 2.0x (2018: 0.7x), against a covenant of 3.0x. While liquidity headroom remains sufficient under the bank facility, the coincidence in timing of the performance downturn in Polyolefin Foams, the completion of the Group's capacity expansion projects and the unprecedented economic uncertainty from COVID-19 has placed a degree of risk around the Group's ability to remain within its leverage covenant. As a result, the Group's banks have amended the leverage covenant from 3.0x to 4.0x for the 12 months to 30 June 2020. We expect to remain within revised covenant levels, subject to a severe but plausible scenario the Group has modelled, and which is described in the Going concern section below.

Post-employment benefits

As previously reported, the Company provided £1.27m in its 2017 income statement for potential additional liabilities in its DB Scheme following legal advice received by the pension trustees and a calculation by the actuaries. This was based on the legal opinion that the DB Scheme was properly closed to future accrual of service in 2005, but the linkage with future increases in salary had not been broken. The Company recorded this as an operating exceptional item in the income statement, together with a £0.03m accrual to take steps to break this link. The action to break the link was completed in 2018.

During the current year, the Company was successful in a claim against the advisers of both the Company and the Trustees, and was awarded £1.05m following mediation, which it has recorded as an exceptional item in the income statement. After deduction of costs incurred by the Company, the net award of £0.94m was transferred into the DB Scheme to help fund its deficit.

In the previous year, the Company sought advice from the Actuaries of the Trustees in relation to a High Court ruling in October 2018 relating to the equalisation of pensions for males and females and the impact on schemes with guaranteed minimum pensions rights. It was determined that the Company, as sponsoring employer of the DB Scheme, may have an additional liability of an estimated £0.95m and this liability was recorded as an exceptional item in the 2018 income statement.

A full actuarial valuation of the DB Scheme was completed as at 5 April 2017, in line with the requirement to have a triennial valuation. The outcome, on a Statutory Funding Objective basis, calculated a deficit for the Pension Scheme of £4.18m. As a result, the Company agreed with the Trustees to make contributions to the DB Scheme of £43,300 per month to meet the shortfall by 31 October 2026, up from £41,000 per month previously. In addition, the Company pays the ongoing DB Scheme expenses of £15,000 per month (previously £10,600 per month) to cover death-in-service insurance premiums, the expenses of administering the Scheme and Pension Protection Fund levies.

The net IAS19 deficit on the DB Scheme decreased by £1.15m to £6.93m as at 31 December 2019 (2018: £8.08m). The main factors contributing to the decrease in the deficit are the additional contributions paid into the DB Scheme following the mediation settlement with its former advisers, the actual investment return achieved on the assets being higher than required to match the expected increase in the defined benefit obligation over the year, partly offset by a change in assumptions, primarily a lower discount rate following falls in corporate bond yields over the year.

Zotefoams does not consider its pension scheme to be a key risk to its ability to achieve its strategic objectives. Mitigation of further risk is expected to come from our growth expectations and a refocus by the pension Trustees on a lower-risk strategy to meet the DB Scheme's deficit shortfall.

Going concern

At 31 December 2019, the Group's financing arrangements amounted to £55.2m, comprising a multi-currency term loan of £25m, a multi-currency revolving credit facility of £25m, and a remaining balance of £5.2m of a further £7.5m sterling annually renewable term loan, repayable in equal quarterly instalments. The bank facility is for a five-year period and expires in May 2023. At the date of the statement of financial position, £17.7m was undrawn on the facility.

The facility is subject to two covenants, which are tested semi-annually: net debt to EBITDA (leverage) and EBITDA to net finance charges. In recognition of the current macroeconomic uncertainty, the Group's banks have amended the leverage covenant from 3.0x to 4.0x for the 12 months to 30 June 2020.

The Directors believe that the Group is well placed to manage its business risks and, after making enquiries including a review of forecasts and predictions, taking account of reasonably possible changes in trading performances and considering the existing banking facilities, including the available liquidity and increase in leverage covenant from 3.0x to 4.0x, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months following the date of approval of the financial statements.

The uncertainty as to the future impact on the Group of the current COVID-19 outbreak has been considered as part of the Group's adoption of the going concern basis. Our China-based customers and our own relatively small processing facility for T-FIT® technical insulation in China returned to work at the beginning of March 2020. Across the Group, public health measures advised by governments are being followed in support of their efforts to contain the spread of the virus, and the supply chain is being proactively managed as are operating costs and the timing of capital expenditure. The Board has also resolved not to recommend a final dividend for the year ended 2019 and will consider future dividends as and when conditions normalise.

The Board has considered a downside scenario that reflects the current unprecedented uncertainty in the global economy and which we consider to be severe but plausible. The results of this scenario show that there is sufficient liquidity in the business for a period of at least 12 months from the date of approval of these financial statements but shows the potential for a covenant breach during the test period. The scenario considered Group revenue 20% below 2019 for the 12 months to 31 December 2020, and 25% below 2019 for the 12 months to 30 June 2021. It applied foreign exchange rates of \$1.30: £1 and €1.15: £1. Set against this were mitigating actions including tight management of headcount, significantly reduced capital expenditure, reduced SG&A expenditure and suspension of dividends. This severe but plausible scenario indicates a material uncertainty which may cast significant doubt over the Company's and Group's ability to continue as a going concern without further mitigating actions. The Company and Consolidated Financial Statements do not include the adjustments that would result if the Company and Group were unable to continue as a going concern.

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

Events after the reporting period

In early 2020, the emergence and spread of a new coronavirus, now known as COVID-19, is affecting business and economic activity around the world. The Group considers this outbreak to be a non-adjusting post balance sheet event as at 31 December 2019. Given the spread of the virus, the range of potential negative outcomes for the global economy are difficult to predict at this point in time. Zotefoams is monitoring the COVID-19 outbreak developments closely and abiding by the advice and requirements of local governments. We have also been implementing a range of contingency plans to mitigate the potential adverse impacts.

Gary McGrath
Group CFO

7 April 2020

Consolidated income statement

For the year ended 31 December 2019

	Note	**2019 £'000**	2018 £'000
Revenue	2	**80,860**	81,037
Cost of sales		**(52,270)**	(52,034)
Gross profit		**28,590**	29,003
Distribution costs		**(8,008)**	(7,193)
Administrative expenses before exceptional item		**(11,481)**	(10,236)
Exceptional item	3	**1,050**	(950)
Total administrative expenses		**(10,431)**	(11,186)
Operating profit		**10,151**	10,624
Operating profit before exceptional item		**9,101**	11,574
Finance costs		**(462)**	(753)
Finance income		**50**	-
Share of profit / (loss) from joint venture		**72**	(16)
Profit before income tax		**9,811**	9,855
Profit before income tax and exceptional item		**8,761**	10,805
Income tax expense		**(1,594)**	(2,003)
Profit for the year		**8,217**	7,852
Profit for the year before exceptional item		**7,167**	8,641
Profit attributable to:			
Equity holders of the Company		**8,217**	7,852
		8,217	7,852
Earnings per share:			
Basic (p)	4	**17.10**	16.96
Diluted (p)	4	**16.84**	16.69

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	Note	**2019 £'000**	2018 £'000
Profit for the year		**8,217**	7,852
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss			
Actuarial losses on defined benefit pension schemes		**(319)**	(1,449)
Tax relating to items that will not be reclassified		**54**	246
Total items that will not be reclassified to profit or loss		**(265)**	(1,203)
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation (losses)/gains on investment in foreign subsidiaries		**(1,146)**	1,442
Change in fair value of hedging instruments		**(349)**	(1,467)
Hedging gains reclassified to profit or loss		**939**	920
Tax relating to items that may be reclassified		**(101)**	93
Total items that may be reclassified subsequently to profit or loss		**(657)**	988
Other comprehensive expense for the year, net of tax		**(922)**	(215)
Total comprehensive income for the year		**7,295**	7,637
Total comprehensive income attributable to:			
Equity holders of the Company		**7,295**	7,637
Total comprehensive income for the year		**7,295**	7,637

Consolidated statement of financial position

As at 31 December 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Property, plant and equipment	7	**85,652**	67,607
Right-of-use assets		**1,207**	-
Intangible assets		**6,614**	6,515
Investments in joint venture		**145**	73
Trade and other receivables		**166**	439
Deferred tax assets		**327**	923
Total non-current assets		**94,111**	75,557
Current assets			
Inventories		**18,604**	17,894
Trade and other receivables		**23,315**	26,371
Derivative financial instruments		**332**	6
Cash and cash equivalents		**6,656**	7,073
Total current assets		**48,907**	51,344
Total assets		**143,018**	126,901
Current liabilities			
Trade and other payables		**(6,831)**	(11,328)
Derivative financial instruments		**(134)**	(399)
Current tax liability		**(261)**	(1,978)
Lease liabilities		**(369)**	-
Interest-bearing loans and borrowings	6	**(15,717)**	(14,500)
Total current liabilities		**(23,312)**	(28,205)
Non-current liabilities			
Lease liabilities		**(836)**	-
Interest-bearing loans and borrowings	6	**(21,630)**	(5,537)
Deferred tax liabilities		**(674)**	-
Post-employment benefits		**(6,926)**	(8,078)
Total non-current liabilities		**(30,066)**	(13,615)
Total liabilities		**(53,378)**	(41,820)
Total net assets		**89,640**	85,081
Equity			
Issued share capital	5	**2,415**	2,415
Share premium	5	**44,178**	44,178
Own shares held		**(9)**	(21)
Capital redemption reserve		**15**	15
Translation reserve		**2,907**	4,053
Hedging reserve		**131**	(358)
Retained earnings		**40,003**	34,799
Total equity		**89,640**	85,081

Consolidated statement of cash flows

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Profit for the year		**8,217**	7,852
Adjustments for:			
Depreciation and amortisation		**5,769**	5,082
Disposal of assets		**77**	-
Finance costs		**412**	753
Share of (profit)/loss from joint venture		**(72)**	16
Net exchange differences		**(999)**	-
Employee defined benefit service charges		**-**	950
Equity-settled share-based payments		**391**	822
Taxation		**1,594**	2,003
Operating profit before changes in working capital and provisions		**15,389**	17,478
Decrease/(increase) in trade and other receivables		**2,659**	(6,361)
Increase in inventories		**(883)**	(3,751)
(Decrease)/increase in trade and other payables		**(3,720)**	366
Employee defined benefit contributions		**(1,674)**	(619)
Cash generated from operations		**11,771**	7,113
Interest paid		**(88)**	(485)
Income taxes paid, net of refunds		**(2,334)**	(2,136)
Net cash flows generated from operating activities		**9,349**	4,492
Cash flows from investing activities			
Interest received		**50**	-
Interest paid		**(933)**	(31)
Purchases of intangibles		**(914)**	(294)
Proceeds on disposal of property, plant and equipment		**-**	3
Purchases of property, plant and equipment		**(23,473)**	(15,796)
Net cash used in investing activities		**(25,270)**	(16,118)
Cash flows from financing activities			
Proceeds from options exercised and issue of share capital		**92**	31
Proceeds of share issue, net of expenses		**-**	20,078
Repayment of borrowings		**(3,829)**	(45,055)
Proceeds from borrowings		**22,578**	44,576
Principal elements of lease payments		**(343)**	-
Dividends paid to equity holders of the Company	4	**(2,973)**	(2,707)
Net cash generated from financing activities		**15,525**	16,923
Net (decrease)/increase in cash and cash equivalents		**(396)**	5,297
Cash and cash equivalents as 1 January		**7,073**	1,810
Exchange losses on cash and cash equivalents		**(21)**	(34)
Cash and cash equivalents at 31 December		**6,656**	7,073

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Note	Share capital £`000	Share premium £`000	Own shares held £`000	Capital redemption reserve £`000	Translation reserve £`000	Hedging reserve £`000	Retained earnings £`000	Total equity £`000
Balance as at 1 January 2018	**Note**	**2,221**	**24,340**	**(26)**	**15**	**2,611**	**96**	**29,833**	**59,090**
Foreign exchange translation gains on investment in subsidiaries		-	-	-	-	1,442	-	-	1,442
Change in fair value of hedging instruments recognised in other comprehensive income		-	-	-	-	-	(1,467)	-	(1,467)
Reclassification to income statement - administrative expenses		-	-	-	-	-	920	-	920
Tax relating to effective portion of changes in fair value of cash flow hedges, net of recycling		-	-	-	-	-	93	-	93
Actuarial loss on defined benefit pension scheme		-	-	-	-	-	-	(1,449)	(1,449)
Tax relating to actuarial loss on defined benefit pension scheme		-	-	-	-	-	-	246	246
Profit for the year		-		-	-	-	-	7,852	7,852
Total comprehensive income/(expenditure) for the year		-	-	-	-	1,442	(454)	6,649	7,637
Transactions with owners of the Parent:									
Options exercised		-	-	5	-	-	-	26	31
Proceeds from shares issued, net of expenses		194	19,838		-	-	-	-	20,032
Equity-settled share-based payments net of tax		-	-	-	-	-	-	998	998
Dividends paid	4	-	-	-	-	-	-	(2,707)	(2,707)
Total transactions with owners of the Parent		194	19,838	5	-	-	-	(1,683)	18,354
Balance as at 31 December 2018		**2,415**	**44,178**	**(21)**	**15**	**4,053**	**(358)**	**34,799**	**85,081**
Balance as at 1 January 2019		**2,415**	**44,178**	**(21)**	**15**	**4,053**	**(358)**	**34,799**	**85,081**
Foreign exchange translation losses on investment in subsidiaries		-	-	-	-	(1,146)	-	-	(1,146)
Change in fair value of hedging instruments recognised in other comprehensive income		-	-	-	-	-	(349)	-	(349)
Reclassification to income statement - administrative expenses		-	-	-	-	-	939	-	939
Tax relating to effective portion of changes in fair value of cash flow hedges, net of recycling		-	-	-	-	-	(101)	-	(101)
Actuarial loss on defined benefit pension scheme		-	-	-	-	-	-	(319)	(319)
Tax relating to actuarial loss on defined benefit pension scheme		-	-	-	-	-	-	54	54
Profit for the year		-	-	-	-	-	-	8,217	8,217
Total comprehensive income/(expenditure) for the year		-	-	-	-	(1,146)	489	7,952	7,295
Transactions with owners of the Parent:									
Options exercised		-	-	12	-	-	-	80	92
Equity-settled share-based payments net of tax		-	-	-	-	-	-	145	145
Dividends paid	4	-	-	-	-	-	-	(2,973)	(2,973)
Total transactions with owners of the Parent		-	-	12	-	-	-	(2,748)	(2,736)
Balance as at 31 December 2019		**2,415**	**44,178**	**(9)**	**15**	**2,907**	**131**	**40,003**	**89,640**

1. General overview and accounting policies

Basis of preparation

Zotefoams plc (the 'Company') is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in England. The registered office of the Company is 675 Mitcham Road, Croydon CR9 3AL.

The preliminary results (unaudited) (referred to as the 'preliminary results') include the results of the Company and its subsidiaries (together referred to as the 'Group'). The preliminary results of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and with the Companies Act 2006 applicable to companies reporting under IFRS.

The information for the year ended 31 December 2019 does not constitute statutory accounts for the purposes of section 435 of the Companies Act 2006. A copy of the accounts for the year ended 31 December 2018 was delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under section 498(2) or 498(3) of the Companies Act 2006. The audit of the statutory accounts for the year ended 31 December 2019 is not yet complete. These accounts will be finalised on the basis of the financial information presented by the Directors in this 'preliminary results' and will be delivered to the Registrar of Companies following the Company's annual general meeting.

The preliminary results are prepared on the historical cost basis except for derivative financial instruments which are stated at their fair value. The same accounting policies, presentation and methods of computation are followed in the 'preliminary results' as were applied in the Group's 2018 annual audited financial statements, with the exception of any changes arising from new IFRS standards and amendments and IFRS IC interpretations as adopted by the European Union effective from 1 January 2019 and related presentational changes.

Going Concern

At 31 December 2019 the Group' s financing arrangements amounted to £55.2m, comprising a multi-currency term loan of £25m, a multi-currency revolving credit facility of £25m, and a remaining balance of £5.2m of a further £7.5m sterling annually renewable term loan repayable in equal quarterly instalments. The bank facility is for a five-year period and expires in May 2023. At the date of the statement of financial position, £17.7m was undrawn on the facility.

The facility is subject to two covenants, which are tested semi-annually: net debt to EBITDA (leverage) and EBITDA to net finance charges. In recognition of the current macroeconomic uncertainty, the Group's banks have amended the leverage covenant from 3.0x to 4.0x for the 12 months to 30 June 2020.

The Directors believe that the Group is well placed to manage its business risks and, after making enquiries including a review of forecasts and predictions, taking account of reasonably possible changes in trading performances and considering the existing banking facilities, including the available liquidity and increase in leverage covenant from 3.0x to 4.0x, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months following the date of approval of the financial statements.

The uncertainty as to the future impact on the Group of the current COVID-19 outbreak has been considered as part of the Group's adoption of the going concern basis. Our China-based customers and our own relatively small processing facility for T-FIT® technical insulation in China returned to work at the beginning of March. Across the Group, public health measures advised by governments are being following in support of their efforts to contain the spread of the virus, and the supply chain is being proactively managed as are operating costs and the timing of capital expenditure. The Board has also resolved not to recommend a final dividend for the year ended 2019 and will consider future dividends as and when conditions normalise.

The Board has considered a downside scenario that reflects the current unprecedented uncertainty in the global economy and which we consider to be severe but plausible. The results of this scenario show that there is sufficient liquidity in the business for a period of at least 12 months from the date of approval of these financial statements but shows the potential for a covenant breach during the test period. The scenario considered Group revenue 20% below 2019 for the 12 months to 31 December 2020, and 25% below 2019 for the 12 months to 30 June 2021. It applied foreign exchange rates of $1.30: £1 and €1.15: £1. Set against this were mitigating actions including tight management of headcount, significantly reduced capital expenditure, reduced SG&A expenditure and suspension of dividends. This severe but plausible scenario indicates a material uncertainty which may cast significant doubt over the Company's and Group's ability to continue as a going concern without further mitigating actions. The Company and Consolidated Financial Statements do not include the adjustments that would result if the Company and Group were unable to continue as a going concern.

After due consideration of the range and likelihood of potential outcomes, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements. However, the Directors anticipate that the independent auditors' report will contain an emphasis of matter in respect of a material uncertainty in respect of going concern.

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2. Segment reporting

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

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

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

	Polyolefin Foams		HPP		MEL		Eliminations		Consolidated	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Group revenue	**51,363**	57,158	**26,477**	22,009	**3,097**	1,945	**(77)**	(75)	**80,860**	81,037
Segment profit/(loss) pre-amortisation	**7,301**	9,448	**6,430**	5,814	**(1,270)**	(1,628)	**-**	-	**12,461**	13,634
Amortisation of acquired intangible assets	**-**	-	**-**	-	**(276)**	(262)	**-**	-	**(276)**	(262)
Segment profit/(loss)	**7,301**	9,448	**6,430**	5,814	**(1,546)**	(1,890)	**-**	-	**12,185**	13,372
Foreign exchange (losses)/gains	**-**	-	**-**	-	**-**	-	**-**	-	**(1,405)**	818
Unallocated central costs	**-**	-	**-**	-	**-**	-	**-**	-	**(1,679)**	(2,616)
Operating profit before exceptional items									**9,101**	11,574
Financing costs	**-**	-	**-**	-	**-**	-	**-**	-	**(462)**	(753)
Financing income	**-**	-	**-**	-	**-**	-	**-**	-	**50**	
Share of profit/(loss) from joint venture	**72**	(16)	**-**	-	**-**	-	**-**	-	**72**	(16)
Taxation (before exceptional items)	**-**	-	**-**	-	**-**	-	**-**	-	**(1,594)**	(2,164)
Profit for the year (before exceptional items)									**7,167**	8,641
Segment assets	**100,497**	95,153	**34,088**	22,903	**8,106**	7,922	**-**	-	**142,691**	125,978
Unallocated assets	**-**	-	**-**	-	**-**	-	**-**	-	**327**	923
Total assets									**143,018**	126,901
Segment liabilities *	**(44,530)**	(37,604)	**(7,254)**	(1,791)	**(659)**	(447)	**-**	-	**(52,443)**	(39,842)
Unallocated liabilities	**-**	-	**-**	-	**-**	-	**-**	-	**(935)**	(1,978)
Total liabilities									**(53,378)**	(41,820)
Depreciation of PPE	**4,009**	3,894	**703**	339	**83**	83	**-**	-	**4,795**	4,316
Depreciation of right-of-use assets	**268**	-	**43**	-	**-**	-	**-**	-	**311**	-
Amortisation	**344**	384	**55**	-	**264**	382	**-**	-	**663**	766
Capital expenditure:										
Property, plant and equipment (PPE)	**21,222**	15,242	**3,475**	989	**139**	62	**-**	-	**24,836**	16,293
Right of use assets	**804**	-	**126**	-	**-**	-	**-**	-	**930**	-
Intangible assets	**611**	17	**97**	243	**206**	34	**-**	-	**914**	294

Geographical segments

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

	United Kingdom	Continental Europe	North America	Rest of the world	Total
	£'000	£'000	£'000	£'000	£'000
For the year ended 31 December 2019					
Group revenue from external customers	**12,875**	**25,503**	**22,010**	**20,472**	**80,860**
Non-current assets	**44,231**	**13,038**	**35,908**	**462**	**93,639**
Capital expenditure – PPE	**7,239**	**12,069**	**5,380**	**148**	**24,836**
For the year ended 31 December 2018					
Group revenue from external customers	13,137	29,342	21,340	17,218	81,037
Non-current assets	38,816	1,488	33,842	416	74,562
Capital expenditure – PPE	11,048	1,488	3,677	81	16,294

3. Exceptional item

	2019	2018
	£'000	£'000
Past service costs	**-**	950
Settlement income relating to legal claim	**(1,050)**	-

During the year, the Company was successful in a claim against the previous advisors to the Defined Benefit Pension Scheme (the "DB Scheme"), following legal advice that the linkage to future increases in salary had not been properly broken. The Company was awarded £1,050k following mediation and has recorded this as an operating exceptional item in the income statement. Of this amount, £941k was repaid to the DB Scheme and £109k expenses reimbursed to the Company.

During the prior year, following a High Court ruling regarding GMP equalisation, the Company provided £940k for additional liabilities in its DB scheme based on calculations by the Company's actuaries and £10k for related expenses.

4. Dividends and earnings per share

	2019	2018
	£'000	£'000
Prior year final dividend of 4.15p (2018: 4.02p) per 5.0p ordinary share	**1,996**	1,763
Interim dividend of 2.03p (2018: 1.97p) per 5.0p ordinary share	**977**	944
Dividends paid during the year	**2,973**	2,707

The Board has a progressive dividend policy, recognising the importance to our shareholders of the dividend as part of their overall return. However, the extraordinary uncertainty posed by the COVID-19 outbreak means that we are focused on minimising cash outflows and strengthening our financial position in the short term. As such, the Board believes it prudent not to recommend a final dividend for the year ended 31 December 2019 (2018: 4.15p). The Board will keep this situation under review and will determine the timing for resumption of dividends as economic conditions stabilise.

Earnings per ordinary share

Earnings per ordinary share is calculated by dividing consolidated profit after tax attributable to equity holders of the Company of £8,217k (2018: £7,852k) by the weighted average number of shares in issue during the year, excluding own shares held by the EBT, which are administered by independent trustees. The number of shares held in the trust at 31 December 2019 was 178,395 (2018: 403,758). 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.

	2019	2018
	£'000	£'000
Weighted average number of ordinary shares in issue	**48,054,819**	46,310,356
Adjustments for share options	**752,321**	722,503
Diluted number of ordinary shares issued	**48,807,140**	47,032,859

5. Issued share capital

Issued, allotted and fully paid ordinary shares of 5p each:

	Number of shares	Par value £'000	Share premium £'000	Total £'000
Opening balance 1 January 2018	44,414,442	2,221	24,340	26,561
Rights issue	3,886,792	194	20,406	20,600
	48,301,234	2,415	44,746	47,161
Less: Transaction costs arising on rights issue	-	-	(568)	(568)
Closing balance 31 December 2018	48,301,234	2,415	44,178	46,593
Closing balance 31 December 2019	**48,301,234**	**2,415**	**44,178**	**46,593**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled, on a poll, to one vote per share at meetings of the Company.

6. Interest-bearing loans and borrowings

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Current bank borrowings	**15,717**	14,500	**15,717**	14,500
Non-current bank borrowings	**21,630**	5,231	**21,630**	5,231
Non-current lease liabilities*	**-**	306	**-**	306
	37,347	20,037	**37,347**	20,037

In May 2018 the Group completed a debt refinancing to enable it to continue to grow capacity and meet its expected demand growth. These facilities are secured against the property, plant and equipment and trade receivables of the Group. The facility comprises a £25 million multi-currency term loan, repayable in two equal instalments of £5m during year four and year five, with the remainder at the end of year five, a £25 million multi-currency revolving credit facility, repayable on demand and a further £5.2 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.

At the end of the financial year, the Group has utilised £21.9m ($29m) of the multi-currency term loan, £10.7m (€12.5m) of the revolving facility and has an outstanding £5.2 m on the sterling term loan. The total amount of £37.8 m is gross of £0.5m loan origination fees paid upfront, being amortised over the period of the loan. The difference of £0.3m between the undrawn amount of £17.7m and £17.4m (£55.2m - £37.8m) is due to the different exchange rates used by the Group and the bank.

7. Property, plant and equipment

Group

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Leased machinery £'000	Under construction £'000	Total £'000
Cost						
Balance at 1 January 2018	16,656	62,293	7,401	432	27,250	114,032
Additions	-	1,670	155	-	14,468	16,293
Disposals	(920)	(4,062)	(2,474)	-	-	(7,456)
Reclassifications from under construction	2,768	18,415	640	-	(21,823)	-
Transfers	-	-	(2,469)	-	2,469	-
Effect of movement in foreign exchange	480	2,497	44	-	358	3,379
Balance at 31 December 2018	18,984	80,813	3,297	432	22,722	126,248
Balance at 1 January 2019	**18,984**	**80,813**	**3,297**	**432**	**22,722**	**126,248**
Adjustment for change in accounting policy (note 27)	**-**	**-**	**-**	**(432)**	**-**	**(432)**
Additions	**8**	**744**	**172**	**-**	**23,912**	**24,836**
Disposals	**-**	**(77)**	**(16)**	**-**	**-**	**(93)**
Transfers	**12,383**	**3,364**	**496**	**-**	**(16,243)**	**-**
Effect of movement in foreign exchange	**(300)**	**(870)**	**(34)**	**-**	**(859)**	**(2,063)**
Balance at 31 December 2019	**31,075**	**83,974**	**3,915**	**-**	**29,532**	**148,496**
Accumulated depreciation						
Balance at 1 January 2018	11,048	44,697	4,122	49	-	59,916
Depreciation charge for the year	611	3,229	399	77	-	4,316
Disposals	(920)	(4,059)	(2,474)	-	-	(7,453)
Effect of movement in foreign exchange	222	1,574	66	-	-	1,862
Balance at 31 December 2018	10,961	45,441	2,113	126	-	58,641
Balance at 1 January 2019	**10,961**	**45,441**	**2,113**	**126**	**-**	**58,641**
Adjustment for change in accounting policy (note 27)	**-**	**-**	**-**	**(126)**	**-**	**(126)**
Depreciation charge for the year	**657**	**3,784**	**354**	**-**	**-**	**4,795**
Disposals	**-**	**(8)**	**(8)**	**-**	**-**	**(16)**
Effect of movement in foreign exchange	**(147)**	**(281)**	**(22)**	**-**	**-**	**(450)**
Balance at 31 December 2019	**11,471**	**48,936**	**2,437**	**-**	**-**	**62,844**
Net book value						
At 1 January 2018	5,608	17,596	3,279	383	27,250	54,116
At 31 December 2018 and 1 January 2019	8,023	35,372	1,184	306	22,722	67,607
At 31 December 2019	**19,604**	**35,038**	**1,478**	**-**	**29,532**	**85,652**

8. Changes in Accounting Policies

This note explains the impact of the adoption of IFRS 16 “Leases” on the Group’s financial statements.

The Group has adopted IFRS 16 “Leases” retrospectively from 1 January 2019 but has not restated comparatives for the 2018 financial year, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's banking borrowing rate as a proxy to the incremental borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on the 1 January 2019 was 2.8%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard;

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made by applying IAS 17 and IFRIC 4 “Determining whether an Arrangement contains a Lease”.

(ii) Measurement of lease liabilities

	2019
	£'000
Operating lease commitments disclosed as at 31 December 2018	662
Discounted using the lessee's incremental borrowing rate at the date of initial application	644
Add: finance lease liabilities recognised as at 31 December 2018	306
(Less): short term leases recognised on a straight-line basis as expense	(559)
(Less): low value leases recognised on a straight-line basis as an expense	(5)
Lease Liability recognised as at 1 January 2019	**386**
of which are:	
Current lease liabilities	131
Non-current lease liabilities	255
	386

(iii) Measurement of right-of-use assets

The right-of-use assets for property and equipment leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial positions as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(iv) Adjustments recognised in the statement of financial position on 1 January 2019

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- property, plant and equipment: decrease by £306k
- right-of-use assets: increase by £588k
- borrowings: decrease by £306k
- lease liabilities: increase by £588k

The net impact on retained earnings on 1 January 2019 was £nil.