Tuesday 5 March 2013

ZOTEFOAMS plc

Preliminary Results for the Year Ended 31 December 2012

Continued sales and profit growth

Zotefoams plc ("Zotefoams", or "the Group" or "the Company"), a world leader in cellular material technology, today announces its preliminary results for the year ended 31 December 2012.

HIGHLIGHTS

- Record sales up 7% to £47.19m, (2011: £44.21m)
- High-Performance Products ("HPP") sales up 51% to £3.60m (2011: £2.38m)
- Profit before tax up 8% to £5.93m despite tough market conditions and adverse currency impact
- Strong balance sheet with gearing under 2%
- 6% increase in proposed final dividend to 3.5p per ordinary 5p share (2011: 3.3p)

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

2012 was another strong year for Zotefoams, during which we achieved record sales of £47.19m and an 8% rise in profits, to £5.93m. I was particularly pleased with the performance of our HPP business, which saw sales increase by 51% to £3.60m.

We are continuing our investment in new capacity in Croydon, in people and the longer term development of MuCell Extrusion LLC, and product and market development in our HPP business. Zotefoams enters 2013 with a strong balance sheet and a wide variety of options for future growth. While being mindful of near-term economic conditions, the Board expects further progress in 2013 and remains confident about the long-term prospects for our business.

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Chairman's Statement

I am pleased to report our 2012 profit before tax increased by 8% to £5.93m (2011: £5.47m) with Basic Earnings per Share up to 12.1p (2011: 11.8p). Revenue of £47.19m was 7% ahead of the previous year (2011: £44.21m) and, in constant currency, all major regions contributed to this growth. Particularly pleasing was the growth from our HPP business where sales increased by 51% to £3.60m (2011: £2.38m).

Strategy

Zotefoams' strategy is to expand through a combination of profitable organic growth of our Polyolefin and HPP businesses, new customers for our MuCell Extrusion technology licensing business, and through partnerships or acquisitions in related technologies, products or markets.

Objectives

We target sales growth in our core polyolefin business in excess of twice the average rate of increase in GDP. Our largest markets are EU and North America, although we sell to many countries outside these markets and intend further to expand our sales in these underrepresented and growing markets. Our polyolefin business currently has its main factory in Croydon, UK while customers in America are supplied from our factory in Kentucky, USA, which opened in mid-2001 and has facilities for foam expansion supported by supply from the UK. In order to support our growing sales in Asia we are in the final stages of evaluating a facility similar to Kentucky, either directly or as a joint venture with a local partner, as sales increase to a level where such an investment becomes financially attractive. We are also committed to developing a portfolio of unique foam products from high-performance materials with significant competitive advantages over rival materials. This will allow us to command higher margins and affirm our position as a leading foam technology company. We intend to achieve this growth while continuing to improve our operating margins and our return on capital employed.

Corporate Governance

At Zotefoams, we recognise the importance of being a well managed business, not only for the interests of our shareholders, but for our other stakeholders as well. The Board and I are committed to the highest standards of corporate governance and regularly monitor our compliance with the UK Corporate Governance Code.

People

Our business relies on the skills and dedication of our people and on behalf of the Board I would like to thank all of them, as it is their contribution which made 2012 a successful year for the business.

Dividend

In 2010 the Board adopted a progressive dividend policy subject to profit growth, investment requirements and the other needs of the business. I am pleased to say we intend to retain this policy and the Board therefore proposes to increase its final dividend to 3.5p per ordinary share (2011: 3.3p) which, if approved by shareholders, would make a total of 5.2p per ordinary share for the year (2011: 4.9p), an increase of 6%. At this level the dividend would be covered more than by two times post-tax earnings. If approved, the dividend will be paid on 23 May 2013 to shareholders on the register on 26 April 2013.

Outlook

Against a strong comparative sales performance at the start of 2012, so far in 2013 we have seen a relatively subdued level of sales. However, levels of order intake are more encouraging and we believe that caution in the supply chain regarding uncertain economic conditions, coupled with our improved lead-time performance, are being reflected in part in a reduction in inventory levels in the market after the strong demand seen in the final quarter of 2012. Raw material prices have risen slightly compared to the second half of 2012 while exchange rates, with Sterling relatively weaker against other major currencies, have moved favourably for us since the beginning of January. The multi-market and international scope of Zotefoams' activities mean we are influenced by global economic conditions while the timing of sales from new products and markets, where higher growth rates are anticipated, is more uncertain than in the more established businesses. We are continuing our investment in new capacity in Croydon, in people and the longer term development of MuCell Extrusion LLC, and product and market development in our HPP business. Zotefoams enters 2013 with a strong balance sheet and a wide variety of options for future growth. While being mindful of near-term economic conditions, the Board expects further progress in 2013 and remains confident about the long-term prospects for our business.

Nigel Howard

Business Review

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

Business Overview

Zotefoams' business is based around unique cellular materials technologies. We create small and consistent bubbles in plastic, mainly to produce high quality foams for a wide variety of uses, and also to reduce the materials content of plastic parts. Using inert gases such as nitrogen (N_2) and carbon dioxide (CO_2) makes our foams pure, creates an even distribution of plastic which enhances performance and allows us to foam materials which cannot normally be foamed by other means.

We are active in markets across the globe. Zotefoams' main products are speciality materials and most of our customers are converting foam for industrial and, to a lesser extent, consumer markets. Development and marketing at end users, often alongside our foam converter customers, are also important to us. We produce and sell foams for a number of diverse industries, including: packaging, aviation, automotive, marine, sports, construction and medical. This gives us a unique perspective on the uses of, and requirements for, foams. Investment in sales and marketing resource, approximately 12% of our total workforce, and technical development across our product range, underpins this commitment to growth.

Zotefoams is well-placed to respond to the global concerns about the use of plastics. Recycling is often top of the environmental agenda, however if a product is produced using less plastic in the first place then this considerably lessens the environmental impact of the product. Most of our sales are from foams with less than 4% plastic by volume. Additionally the user benefits of lightweight foam in many applications are obvious: Zotefoams' products make aircraft and cars lighter and hence more fuel efficient, medical products more hygienic, sports and leisure equipment safer and packaging longer-lasting.

Our business is organised in three main segments: Polyolefin foams (marketed under the Azote® brand), HPP foams and MuCell Extrusion. They share a common principle of using high-pressure inert gas to foam polymers. Both Azote® polyolefin foams and HPP foams are manufactured at our Croydon facility where we operate autoclave technology to saturate polymer sheets. These "gas filled" sheets can then be expanded into foams with as little as 1.5% polymer by volume. This final expansion process is most economically done close to our customers so, in addition to capacity in Croydon, Zotefoams operates a foam expansion facility in Kentucky, USA to serve the North American market. MuCell Extrusion, based in Massachusetts, USA, owns and licenses technology for high-pressure foaming of extruded plastic parts. The main benefit of the MuCell® technology is the reduction of polymer content of these parts giving cost and environmental benefits to the users.

Overall, Zotefoams delivered record sales of £47.19m in 2012 (2011: £44.21m) despite a relatively subdued economic climate and adverse foreign exchange rates. The price of low density polyethylene ("LDPE"), our main raw material, was slightly lower than in 2011; although other material costs were higher, as was energy which is a significant cost to our business. Overall for the year gross margins increased to 29.0% (2011: 28.5%) and profit before tax increased by 8%, from £5.47m to £5.93m.

Foreign exchange rates and prices for LDPE can be volatile and often impact our business in the short term. Approximately 80% of our sales are in currencies other than Sterling and we estimate that, at constant 2011 exchange rates, sales would have increased by 10%. Our exposure to exchange rate movements is partially offset by our operations in USA and raw material purchases in euros, with the residual transaction exposure managed by hedging a proportion of expected net cash flows with forward foreign currency contracts. The unhedged portion remains a risk to our business and we estimate that movements in exchange rates during 2012 reduced reported profits by approximately £0.6m. In 2012 the average Euro price of LDPE was approximately 2% lower than in 2011, but 8% higher than in 2010. From January 2010 to December 2012 the peak monthly Euro price was approximately 44% higher than the lowest price and we have experienced monthly movements as large as 22%. Managing this short-term volatility by constantly changing prices to our customers is incompatible with building a specified brand across industrial and consumer markets. Zotefoams therefore manages its sales prices relative to longer term trends in polymer pricing as well as other input costs.

In our Polyolefin foams business, market sales grew by 4.4% to £42.30m (2011:£40.53m) with volumes 2.9% ahead of last year and price/mix favourable by 1.5%. Polyolefin foams account for 90% of Group sales and profit from this segment increased 13% to £6.43m (2011: £5.68m). In the UK, sales volumes increased by 4%, while in North America and in Continental Europe sales volumes were only marginally higher than in 2011. Outside these established markets, which account for 93% of sales volumes, our business increased by 30% in volume and 31% in value. There were no significant changes in sales mix or end-user markets from the previous year, although in the latter part of the year there was evidence of some inventory increases in the market. As foam is bulky, inventory build usually only happens where there is variability in the supply chain. Zotefoams' longer lead times during the year were a factor in this inventory increase and to improve our service we have invested in additional machinery to remove the bottlenecks in our processes as well as taking actions that have improved efficiency and capacity in other areas. A new foam expansion autoclave, LP42, was operational late in 2012 and a further sheet extruder will be commissioned mid 2013.

In our HPP business we entered 2012 with a record order book and added significantly to this as the year progressed. Overall sales increased 51% to £3.60m (2011: £2.38m). During the year we continued to invest in both R&D and sales and marketing in HPP products and therefore this segment reported a reduced loss of £0.08m (2011: loss of £0.18m). Our patented fluoropolmer ZOTEK® F foams together with T-Tubes® advanced insulation represent 95% of HPP sales and are both profitable. Pebaxfoam® and ZOTEK® N nylon foams are at earlier stages of commercialisation and, although both showed progress throughout the year, revenues are not yet sufficient to carry their marketing and development costs. The strategy for this segment of our business is to develop new products with unique attributes that are valued by end users. Our range of ZOTEK® F fluoropolymer foams has excellent fire retardancy properties as well as being lightweight and thermoformable into a variety of shapes. The main markets for these foams are currently in aviation and, in T-Tubes® branded insulation, in clean room environments. Nylon foams exhibit excellent high temperature performance, insulation and impact resistance. These materials are being trialled in automotive, construction and composites markets with promising results. Pebaxfoam® is made from a very resilient polymer which is known for its energy management properties. The foam is lightweight and provides excellent rebound performance and has been used in insoles and midsoles for high-performance sports shoes. Commercialising some of these materials, particularly those like nylon foams which are aimed at high-end industrial applications, can take years of testing and design. However the value of these opportunities, many in specified applications which can have long life times, is potentially transformational for Zotefoams and we are optimistic about the long-term future of this portfolio of products.

MuCell Extrusion LLC ("MEL"), the third segment of our business, licenses technology for continuous foaming. We acquired 100% of this business in 2011 having been a 30% minority shareholder since 2008. MEL technology injects high-pressure inert gas such as carbon dioxide or nitrogen into plastic extruders. The output is microcellular foam, reducing the plastic content, and the cost, of the extruded product. MEL receives royalties, usually based on the savings made by the licensee, and sells enabling equipment for machinery conversion and gas injection. We have invested in MEL and refocused its activities towards a more limited number of segments with high potential and are addressing other markets through channel partners. As well as developing our MuCell Extrusion technology internally we secured exclusive rights to patents from The Dow Chemical Company and Styron in plastic film and sheet in mid 2012. Our existing licensee base is in a variety of segments across the globe although our current focus is in thin films and in extrusion blow moulding bottles, both for packaging, and in plastic sheets which have a variety of uses. In 2012 MEL reported sales of £1.33m (2011: £1.33m) and an EBITDA of £0.01m (2011: £0.45m) reflecting the focus on development into the three key markets and our increased investment in people and technology. For MEL to be successful requires our technology to be implemented by plastic parts producers and for their end customers to accept and adopt the benefits of reduced material content. MEL is making good progress on these external requirements and we are confident that our technology is a robust offering for parts producers and will add value to end users.

In 2012 Group capital expenditure was £3.68m (2011: £2.74m), the majority of which was at our Croydon site in relation to our Azote® polyolefin foams business. During the year a new foam expansion autoclave became operational and we purchased a new polyolefin extruder which will be commissioned in mid 2013. We also obtained planning permission to extend one of our factory buildings. The planning approval process for this factory extension took longer than anticipated, delaying most of the expenditure on this project to 2013 and we therefore expect a higher level of capital expenditure in 2013 than in 2012. This investment will give us the building capacity to meet future growth expectations, including the ability to support our plans for foam expansion production capacity in Asia.

Strategy and objectives

Zotefoams' strategy is to expand through a combination of profitable organic growth of our Polyolefin and HPP foams businesses, new customers for our MuCell Extrusion technology licensing business, and through partnerships or acquisitions in related technologies, products or markets. In 2012 we had a record sales year and grew operating profit by 8% while continuing to invest in areas that we believe will further increase the long term future prospects of our business. Our specifically stated objectives are:

- Sales growth in our polyolefin business to exceed twice the average rate of GDP growth
- Develop a HPP portfolio to deliver enhanced margins
- Improve our operating margins
- Improve our return on capital employed

Performance against these objectives was as follows:

- Sales of polyolefin foams grew by 8% in constant currency
- HPP sales grew by 51%
- Group operating margins increased to 12.8% (2011: 12.6%)
- Pre-tax return on average capital employed, excluding intangible assets and their amortisation costs, increased to 20.8% (2011: 19.5%)

In 2013 we intend to focus on the same four key objectives in our business, although return on capital employed will be impacted by the high levels of capital expenditure planned.

Financial Results

Turnover increased by 7%, from £44.21m in 2011 to £47.19m. Gross margins increased to 29.0% (2011: 28.5%) primarily due to the operational gearing benefit of the higher sales and cost reductions, which more than offset higher energy prices and the effect of a weaker euro. The average euro/sterling exchange rate moved from €1.15 in 2011 to €1.23 in 2012. Not only did this impact gross profit but within administrative expenses we recorded a £0.36m loss (2011: £0.05m profit) on the translation of foreign currency balances net of profits on forward exchange hedges. Excluding this distribution and administrative expenses increased by 3% from £7.05m to £7.28m. Profit before tax increased by 8%, from £5.47m to £5.93m.

The effective tax charge is 20% (2011: 17%), which is less than the UK corporation tax rate for the period of 24.5%. This is due to a lower tax charge incurred in our USA operations where we have brought forward tax losses (£0.08m), lower future UK corporation tax rates reducing future deferred tax liabilities by £0.09m and a favourable £0.09m adjustment to the tax charge in respect of prior periods.

Earnings Per Share and Dividend

Group basic earnings per share were 12.1p (2011: 11.8p). The Directors are recommending an increased final dividend of 3.5p per share, and, subject to shareholder approval, payable on 23 May 2013 to shareholders on the Company register at 26 April 2013. This would bring the total dividend to 5.2p per ordinary share for the year (2011: 4.9p).

Cash Flow and Funding

Operating profit increased to £6.03m from £5.59m in 2011 and earnings before interest, tax, depreciation and amortisation (EBITDA) grew to £9.34m (2011: £8.80m). Cash generated from operations was £6.29m (2011: £6.08m) with an increase in working capital reflecting the 2012 sales growth and a planned increase in inventory. Capital expenditure was £3.68m (2011: £2.74m). Tax payments of £0.99m (2011: £1.05m) and dividend payments of £1.96m (2011: £1.84m) were similar to last year while the £2.23m payment of the final installments of the MEL deferred consideration left a net debt of £0.62m at the end of the year compared to net funds of £1.92m at the end of 2011.

In December 2012 the Group took out a £3.50m mortgage, repayable over 5 years in equal quarterly installments. This is in addition to its £4.90m multi-currency overdraft facility and the £0.82m remaining at 31 December 2012 on a £3.30m mortgage taken out in 2009. Together with the cash generated by the business, this gives the Group the funding facilities to support its currently approved capital investment plans.

Pensions

There was a £2.23m increase in the gross IAS19 deficit on the Company's Defined Benefit Pension Scheme (the "Scheme") to £7.17m (2011: £4.94m). This was due to lower bond yields reducing the discount rate used to value the Scheme's liabilities and higher expectations of inflation increasing pre-retirement liabilities, which were only partially offset by the Company contributions to the Scheme and higher than expected investment growth.

At the April 2011 triennial actuarial valuation the Scheme's deficit, calculated on a Statutory Funding Objective basis, was £1.17m. As a result of this the Company has agreed with the Trustees to make contributions to the Scheme of £42,000 per month until 30 September 2013 to eliminate the deficit calculated in April 2011 and in addition paying the ongoing Scheme expenses at £13,000 per month. This will be reviewed following the next triennial actuarial valuation which is scheduled for April 2014.

David Stirling
Managing Director

Clifford Hurst
Finance Director

4 March 2013

Responsibility statement of the directors in respect of the annual financial report
The directors are responsible for preparing the financial statements in accordance with applicable law, regulations and accounting standards. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Each of the directors confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report – Business Review contained in the annual financial report, from which this narrative is extracted, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2012

	Note	**2012 £000**	2011 £000
Revenue	2	**47,188**	44,208
Cost of sales		**(33,521)**	(31,624)
Gross profit		**13,667**	12,584
Distribution costs		**(3,308)**	(3,114)
Administrative expenses		**(4,329)**	(3,880)
Operating profit		**6,030**	5,590
Financial income	3	**1,029**	1,135
Finance costs	3	**(1,133)**	(1,260)
Profit before tax		**5,926**	5,465
Taxation	4	**(1,198)**	(911)
Profit for the year		**4,728**	4,554
Attributable to:			
Equity holders of the parent		**4,728**	4,497
Non-controlling interest		**-**	57
		4,728	4,554
Earnings per share			
Basic (p)	5	**12.1**	11.8
Diluted (p)	5	**11.9**	11.5

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

	2012 £000	2011 £000
Profit for the year	**4,728**	4,554
Other comprehensive income		
Foreign exchange translation differences on investment in foreign subsidiaries	**(445)**	(10)
Effective portion of changes in fair value of cash flow hedges net of recycling	**13**	18
Actuarial losses on defined benefit schemes	**(2,814)**	(1,705)
Effect of revaluation of defined benefit scheme under CPI	**-**	1,140
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling	**(4)**	(4)
Tax relating to actuarial losses on defined benefit schemes	**648**	426
Tax relating to effect of revaluation of defined benefit scheme under CPI	**-**	(285)
Other comprehensive expenditure for the period, net of tax	**(2,602)**	(420)
Total comprehensive income for the year	**2,126**	4,134
Attributable to:		
Equity holders of the Parent	**2,126**	4,018
Non-controlling interest	**-**	116
Total comprehensive income for the year	**2,126**	**4,134**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2012

	Note	**2012 £000**	2011 £000
Non-current assets			
Property, plant and equipment		**25,869**	25,433
Intangible assets		**5,248**	5,729
Deferred tax assets		**460**	490
Total non-current assets		**31,577**	31,652
Current assets			
Inventories		**6,640**	5,927
Trade and other receivables		**11,612**	10,533
Cash and cash equivalents		**3,698**	3,403
Total current assets		**21,950**	19,863
Total assets		**53,527**	51,515
Current liabilities			
Interest-bearing loans and borrowings		**(1,360)**	(660)
Tax payable		**(801)**	(787)
Trade and other payables		**(4,921)**	(7,887)
Total current liabilities		**(7,082)**	(9,334)
Non-current liabilities			
Interest-bearing loans and borrowings		**(2,962)**	(820)
Employee benefits	6	**(7,172)**	(4,944)
Deferred tax liabilities		**(621)**	(1,165)
Total non-current liabilities		**(10,755)**	(6,929)
Total liabilities		**(17,837)**	(16,263)
Total net assets		**35,690**	35,252
Equity			
Issued share capital		**1,992**	1,992
Own shares held		**(36)**	(58)
Share premium		**16,090**	16,090
Capital redemption reserve		**15**	15
Translation reserve		**345**	790
Hedging reserve		**(38)**	(51)
Retained earnings		**17,322**	16,474
Total equity attributable to the equity holders of the Parent		**35,690**	35,252
Non-controlling interest		**-**	-
Total equity		**35,690**	35,252

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2012

	2012	2011
	£000	£000
Cash flows from operating activities		
Profit for the year	**4,728**	4,554
Adjustments for:		
Depreciation, amortisation and impairment	**3,312**	3,213
Financial income	**(1,029)**	(1,135)
Finance costs	**1,133**	1,260
Equity-settled share-based payments	**161**	125
Taxation	**1,198**	911
Operating profit before changes in working capital and provisions	**9,503**	8,928
Increase in trade and other receivables	**(1,165)**	(1,040)
Increase in inventories	**(746)**	(1,778)
(Decrease)/increase in trade and other payables	**(644)**	634
Employee benefit contributions	**(660)**	(660)
Cash generated from operations	**6,288**	6,084
Interest paid	**(38)**	(52)
Tax paid	**(992)**	(1,053)
Net cash from operating activities	**5,258**	4,979
Interest received	**2**	5
Acquisition of MuCell	**(2,231)**	(2,179)
Acquisition of intangible assets	**(63)**	(311)
Acquisition of property, plant and equipment	**(3,683)**	(2,744)
Net cash used in investing activities	**(5,975)**	(5,229)
Proceeds from issue of share capital	**46**	2,376
Repurchase of own shares	**—**	(114)
Repayment of borrowings	**(660)**	(660)
New loans taken out	**3,500**	—
Distribution by subsidiary to non-controlling interest	**—**	(25)
Dividends paid	**(1,956)**	(1,835)
Net cash generated/(used) in financing activities	**930**	(258)
Net increase/(decrease) in cash and cash equivalents	**213**	(508)
Cash and cash equivalents at 1 January	**3,403**	4,005
Effect of exchange rate fluctuations on cash held	**82**	(94)
Cash and cash equivalents at 31 December	**3,698**	3,403

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Share capital £000	Own shares held £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Hedging reserve £000	Retained earnings £000	Attributable to owners of the Parent £000	Non-controlling interest £000	Total Equity £000
Balance at 1 January 2011	1,915	(69)	13,941	15	859	(69)	14,155	30,747	4,267	35,014
Profit for year	—	—	—	—	—	—	4,497	4,497	57	4,554
Other comprehensive income:										
Foreign exchange translation differences on investment in foreign subsidiaries	—	—	—	—	(69)	—	—	(69)	59	(10)
Effective portion of changes in fair value of cash flow hedges net of recycling	—	—	—	—	—	18	—	18	—	18
Actuarial losses on defined benefit scheme	—	—	—	—	—	—	(1,705)	(1,705)	—	(1,705)
Effect of revaluation of defined benefit scheme under CPI	—	—	—	—	—	—	1,140	1,140	—	1,140
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling	—	—	—	—	—	—	(4)	(4)	—	(4)
Tax relating to actuarial losses on defined benefit scheme	—	—	—	—	—	—	426	426	—	426
Tax relating to effect of revaluation of defined benefit scheme under CPI	—	—	—	—	—	—	(285)	(285)	—	(285)
Total other comprehensive (expenditure)/ income	—	—	—	—	(69)	18	(428)	(479)	59	(420)
Total comprehensive (expenditure)/ income for the year	—	—	—	—	(69)	18	4,069	4,018	116	4,134
Transactions with owners of the Parent:										
Shares issued/options exercised	77	15	2,149	—	—	—	135	2,376	—	2,376
Shares acquired	—	(4)	—	—	—	—	(110)	(114)	—	(114)
Equity-settled share-based payment transactions net of tax	—	—	—	—	—	—	60	60	—	60
Acquisition of non-controlling interest	—	—	—	—	—	—	—	—	(4,358)	(4,358)

Dividends	—	—	—	—	—	—	(1,835)	(1,835)	(25)	(1,860)
Total transactions with owners of the Parent	77	11	2,149	—	—	—	(1,750)	487	(4,383)	(3,896)
Balance at 31 December 2011 and 1 January 2012	1,992	(58)	16,090	15	790	(51)	16,474	35,252	—	35,252
Profit for year	—	—	—	—	—	—	4,728	4,728	—	4,728
Other comprehensive income:										
Foreign exchange translation differences on investment in foreign subsidiaries	—	—	—	—	(445)	—	—	(445)	—	(445)
Effective portion of changes in fair value of cash flow hedges net of recycling	—	—	—	—	—	13	—	13	—	13
Actuarial losses on defined benefit scheme	—	—	—	—	—	—	(2,814)	(2,814)	—	(2,814)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling	—	—	—	—	—	—	(4)	(4)	—	(4)
Tax relating to actuarial losses on defined benefit scheme	—	—	—	—	—	—	648	648	—	648
Total other comprehensive (expenditure)/ income	—	—	—	—	(445)	13	(2,170)	(2,602)	—	(2,602)
Total comprehensive (expenditure)/ income for the year	**—**	**—**	**—**	**—**	**(445)**	**13**	**2,558**	**2,126**	—	**2,126**
Transactions with owners of the Parent:										
Shares issued/options exercised	—	22	—	—	—	—	24	46	—	46
Equity-settled share-based payment transactions net of tax	—	—	—	—	—	—	222	222	—	222
Dividends	—	—	—	—	—	—	(1,956)	(1,956)	—	(1,956)
Total transactions with owners of the Parent	**—**	**22**	**—**	**—**	**—**	**—**	**(1,710)**	**(1,688)**	**—**	**(1,688)**
Balance at 31 December 2012	**1,992**	**(36)**	**16,090**	**15**	**345**	**(38)**	**17,322**	**35,690**	**—**	**35,690**

1. Accounting policies

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

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS").

The financial information does not constitute the Company's statutory accounts for the year ended 31 December 2012 or 2011 but is derived from those accounts. Statutory accounts for 2011 have been delivered to the Registrar of Companies, and those for 2012 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under Section 498 (2) of the Companies Act 2006.

2. Segment reporting

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

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

There are no transactions between reportable segments apart from the sale of minor equipment and a $50,000 licence fee from MEL to microZOTE®, within our polyolefin segment.

We have reclassified microZOTE® closed-cell roll foams made from polyolefin resins from our HPP segment to our Polyolefins segment. This reflects management reporting lines with polyolefin microZOTE® products now being managed by our Polyolefin management team. The segment results for microZOTE® are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
	£000	£000
Revenue	55	33
Depreciation	(148)	(141)
Segment loss	(477)	(532)

	Polyolefins		HPP		MEL		Eliminations		Consolidated	
	2012 £000	2011 Restated £000	**2012 £000**	2011 Restated £000	**2012 £000**	2011 £000	**2012 £000**	2011 £000	**2012 £000**	2011 £000
Revenue	**42,295**	40,531	**3,595**	2,380	**1,330**	1,329	**(32)**	(32)	**47,188**	44,208
Segment profit/(loss)	**6,434**	5,682	**(82)**	(175)	**(322)**	143	**—**	—	**6,030**	5,650
Acquisition costs	**—**	—	**—**	—	**—**	—	**—**	—	**—**	(60)
Operating profit	**—**	—	**—**	—	**—**	—	**—**	—	**6,030**	5,590
Net financing costs	**—**	—	**—**	—	**—**	—	**—**	—	**(104)**	(125)
Taxation	**—**	—	**—**	—	**—**	—	**—**	—	**(1,198)**	(911)
Profit for the year	**—**	—	**—**	—	**—**	—	**—**	—	**4,728**	4,554
Segment assets	**41,465**	40,927	**5,398**	3,496	**6,204**	6,602	**—**	—	**53,067**	51,025
Unallocated assets	**—**	—	**—**	—	**—**	—	**—**	—	**460**	490
Total assets									**53,527**	51,515
Segment liabilities	**(16,017)**	(11,302)	**(194)**	(581)	**(204)**	(2,428)	**—**	—	**(16,415)**	(14,311)
Unallocated liabilities	**—**	—	**—**	—	**—**	—	**—**	—	**(1,422)**	(1,952)
Total liabilities									**(17,837)**	(16,263)
Depreciation	**2,833**	2,796	**146**	115	**33**	26	**—**	—	**3,012**	2,937
Amortisation	**—**	—	**—**	—	**300**	276	**—**	—	**300**	276
Capital expenditure:										
Tangible fixed assets	**3,522**	2,527	**158**	101	**3**	116	**—**	—	**3,683**	2,744
Intangible fixed assets	**—**	—	**—**	—	**63**	311	**—**	—	**63**	311

Unallocated assets and liabilities are made up of corporation tax and deferred tax assets and liabilities.

Geographical segments

Polyolefins, HPP and MEL are managed on a worldwide basis but operate from UK and US 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 £000	Europe £000	North America £000	Rest of the world £000	Total £000
For the year ended 31 December 2012					
Revenue from external customers	**9,949**	**21,063**	**12,877**	**3,299**	**47,188**
Non-current assets	**22,227**	**—**	**8,890**	**—**	**31,117**
Capital expenditure	**3,656**	**—**	**27**	**—**	**3,683**
For the year ended 31 December 2011					
Revenue from external customers	9,185	21,288	10,886	2,849	44,208
Non-current assets	21,098	—	10,064	—	31,162
Capital expenditure	2,492	—	252	—	2,744

Non-current assets do not include financial instruments, deferred tax assets or post-employment assets.

Major customer

Revenues from one customer of the Group represents approximately £6,522k (2011: £5,843k) of the Group's total revenues.

3. Finance income and costs

Financial income

	2012 £000	2011 £000
Interest on bank deposits	**3**	5
Expected return on assets of defined benefit pension fund	**1,026**	1,130
	1,029	1,135

Finance costs

	2012 £000	2011 £000
On bank loans and overdrafts	**33**	50
Interest on defined benefit pension obligation	**1,100**	1,210
	1,133	1,260

4. Taxation

	2012 £000	2011 £000
UK corporation tax	**1,112**	1,153
Overseas taxation	**(13)**	37
Adjustment to prior year UK tax charge	**(92)**	(59)
Current taxation	**1,007**	1,131
Deferred taxation	**191**	(220)
Total tax charge	**1,198**	911

Factors affecting the tax charge

The tax charge for the year is lower (2011: lower) than the standard rate of corporation tax in the UK of 24.5 % (2011: 26.5%). The differences are explained below:

	2012 £000	2011 £000
Tax reconciliation		
Profit before tax	**5,926**	5,465
Tax at 24.5% (2011: 26.5%)	**1,452**	1,448
Effects of:		
Research and development tax credits and other allowances less expenses not deductible for tax purposes	**13**	(155)
Overseas earnings and effect of US tax losses	**(81)**	(225)
Change in deferred tax rate to 23%	**(94)**	(98)
Adjustments to UK corporation tax charge in respect of previous periods	**(92)**	(59)
Total tax charge	**1,198**	911

5. Dividends and earnings per share

	2012 £000	2011 £000
Final dividend prior year of 3.30p (2010: 3.15p) net per 5.0p ordinary share	**1,291**	1,216
Interim dividend of 1.7p (2011: 1.6p) net per 5.0p ordinary share	**665**	619
Dividends paid during the year	**1,956**	1,835

The proposed final dividend for the year ended 31 December 2012 of 3.50p per share (2011: 3.30p) is subject to approval by shareholders at the AGM and has not been recognised as a liability in these financial statements. The proposed dividend would amount to £1,394,000 if paid to all the shares in issue.

Earnings per ordinary share

Earnings per ordinary share is calculated by dividing profit after tax attributable to equity holders of the Parent Company of £4,728,000 (2011: £4,497,000) by the weighted average number of shares in issue during the year excluding own shares held by employee trusts which are administered by independent trustees. The number of shares held in the trust at 31 December 2012 was 719,262 (2011: 1,160,954). 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.

	2012	2011
Average number of ordinary shares issued	**38,988,658**	38,231,656
Deemed issued for no consideration	**678,911**	898,078
Diluted number of ordinary shares issued	**39,667,569**	39,129,734

6. Employee benefits

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

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

Contributions to the plan for the year from the Company were £55,000 per month, a rate agreed with the Company and the Trustees following the triennial review in April 2008 to apply from January 2009 until June 2016. During the year and following the 2011 triennial annual review the Company agreed with the Trustees to continue these contributions at £55,000 per month to September 2013 after which they will fall to £13,000 per month. These contribution rates are scheduled to be reviewed again after the results of the next triennial review.

The Company has opted to recognise all actuarial gains and losses immediately in Other Comprehensive Income. An actuarial valuation of the scheme was carried out as at 5 April 2011 and the results have been updated to 31 December 2012 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010
Discount rate	**4.30%**	4.90%	5.30%
Expected return on plan assets	**5.33%**	5.75%	6.21%
Rate of salary increase	**n/a**	n/a	n/a
Rate of increase to pensions in payment	**3.60%**	3.60%	3.70%
Rate of inflation	**2.40%**	2.00%	3.20%
Mortality assumption	**S1PA CMI**	S1PA CMI	PCA00 MC
Life expectancy from age 65 of current male pensioners	**22.0 years**	21.9 years	21.7 years
Commutation assumption	**75% of members take maximum cash**	75% of members take maximum cash	75% of members take maximum cash

The mortality tables used above are those published by the Institute and Faculty of Actuaries, with allowance for improvements in member longevity in line with the "CMI model" with a long term improvement rate of 1.0% per annum. These rates suggest that a man aged 65 retiring at 31 December 2012 could expect to live,

on average, until age 87. A 5% change in this life expectancy would increase the IAS19 liability by approximately £0.9m (£0.7m after deferred tax), all other things being equal.

The overall expected return on assets assumption of 5.33% as at 31 December 2012 has been derived by calculating the weighted average of the expected rate of return for each asset class. The following approach has been used to determine the expected rate of return for each asset class:

- Equities - allowance for an additional return of 4.50% above that available on UK government securities
- Fixed interest securities – current market yields
- Cash - based on the Bank of England base rate

	Year ended 31 December 2012		Year ended 31 December 2011		Year ended 31 December 2010	
Present value of scheme assets:	**Long Term rate of return expected**	**Market value £000**	Long term rate of return expected	Market Value £000	Long term rate or return expected	Market value £000
Equities	**6.8%**	**12,497**	7.0%	12,345	7.3%	13,624
Bonds	**3.2%**	**5,254**	3.6%	3,989	4.0%	3,262
Other	**0.5%**	**1,412**	0.5%	1,301	0.5%	1,198
Insured pensioners		**192**		179		172
		19,355		17,814		18,256

Present value of defined obligation:		
Funded plans	**26,527**	22,758
Total	**26,527**	22,758
Deficit in the scheme	**(7,172)**	(4,944)
Related deferred tax asset	**1,650**	1,236
Net pension liability	**(5,522)**	(3,708)
Reconciliation of opening and closing balances of the present value of the defined benefit obligation:		
Benefit obligation at beginning of year	**22,758**	23,215
Interest cost	**1,100**	1,210
Actuarial losses/(gains)	**3,274**	(891)
Benefits and expenses paid	**(605)**	(776)
Benefit obligation at end of year	**26,527**	22,758
Reconciliation of opening and closing balances of the fair value of plan assets:		
Fair value of plan assets at beginning of year	**17,814**	18,256
Expected return on plan assets	**1,026**	1,130
Actuarial gains/(losses)	**460**	(1,456)
Contributions by employer	**660**	660
Benefits and expenses paid	**(605)**	(776)
Fair value of plan assets at end of year	**19,355**	17,814
The amounts recognised in the Income Statement are:		
Interest on obligation	**1,100**	1,210
Expected return on plan assets	**(1,026)**	(1,130)
Total expense	**74**	80

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

	Group and Company	
	2011	2011
	£000	£000
Financial income	**(1,026)**	(1,130)
Finance costs	**1,100**	1,210
	74	80

Actuarial (losses)/gains shown in Other Comprehensive Income since 1 January 2008:

	2012	2011	2010	2009	2008
	£000	£000	£000	£000	£000
Balance as at 1 January	**(2,824)**	(2,259)	(2,567)	131	1,789
Actuarial (losses)/gains	**(2,814)**	(1,705)	308	(2,698)	(1,658)
Effect of revaluation of defined benefit scheme under CPI	**—**	1,140	—	—	—
Balance as at 31 December	**(5,638)**	(2,824)	(2,259)	(2,567)	131

History of scheme assets, obligations and experience adjustments

	As at 31 December 2012 £000	As at 31 December 2011 £000	As at 31 December 2010 £000	As at 31 December 2009 £000	As at 31 December 2008 £000
Present value of defined benefit obligation	**26,527**	22,758	23,215	22,211	17,396
Fair value of scheme assets	**19,355**	17,814	18,256	16,428	13,869
Deficit in the scheme	**(7,172)**	(4,944)	(4,959)	(5,783)	(3,527)
Experience adjustments arising on scheme liabilities	**(43)**	739	(30)	(650)	518
Experience item as a percentage of scheme liabilities	**0%**	(3)%	0%	3%	(3)%
Experience adjustments arising due to change in valuation basis	**(3,231)**	152	(499)	(3,888)	2,234
Experience adjustments arising on scheme assets	**460**	(1,456)	837	1,840	(4,410)
Experience item as a percentage of scheme assets	**2%**	(8)%	5%	11%	(32)%

Other pension schemes

On 1 January 2006 a separate stakeholder scheme was set up for those employees who were originally in the closed defined benefit pension scheme. The contributions paid by the Company in 2012 were £440,000 (2011: £447,000).

In addition to this scheme, the Company operates a stakeholder scheme which is open to employees who joined after 1 October 2001. The contributions paid by the Company in 2012 were £144,000 (2011: £108,000).

For certain non UK based employees of the Company, the Company makes contributions into individual schemes. The contributions paid by the Company in 2012 were £9,000.

For US based employees, Zotefoams Inc. operates a 401(k) plan. The contributions paid by Zotefoams Inc. in 2012 were £48,000 (2011: £46,000).