Tuesday 6 August 2013

Zotefoams plc

Interim Results for the Six Months Ended 30 June 2013

Zotefoams plc ("Zotefoams", or "the Group" or "the Company"), a world leader in cellular material technology, today announces its interim results for the six months ended 30 June 2013.

Highlights

- Group revenue down 6% to £23.22 million (2012: £24.81m)
- Polyolefin sales down 9% reflecting destocking and lower European demand from customers
- High-Performance Polymers ('HPP') sales up 15% to £1.97m (2012: £1.72m)
- MuCell Extrusion LLC ('MEL'), our technology licensing business, increased revenue by 22%
- Group profit before tax down 28% to £2.52 million (2012: £3.51m[1])
- Interim dividend maintained at 1.7 pence per share (2012: 1.7 pence)
- Asian Joint Venture agreed on 11 July 2013

Commenting on the results, Nigel Howard, Chairman said:

"As previously announced, our Azote® polyolefin foams business in the first half of 2013 has seen lower levels of demand particularly in continental Europe and customer inventory holding decrease due to our shorter lead times. I am especially pleased with our recent agreement to establish a joint venture with INOAC Corporation of Japan which we expect to drive growth in Asia in the medium term. HPP foams are showing good growth prospects from specified business and also from very high levels of enquiries and trials in a variety of industrial and consumer applications. MEL continues to make strong progress in our key focus markets. While being mindful of economic uncertainty, particularly in continental Europe and somewhat reduced visibility due to our improved order lead times, we expect higher sales in the second half and an overall performance for the full year that will be similar to last year. We remain confident in the long term prospects for the business."

[1] Restated following adoption of revised IAS 19 Employee Benefits standard

Enquiries:

Zotefoams plc	**Tel Today: 0207-831-3113**
David Stirling, Managing Director	Thereafter: **0208-664-1600**
Clifford Hurst, Finance Director	
FTI Consulting	**0207-831-3113**
John Dineen / Victoria Foster Mitchell	

Chairman’s statement

In the first six months of 2013 Zotefoams delivered a profit before tax of £2.52 million (2012: £3.51 million). Basic earnings per share are 5.1 pence (2012: 7.2 pence). The Directors have decided to maintain the interim dividend at 1.7 pence per share (2012: 1.7 pence) reflecting the Board’s continued confidence in the Company’s future.

Financial and operational review

Polyolefin Foams

With our investment in production capacity for Azote® polyolefin foams we have been better able to serve our customers by reducing order lead times. This improvement in customer service has led to destocking that has been particularly evident in Germany and Japan. Together with a lower underlying level of demand from continental Europe this has resulted in a decline of 12% in polyolefin foam sales volumes. In the six months to 30 June 2013 sales of polyolefin foams, with more favourable currency rates, declined by 9% to £20.33 million compared to our record sales of £22.34 million in the first half of 2012. The cost of our main raw material, low density polyethylene (‘LDPE’) was approximately 0.31 million euros higher in the first six months of 2013 than in the same period in 2012. Price adjustments to our polyolefin foams were implemented during the second quarter of 2013 and therefore did not materially recover cost increases in LDPE and energy in the period. With high fixed-costs, production efficiencies were adversely impacted by the lower volumes manufactured and operating profit in polyolefin foams in the first half of 2013 was £2.68m (2012: £3.60m). During the period we reassessed our product portfolio and have recently launched additional sizes and grades of foam targeted at areas of the market where our participation is relatively lower. In addition, accelerating the trend of recent years, we have focused resources more on end-market and end-user development, usually in combination with our channel partners who will cut and form our foams to user requirements.

Asian Joint Venture

On July 11, 2013 Zotefoams signed an agreement with INOAC Corporation of Japan to establish sales and manufacturing joint venture companies in Hong Kong and South Korea respectively, in order to deliver growth of our Azote® foams in the Asian market. We are already seeing signs of increased activity from INOAC and their channel partners and planned shipments for the third quarter of 2013 are at a record level for the territories covered by this agreement.

High-Performance Polymers (‘HPP’) foams

Our strategy is to exploit our unique manufacturing process in the development of HPP foams. We are very pleased to report that sales of our HPP products consolidated the very strong growth from 2012 and grew an additional 15% to £1.97 million (2012 : £1.72 million) delivering an operating profit of £0.12 million (2012 : £0.01 million). Our fire-retardant ZOTEK® F fluoropolymer foams, sold mainly into the aviation market, account for the majority of sales and growth experienced in the period with North America currently the largest market for these products. We are making good progress in markets outside North America, particularly in Europe, with much higher levels of interest in ZOTEK® F foams than previously experienced. T-Tubes®, our advanced insulation products for clean rooms, were sold to 17 different countries during the six months to 30 June 2013 and we are considering product range extensions to capitalise on the strong representation we have in this speciality insulation segment. Our ZOTEK® N nylon foams, designed for high-temperature performance, are selling in small quantities but are under evaluation in a wide range of industrial applications which have the potential to require significant quantities of the product in the longer term. Pebaxfoam®, which is known for its excellent energy-return properties, is currently used in a small number of sports applications and we continue our focus on this area while investigating the value of its unique properties for medical and certain industrial markets.

MuCell Extrusion LLC (‘MEL’)

MEL licenses microcellular foam technology and sells related machinery. Sales grew by 22% to £0.92 million (2012: £0.75 million), primarily due to increased sales of equipment, mainly in the sheet and film market segments. Despite good underlying progress in the business, licence fee and royalty income declined by 15% in the period as one of our larger licensees had made a final contractual payment in October 2012 under their agreement and therefore had no payment due in 2013 corresponding to their payment in the first half of 2012. Aside from this, total US dollar income grew 41% in the period. Since fully acquiring MEL in March 2011 we have shifted the focus of the business to the extruded sheet, film and bottle markets which are mainly consumer packaging related. These form a larger and more homogeneous addressable market with better potential for growth than the licensees for more niche industrial applications that we inherited when we took control of the business. Investment in staff and intellectual property continues and during 2013 MEL completed development of a milestone 1000 bar gas injector unit which will mainly be used for highly technical extrusion blow moulding of bottles. With the continued investment and change in the sales mix MEL made an operating profit before amortisation costs of £0.05 million in the period (2012: £0.17 million).

Changes in Accounting Policy

In the current financial year, Zotefoams adopted IAS 19 (revised) 'Employee benefits' and IFRS 13 'Fair value measurement'. For the six months ended 30 June 2012 the restated pre-tax profit is £0.08 million lower. Further details of these changes in accounting policy are set out in Note 3: Accounting Policies.

Tax and Cash Flow

Zotefoams' estimated effective tax rate for the period was 21% (2012: 21%) which is below the UK corporation tax rate for 2013 of 23.3%, mainly due to the benefit of brought forward tax losses in North America, UK research & development tax credits and other allowances. Operating profit before changes in working capital and provisions was £4.65 million (2012: £5.36 million). Cash generated from operations was £3.34 million (2012: £4.24 million) after an increase in working capital of £0.98 million reflecting inventory increases to support the growth in the HPP and MEL businesses, the weaker pound and timing of payables. Tax paid was £0.54 million, leaving net cash from operating activities of £2.79 million (2012: £3.71 million). Net debt (cash less overdrafts and other bank borrowings) increased by £0.15 million from £0.62 million at 31 December 2012 to £0.78 million at 30 June 2013. In June 2012 we had net funds of £1.82 million although this was reduced immediately after the period end by the payment of the final £0.96 million deferred consideration on the purchase of MEL.

Capital Expenditure

Capital expenditure for the six months ended 30 June 2013 was £1.54 million (2012: £1.30 million). The majority of this is to increase capacity and flexibility in our Azote® polyolefin business in Croydon which includes investments being made in an additional extruder and the services that support our high-pressure impregnation process. We are extending one of our factory buildings in Croydon with physical construction scheduled to start in the third quarter of 2013 and because of the timing of this and other projects the level of capital expenditure is expected to be higher in the second six months of this year than in the first half.

Pensions

Following the April 2011 triennial actuarial review of the Zotefoams Defined Benefit Pension Scheme (the 'Scheme') the Company agreed with the Trustees of the Scheme to continue its current level of contributions into the Scheme of £55,000 per month until 30 September 2013 when, under the assumptions of the 2011 actuarial review, the deficit was expected to be eliminated. However, principally due to lower bond yields, this is not now expected to be the case and the Company has agreed to continue these contributions at £55,000 per month (previously after 30 September 2013 they would have reduced to £13,000 per month to cover the Scheme's expenses) until September 2014 when the results of the April 2014 actuarial review are expected to be available. The Company closed the Scheme to new members in 2001 and future accrual of benefit in 2005.

Employees

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

Dividend

Reflecting the Board's continued confidence in the Company's future, the Directors have maintained the interim dividend at 1.7 pence per share (2012: 1.7 pence). The dividend will be paid on 10 October 2013 to shareholders on the Company's register at the close of business on 13 September 2013.

Risks and uncertainties

Zotefoams' business and share price may be affected by a number of risks, not all of which are within our control. The process Zotefoams has in place for identifying, assessing and managing risks is set out in the Company statement of Principal Risks and Uncertainties on pages 16-17 of the 2012 Annual Report and Accounts. The specific principal risks (which could impact Zotefoams' sales, profits and reputation) and relevant mitigating factors, as currently identified by Zotefoams' risk management process, have not changed significantly since the publication of the last Annual Report and detailed explanations of these can be found on pages 16-17 of the 2012 Annual Report and Accounts. Broadly, these risks include operational disruption, supply chain disruption, technological change and competitor activity, pension liabilities, foreign exchange, macro-economic factors and financing.

Outlook

In our Azote® polyolefin foams business the first half of 2013 saw customers reduce their inventory holding, adjusting to our shorter lead times. These lead time improvements have also resulted in a shortening of our order book resulting in less certainty in the outlook for the year in polyolefin foams. We expect our joint venture to drive growth in Asia in the medium term, although the costs associated with the initial set-up will have a slightly negative effect on profit in 2013. Foreign exchange rates are currently favourable to those in the same period in 2012, although this benefit is partially offset by our hedging policy. The price of LDPE has been relatively stable in the past seven months and current prices are similar to those experienced in this year to date.

The HPP business is showing good growth prospects from specified areas and also from very high levels of enquiries and trials in a variety of industrial and consumer applications. MEL continues to make strong progress in our key focus markets, particularly related to consumer packaging, and the positive trend seen in the first half is expected to accelerate strongly for the balance of this year.

We enter the second half of 2013 with a strong balance sheet and a portfolio of products supported by the investments made in recent years. As a result we continue to maintain a consistency of strategy and approach. While being mindful of economic uncertainty, particularly in continental Europe, and somewhat reduced visibility due to our improved order lead times, we expect higher sales in the second half and an overall performance for the full year that will be similar to last year. We remain confident in the long term prospects for the business.

N G Howard
Chairman
5 August 2013

ZOTEK®, Azote® and microZOTE® are registered trademarks of Zotefoams plc. T-Tubes® is a registered trademark of UFP Technologies Inc. Pebax® and Pebaxfoam® are registered trademarks of Arkema.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- an indication of important events that have occurred during the first six months and their impact on the condensed set of consolidated interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Zotefoams plc are listed in the Zotefoams plc Annual Report for 31 December 2012. A list of current directors is maintained on the Zotefoams plc website: www.zotefoams.com

By order of the Board:

N G Howard	C G Hurst
Chairman 5 August 2013	Finance Director 5 August 2013

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Note	Six months ended 30 June 2013 (unaudited) £000	Six months ended 30 June 2012 restated * (unaudited) £000	Year ended 31 December 2012 restated * (audited) £000
Revenue	6	23,218	24,808	47,188
Cost of sales		(16,996)	(16,974)	(33,521)
Gross profit		6,222	7,834	13,667
Distribution costs		(1,814)	(1,695)	(3,308)
Administrative expenses		(1,729)	(2,487)	(4,329)
Operating profit	6	2,679	3,652	6,030
Finance income		4	1	3
Finance costs		(165)	(141)	(258)
Profit before tax		2,518	3,512	5,775
Taxation	7	(527)	(730)	(1,162)
Profit for the period		1,991	2,782	4,613
Attributable to:				
Equity holders of the parent		1,991	2,782	4,613
Non-controlling interest		-	-	-
Total		1,991	2,782	4,613
Earnings per share				
Basic (p)	9	5.1	7.2	11.8
Diluted(p)	9	5.0	7.0	11.6

* restated following the adoption of revised IAS 19 Employee Benefits standard

All of the activities of the Group are continuing.

The notes below form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Six months ended 30 June 2013 (unaudited) £000	Six months ended 30 June 2012 restated * (unaudited) £000	Year ended 31 December 2012 restated * (audited) £000
Profit for the period	1,991	2,782	4,613
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss			
Foreign exchange translation gains/(losses) on investment in foreign subsidiaries	657	55	(445)
Actuarial losses on defined benefit schemes	-	-	(2,814)
IAS19 adjustments to defined benefit pension scheme	-	75	151
Tax relating to items that will not be reclassifed	-	(18)	612
Total items that will not be reclassified to profit or less	657	112	(2,496)
Items that may be classified subsequently to profit or loss			
Effective portion of changes in fair value of cash flow hedges net of recycling	(281)	64	13
Tax relating to items that may be reclassified	65	(15)	(4)
Total items that may be classified subsequently to profit or less	(216)	49	9
Other comprehensive income/(expense) for the period, net of tax	441	161	(2,487)
Total comprehensive income for the period	2,432	2,943	2,126
Attributable to equity holders of the parent	2,432	2,943	2,126
Attributable to non-controlling interest	-	-	-
Total comprehensive income for the period	2,432	2,943	2,126

* restated following the adoption of revised IAS 19 Employee Benefits standard

All amounts relate to continuing operations.

The notes below form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

	30 June 2013 (unaudited) £000	30 June 2012 (unaudited) £000	31 December 2012 (audited) £000
Non-current assets			
Property, plant and equipment	26,133	25,212	25,869
Intangible assets	5,446	5,597	5,248
Deferred tax assets	460	495	460
Total non-current assets	32,039	31,304	31,577
Current assets			
Inventories	7,207	6,431	6,640
Trade and other receivables	11,645	11,429	11,612
Cash and cash equivalents	2,968	2,972	3,698
Total current assets	21,820	20,832	21,950
Total assets	53,859	52,136	53,527
Current Liabilities			
Interest-bearing loans and borrowings	(1,186)	(660)	(1,360)
Tax payable	(733)	(927)	(801)
Trade and other payables	(4,771)	(7,113)	(4,921)
Total current liabilities	(6,690)	(8,700)	(7,082)
Non-current liabilities			
Interest-bearing loans and borrowings	(2,559)	(491)	(2,962)
Employee benefits	(6,996)	(4,660)	(7,172)
Deferred tax liabilities	(657)	(1,278)	(621)
Total non-current liabilities	(10,212)	(6,429)	(10,755)
Total liabilities	(16,902)	(15,129)	(17,837)
Total net assets	36,957	37,007	35,690
Equity			
Issued shared capital	1,992	1,992	1,992
Own shares held	(23)	(36)	(36)
Share premium	16,090	16,090	16,090
Capital redemption reserve	15	15	15
Translation reserve	1,002	845	345
Hedging reserve	(319)	13	(38)
Retained earnings	18,200	18,088	17,322
Total equity attributable to the equity holders of the Parent	36,957	37,007	35,690

The notes below form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Six months ended 30 June 2013 (unaudited) £000	Six months ended 30 June 2012 restated * (unaudited) £000	Year ended 31 December 2012 restated * (audited) £000
Cash flows from operating activities:			
Profit for the period	1,991	2,782	4,613
Adjustments for:			
Depreciation, amortisation and impairment	1,753	1,618	3,312
Finance income	(4)	(1)	(3)
Finance costs	165	141	258
Equity-settled share-based payments	216	86	161
Taxation	527	730	1,162
Operating profit before changes in working capital and provisions	4,648	5,356	9,503
Decrease/(increase) in trade and other receivables	106	(847)	(1,165)
Increase in inventories	(479)	(500)	(746)
(Decrease)/increase in trade and other payables	(606)	563	(644)
Employee benefit contributions	(330)	(330)	(660)
Cash generated from operations	3,339	4,242	6,288
Interest paid	(12)	(22)	(38)
Tax paid	(537)	(509)	(992)
Net cash from operating activities	2,790	3,711	5,258
Interest received	4	-	2
Acquisition of MuCell	-	(1,275)	(2,231)
Acquisition of MuCell patents	-	-	(63)
Acquisition of property, plant and equipment	(1,538)	(1,300)	(3,683)
Net cash used in investing activities	(1,534)	(2,575)	(5,975)
Proceeds from issue of share capital	110	46	46
Repurchase of own shares	(70)	-	-
Repayment of borrowings	(670)	(330)	(660)
New loans taken out	90	-	3,500
Dividends paid	(1,378)	(1,291)	(1,956)
Net cash (used)/generated in financing activities	(1,918)	(1,575)	930
Net (decrease)/increase in cash and cash equivalents	(662)	(439)	213
Cash and cash equivalents at 1 January	3,698	3,403	3,403
Effect of exchange rate fluctuations on cash held	(68)	8	82
Cash and cash equivalents at the end of period	2,968	2,972	3,698

* restated following the adoption of revised IAS 19 Employee Benefits standard

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

The notes below form part of these financial statements.

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

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

During the six months period ended 30 June 2013, 197,304 shares vested. 296,217 shares were issued from the Zotefoams Employee Benefit Trust ("EBT") following the exercise of these and previous vested options and 32,369 shares were acquired by the EBT to meet the exercise of options in the future.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Share capital £000	Own shares held £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Hedging reserve £000	Retained earnings restated* £000	Total equity restated* £000
Balance at 1 January 2012	1,992	(58)	16,090	15	790	(51)	16,474	35,252
Foreign exchange translation gains on investment in foreign subsidiaries	-	-	-	-	55	-	-	55
Effective portion of changes in fair value of cash flow hedges net of recycling	-	-	-	-	-	64	-	64
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling	-	-	-	-	-	-	(15)	(15)
IAS19 adjustments to defined benefit scheme	-	-	-	-	-	-	75	75
Tax relating to IAS19 adjustments to defined benefit scheme	-	-	-	-	-	-	(18)	(18)
Profit for the period	-	-	-	-	-	-	2,782	2,782
Total comprehensive income for the period	-	-	-	-	55	64	2,824	2,943
Transactions with owners of the Parent								
Shares issued	-	22	-	-	-	-	24	46
Equity-settled share-based payment transactions net of tax	-	-	-	-	-	-	57	57
Dividends paid	-	-	-	-	-	-	(1,291)	(1,291)
Total transactions with owners of the Parent	-	22	-	-	-	-	(1,210)	(1,188)
Balance at 30 June 2012 (unaudited)	1,992	(36)	16,090	15	845	13	18,088	37,007

* restated following the adoption of revised IAS 19 Employee Benefits standard

The notes below form part of these financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

1. GENERAL INFORMATION

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

2. BASIS OF PREPARATION

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

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed set of consolidated interim financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2012. Those consolidated financial statements were prepared in accordance with IFRSs as adopted by the EU.

This condensed set of consolidated interim financial statements has been reviewed, not audited, and was approved for issue on 5 August 2013. This condensed set of consolidated interim financial statements does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2012 were approved by the Board of Directors on 4 March 2013 and delivered to the Registrar of Companies. The Independent Audit on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

There were no significant changes to the pension scheme or significant changes to market conditions during the period and therefore the Company did not update its actuarial valuation during this period. The Income Statement charge is based on the set of assumptions laid out in the consolidated financial statements for the year ended 31 December 2012.

Forward-looking statements

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

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

Going Concern

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

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the Company's published consolidated financial statements for the year ended 31 December 2012, as described in those consolidated financial statements with the exception of tax which is accrued based on an estimated tax rate that would be applicable to estimated annual earnings.

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

- IAS 19 (revised) 'Employee benefits'. IAS 19 (revised) amends the accounting for employment benefits. The group has applied the standard retrospectively in accordance with the transition provisions of the standard. The impact on the Group has been in the following areas:

The standard replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year. As a result the comparative figures have been amended accordingly and are indicated as ' Restated'.

- IFRS 13 'Fair value measurement'. IFRS 13 measurement and disclosure requirements are applicable for the December 2013 year end. The Group has included the disclosures required by IAS 34 para 16A(j). See Note 10.

4. CYCLICAL NATURE OF BUSINESS

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

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

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

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

5. ESTIMATES

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2012.

6. SEGMENT REPORTING

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

- Polyolefins: these foams are made from olefinic homopolymer and copolymer resin. The most common resin used is polyethylene. Included in this segment are microZOTE® foams made using polyolefin resins.

- High-Performance 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®.

- MEL: licenses microcellular foam technology and sells related machinery.

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

Six months ended 30 June 2013 (unaudited)	Polyolefins £000	HPP £000	MEL £000	Consolidated £000
Revenue	20,325	1,973	920	23,218
Segment profit before amortisation	2,678	118	46	2,842
Amortisation	-	-	(163)	(163)
Operating profit	2,678	118	(117)	2,679

Six months ended 30 June 2012 (unaudited)	Polyolefins £000	HPP £000	MEL £000	Consolidated £000
Revenue	22,338	1,717	753	24,808
Segment profit before amortisation	3,598	14	165	3,777
Amortisation	-	-	(125)	(125)
Operating profit	3,598	14	40	3,652

7. TAXATION

	Six months ended 30 June 2013 £000	Six months ended 30 June 2012 restated* £000
Current tax:		
UK corporation tax	464	645
Foreign tax	5	5
	469	650
Deferred tax	58	80
	527	730

* restated following the adoption of revised IAS 19 Employee Benefits standard

The Group's consolidated effective tax rate for the six months ended 30 June 2013 was 21% (2012: 21%)

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

8. DIVIDENDS

	Six months ended 30 June 2013 £000	Six months ended 30 June 2012 £000
Final dividend for the year ended 31 December 2012 of 3.5p (2011: 3.3p) per share	1,378	1,291

The final dividend for the year ended 31 December 2012 was paid on 23 May 2013.

9. EARNINGS PER SHARE

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

	Six months ended 30 June 2013 £000	Six months ended 30 June 2012 restated* £000
Earnings		
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	1,991	2,782
Earnings for the purposes of diluted earnings per share	1,991	2,782

Number of shares	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	39,257,986	38,863,910
Effect of dilutive potential ordinary shares:		
Share options and Long-Term Incentive Plans	673,441	655,624
Weighted average number of ordinary shares for the purposes of diluted earnings per share	39,931,427	39,519,534

* restated following the adoption of revised IAS 19 Employee Benefits standard

10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 December 2012. There have been no changes in any risk management policies since the year end.

Fair value estimation

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

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

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

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

The following table presents the Group's financial instruments that are measured at fair value at 30 June 2012.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets				
Forward exchange contracts	-	64	-	64
Total assets	**-**	64	-	64
Liabilities				
Forward exchange contracts	-	51	-	51
Total liabilities	-	51	-	51

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

Group's valuation process

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

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

Fair value of financial assets and liabilities measured at amortised cost

The fair value of borrowings is as follows:

	30 June 2013 £000	30 June 2012 £000
Current	1,158	660
Non-current	2,514	495
Total	3,672	1,155

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

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

11. RELATED PARTY TRANSACTIONS

There were no material related party transactions for the periods ended 30 June 2013 and 30 June 2012.

Independent review report to Zotefoams plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months 30 June 2013, which comprises the Group Statement of Financial Position, the Group Statement of Comprehensive Income, the Group Statement of Cash Flows, the Group Statement of Changes in Equity and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

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

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
5 August 2013
First Point
Buckingham Gate
Gatwick
RH6 0PP

Notes:

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

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

Zotefoams plc
675 Mitcham Road
Croydon CR9 3AL
United Kingdom
T +44 (0)20 8664 1600
F +44 (0)20 8664 1616
E info@zotefoams.com
W www.zotefoams.com