ZOTEFOAMS

Tuesday 18 March 2014

ZOTEFOAMS plc

Preliminary Results for the Year Ended 31 December 2013

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 2013.

HIGHLIGHTS

- High-Performance Products ('HPP')
  - Revenue increase of 20% to £4.31m (2012: £3.60m)
  - First full-year segment profit of £0.42m (2012: loss of £0.08m)

- MuCell Extrusion LLC ('MEL')
  - Increased sales by 17%, with an underlying growth rate of 44%

- Polyolefin foams
  - Sales down 8% with customer destocking particularly in Continental Europe
  - Strong levels of order intake in 2014 to date

- Overall Group revenue £44.63m (2012: £47.19m)

- Adjusted[1] profit before tax of £4.18m (2012: £6.08m[2])

- Profit before tax of £3.86m (2012: £5.78m[2])

- Strong balance sheet with gearing under 3%

- Increase in proposed final dividend to 3.6p per ordinary 5p share (2012: 3.5p)

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

"Group sales and profit before tax were adversely impacted by a fall in revenue in Polyolefin foams with customer destocking particularly in Continental Europe impacting performance. Sales in our HPP segment increased by 20% to £4.31m (2012: £3.60m), building on a 51% revenue increase the previous year, and I am pleased to say in 2013 generated a full-year segment profit for the first time. MEL sales grew 17% to £1.56m (2012: £1.33m), with a 44% underlying growth rate masked by one of our earlier licensees making its final contractual payment in 2012.

So far in 2014 we have experienced good growth in Polyolefin foams. Levels of order intake are strong and, as planned, we are commissioning additional capacity early in the second quarter of this year. The outlook for our HPP foams and MEL licensing businesses remains positive and we are already seeing the benefit of the higher levels of business development activities in 2013, which we expect to translate into growth in 2014 and beyond. While being mindful of near-term economic conditions, the Board anticipates a return to growth and improvement in performance in 2014 and remains confident about the long-term prospects for our business."

[1] Before amortisation of intangible assets
[2] Restated following adoption of revised IAS 19 Employee Benefits standard

-Ends-

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About Zotefoams plc

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

www.zotefoams.com

ZOTEFOAMS

Chairman's Statement

Group sales were £44.63m (2012: £47.19m) while profit before tax was £3.86m (2012: £5.78m) with Basic Earnings per Share of 8.0p (2012: 11.8p). As set out in our trading update in January 2014, Group revenues and results were adversely impacted by revenue in Polyolefin foams, which fell to £38.83m (2012: £42.30m) with customer destocking particularly in Continental Europe impacting performance. Sales in our High-Performance Products ('HPP') segment increased by 20% to £4.31m (2012: £3.60m), building on a 51% revenue increase the previous year, and I am pleased to say in 2013 generated a full-year segment profit for the first time. MuCell Extrusion LLC ('MEL') sales grew 17% to £1.56m (2012: £1.33m), with a 44% underlying growth rate masked by one of our earlier licensees making its final contractual payment in 2012.

Strategy

Zotefoams' strategy is to expand through a combination of profitable organic growth of our Polyolefin and HPP businesses, new customers for our MEL 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 Europe and North America, served by factories in Croydon, UK and Kentucky, USA. Outside these regions our largest market is in Asia and in mid 2013 we signed a joint-venture agreement with INOAC Corporation of Japan to develop the Asian market further and build a factory in South Korea to supply this region. We are also committed to developing a portfolio of unique foam products from high-performance polymers 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 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 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

On behalf of the Board I would like to thank all of our people whose skills and dedication are critical to the success of 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, based on our expectations for the future, the Board therefore proposes to increase its final dividend to 3.6p per ordinary share (2012: 3.5p) which, if approved by the shareholders, would make a total of 5.3p per ordinary share for the year (2012: 5.2p), an increase of 2%. If approved, the dividend will be paid on 28 May 2014 to shareholders on the register on 25 April 2014.

Outlook

So far in 2014 we have experienced good growth in Polyolefin foams, with demand levels in Europe and North America reflecting improved levels of activity in the marketplace and sales to Asia well up on early 2013. Levels of order intake are strong and, as planned, we are commissioning additional capacity early in the second quarter of this year. The outlook for our HPP foams and MEL licensing businesses remains positive and we are already seeing the benefit of the higher levels of business development activities in 2013, which we expect to translate into growth in 2014 and beyond. Sterling is currently stronger against our major trading currencies than last year and this is unfavourable for our business as the majority of our sales are in local currencies to markets outside UK and the majority of our costs are sterling denominated. Raw material prices are at similar levels to 2013. The wide scope of Zotefoams' business means we are influenced by global economic conditions while the timing of sales from new products and markets, where higher growth rates are anticipated, can be somewhat difficult to predict. While being mindful of near-term economic conditions, the Board anticipates a return to growth and improvement in performance in 2014 and remains confident about the long-term prospects for our business.

Nigel Howard

Managing Director's Statement

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' main business is as a value-added processor of plastics, using unique, high-pressure nitrogen gas technology to manufacture blocks of foam which are then sold through a network of customers who process those foams into parts for a wide variety of industries globally. We compete primarily through superior foam properties created by our technology. Our process offers significant barriers to entry due to capital cost, know-how and, in our HPP business, patents. Zotefoams block foams are sold, and often specified, under the Azote® and ZOTEK® brand names which are well-known in the industries we serve: automotive, aerospace, packaging, industrial parts, marine, building and construction, military and sports and leisure. The same basic high-pressure gas principles are core to our MuCell Extrusion business, where we have significant Intellectual Property ("IP"), including both know-how and patents, which is licensed to customers extruding 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, and MuCell typically shares in these benefits by receiving a licence fee for IP and/or royalty on parts made.

Our foam blocks 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. In the foam industry, where products are bulky and relatively costly to transport, operating close to the customer is important and competition from imports is more limited. In 2013, over 92% of Azote® and HPP sales were to Europe and North America. However approximately 8% of sales, mainly in more technically complex and valuable products in specific markets, were sold outside these territories with Asia, and Japan in particular, being important markets for Zotefoams, both now and in the future. In 2013 we signed an agreement with INOAC Corporation of Japan to accelerate and support development of the market in Asia for our Azote® polyolefin foams. We are creating two 50:50 joint venture companies, one for sales and the other to invest in a foam expansion factory in South Korea which will be supplied from Zotefoams' factory in the UK and we are proceeding with obtaining the various planning and regulatory approvals.

Group sales were £44.63m (2012: £47.19m) while profit before tax was £3.86m (2012: £5.78m). The decline in sales was attributable to the polyolefin foams segment, with our largest customer accounting for the majority of the impact as they reduced inventory levels. Growth in sales from MEL and HPP, along with a slightly more favourable exchange rate, was insufficient to offset the operational gearing impact from the sales decline in polyolefin foams and increases in raw material and energy costs. The euro-denominated price of LDPE, our main raw material, was relatively stable throughout the year and the average price was 2% higher than in 2012, although the stronger euro meant that this translated, before hedging, to an increase of approximately 7% in sterling.

Zotefoams manages and reports its business in three main segments: Polyolefin foams, HPP foams and MEL.

Polyolefin foams sales were £38.83m (2012: £42.30m) generating a segment profit of £4.20m (2012: £6.43m). Volumes sold to UK customers reduced by approximately 4% with certain segments of the market being weaker than last year, while in North America we experienced a similar performance, although this was related more specifically to government sequestrations particularly in military and medical markets. Continental Europe saw the largest decline, with sales volumes decreasing by approximately 16%, mainly due to customer destocking in Germany where our largest customer built inventory during 2012 and reduced this in 2013. This inventory was reportedly put in place to mitigate the impact of longer lead times from Zotefoams in late 2011 and 2012 and, as our lead times reduced from early 2013, the inventory was not required. However, despite reporting a market inventory increase in the 2012 Annual Report, we misjudged the extent and timing of the inventory reduction. As a result we incurred excess costs from running our plant in the UK inefficiently during this period, with a similar average number of production employees despite the overall decline of approximately 11% in production volumes. We have put in place additional procedures for our major customers to ensure inventory management is more closely monitored and thus mitigating the impact on our business. In Asia we also saw some inventory reduction at a major customer, although the overall impact of this was much smaller and, with good underlying growth in the market, the total sales to Asia were marginally ahead of last year.

HPP sales increased 20% to £4.31m (2012: £3.60m) driven by the strong performance of ZOTEK® F fluoropolymer foams in the aerospace business. The HPP segment generated a profit of £0.42m against a loss of £0.08m in 2012, benefitting from the higher level of sales while expenditure remained relatively flat following our increased investment of the past few years. ZOTEK® F accounts for approximately 80% of our HPP segment sales, with other products, such as T-Tubes®, Nylon and ZOTEK® PEBA foams in earlier stages of market development. We are seeing more interest outside aviation for the benefits of excellent fire performance and chemical resistance of ZOTEK® F, and expect to see growth here adding to the still-increasing potential in the aviation industry. Encouragingly for Nylon, which is mainly of interest due to its performance at higher temperatures, and T-Tubes®, the advanced insulation system for clean room environments, we are seeing a strong start to 2014. ZOTEK® PEBA foam, which was previously marketed under Arkema's trademark Pebaxfoam®, is made from a very resilient polymer which is known for its energy management properties and is generating continued interest from the sports industry in particular. 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 pleased with their progress and remain positive about the long-term future of this portfolio of products.

MEL, the third segment of our business, licenses technology for continuous foaming. In 2013, MEL reported sales growth of 17% to £1.56m (2012: £1.33m) and a small deficit before interest, tax, depreciation and amortisation (EBITDA) of £0.10m (2012: earnings of £0.01m). In 2012, as disclosed in our Interim Report, a licensee made a final payment on their licence. After adjusting for this licensee, MEL saw an increase in revenues of approximately 44%, driven by equipment sales which grew 63% year-on-year. While equipment sales have a relatively lower margin than licence and royalty income, the sales are a good indicator of the take-up rates of our technology and therefore of future royalty income. During 2013 MEL continued to focus on developing its markets in thin films and in extrusion blow moulding bottles, both for packaging, and in plastic sheets which have a variety of uses. Rather than attempting to license many users, we have focused on working with a more limited number of influential users in each of the film, bottle and sheet markets. We anticipate 2014 will bring good revenue growth, but, more importantly, we expect to see product launches validating this technology in these key markets. In addition, we are active in some more specialist markets, such as automotive ducting where we have a licence agreement with Kyoraku Group of Japan, and are developing our Intellectual Property across a variety of polymers, processing methods and product attributes.

In 2013, Group capital expenditure was £4.14m (2012: £3.68m) the majority of which was at our Croydon site in relation to our Azote® polyolefin foams business. Two major projects began in 2013 that will continue into 2014: investment in a new ERP computer system and a major factory extension. One capacity improvement project for a new extruder has been delayed due to problems at an engineering contractor and the extruder, which brings approximately 17% additional capacity to this part of our process, is now expected to be operational in the second quarter of 2014. Investment in our new factory will give us the building capacity to meet future growth expectations, particularly in the HPP foams business. Our new ERP system, Microsoft Dynamics AX, was chosen to streamline internal processes and improve information availability, freeing up valuable management and staff time.

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 MEL technology licensing business, and through partnerships or acquisitions in related technologies, products or markets. In 2013, we did not make progress on three of our objectives as planned, with poor performance in our Polyolefin foams business being the main reason for this. Our stated objectives remain as:

- 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 declined by 8%, for reasons explained elsewhere in this Strategic Review.
- HPP sales grew by 20%, consolidating and building on a 51% increase in 2012. The HPP segment reported a full-year profit for the first time with profit margins similar to the Polyolefin segment.
- Group operating margins declined to 9.3% (2012: 12.8%).
- Pre-tax return on average capital employed, excluding intangible assets and their amortisation costs, decreased to 12.9% (2012: 20.3%). We indicated in our 2012 Annual Report that the investments planned for our Croydon site would adversely impact return on capital, however the Group's profitability performance is the main reason for the decline in this metric.

In 2014 we intend to focus on the same four key objectives in our business, although again return on capital employed will be impacted by the high levels of capital expenditure planned.

Financial Results

Changes in Accounting Policy
In 2013, Zotefoams adopted IAS 19 (revised) 'Employee benefits' and IFRS 13 'Fair value measurement'. For the year ended 31 December 2012 the restated pre-tax profit is £0.15 million lower. Further details of these changes in accounting policy are set out in Note 1: Accounting Policies.

Income Statement
Turnover fell by 5%, from £47.19m in 2012 to £44.63m. This impacted gross margins which fell by 3% to 26% (2012: 29.0%), primarily due to the operational gearing effect of the lower sales. Higher depreciation, material and energy prices were offset by selling price increases, cost reductions and slightly favourable exchange rates. Distribution and administrative expenses at £7.46m (2012: £7.64m) were 2% lower due to cost reductions. Overall profit before tax decreased from £5.78m to £3.86m.

The effective tax charge is 18% (2012: 20%), which is less than the UK corporation tax rate for the year of 23.3%. This is mainly due to lower future UK corporation tax rates reducing future deferred tax liabilities by £0.08m and a favourable £0.06m adjustment to the tax charge in respect of prior years.

Earnings Per Share and Dividend
Group basic earnings per share were 8.0p (2012: 11.8p). The Directors are recommending a 0.1p increase in the final dividend to 3.6p per share, which, subject to shareholder approval, would be payable on 28 May 2014 to shareholders on the Company register at the close of business on 25 April 2014. This would bring the total dividend to 5.3p per ordinary share for the year (2012: 5.2p).

Cash Flow and Funding
Cash generated from operations increased by 6% to £6.63m (2012: £6.29m). Within this there was a £0.71m increase in net working capital (2012: £2.56m increase). The major component of the £1.43m inventory increase was to support the business growth in the HPP and MEL business segments, while receivables fell by £0.76m due to lower polyolefin sales. Capital expenditure was £4.14m (2012: £3.68m) compared to depreciation and amortisation of £3.61m (2012: £3.31m). After tax and dividend payments, overall net debt increased by £0.50m to £1.12m (2012: £0.62m) at the end of the year. The balance sheet remains strong with gearing at 31 December 2013 of 2.9% (2012: 1.7%).

Pensions
The gross IAS19 deficit on the Company's Defined Benefit Pension Scheme (the "Scheme") decreased by £2.89m to £4.28m (2012: £7.17m). This was primarily due to higher bond yields increasing the discount rate used to value the Scheme's liabilities, better than expected investment growth and the Company's contributions to the Scheme.

Following the April 2011 triennial actuarial review of the Scheme, the Company agreed with the Trustees 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.

David Stirling
Managing Director

17 March 2014

Responsibility statement of the directors in respect of the annual financial report

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these 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 applicable 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.

The Directors consider the Annual Report taken as a whole, to be fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 Strategic Report – Business Review 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 2013

	Note	2013 £000	2012 restated * £000
Revenue	2	**44,634**	47,188
Cost of sales		**(33,015)**	(33,521)
Gross profit		**11,619**	13,667
Distribution costs		**(3,587)**	(3,308)
Administrative expenses		**(3,868)**	(4,329)
Operating profit		**4,164**	6,030
Finance income	3	**7**	3
Finance costs	3	**(315)**	(258)
Profit before tax		**3,856**	5,775
Taxation	4	**(695)**	(1,162)
Profit for the year		**3,161**	4,613
Attributable to:			
Equity holders of the parent		**3,161**	4,613
Earnings per share			
Basic (p)	5	**8.0**	11.8
Diluted (p)	5	**7.9**	11.6

* restated following the adoption of revised IAS 19 Employee Benefits standards.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

	2013 £000	2012 restated * £000
Profit for the year	**3,161**	4,613
Other comprehensive income/(expense)		
Items that will not be reclassified to profit or loss		
Foreign exchange translation losses on investment in foreign subsidiaries	**(187)**	(445)
Actuarial gains/(losses) on defined benefit schemes	**2,526**	(2,814)
IAS19 adjustments to defined benefit pension scheme	**-**	151
Tax relating to items that will not be reclassified	**(505)**	612
Total items that will not be reclassified to profit or loss	**1,834**	(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	**283**	13
Tax relating to items that may be reclassified	**(57)**	(4)
Total items that may be classified subsequently to profit or loss	**226**	9
Other comprehensive income/(expense) for the year, net of tax	**2,060**	(2,487)
Total comprehensive income for the year	**5,221**	2,126
Attributable to equity holders of the parent	**5,221**	2,126

* restated following the adoption of revised IAS 19 Employee Benefits standards.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2013

	Note	2013 £000	2012 £000
Non-current assets			
Property, plant and equipment		**27,333**	25,869
Intangible assets		**4,916**	5,248
Deferred tax assets		**477**	460
Total non-current assets		**32,726**	31,577
Current assets			
Inventories		**8,019**	6,640
Trade and other receivables		**10,991**	11,612
Cash and cash equivalents		**1,957**	3,698
Total current assets		**20,967**	21,950
Total assets		**53,693**	53,527
Current liabilities			
Interest-bearing loans and borrowings		**(865)**	(1,360)
Tax payable		**(506)**	(801)
Trade and other payables		**(5,557)**	(4,921)
Total current liabilities		**(6,928)**	(7,082)
Non-current liabilities			
Interest-bearing loans and borrowings		**(2,207)**	(2,962)
Employee benefits	6	**(4,280)**	(7,172)
Deferred tax liabilities		**(1,264)**	(621)
Total non-current liabilities		**(7,751)**	(10,755)
Total liabilities		**(14,679)**	(17,837)
Total net assets		**39,014**	35,690
Equity			
Issued share capital		**1,992**	1,992
Own shares held		**(21)**	(36)
Share premium		**16,090**	16,090
Capital redemption reserve		**15**	15
Translation reserve		**158**	345
Hedging reserve		**245**	(38)
Retained earnings		**20,535**	17,322
Total equity attributable to the equity holders of the Parent		**39,014**	35,690

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2013

	2013 **£000**	2012 restated * £000
Cash flows from operating activities		
Profit for the year	**3,161**	4,613
Adjustments for:		
Depreciation and amortisation	**3,609**	3,312
Finance income	**(7)**	(3)
Finance costs	**315**	258
Equity-settled share-based payments	**232**	161
Taxation	**695**	1,162
Operating profit before changes in working capital and provisions	**8,005**	9,503
Decrease/(increase) in trade and other receivables	**763**	(1,165)
Increase in inventories	**(1,430)**	(746)
Decrease in trade and other payables	**(45)**	(644)
Employee benefit contributions	**(660)**	(660)
Cash generated from operations	**6,633**	6,288
Interest paid	**(24)**	(38)
Tax paid	**(1,013)**	(992)
Net cash from operating activities	**5,596**	5,258
Interest received	**7**	2
Acquisition of MuCell	**—**	(2,231)
Acquisition of intangibles	**(71)**	(63)
Acquisition of property, plant and equipment	**(4,141)**	(3,683)
Net cash used in investing activities	**(4,205)**	(5,975)
Proceeds from issue of share capital	**153**	46
Repurchase of own shares	**(113)**	—
Repayment of borrowings	**(1,340)**	(660)
New loans taken out	**90**	3,500
Dividends paid	**(2,048)**	(1,956)
Net cash (used)/generated in financing activities	**(3,258)**	930
Net (decrease)/increase in cash and cash equivalents	**(1,867)**	213
Cash and cash equivalents at 1 January	**3,698**	3,403
Effect of exchange rate fluctuations on cash held	**126**	82
Cash and cash equivalents at 31 December	**1,957**	3,698

* restated following the adoption of revised IAS 19 Employee Benefits standards.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

	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 losses on investment in foreign subsidiaries	—	—	—	—	(445)	—	—	(445)
Effective portion of changes in fair value of cash flow hedges net of recycling	—	—	—	—	—	13	—	13
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling	—	—	—	—	—	—	(4)	(4)
Actuarial losses on defined benefit scheme	—	—	—	—	—	—	(2,814)	(2,814)
Tax relating to actuarial losses on defined benefit scheme	—	—	—	—	—	—	648	648
IAS19 adjustments to defined benefit scheme	—	—	—	—	—	—	151	151
Tax relating to IAS19 adjustments to defined benefit scheme	—	—	—	—	—	—	(36)	(36)
Profit for the period	—	—	—	—	—	—	4,613	4,613
Total comprehensive (expenditure)/income for the year	—	—	—	—	(445)	13	2,558	2,126
Transactions with owners of the Parent:								
Shares issued	—	22	—	—	—	—	24	46
Equity-settled share-based payments net of tax	—	—	—	—	—	—	222	222
Dividends paid	—	—	—	—	—	—	(1,956)	(1,956)
Total transactions with owners of the Parent	—	22	—	—	—	—	(1,710)	(1,688)
Balance at 31 December 2012 and 1 January 2013	1,992	(36)	16,090	15	345	(38)	17,322	35,690
Foreign exchange translation losses on investment in foreign subsidiaries	—	—	—	—	(187)	—	—	(187)
Effective portion of changes in fair value of cash flow hedges net of recycling	—	—	—	—	—	283	—	283
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling	—	—	—	—	—	—	(57)	(57)
Actuarial gains on defined benefit scheme	—	—	—	—	—	—	2,526	2,526
Tax relating to actuarial gains on defined benefit scheme	—	—	—	—	—	—	(505)	(505)
Profit for the period	—	—	—	—	—	—	3,161	3,161
Total comprehensive (expenditure)/ income for the year	—	—	—	—	(187)	283	5,125	5,221
Transactions with owners of the Parent:								
Shares issued	—	18	—	—	—	—	135	153
Shares acquired	—	(3)	—	—	—	—	(110)	(113)
Equity-settled share-based payments net of tax	—	—	—	—	—	—	111	111
Dividends paid	—	—	—	—	—	—	(2,048)	(2,048)
Total transactions with owners of the Parent	—	15	—	—	—	—	(1,912)	(1,897)
Balance at 31 December 2013	1,992	(21)	16,090	15	158	245	20,535	39,014

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 Parent Company financial statements present information about the Company as a separate entity and not about its Group. The consolidated financial statements of Zotefoams plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS.

The financial information does not constitute the Company’s statutory accounts, as defined in Sections 434 of the Companies Act 2006, for the year ended 31 December 2013 or 2012 but is derived from those accounts which have been approved by the Board of Directors. Statutory accounts for 2012 have been delivered to the Registrar of Companies, and those for 2013 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’s operating segments are reported in a manner consistent with the internal reporting provided to and regularly reviewed by the Managing Director, David Stirling, who is considered to be the ‘chief operating decision maker’ for the purpose of evaluating segment performance and allocating resources.

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

- Polyolefins: 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® from Arkema.
- MuCell Extrusion LLC (“MEL”): licenses microcellular foam technology and sells related machinery.

	Polyolefins		HPP		MEL		Eliminations		Consolidated (2012 restated)	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000	**£000**	£000
Revenue	**38,825**	42,295	**4,311**	3,595	**1,562**	1,330	**(64)**	(32)	**44,634**	47,188
Segment profit/(loss) pre - amortisation	**4,199**	6,434	**423**	(82)	**(138)**	(22)			**4,484**	6,330
Amortisation	**-**				**(320)**	(300)	**-**	-	**(320)**	(300)
Segment profit/(loss)	**4,199**	6,434	**423**	(82)	**(458)**	(322)	**-**	-	**4,164**	6,030
Operating profit	**-**	-	**-**	-	**-**	-	**-**	-	**4,164**	6,030
Net financing costs	**-**	-	**-**	-	**-**	-	**-**	-	**(308)**	(255)
Taxation	**-**	-	**-**	-	**-**	-	**-**	-	**(695)**	(1,162)
Profit for the year									**3,161**	4,613
Segment Assets	**41,794**	41,465	**5,402**	5,398	**6,020**	6,204	**-**	-	**53,216**	53,067

Unallocated assets	**-**	-	**-**	-	**-**	-	**-**	-	**477**	460
Total assets									**53,693**	53,527
Segment liabilities	**(11,639)**	(16,017)	**(998)**	(194)	**(272)**	(204)	**-**	-	**(12,909)**	(16,415)
Unallocated liabilities	**-**	-	**-**	-	**-**	-	**-**	-	**(1,770)**	(1,422)
Total liabilities									**(14,679)**	(17,837)
Depreciation	**3,114**	2,833	**138**	146	**37**	33	**-**	-	**3,289**	3,012
Capital expenditure:										
Tangible fixed assets	**4,655**	3,522	**107**	158	**35**	3	**-**	-	**4,797**	3,683
Intangible fixed assets	**-**	-	**-**	-	**71**	63	**-**	-	**71**	63

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 2013					
Revenue from external customers	**9,479**	**18,680**	**12,569**	**3,906**	**44,634**
Non-current assets	**24,166**	**—**	**8,083**	**—**	**32,249**
Capital expenditure	**4,045**	**—**	**96**	**—**	**4,141**
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

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 £4,453k (2012: £6,522k) of the Group's total revenues.

3. Finance income and costs

Financial income

	2013 **£000**	2012 restated £000
Interest on bank deposits	**7**	3

Finance costs

	2013 **£000**	2012 restated £000
On bank loans and overdrafts	**21**	32
Interest on defined benefit pension obligation	**294**	226
	315	258

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4. Taxation

	2013 £000	2012 restated £000
UK corporation tax	**776**	1,112
Overseas taxation	**6**	(13)
Adjustment to prior year UK tax charge	**(64)**	(92)
Current taxation	**718**	1,007
Deferred taxation	**(23)**	155
Total tax charge	**695**	1,162

Factors affecting the tax charge

The tax charge for the year is lower (2012: lower) than the standard rate of corporation tax in the UK of 23.25 % (2012: 24.5%). The differences are explained below:

	2013 £000	2012 restated £000
Tax reconciliation		
Profit before tax	**3,856**	5,775
Tax at 23.25% (2012: 24.5%)	**897**	1,415
Effects of:		
Research and development tax credits and other allowances less expenses not deductible for tax purposes	**(41)**	14
Overseas earnings and effect of US tax losses	**(16)**	(81)
Change in deferred tax rate to 20%	**(81)**	(94)
Adjustments to prior year UK corporation tax charge	**(64)**	(92)
Total tax charge	**695**	1,162

5. Dividends and earnings per share

	2013 £000	2012 £000
Final dividend prior year of 3.50p (2011: 3.30p) net per 5.0p ordinary share	**1,378**	1,291
Interim dividend of 1.7p (2012: 1.7p) net per 5.0p ordinary share	**670**	665
Dividends paid during the year	**2,048**	1,956

The proposed final dividend for the year ended 31 December 2013 of 3.60p per share (2012: 3.50p) 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 £1,434,000 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 £3,161,000 (2012 restated: £4,613,000) 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 2013 was 418,750 (2012: 719,262). 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.

	2013	2012
Average number of ordinary shares issued	**39,330,596**	38,988,658
Deemed issued for no consideration	**515,843**	678,911
Diluted number of ordinary shares issued	**39,846,439**	39,667,569

6. Employee benefits

The Company operates a UK registered trust based pension scheme that provides defined benefits. Pension benefits are linked to the members' final pensionable salaries and service at their retirement (or date of leaving if earlier). The Trustees are responsible for running the Scheme in accordance with the Scheme's Trust Deed and Rules, which sets out their powers. The Trustees of the Scheme are required to act in the best interests of the beneficiaries of the Scheme. There is a requirement that one-third of the Trustees are nominated by the members of the Scheme.

There are two categories of pension scheme members:

- Deferred members: former and current employees of the Company

- Pensioner members: in receipt of pension

The defined benefit obligation is valued by projecting the best estimate of future benefit outgo (allowing for revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the balance sheet date. The majority of benefits receive increases linked to inflation (subject to a cap of no more than 5% pa). The valuation method is known as the Projected Unit Method. The approximate overall duration of the Scheme's defined benefit obligation as at 31 December 2013 was 19 years.

Since 1 October 2001 the Scheme has been closed to new members and from 31 December 2005 future accrual of benefits for existing members of the Scheme ceased.

Future funding obligation

The last actuarial valuation of the Scheme was performed by the Actuary for the Trustees as at 5 April 2011. The Company agreed to pay annual contributions of £504,000 per annum over the period to 30 September 2013 towards paying off the deficit. The Company also agreed to pay £156,000 per annum to meet the Scheme's expenses, PPF levy and death in service premiums.

Due to the deterioration in funding, the Company has agreed to continue to pay contributions at this level until September 2014 when the results of the 5 April 2014 triennial actuarial valuation are expected to be available unless indications are that the fund is in surplus before that date.

Risks

Through the scheme, the Company is exposed to a number of risks:

- Asset volatility: the Scheme's defined benefit obligation is calculated using a discount rate with reference to corporate bond yields, however the Scheme invests significantly in equities. These assets are expected to outperform corporate bonds in the long term, but provide volatility risk in the short term.

- Changes in bond yields: a decrease in corporate bond yields would increase the Scheme's defined benefit obligation, however this would be partially offset by an increase in the value of the Scheme's bond holdings.

- Inflation risk: a significant proportion of the Scheme's defined benefit obligation is linked to inflation, therefore higher inflation will result in a higher defined benefit obligation (subject to the appropriate caps in place). The majority of the Scheme's assets are either unaffected by inflation, or only loosely correlated with inflation, therefore an increase in inflation would also increase the deficit.

- Life expectancy: if Scheme members live longer than expected, the Scheme's benefits will need to be paid for longer, increasing the Scheme's defined benefit obligation.

The Trustees and Company manage risks in the Scheme through the following strategies:

- Diversification: investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.

- Investment strategy: the Trustees are required to review their investment strategy on a regular basis.

- Annuities: the Scheme holds insurance contracts to pay some member's AVC benefits. This removes investment, inflation, longevity and expense risks after members retire for these benefits.

The Company has recognised 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 2013 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	As at 31 December 2013	As at 31 December 2012
Discount rate	4.5%	4.3%
RPI inflation (before retirement)	3.4%	2.9%
CPI inflation (before retirement)	2.4%	2.4%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

	2013 £000	2012 £000
For an individual aged 65 in 2013		
- Male	**21.8**	22.0
- Female	**24.1**	24.3
At age 65 for an individual aged 45 in 2013		
- Male	**23.2**	23.4
- Female	**25.6**	25.9

The table below outlines where the Group's post-employment amounts and activity are included in the financial statements.

	2013 £000	2012 restated £000
Balance Sheet obligations for:		
- Defined pension benefits	**4,280**	7,172
Income statement charge included in operating profit for:		
- Defined pension benefits	**294**	226
Actuarial gains/(losses) recognised in Other Comprehensive Income:		
- Defined pension benefits	**2,526**	(2,662)

The amounts recognised in the balance sheet are determined as follows:

	2013 £000	2012 £000
Market value of assets	**21,546**	19,355
Present value of defined benefit obligation	**(25,826)**	(26,527)
Funded status	**(4,280)**	(7,172)
Adjustment in respect of minimum funding requirement	**-**	-
Liability in the Balance Sheet	**(4,280)**	(7,172)

The movement in the defined benefit obligation over the year is as follows:

	2013 £000	2012 £000
Value of defined benefit obligation at start of year	**26,527**	22,758
Interest cost	**1,120**	1,100
Benefits paid	**(949)**	(605)
Actuarial (losses)/gains: experience differing from that assumed	**(220)**	44
Actuarial losses: changes in demographic assumptions	**(150)**	-
Actuarial (losses)/gains: changes in financial assumptions	**(502)**	3,230
Value of defined benefit obligation at end of year	**25,826**	26,527

The movement in the value of the Scheme's assets over the year is as follows:

	2013 £000	2012 £000
Market value of assets at start of year	**19,355**	17,814
Interest income	**826**	874
Actual gain	**1,654**	612
Employer contributions	**660**	660
Benefits paid	**(949)**	(605)
Market value of assets at end of year	**21,546**	19,355

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Change in assumption	Change in defined benefit obligation
Discount rate	+/- 0.5% pa	-7%/+ 8%
RPI inflation	+ 0.5% pa/ - 0.5% pa	+ 6%/- 7%
Assumed life expectancy	+ 1 year	+ 3%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the other assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position. The assets of the Scheme are invested as follows:

	Year ended 31 December 2013		Year ended 31 December 2012	
Asset class	**Market value £'000**	**% of total Scheme assets**	Market value £'000	% of total Scheme assets
Equities	**14,308**	**67%**	12,497	65%
Corporate Bonds	**2,936**	**14%**	2,580	13%
Gilts	**2,776**	**13%**	2,674	14%
Cash	**1,338**	**5%**	1,412	7%
Insured pensioners	**188**	**1%**	192	1%
Total	**21,546**	**100%**	19,355	100%
Actual return on assets over period:	**2,480**		1,486	

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 2013 were £427,000 (2012: £440,000).

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 2013 were £168,000 (2012: £173,000).

For certain non UK based employees of the Company, the Company makes contributions into individual schemes. The contributions paid by the Company in 2013 were £6,000 (2012: £9,000).

For US based employees, Zotefoams Inc. operates a 401(k) plan. The contributions paid by Zotefoams Inc. in 2013 were £51,000 (2012: £48,000).