ZOTEFOAMS

Tuesday 8 August 2017

Zotefoams plc

Interim Report for the Six Months Ended 30 June 2017

Record organic sales growth
Continuing to invest to meet anticipated future demand

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 2017.

Highlights

- 25% increase in Group Revenue (14% constant currency) to £33.84m (2016: £27.07m), with all business units delivering sales growth:
  - Polyolefin Foams sales up 18%, with record volumes 5% ahead of previous year
  - High Performance Products sales up 57%, driven by ZOTEK® PEBA elastomeric foams and T-FIT® insulation
  - MuCell Extrusion sales up 77%, largely due to completion of largest individual equipment order
- Adjusted profit before tax[1] up 24% to £3.97m (2016: £3.21m)
- Gross profit margin increase to 35.5% (2016 restated: 34.2%)
- Continued investment in people and assets to pursue our targeted opportunities
- Interim dividend increased by over 3% to 1.91 pence
- Post period end, the Group continues to trade in line with the Board's expectations and the Board remains confident in the long-term prospects for the business

Financial highlights

	Six months ended 30 June 2017	Six months ended 30 June 2016	Change
	£m	£m	%
Group Revenue	33.84	27.07	25
Gross Profit	12.02	9.27[2]	30
Gross Profit margin	35.5%	34.2%	
Operating Profit pre exceptional item	4.10	3.33	23
Operating Profit post exceptional item	3.10	3.07	1
Adjusted Profit before tax[1]	3.97	3.21	24
Profit before tax pre exceptional item	3.81	3.03	26
Profit before tax post exceptional item	2.81	2.77	1
Basic eps (p) pre exceptional item	7.04	5.78	22
Basic eps (p) post exceptional item	5.20	5.18	-
Interim dividend (p)	1.91	1.85	3

[1] Before amortisation of acquired intangible assets and exceptional items.
[2] Adjusted for reallocation of certain costs between cost of goods sold and distribution and administrative expenses.

Commenting on the results, Steve Good, Chairman said:

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

During the first half of 2017 Zotefoams has grown revenues across all business units, building on successful product development as well as investment in sales and marketing, over the recent past, and beneficial exchange rates. We enter the second half of the year with a strong order book, a differentiated product portfolio, continued growth expectations across all business units and looking forward to commissioning our Walton, Kentucky, USA facility, which will increase global capacity by approximately 20%.

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

Enquiries:

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About Zotefoams plc

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

Zotefoams is headquartered in Croydon, UK, with additional manufacturing sites in Kentucky and Oklahoma, USA (foam products manufacture and conversion), Massachusetts, USA (MuCell Extrusion) and Jiangsu Province, China (T-FIT®).

www.zotefoams.com

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

Results overview

In the first six months of 2017 Group revenue increased by 25% to a record £33.84m (2016: £27.07m). In constant currency, growth was 14%, with a strong sales performance across all business units.

Gross profit increased by 30% to £12.02m (2016 restated: £9.27m) and margin improved by 130 basis points to 35.5% from 34.2%, driven by the positive operational gearing of higher sales, improving sales mix and beneficial exchange rates. Profit before tax and exceptional item grew by 26% to £3.81m (2016 before exceptional item: £3.03m), while adjusted profit before tax (before amortisation of acquired intangible assets and exceptional items) was up 24%, at £3.97m (2016: £3.21m).

In the period, following legal advice received by the pension trustees and an estimate calculated by the actuaries, the Company has provided £1m for potential additional liabilities in its Defined Benefit Pension Scheme (the “DB Scheme”).

Basic earnings per share before exceptional item was up 22% at 7.04p (2016: 5.78p). The Directors have decided to increase the interim dividend to 1.91p per share (2016: 1.85p), an increase of over 3%, reflecting the Board’s continued confidence in the Group’s future.

Currency review

As a predominantly UK-based exporter, Zotefoams has over 80% of its sales denominated in US Dollars and Euros. With most costs incurred in Sterling, other than our main raw materials which are denominated in Euros and some materials, staff and operational costs, which are in US Dollars, movements in foreign exchange rates can have a significant impact on our results. The average Euro rate was 1.16:£1 for the first six months of 2017 (equivalent 2016 rate 1.28:£1) and the average US Dollar rate was 1.27:£1 (equivalent 2016 rate 1.42:£1).

The period-end exchange rates and, in particular, the movement between the period opening and closing rates, generated a combined forward contract and non-cash translation loss of £0.27m (2016: gain of £0.51m), which is included in administration expenses.

Financial and operational review

Polyolefin Foams

In constant currency, sales in Polyolefin Foams increased by 8%, with volumes 5% ahead of 2016 and more favourable selling prices. The UK market was relatively flat and sales performance reflected this. We increased sales in all other major markets, with North America up 14%, benefiting from a full six months of added value from our investment in Zotefoams MidWest. In continental Europe revenues increased by 7%, driven by our direct sales initiative to increase market share in Germany, and sales to the Far East delivered 15% growth against a weaker comparative performance in 2016. In reporting currency, Polyolefin Foams sales increased 18% to £26.90m (2016: £22.79m).

Operating profit in Polyolefin Foams, before exceptional items, increased by 50% to £5.73m (2016: £3.81m) as we benefitted from improved operational gearing and efficiency improvements, due to our UK facility operating close to effective capacity, combined with more favourable foreign exchange rates. The Euro-denominated average cost of our main raw material, low density polyethylene (‘LDPE’), over the six-month period was similar to the equivalent period of 2016.

High-Performance Products (‘HPP’)

HPP sales increased 40% in constant currency, driven by a strong ramp-up in sales of our ZOTEK® PEBA foam for sports equipment, together with significant growth in T-FIT® insulation products. Revenue from ZOTEK® F fluoropolymer foams, mainly used in aviation, declined slightly in the period, largely due to continued destocking at one of our main customers, which is expected to be complete by the end of the year. Sales of Nylon foams were modestly ahead of the comparative period, with some shipments delayed into July due to carrier issues at the end of the period. In reporting currency sales of £4.98m were 57% above the previous year (2016: £3.17m).

Operating profit in HPP increased by 117% to £0.65m (2016: £0.30m), delivering a 13% profit margin for the period (2016: 9%). ZOTEK® PEBA and ZOTEK® F foams are both of a scale to be profitable and we are now focussing on operational efficiencies as well as driving sales growth. Kunshan ZOTEK King Lai Ltd (KZKL), our Chinese insulation products business, is now operational and undergoing final optimisation and validation before initiating full commercial manufacturing. The record sales for T-FIT® Clean insulation, therefore, continued to be substantially manufactured by a third party using our ZOTEK® F sheet foams, adversely impacting margins in the period. We have made good progress since the turn of the year to address this issue and also prepare for the launch of additional T-FIT® insulation materials designed for the food, dairy and beverage market as well as a range of products for general industrial insulation, both markets with large potential. Additionally, we continue to invest market-development resource in nylon foams and see good opportunities here, although this product line is more likely to move to profitability over a medium-term time scale.

MuCell Extrusion LLC ('MEL')
MEL licenses microcellular foam technology and sells related machinery. Sales increased significantly to £1.96m, a 77% increase over the prior year (2016: £1.11m), driven by the shipment of a full extrusion line to a customer in Japan, representing MEL's largest individual equipment order. The business unit additionally shipped equipment to convert six additional customer lines in H1:2017 (2016: 11 lines). However, in the period our focus has been on the conversion of existing lines into royalty generating units, as we see the large installed base (111 units as at the end of 2016) offering the best potential for value creation. The business is making good progress in this regard, particularly in the films market.

To continue to develop our technology and Intellectual Property offering, and meet the demands of an increasing customer base, we have successfully attracted a number of highly skilled technical and engineering staff during the period. While the initial cost will be high for a business of the size of MEL, we are confident that, given the potential growth that exists, the investment in the business is the correct approach to create value from our world-leading portfolio of microcellular-foaming technology.

MEL reported an operating loss after amortisation costs of £0.87m (2016: loss £0.40m). This loss includes a one-off charge of £0.31m arising from inventory adjustments.

Investment in cost base
The Group continues to pursue its expansion strategy, founded on proprietary cellular-materials technology with an increasing portfolio of differentiated products. Organic growth with unique products requires the Group to actively invest in, and reprioritise where needed, technical, sales-focused and administration resources to create, execute and manage this growth. Included within distribution and administrative expenses in the Group's Income Statement are sales and marketing, technical development, finance, information systems and administration costs as well as the impact of foreign exchange hedges maturing in the period and non-cash foreign exchange translation expenses. These costs, excluding the impact of foreign exchange hedges and translation, increased to £7.65m in H1 2017 (2016 restated: £6.71m - where certain costs, previously recognised as cost of sales, have been reclassified to distribution and administrative costs). The Group expects this investment to continue, not least with the commissioning of our Walton, Kentucky, USA facility in the second half of the year, which will increase global capacity by approximately 20%.

Group Financing
The Group has secured additional funding as it anticipates the near-term investment and working capital needs of its strong portfolio of opportunities. In March 2017, it extended the Multi-Currency Revolving Credit Facility with Barclays Bank from £8m to £10m, with all terms and conditions remaining the same. In August 2017, it secured further funding by way of a five year, £7.5m fixed rate loan facility with Lombard North Central, with whom the Group has a longstanding relationship.

Tax and Cash Flow
Zotefoams' estimated effective tax rate for the period was 19% (2016: 19%), which is slightly below the UK corporation tax rate for the period of 20%. Cash generated from operations was £5.80m (2016: £4.93m). Capital expenditure was £4.96m, £3.30m higher than depreciation and amortisation,

and primarily related to the final stages of the Group's capacity expansion at the Kentucky, USA, manufacturing facility. Together with tax and dividend payments, net debt (cash less bank overdrafts and other bank borrowings) increased by £1.13m from £12.56m at 31 December 2016 to £13.69m.

Pensions
In 2001 the Company closed the DB Scheme to new members. In 2005 the DB Scheme was closed to future accrual of benefits and all active members at that time transferred to a defined contribution scheme, substantially de-risking the Company's financial and accounting exposure to the DB Scheme's obligations. In common with many companies at the time, the Company took advice on the closure process. Following recent legal cases challenging the validity of previous benefit scheme closures, the Company recommended that the Trustees take further legal advice regarding the closure of the DB Scheme in 2005. The outcome of this advice to the Trustees indicates that the DB Scheme was properly closed to future accrual of service, however the linkage with future increases in salary had not been broken. As the sponsoring employer, the Company may therefore have an additional liability for pension costs. The Company has not yet taken its own legal advice but feels it is appropriate to provide for the possible increase in liability.

The DB Scheme actuaries estimate an additional potential liability of approximately £1m. The Directors are considering options available to mitigate this potential liability and seek redress where appropriate. The exceptional charge represents 3% of the DB Scheme obligation as at 31 December 2016 and would represent an increase in cash outflows over the remaining average service lives of the affected employees. This is not considered by the Directors to have a material impact on the Group's financial condition or future prospects.

A full actuarial valuation of the DB Scheme is scheduled for this year, as at 5 April 2017, in line with the requirement to have a triennial valuation. The previous triennial actuarial valuation, on a Statutory Funding Objective basis, calculated a deficit for the Pension Scheme of £2.50m. As a result, the Company agreed with the Trustees to make contributions to the DB Scheme of £41,000 per month until April 2020 to eliminate this deficit. In addition, the Company pays the ongoing DB Scheme expenses of £10,600 per month.

In June 2016, the Company obtained guidance from the actuaries to increase the DB pension deficit by an additional £2.50m, following falls in corporate bond yields during the period. No significant changes in market conditions in the 12 months ended June 2017 have occurred and therefore no valuation has been performed, in line with guidance from the actuaries.

Capital Expenditure
Zotefoams is investing significantly in capacity to support future growth. Our largest project is extending our existing facility in Kentucky, USA., in total costing approximately $31m. The first high-pressure autoclave was delivered in March 2017 and the related gassing systems are currently being fitted. Other than this, all other ancillary equipment is largely in place, with the building infrastructure, raw material and extruder testing complete. Expected start-up is the fourth quarter. The second high-pressure autoclave was delivered to the US plant in July 2017 and will be brought into service when needed, at an additional cost of approximately $6m.

We also continue to invest in our Croydon, UK facility, increasing production capacity and capability. In the first half of 2017, as well as delivering projects to eliminate capacity bottlenecks and improve quality and efficiency, our team commissioned a polyethylene extrusion line and two low-pressure autoclaves for expansion of HPP products.

Employees and Talent Management
Talent management is becoming increasingly important as Zotefoams grows and evolves. The opportunities we have, in new products, markets and geographies, require that we identify and develop the right people to define and deliver to our potential. Over the past six months we have continued to recruit to meet the needs of our business.

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

Dividend
Reflecting the Board's continued confidence in the Group's future, the Directors have increased the interim dividend by over 3% to 1.91 pence per share (2016: 1.85 pence). The dividend will be paid on 12 October 2017 to shareholders on the Company's register at the close of business on 15 September 2017.

Principal 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 24 to 27 of the 2016 Annual Report. The specific principal risks (which could impact Zotefoams' sales, profits and reputation) and relevant mitigating factors, as currently identified by Zotefoams' risk management process, have not changed significantly since the publication of the last Annual Report and detailed explanations of these can be found in the 2016 Annual Report. Broadly, these risks include operational disruption, supply chain disruption, technological change and competitor activity, pension liabilities, foreign exchange, macro-economic factors, financing, commercial and people.

Current Trading and Prospects
In our AZOTE® Polyolefin Foams business, trading has continued strongly through July 2017 and the order book remains strong. Foreign exchange rates are currently at similar levels to those experienced in the second half of 2016 and therefore we anticipate no significant transactional impact for the remainder of the year. Indications are that pricing of LDPE will remain at a similar level to the first six months of this year. In our HPP business, we expect second-half growth to revert to our long-term growth trend expectations, after a very strong growth rate in the first half. In MEL, we expect to make continued progress in converting existing lines into production and benefit from the corresponding royalty income.

Outlook
We enter the second half of the year with a strong order book, a differentiated product portfolio, continued growth expectations across all business units and looking forward to commissioning our Walton, Kentucky, USA facility, which will increase global capacity by approximately 20%.

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

S P Good	D B Stirling
Chairman	Group CEO
7 August 2017	7 August 2017

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors confirm that these condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

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

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

The Directors of Zotefoams plc are listed in the Zotefoams plc Annual Report for 31 December 2016. A list of current Directors is maintained on the Zotefoams plc website: www.zotefoams.com

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.

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

By order of the Board:

S P Good	G C McGrath
Chairman	Group CFO
7 August 2017	7 August 2017

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CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Note	**Six months ended 30 June 2017 (unaudited) £'000**	Six months ended 30 June 2016* (unaudited) £'000	Year ended 31 December 2016* (audited) £'000
Group revenue	7	**33,842**	27,069	57,376
Cost of sales		**(21,826)**	(17,799)	(36,838)
Gross profit		**12,016**	9,270	20,538
Distribution costs		**(2,603)**	(2,760)	(5,551)
Administrative expenses pre exceptional item		**(5,313)**	(3,177)	(7,341)
Exceptional item	15	**(1,000)**	(262)	(242)
Total administrative expenses		**(6,313)**	(3,439)	(7,583)
Operating profit		**3,100**	3,071	7,404
Operating profit pre exceptional item		**4,100**	3,333	7,646
Finance costs		**(287)**	(288)	(393)
Net finance costs		**(287)**	(288)	(393)
Share of loss from joint venture		**(6)**	(17)	(21)
Profit before income tax		**2,807**	2,766	6,990
Profit before income tax pre exceptional item		**3,807**	3,028	7,232
Income tax expense	8	**(530)**	(522)	(1,294)
Profit for the period		**2,277**	2,244	5,696
Profit for the period pre exceptional item		**3,084**	2,506	5,890
Attributable to:				
Equity holders of the Parent		**2,277**	2,266	5,795
Non-controlling interest		**-**	(22)	(99)
		2,277	2,244	5,696
Earnings per share:				
Basic (p)	10	**5.20**	5.18	13.25
Diluted (p)	10	**5.11**	5.11	13.07

* In preparing the year ended 2016 Annual Report the Directors considered the classification of certain costs within the Consolidated Income Statement and, based upon this review, reallocated certain balances between cost of sales and distribution and administrative expenses. In order for the 30 June 2017 condensed consolidated interim Income Statement to be comparable, the same reclassification was performed for the six months ended 30 June 2016. Further details can be found in Note 7.

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000	Year ended 31 December 2016 (audited) £'000
Profit for the period	**2,277**	2,244	5,696
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss			
Foreign exchange translation (losses)/gains on investment in foreign subsidiaries	**(2,081)**	2,171	4,319
Actuarial losses on post employment benefit obligations	**-**	(2,534)	(2,707)
Tax relating to items that will not be reclassified	**-**	481	514
Total items that will not be reclassified to profit or loss	**(2,081)**	118	2,126
Items that may be re-classified subsequently to profit or loss			
Effective portion of changes in fair value of cash flow hedges	**497**	(915)	(159)
Tax relating to items that may be reclassified	**(94)**	174	29
Total items that may be reclassified subsequently to profit or loss	**403**	(741)	(130)
Other comprehensive (expense)/income for the period, net of tax	**(1,678)**	(623)	1,996
Total comprehensive income for the period	**599**	1,621	7,692
Attributable to:			
Equity holders of the parent	**599**	1,643	7,783
Non-controlling interest	**-**	(22)	(91)
Total comprehensive income for the period	**599**	1,621	7,692

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

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	30-Jun 2017 (unaudited) £'000	30-Jun 2016 (unaudited) £'000	31-Dec 2016 (audited) £'000
Non-current assets			
Property, plant and equipment	**50,975**	41,983	47,500
Intangible assets	**7,080**	7,219	7,547
Investments in joint ventures	**136**	163	142
Deferred tax assets	**859**	669	709
Total non-current assets	**59,050**	50,034	55,898
Current assets			
Inventories	**12,244**	10,898	12,307
Trade and other receivables	**19,844**	15,605	20,366
Derivative financial instruments	**223**	-	38
Cash and cash equivalents	**2,530**	2,578	2,868
Total current assets	**34,841**	29,081	35,579
Total assets	**93,891**	79,115	91,477
Current liabilities			
Trade and other payables	**(11,730)**	(8,482)	(10,195)
Derivative financial instruments	**(80)**	(1,110)	(392)
Current tax liability	**(1,489)**	(447)	(1,035)
Interest-bearing loans and borrowings	**(10,251)**	(1,146)	(9,156)
Bank overdraft	**(1,104)**	(2,900)	(805)
Total current liabilities	**(24,654)**	(14,085)	(21,583)
Non-current liabilities			
Interest-bearing loans and borrowings	**(4,869)**	(5,765)	(5,464)
Deferred tax liabilities	**(550)**	(499)	(608)
Post employment benefits	**(8,311)**	(7,621)	(7,439)
Total non-current liabilities	**(13,730)**	(13,885)	(13,511)
Total liabilities	**(38,384)**	(27,970)	(35,094)
Total net assets	**55,507**	51,145	56,383
Equity			
Issued share capital	**2,221**	2,221	2,221
Own shares held	**(27)**	(31)	(31)
Share premium	**24,340**	24,340	24,340
Capital redemption reserve	**15**	15	15
Translation reserve	**3,866**	3,807	5,947
Hedging reserve	**84**	(936)	(319)
Retained earnings	**25,008**	21,613	24,210
Total equity attributable to the equity holders of the Parent	**55,507**	51,029	56,383
Non-controlling interest	**-**	116	-
Total equity	**55,507**	51,145	56,383

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Six months ended 30 June 2017	Six months ended 30 June 2016	Year ended 31 December 2016
	(unaudited)	(unaudited)	(audited)
	£'000	£'000	£'000
Cash flows from operating activities			
Profit for the period	**2,277**	2,244	5,696
Adjustments for:			
Depreciation, amortisation and impairment	**1,649**	1,780	3,595
Finance costs	**287**	288	393
Share of loss from joint venture	**6**	17	21
Employee defined benefit service charges	**1,000**	-	-
Equity-settled share-based payments	**240**	75	269
Taxation	**530**	521	1,294
Operating profit before changes in working capital and provisions	**5,989**	4,925	11,268
(Increase)/decrease in trade and other receivables	**(326)**	2,175	(1,686)
Increase in inventories	**(341)**	(801)	(2,121)
Increase/(decrease) in trade and other payables	**796**	(1,039)	(412)
Employee defined benefit contributions	**(318)**	(330)	(692)
Cash generated from operations	**5,800**	4,930	6,357
Interest paid	**(108)**	(109)	(187)
Income tax paid	**(208)**	(715)	(1,000)
Net cash generated from operating activities	**5,484**	4,106	5,170
Cash flows from investing activities			
Interest received	-	-	-
Investment in non-controlling interest	-	-	(195)
Purchases of intangibles	**(78)**	(69)	(443)
Purchases of property, plant and equipment	**(4,885)**	(7,934)	(12,140)
Net cash used in investing activities	**(4,963)**	(8,003)	(12,778)
Cash flows from financing activities			
Proceeds from options exercised and issue of share capital	-	30	30
Repurchase of own shares	-	-	-
Repayment of borrowings	**(651)**	(457)	(1,319)
Proceeds from borrowings	**1,500**	-	7,894
Investment in subsidiary by non-controlling interest	-	-	-
Dividends paid	**(1,710)**	(1,664)	(2,474)
Net cash used in financing activities	**(861)**	(2,091)	4,131
Net decrease in cash and cash equivalents	**(340)**	(5,988)	(3,477)
Cash and cash equivalents at 1 January	**2,063**	5,269	5,269
Exchange (losses)/gains on cash and cash equivalents	**(297)**	397	271
Cash and cash equivalents at the end of period	**1,426**	(322)	2,063

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

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

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2017

	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 2017	**2,221**	**(31)**	**24,340**	**15**	**5,947**	**(319)**	**24,210**	**56,383**
Foreign exchange translation loss on investment in subsidiaries	**-**	**-**	**-**	**-**	**(2,081)**	**-**	**-**	**(2,081)**
Effective portion of changes in fair value of cash flow hedges net of recycling	**-**	**-**	**-**	**-**	**-**	**497**	**-**	**497**
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling	**-**	**-**	**-**	**-**	**-**	**(94)**	**-**	**(94)**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**2,277**	**2,277**
Total comprehensive income/(expenditure) for the period	**-**	**-**	**-**	**-**	**(2,081)**	**403**	**2,277**	**599**
Transactions with owners of the Parent:								
Options exercised	**-**	**4**	**-**	**-**	**-**	**-**	**(4)**	**-**
Equity-settled share-based payment transactions net of tax	**-**	**-**	**-**	**-**	**-**	**-**	**235**	**235**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**(1,710)**	**(1,710)**
Total transactions with owners of the Parent	**-**	**4**	**-**	**-**	**-**	**-**	**(1,479)**	**(1,475)**
Balance at 30 June 2017 (unaudited)	**2,221**	**(27)**	**24,340**	**15**	**3,866**	**84**	**25,008**	**55,507**

During the six-month period ended 30 June 2017, 79,512 shares vested and were issued from the Zotefoams Employee Benefit Trust ('EBT') following the exercise of these options.

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Share capital £'000	Own shares held £'000	Share premium £'000	Capital redemption reserve £'000	Translation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Non-controlling interest £'000	Total equity £'000
Balance at 1 January 2016	2,221	(38)	24,340	15	1,636	(195)	23,003	138	51,120
Foreign exchange translation gains on investment in subsidiaries	-	-	-	-	2,171	-	-	-	2,171
Effective portion of changes in fair value of cash flow hedges net of recycling	-	-	-	-	-	(915)	-	-	(915)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling	-	-	-	-	-	174	-	-	174
Actuarial losses on defined benefit pension scheme	-	-	-	-	-	-	(2,534)	-	(2,534)
Tax relating to actuarial loss on defined benefit pension scheme	-	-	-	-	-	-	481	-	481
Profit/(loss) for the period	-	-	-	-	-	-	2,266	(22)	2,244
Total comprehensive income/(expenditure) for the period	-	-	-	-	2,171	(741)	213	(22)	1,621
Transactions with owners of the Parent:									
Options exercised	-	7	-	-	-	-	23	-	30
Equity-settled share-based payment transactions net of tax	-	-	-	-	-	-	38	-	38
Dividends paid	-	-	-	-	-	-	(1,664)	-	(1,664)
Total transactions with owners of the Parent	-	7	-	-	-	-	(1,603)	-	(1,596)
Balance at 30 June 2016 (unaudited)	2,221	(31)	24,340	15	3,807	(936)	21,613	116	51,145

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

ZOTEFOAMS

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. GENERAL INFORMATION

Zotefoams plc (the 'Company') and its subsidiaries (together, 'the Group') manufacture and sell cellular materials and, through MuCell Extrusion LLC ('MEL'), licence microcellular foam technology and supply related equipment. The Group has manufacturing sites in the UK and the USA and sells into worldwide markets. 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 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 Group's published consolidated financial statements for the year ended 31 December 2016. Those consolidated financial statements were prepared in accordance with IFRS as adopted by the EU.

This condensed set of consolidated interim financial statements has been reviewed, but not audited, and was approved for issue on 7 August 2017. 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 2016 were approved by the Board of Directors on 20 March 2017 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.

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

The Group meets its day-to-day working capital requirements through its banking facilities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. Having assessed the principal risks and the other matters discussed in connection with the viability statement as disclosed in the year ended 31 December 2016 Annual Report, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing its condensed set of consolidated interim financial statements

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the Group's published consolidated financial statements for the year ended 31 December 2016, 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.

4. SEASONALITY OF OPERATIONS

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

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, 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 of which form the basis for 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 2016, with the exception of changes in estimates that are required in determining the provision for income taxes.

6. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of amendments to IFRSs became effective for the financial year beginning on 1 January 2017, however, the Group did not have to change its accounting policies or make material retrospective adjustments as a result of adopting these new standards.

7. SEGMENT REPORTING

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

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

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

Six months ended 30 June (unaudited)	Polyolefin Foams 2017 H1 (unaudited) £'000	Polyolefin Foams 2016 H1 (unaudited) £'000	HPP 2017 H1 (unaudited) £'000	HPP 2016 H1 (unaudited) £'000	MEL 2017 H1 (unaudited) £'000	MEL 2016 H1 (unaudited) £'000	Consolidated 2017 H1 (unaudited) £'000	Consolidated 2016 H1 (unaudited) £'000
Group revenue	**26,905**	22,789	**4,979**	3,174	**1,958**	1,106	**33,842**	27,069
Segment profit/(loss) pre amortisation	**5,728**	3,832	**652**	300	**(704)**	(241)	**5,676**	3,891
Amortisation of acquired intangible assets	**-**	(24)	**-**	**-**	**(165)**	(162)	**(165)**	(186)
Segment profit/(loss)	**5,728**	3,808	**652**	300	**(869)**	(403)	**5,511**	3,705
Foreign exchange (losses)/gains	**-**	**-**	**-**	**-**	**-**	**-**	**(266)**	510
Unallocated central costs	**-**	**-**	**-**	**-**	**-**	**-**	**(1,145)**	(882)
Operating profit/(loss) pre exceptional item	**5,728**	3,808	**652**	300	**(869)**	(403)	**4,100**	3,333
Segment assets	**73,535**	60,501	**10,576**	9,941	**8,562**	7,841	**92,673**	78,283
Unallocated assets	**-**	**-**	**-**	**-**	**-**	**-**	**1,218**	832
Total assets	**-**	**-**	**-**	**-**	**-**	**-**	**93,891**	79,115
Segment liabilities	**(33,855)**	(23,842)	**(1,606)**	(1,446)	**(804)**	(626)	**(36,265)**	(25,914)
Unallocated liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**(2,119)**	(2,056)
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**(38,384)**	(27,970)

Following a reassessment of cost classifications for the year end 2016, certain costs at the Group's subsidiaries, previously recognised in the period ended 30 June 2016 as cost of sales, have been reclassified to distribution and administrative costs of £0.7m and £0.5m respectively, impacting the Group's gross margin percentage. For the year ended 31 December 2016, costs previously recognised as cost of sales, were reclassified to distribution and administrative costs of £1.3m and £0.9m respectively, impacting the Group's gross margin percentage.

	United Kingdom & Eire (unaudited) £`000	Continental Europe (unaudited) £`000	North America (unaudited) £`000	Rest of the world (unaudited) £`000	**Total (unaudited) £`000**
For the period ended 30 June 2017					
Group revenue from external customers	**6,409**	**12,454**	**9,757**	**5,222**	**33,842**
Non-current assets	**30,082**	**-**	**28,345**	**623**	**59,050**
For the period ended 30 June 2016					
Group revenue from external customers	5,684	10,828	7,850	2,707	27,069
Non-current assets	28,281	-	21,155	598	50,034

8. INCOME TAX EXPENSE

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000
Current Tax:		
UK Corporation Tax	**611**	433
Overseas taxation	**27**	3
Adjustment in respect of prior years	**-**	-
Current taxation	**638**	436
Deferred Tax	**(108)**	86
Total tax charge	**530**	522

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the six months ended 30 June 2017 was 19% (2016:19%).

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

9. DIVIDENDS

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000
Final dividend for the year ended 31 December 2016 of 3.90p (2015: 3.80p) per share	**1,710**	1,664

The final dividend for the year ended 31 December 2016 was paid on 25 May 2017. The interim dividend of 1.91p (2016: 1.85p) per share, amounting to £0.8m (2016: £0.8m) has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the year to 31 December 2017.

10. EARNINGS PER SHARE

Earnings per ordinary share is calculated by dividing consolidated profit after tax attributable to equity holders of the Parent Company of £2.28m (2016: £2.27m) by the weighted average number of shares in issue during the period, excluding own shares held by employee trusts which are administered by independent trustees. The number of shares held in the trust at 30 June 2017 was 549,467 (2016: 628,979). Distribution of shares from the trust is at the discretion of the trustees. Diluted earnings per ordinary share adjusts for the potential dilutive effect of share option schemes in accordance with IAS 33 Earnings per share.

	Six months ended 30 June 2017 (unaudited) £'000	Six months ended 30 June 2016 (unaudited) £'000
Weighted average number of ordinary shares in issue	**43,819,872**	43,715,063
Deemed issued for no consideration	**777,305**	603,994
Diluted number of ordinary shares issued	**44,597,177**	44,319,057

11. 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 consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 December 2016. 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 2017.

	Level 1 £'000 (unaudited)	**Level 2 £'000 (unaudited)**	**Level 3 £'000 (unaudited)**	**Total £'000 (unaudited)**
Assets				
Forward exchange contracts	-	**223**	-	-
Total assets	-	**223**	-	-
Liabilities				
Forward exchange contracts	-	**(80)**	-	-
Total liabilities	**-**	**(80)**	**-**	**-**

The following table presents the Group's financial instruments that are measured at fair value at 30 June 2016.

	Level 1 £'000 (unaudited)	Level 2 £'000 (unaudited)	Level 3 £'000 (unaudited)	Total £'000 (unaudited)
Liabilities				
Forward exchange contracts	-	(1,110)	-	(1,110)
Total liabilities	-	(1,110)	-	(1,110)

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 (excluding bank overdraft) is as follows:

	30 June 2017 (unaudited) £'000	30 June 2016 (unaudited) £'000
Current	**10,251**	1,146
Non-current	**4,869**	5,765
Total	**15,120**	6,911

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

- Trade and other receivables
- Other current financial assets
- Cash and cash equivalents (including bank overdraft)
- Trade and other payables
- Other current liabilities

12. RELATED PARTY TRANSACTIONS

There were no material related party transactions requiring disclosure for the periods ended 30 June 2017 and 30 June 2016.

13. BORROWINGS

On 16 March 2017, the Group and Company increased its multi-currency revolving credit facility ('RCF') by a further £2m, bringing the total to £10m, secured on the property and book debts of the Company. This facility has financial covenants on net debt/EBITDA and EBIT/gross financing costs ratios. During 2016 an RCF of £8m was taken out and the bank overdraft facility reduced to £2.0m.

14. CAPITAL COMMITMENTS

Capital expenditure commitments of £3.2m (2016: £9.5m) have been contracted for at the end of the reporting period but not yet incurred, and are in respect of Property, Plant and Equipment.

15. EXCEPTIONAL ITEMS

Items that are material either because of their size or their nature, or that are non-recurring, are considered as exceptional items and are presented within the line items to which they best relate. During the current period, following legal advice received by the pension trustees and an estimate calculated by the actuaries, the Company has provided £1m for potential additional liabilities in its Defined Benefit Pension Scheme. This cost has been included in the condensed consolidated interim Income Statement as an operating exceptional cost.

During the prior period, the exceptional item related to redundancy costs totalling £0.3m as a result of the efficiency improvement programme, which have been included in the condensed consolidated interim Income Statement as an operating exceptional cost.

16. EVENTS OCCURING AFTER THE REPORTING PERIOD

An interim dividend of 1.91p per share (2016: 1.85p per share) was proposed by the Board of Directors on 7 August 2017. It is payable on 12 October 2017 to shareholders who are on the register at 15 September 2017. This interim dividend has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the year to 31 December 2017. On 4 August 2017, the Group and Company raised a £7.5m debt facility, secured on the plant and equipment, and fixtures and fittings of the Company.