Zotefoams plc

Preliminary Results (unaudited) for the Year Ended 31 December 2017

13 March 2018 – Zotefoams plc ("Zotefoams" or "the Company" or "the Group"), a world leader in cellular material technology, today announces its unaudited preliminary results for the twelve months ended 31 December 2017.

Another record year for sales and profits

- 22% increase in Group revenue to a record £70.15m (2016: £57.38m)
    - 18% up in AZOTE® foams, with strong market mix improvements
    - 32% up in High-Performance Products (HPP)
    - 56% up in MuCell Extrusion
- 17% increase in Group revenue in constant currency
- 22% increase in reported profit before tax and exceptional items to a record £8.81m (2016: £7.23m)
- 8% increase in reported profit before tax to £7.55m (2016: £6.99m)

An important period in the delivery of our strategy

- Completed our major US capacity expansion investment, which is now producing high-quality foam
- Entered into a strategic partnership with Nike, augmenting growth prospects in HPP
- Significant expenditure to deliver capacity for expected future growth
    - Commenced £12m low-pressure capacity investment in the UK
    - Approved further investment of $9m to double high-pressure autoclave capacity in Kentucky, USA

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

"In 2017 Zotefoams delivered significant financial and strategic progress. Sales and profits grew strongly to record levels and key investments to support future growth progressed well.

The year has started positively, with first quarter order volumes 8% higher than 2017 and an increased proportion of higher-value HPP sales. Our investment in capacity in Kentucky, USA has now been commissioned and we made the first sales in February 2018. We have also broken ground on our investment in Croydon, which increases low-pressure capacity for our HPP businesses by a factor of six. The Board has now approved the commissioning of our second high-pressure autoclave in the USA, with a view to having this operational in late 2019.

We believe that investment in product and market development over the past years, together with investment in capacity to meet expected future levels of demand, leave us well placed to support future growth and, while being mindful of the risks posed by the macroeconomic environment and a strengthening in the value of Sterling, the Board remains confident about the future prospects for our business."

The preliminary results presentation for the year ended 31 December 2017 will be made available on the investors section of the Company's website during the day.

Enquiries:

Zotefoams plc **+44 (0)208 664 1600**
David Stirling, Group CEO
Gary McGrath, Group CFO

IFC Advisory **+44 (0)203 934 6630**
Graham Herring
Miles Nolan
Zach Cohen

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

Chairman's Statement

I am pleased to report a very successful year of strong sales and earnings growth and significant progress in the development of our business, with the commissioning of our largest ever capital investment project and the creation of an important strategic partnership with Nike.

2017 performance

Group sales grew 22% to £70.15m (2016: £57.38m) and profit before tax and exceptional items also grew 22% to £8.81m (2016: £7.23m). Earnings per share before exceptional items rose 17% from 13.69p to 16.04p. Profit before tax increased by 8% to £7.55m (2016: £6.99m) and earnings per share was up 3% to 13.70p (2016: 13.25p).

All business segments reported strong sales growth and our pipeline of commercial opportunities developed positively throughout the year. We have continued to invest in product and market development as well as the governance structure to support an increasingly international, high-growth business.

Investments

The first phase of investment, HP1, at our site in Kentucky, USA has now been successfully commissioned, increasing Group high-pressure autoclave capacity by over 20%. Further capacity investment, this time in low-pressure autoclaves and infrastructure, at a cost of £12m, was approved during 2017 for our Croydon, UK site, primarily for expansion of our ZOTEK® range of HPP foams.

The Board has also assessed a number of additional capacity options. It has decided, as a first step, to proceed with the installation of a second high-pressure autoclave (HP2) at our site in Kentucky at a cost of some $9m, which also includes a supporting extrusion line. The investment should deliver similar incremental capacity to HP1 and is expected to be commissioned in late 2019.

This is an exciting time for Zotefoams. We have a strong portfolio of differentiated products and growth opportunities and we will continue to invest in capacity to enable these to be delivered.

Dividend

The Board is proposing a final dividend of 4.02p per ordinary share (2016: 3.90p) which, if approved by shareholders, would make a total of 5.93p per ordinary share for the year (2016: 5.75p), an increase of 3.1%. This reflects the Board's continued confidence in the Group's future and is in line with the targeted policy of paying a progressive dividend. If approved, the final dividend will be paid on 24 May 2018 to shareholders on the register on 20 April 2018.

Board changes and governance

In August 2017 the Board appointed Doug Robertson as a Non-Executive Director and Chair of the Audit Committee. Doug succeeded Marie-Louise Clayton, who retired from the Board on 30 September 2017 and, on behalf of the Board, I would like to thank her for her contribution both as Non-Executive Director and Audit Committee Chair during the six years that she served on the Board. After 10 years on the Board Richard Clowes will be retiring at the AGM on 16 May 2018 and, to prepare for this, on 2 January 2018 Jonathan Carling joined the Board as a Non-Executive Director. I would like to express my thanks to Richard for his guidance and significant contribution to the Board throughout his tenure. We are pleased to announce that Doug Robertson will be replacing Richard as the Senior Independent Director upon his departure. We have a refreshed Board with a good balance of experience to challenge, guide and support the Executives in the delivery of our strategy.

People

Zotefoams relies on the skills, effort and dedication of our people and ensuring that we have the right people and talent for the future needs of our business is critical. I would like to welcome those who have joined during the past twelve months and extend my thanks to each and every one of our hard-working employees who have made 2017 a very successful year.

Steve Good
Chairman
12 March 2018

CEO Strategic Review

Another Year of Progress
Zotefoams has performed strongly, delivering organic revenue growth of 22% to £70.15m (2016: 57.38m) and profit before tax growth, before exceptional items, of 22% to £8.81m (2016: £7.23m). Our strategy is to utilise our unique, cellular materials technology to manufacture value-added foam products and license related intellectual property. The markets in which we operate are driven by global trends - demographic, environmental and regulatory - which we believe offer potential for high rates of market growth as well as opportunity for our disruptive technology solutions.

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

1. Our HPP and MuCell business units, which offer these unique, disruptive products and solutions, grew 32% and 56% respectively and together now account for 25% of Group revenues.
2. Sales of our highly differentiated AZOTE® polyolefin foam products grew by 18%, well above our target rate of twice global GDP growth.
3. Group operating margins were 13.4% (2016: 13.3%), as underlying operating profit, measured as the sum of segment margins, increased to 17.2% (2016: 16.8%).
4. Group return on capital, which excludes large asset investments not yet commissioned, increased to 15.5% from 14.0%.

With record sales and profits in 2017, Zotefoams is becoming more international, more diversified and has a strong portfolio of opportunities to deliver further organic growth in line with our stated strategic intent.

Key Investments
Zotefoams' core autoclave technology is asset intensive with high barriers to entry on cost, lead-time and know-how. We took the decision in late 2014 to invest significantly in our site in Kentucky, USA and the $33m investment included infrastructure, extrusion and two high-pressure autoclaves, the first of which, HP1, has now been successfully commissioned. Recently, the Board of Zotefoams approved the commissioning of the second high-pressure autoclave (HP2) and associated extrusion equipment at an additional cost of $9m. This positions Kentucky as a significant, stand-alone contributor to Group capacity, initially focused on AZOTE® polyolefin foams, with the site large enough for further investment if needed. During 2017 we also approved a £12million investment for infrastructure and two low-pressure autoclaves for our Croydon, UK site, primarily for expansion of our ZOTEK® range of HPP foams. This recent acceleration of capacity investment is all growth related, with expectations of increased revenues driven by our portfolio of differentiated products and market opportunities. In total we have committed to increasing our capacity by c45% over 2017 production run rates.

The HP1 investment cost more and took longer than initially anticipated. While this is disappointing, we have learned significant lessons from this, including improved clarity on certain costs, management of the risks associated with long-lead-time, specialist, equipment and the potential opportunity loss from lack of capacity. We therefore emerge as a better-informed organisation, more capable of managing similar investments in the future, whilst recognising that risks to execution remain on large and complex capital projects.

Zotefoams' organic growth strategy requires that we invest in product and market development as well as in the governance structure to support an increasingly international business. We have therefore seen a large increase in our administration and distribution costs, including technical and market development, linked to both current and expected future states of the Zotefoams business. Cost investment currently exceeds revenue in three major product groups, MuCell Extrusion, T-FIT® insulation and ZOTEK® N foams, which, together, represent £7.1m of Group revenues (2016: £4.56m) and, we believe, are well positioned for long-term profitable growth.

Polyolefin Foams

	2017 £m	2016[2] £m	% Change
Group revenue	**52.82**	44.73	18%
Segment profit pre amortisation[1]	**10.29**	8.00	29%
Segment profit post amortisation	**10.29**	7.96	29%
Segment profit margin[1]	**19%**	18%	

1 Excludes amortisation of acquired intangible items
2 Excludes exceptional items

Sales in Polyolefin foams increased by 18% to £52.82m (2016: £44.73m), with segment profit increasing by 29% to £10.29m (2016: £7.96m).

AZOTE® polyolefin foams are manufactured using our unique, high-pressure nitrogen gas, autoclave process. This segment represented 75% of Group revenues and is the original and most diversified part of the Zotefoams business. AZOTE® foams are more consistent, lighter weight and possess higher purity than foams manufactured using chemical technology. These attributes make our foams ideal for multiple use or "permanent" storage packaging, lightweight parts in aircraft, cars and trains, construction applications and medical equipment.

During 2017 we operated the Croydon facility at its effective capacity, increasing sales volumes globally by around 7%. Price increases and a better mix of sales, both by product and market, contributed 6% to revenue growth while more favourable exchange rates, mainly compared to the first six months of 2016, benefitted revenues by 5%. In continental Europe much of the mix impact was realised in Germany, where direct supply into a larger number of customers benefitted both pricing and business development. In North America the major impact was from our foam cutting operation in Tulsa, Oklahoma, which was operational for the full 12 months, increasing selling prices with their value-added processing of our materials. In the UK & Eire and Asia revenues increased by 7% and 25% respectively.

The operational leverage impact of higher sales, while operating at capacity, meant that profits increased significantly in an environment of modest labour cost increases and stable prices for LDPE, our main raw material, despite a more difficult inflationary environment in some other materials and energy.

Increasingly our sales resource is spent specifying our product at end users, often in collaboration with channel members. As additional capacity comes on line we believe this is the right approach to enhance the quality of our business, along with product range enhancement and selected value-added services.

HPP

	2017 £m	2016 £m	% Change
Group revenue	**13.15**	9.99	32%
Segment profit pre amortisation	**3.16**	2.48	27%
Segment profit post amortisation	**3.16**	2.48	27%
Segment profit margin	**24%**	25%	

HPP comprises ZOTEK® technical foams and T-FIT® insulation materials. Sales increased by 32% to £13.15m (2016: £9.99m) and segment profit increased by 27% to £3.16m (2016: £2.48m).

HPP is a portfolio of products, where our unique autoclave technology is applied to a variety of high-performance plastics to create foams with specific attributes. These attributes, such as excellent fire resistance, high-temperature performance, energy management, etc., are designed to meet the exacting needs of industries such as aviation, automotive, bio-tech and pharmaceutical and sports equipment. We see excellent opportunities to continue the growth experienced to date and we allocate resource and development priority accordingly.

2017 saw very strong growth in ZOTEK® PEBA foams used in footwear. In December 2017 we announced a significant strategic partnership with Nike, focused on this market segment, which is now receiving a substantially larger allocation of resource and investment aligned to its continued growth potential. ZOTEK® F fluoropolymer foams are mainly sold for aviation applications and, although remaining the largest element of HPP, the 2017 performance was below expectations, and against trend, with sales declining year-on-year due mainly to destocking in the downstream supply chain to Boeing. ZOTEK® Nylon foam sales have developed as expected, with a growing portfolio of opportunities in transportation markets, but are currently a small part of this portfolio. Sales of T-FIT® advanced insulation grew strongly within the biotech and pharmaceutical markets and, in late 2017, we launched product line extensions, using a lower-cost manufacturing process, targeted at food, dairy and general process industries.

During 2017 we continued the development of complex three-dimensional foams. The solid parts are made by injection moulding, rather than extrusion, which offers the possibility of creating bespoke parts that retain their shape when foamed in Zotefoams' autoclave process, enabling Zotefoams to provide parts which are close to the final dimensions required by some end-users. The development is proceeding well and we expect a trial launch late in 2018. The development is initially focused on our ZOTEK® foams, where material yield is particularly important due to the higher cost of the polymers used.

MuCell Extrusion

	2017 £m	2016 £m	% Change
Group revenue	**4.25**	2.73	56%
Segment loss pre amortisation	**(1.03)**	(0.40)	(158)%
Amortisation of acquired intangibles	**(0.33)**	(0.42)	
Segment loss post amortisation	**(1.36)**	(0.82)	(66%)

MuCell Extrusion LLC ('MEL') licenses microcellular foam technology and sells related machinery. Sales increased by 56% to £4.25m (2016: £2.73m) and segment loss, before amortisation, increased to £1.03m (2016: £0.40m).

MEL's business model is to develop and license intellectual property ("IP"). MEL technology offers the potential to reduce the plastic content of an article by around 15% by injecting inert gas to displace plastic with microcellular bubbles. MEL technology can be used with most common plastics and reduces material consumption with no negative impact on recycling. Initially, MEL will sell equipment to augment an existing extrusion line and, when the licensee is in production and saving money, MEL will collect a share of those savings as a licence fee and/or royalty payment.

In 2017 equipment revenue grew 72% to £3.24m (2016: £1.88m), with one large contract accounting for approximately 39% of equipment sales, while licence fees and royalty revenue increased 19% to £1.01m (2016: £0.85m). Our potential base of royalty-generating machines grew 18%, with 131 MuCell units installed at MEL licensees (2016: 111). As there is often a time-lag for end-user adoption, a key metric is the number of machines actually in production, which increased by 46% to 83 machines (2016: 57), many of which are not yet operating at full potential. Segment loss increased as expected due to investment in people, including a dedicated IP manager, as well as non-recurring costs of £0.29m related primarily to write-downs of inventory, mostly costs of machinery developments which have been superseded. As most of the value created by MEL is royalty fees from contracts, often over terms exceeding 10 years, management are also measured on the expected present value of contracts. This key performance indicator increased significantly over the 12 months to 31 December 2017. Management believe that increases in this metric, growing licence and royalty income, as well as creation of value through new IP, where we made good progress in 2017 and have some potentially significant developments to patent in 2018, continue to indicate a positive future for MEL.

Current Trading and Outlook

The year has started positively, with first quarter order volumes 8% higher than 2017 and an increased proportion of higher-value HPP sales. Our investment in capacity in Kentucky, USA has now been commissioned and we made the first sales in February. We have also broken ground on our investment in Croydon, which increases low-pressure capacity for our HPP businesses by a factor of six. The Board has now approved the commissioning of our second high-pressure autoclave in the USA, with a view to having this operational during 2019.

We believe that investment in product and market development over the past years, together with investment in capacity to meet expected future levels of demand, leave us well placed to support future growth and, while being mindful of the risks posed by the macroeconomic environment and a strengthening in the value of Sterling, the Board remains confident about the future prospects for our business.

David Stirling
Group CEO
12 March 2018

Financial Review

Overview
Zotefoams has delivered a strong year of progress in 2017. Growth rates in excess of 20% were achieved in both sales and operating profit before exceptional items.

Group revenue was up 22% to a record £70.15m, with strong sales performance across all business units. In constant currency, underlying net sales increased 17%. Operating profit before exceptional items was up 23% (up 10% after exceptional items), as the Group grew strongly in its European polyolefin business and developed a more broadly based HPP business, whilst continuing with its investments in operating infrastructure as the Group pursues its expansion strategy. In constant currency, underlying operating profit before exceptional items was up 18%. During the year, following legal advice received by the pension trustees and a calculation by the actuaries, the Company provided £1.24m for potential additional liabilities in its Defined Benefit Pension Scheme (the "DB Scheme"), related to closure of the scheme in 2005.

Capital investment, to increase capacity for organic growth opportunities, was again high, falling just short of the record high of 2016. Zotefoams' products are created in a unique, capital intensive manufacturing process and the Group's three-year, $33m investment in Kentucky, USA adds at least 20% to global capacity. This capital investment, together with expansion-related working capital growth, has increased net debt by £5.4m to £18.0m in 2017, supported by an increase in facilities of £9.5m from the Group's existing banking partnerships. With the Group's high cash generation, gearing remained well within banking covenants at 1.5 times. Driven by its exciting growth opportunities and strong margins, Zotefoams intends to continue to invest in necessary capacity whilst maintaining a strong financial position with manageable debt levels. Reflecting this, the Group recently announced an investment in HPP capacity in the UK as well as the commissioning of its second high-pressure autoclave in the USA. To support these investments, it secured a further £10m of financing in early March 2018.

Group revenue
Group revenue for the year increased 22% to £70.15m (2016: £57.38m). Volume growth, at 7%, (2016: 4%) was significant and took the Group close to capacity throughout the year. The switch in approach from a distribution model to direct engagement with customers in Germany was the major contributor to 26% sales growth in the European polyolefin foams business and a full year of Zotefoams Midwest helped increase sales by 15% in the USA Polyolefin business. HPP sales were up 32%, with footwear and technical insulation leading the way. MuCell recorded an increase of 56% in sales, driven by the shipment of a full extrusion line to a customer in Japan, representing MEL's largest individual equipment order and providing further evidence of market confidence in the technology and its prospects.

Gross margin
Gross margin progressed to 36.3% (2016 restated: 35.4%). The restatement of 2016 gross margin arose following the reclassification of £0.2m of distribution costs to more appropriately reflect the manufacturing activities at MuCell. Polyolefin price increases, sales mix, some foreign currency benefits and operations efficiencies pushed margins up. Energy cost increases, together with, for the most part, non-recurring inventory adjustments in HPP and MuCell, held back some of this margin gain.

Distribution and administrative costs
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 and highly differentiated 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 Consolidated 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 increased by 27% to £16.11m in 2017 (2016 restated: £12.69m). The Group expects this investment to continue, not least with the commissioning of its US investment in February 2018. These costs also include a net loss from foreign exchange hedging contracts and foreign exchange translation of £0.32m (2016 net loss: £0.03m).

In 2017 central plc costs were £2.40m (2016: £1.94m), including the full year impact of an increase in the executive management team.

Finance costs
The total interest charge for year was £0.51m (2016: £0.39m) and includes £0.19m (2016: £0.19m) of interest on the Company's defined benefit pension obligation.

Profit before tax
Profit before tax and exceptional items increased by 22% to £8.81m (2016: £7.23m). Profit before tax increased by 8% to £7.55m (2016: £6.99m).

Exceptional item
During the year, following legal advice received by the pension trustees and a calculation by the actuaries, the Company provided £1.27m for potential additional liabilities in its Defined Benefit Pension Scheme (the "DB Scheme"). This is based on the legal opinion that, while the DB Scheme was properly closed to future accrual of service in 2005, the linkage with future increases in salary had not been broken. The Company is now taking steps to break this link, and £0.03m of the exceptional item relates to this action.

Currency review
Zotefoams is predominantly a UK-based exporter. In 2017 approximately 82% of sales were denominated in US dollars and euros. Most costs are incurred in sterling, other than our main raw materials for polyolefin foams, which are euro-denominated, and subsidiaries staff, operational costs and some HPP raw materials, which are US dollar-denominated. Movements in foreign exchange rates can have a significant impact on results. The Group therefore uses forward exchange rates to hedge its foreign currency transaction risk. Zotefoams' policy is to use forward currency contracts to cover approximately two-thirds of the estimated net cash foreign exchange exposure for the euro for the next nine months and approximately two-thirds of the estimated Income Statement

exposure for the US dollar for the next twelve months. The Group does not hedge for the translation of its foreign subsidiaries assets or liabilities. This policy is kept under frequent review and formally approved by the Board on an annual basis.

During the year the Group generated a net gain on forward contracts of £0.19m (2016 loss: £2.01m.) This was offset by a translation loss, primarily on the Company's US dollar receivables, of £0.51m (2016 gain: £1.98m).

It is estimated that, for every one percent move in the USD/£ rate, profit moves by £0.06m hedged and £0.17m unhedged. In the year it is assumed that the Euro is naturally hedged, with sales revenues offset by costs, primarily related to raw material purchases and certain further processing costs. With future growth coming mainly from outside the UK and a pricing approach predominantly based on local currency, the Group's gross exposure to currency is expected to increase. The investment in US capacity, which increases the local manufacturing cost base, helps to mitigate some of this exposure, and future capital and financing decisions will also consider this risk.

The currency impact on business segments in 2017 was as follows:

Group revenue	2017	2017	2016	Net change %	
£m	Reported	Adjusted*	Reported	Reported	Adjusted*
Polyolefin foams	52.82	50.51	44.73	18%	13%
HPP	13.15	12.77	9.99	32%	28%
MuCell	4.25	4.08	2.73	56%	49%
Eliminations	(0.07)	-	(0.07)	-	-
Group	70.15	67.36	57.38	22%	17%

*Constant currency

Exchange rates

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

	2017	2016
GBP to Euro – average	**0.88**	0.82
GBP to Euro – year-end spot	**0.89**	0.85
GBP to USD – average	**0.78**	0.75
GBP to USD – year-end spot	**0.74**	0.82

Tax and earnings per share

The effective tax rate for the year is 20.40% which is higher than the UK corporate tax rate for the year of 19.25%. This is mainly due to the change in expected future US corporate tax rates from 35% to 21%, which has reduced the tax values of recognised US tax losses carried forward and other deductible temporary differences. This is partly offset by the change in the expected UK corporate tax rate from 19% to 17%, which has reduced the tax value of UK deferred tax assets and liabilities. The Group's effective tax rate would be 19.93% without these changes. Taxation paid during the year was £0.94m (2016: £1.00m).

Basic earnings per share before exceptional items was 16.04p (2016: 13.69p), an increase of 17%. Basic earnings per share was 13.70p (2016: 13.25), an increase of 3%.

Dividend

The Directors are proposing a final dividend of 4.02p (2016: 3.90p), which would be payable on 24 May 2018 to shareholders on the Company register at the close of business on 20 April 2018. Taken with the interim dividend of 1.91p (2016: 1.85p) this would bring the total dividend for the year to 5.93p per ordinary share (2016: 5.75p), an increase of 3.1%, in line with the Group's targeted policy of paying a progressive dividend. It would also represent a dividend cover of 2.3 times (2016: 2.2 times).

Investments

Zotefoams' strategy is focused primarily on organic growth. Over the last 3 years Zotefoams has invested £32.4m in property, plant and equipment, the majority of which has been to increase capacity in its unique technology. In December 2017 and March 2018 Zotefoams announced further capacity investments, which amount to approximately £20m over the next 12-18 months and are in excess of the normal level of capital investment required in our organisation. Given the capital intensiveness of the Zotefoams business, long lead-times for key equipment and the importance of operational gearing, investment decisions require significant planning and are made with a clear assessment of strategic fit, risk and risk appetite. Confidence in the Group's developing portfolio of HPP opportunities is a significant consideration in determining the timing of certain investments, while the strategic importance of maintaining growth in the profitable AZOTE® business, the Company's largest volume product range, informs the decision to increase total Group capacity versus rely solely on mix enrichment.

Investment decisions target improvements in the Group's return on capital over the investment cycle, while recognising the short-term impact on this return during construction and operating initially at lower utilisation levels. Zotefoams defines its return on capital as operating profit before exceptional items divided by the average sum of its equity, net debt and other non-current liabilities. This measure excludes acquired intangible assets and their amortisation costs. Zotefoams also excludes significant capacity investments under construction until they enter production. In 2017 the return on capital increased to 15.5% (2016 restated: 14.0%). If the significant capacity investments were included, the return on capital increased to 12.07% from 11.94%.

In previous years the Group has defined its return on capital as profit before tax excluding exceptional items, divided by average net assets, with goodwill, acquired intangible assets and associated amortisation excluded from the calculation. As Zotefoams' business grows it has made, and further committed to, large capital programmes which change the shape of the balance sheet. As the Group takes on debt to support its growth plans the revised definition is considered more appropriate to measure capital employed.

The Board performs post investment appraisals within an appropriate timeframe following start up.

Cash flow and funding

Net cash inflow from operations for the year increased to £9.98m (2016: £6.36m), resulting from an increase in operating profit, before working capital and provisions, of £2.03m and an improvement in working capital outflow by £1.52m to £2.70m (2016: £4.22m), following improved collection of receivables and the timing of key supplier payments. This working capital movement includes an increase in inventory of £2.80m (2016: 2.12m), mostly related to growth in the higher-value HPP products.

Zotefoams continued to invest significantly in its property, plant and equipment during the year, with a net cash outflow of £11.39m in 2017 following a cash outflow of £12.14m in 2016. The Group's largest project has been the extension of its existing facility in Kentucky, USA, to deliver at least 20% additional capacity for block foams. During 2017 the Group invested £7.04m (2016: £6.90m) in the US expansion project, bringing the total investment at 31 December to £22.00m. It also continued to invest in its Croydon, UK facility, increasing capacity, capability and continuing to ensure a safe working environment.

After dividends paid in the year amounting to £2.55m (2016: £2.47m), closing net debt was £17.96m (2016: £12.56m). In March 2017, Zotefoams 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, Croydon plant and machinery-backed, £7.5m variable rate loan facility with Lombard North Central, with whom the Group has a longstanding relationship.

Subsequent to the balance sheet date, in March 2018, the Group secured a further funding facility from Barclays Bank plc in the form of a £10m,18-month term loan. This will allow the Group to proceed with its capital expenditure strategy, including the installation of the second high-pressure vessel in Kentucky, USA.

At the year end the Group remains comfortably within its covenants, with interest cover of 29 (2016: 37), versus a covenant minimum of 4 and net borrowings to EBITDA of 1.4 (2016: 1.2), against a maximum of 2.5.

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 is taking its own legal advice, but feels it is appropriate at this stage to provide for the possible increase in liability.

The DB Scheme actuaries estimate an additional potential liability of £1.24m. The Directors are in the process of considering options available to mitigate this potential liability and seek redress where appropriate. The exceptional charge represents 4% of the DB Scheme obligation as at 31 December 2017 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 as at 5 April 2017, in line with the requirement to have a triennial valuation. As at the date of announcement of these results, the final outcome is still pending. 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.

The net IAS19 deficit on the Company's Defined Benefit Pension Scheme (the "Scheme") decreased by £1.27m to £6.17m as at December 2017 (2016: £7.44m). The main factors contributing to the improvement are the actual investment return achieved on the assets being higher than that required to match the expected increase in defined benefit obligation over the year, and the contributions paid during the year by the Company towards reducing the deficit.

Gary McGrath
Group CFO
12 March 2018

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	**Unaudited 2017 £'000**	Audited 2016* £'000
Group revenue	2	**70,146**	57,376
Cost of sales		**(44,659)**	(37,041)
Gross profit		**25,487**	20,335
Distribution costs		**(5,754)**	(5,081)
Administrative expenses before exceptional item		**(10,359)**	(7,607)
Exceptional item	3	**(1,265)**	(242)
Total administrative expenses		**(11,624)**	(7,849)
Operating profit		**8,109**	7,404
Operating profit before exceptional item		**9,374**	7,646
Finance costs		**(508)**	(393)
Share of loss from joint venture		**(53)**	(21)
Profit before income tax		**7,548**	6,990
Profit before income tax and exceptional item		**8,813**	7,232
Income tax expense		**(1,540)**	(1,294)
Profit for the year		**6,008**	5,696
Profit for the year before exceptional item		**7,033**	5,890
Attributable to:			
Equity holders of the Parent		**6,008**	5,795
Non-controlling interest		**-**	(99)
		6,008	5,696
Earnings per share:			
Basic (p)	4	**13.70**	13.25
Diluted (p)		**13.52**	13.07

*In preparing the unaudited preliminary results the Directors have considered the classification of certain costs within the Consolidated Income Statement and, based upon this review, have reallocated certain costs between cost of sales and distribution and administrative expenses, further details of which can be found in Note 2

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Unaudited 2017 £'000	Audited 2016 £'000
Profit for the year	**6,008**	5,696
Other comprehensive (expense)/income		
Items that will not be reclassified to profit or loss		
Foreign exchange translation (losses)/gains on investment in foreign subsidiaries	**(3,336)**	4,319
Actuarial gains/(losses) on defined benefit schemes	**2,080**	(2,707)
Tax relating to items that will not be reclassified	**(502)**	514
Total items that will not be reclassified to profit or loss	**(1,758)**	2,126
Items that may be reclassified subsequently to profit or loss		
Effective portion of changes in fair value of cash flow hedges	**508**	(159)
Tax relating to items that may be reclassified	**(93)**	29
Total items that may be reclassified subsequently to profit or loss	**415**	(130)
Other comprehensive (expense)/ income for the year, net of tax	**(1,343)**	1,996
Total comprehensive income for the year	**4,665**	7,692
Attributable to:		
Equity holders of the Parent	**4,665**	7,783
Non-controlling interest	**-**	(91)
Total comprehensive income for the year	**4,665**	7,692

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Unaudited	Audited
	2017	2016
	£'000	£'000
Non-current assets		
Property, plant and equipment	**54,116**	47,500
Intangible assets	**6,681**	7,547
Investments in joint ventures	**89**	142
Deferred tax assets	**362**	709
Total non-current assets	**61,248**	55,898
Current assets		
Inventories	**14,710**	12,307
Trade and other receivables	**19,733**	20,366
Derivative financial instruments	**213**	38
Cash and cash equivalents	**4,360**	2,868
Total current assets	**39,016**	35,579
Total assets	**100,264**	91,477
Current liabilities		
Trade and other payables	**(10,429)**	(10,195)
Derivative financial instruments	**(59)**	(392)
Current tax liability	**(1,662)**	(1,035)
Interest-bearing loans and borrowings	**(11,316)**	(9,156)
Bank overdraft	**(2,550)**	(805)
Total current liabilities	**(26,016)**	(21,583)
Non-current liabilities		
Interest-bearing loans and borrowings	**(8,450)**	(5,464)
Deferred tax liabilities	**(540)**	(608)
Post-employment benefits	**(6,168)**	(7,439)
Total non-current liabilities	**(15,158)**	(13,511)
Total liabilities	**(41,174)**	(35,094)
Total net assets	**59,090**	56,383
Equity		
Issued share capital	**2,221**	2,221
Share premium	**24,340**	24,340
Own shares held	**(26)**	(31)
Capital redemption reserve	**15**	15
Translation reserve	**2,611**	5,947
Hedging reserve	**96**	(319)
Retained earnings	**29,833**	24,210
Total equity	**59,090**	56,383

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Unaudited 2017 £'000	Audited 2016 £'000
Cash flows from operating activities		
Profit for the year	**6,008**	5,696
Adjustments for:		
Depreciation and amortisation	**3,496**	3,595
Finance costs	**508**	393
Share of loss from joint venture	**53**	21
Employee defined benefit service charges	**1,235**	-
Equity-settled share-based payments	**459**	269
Taxation	**1,540**	1,294
Operating profit before changes in working capital and provisions	**13,299**	11,268
Increase in trade and other receivables	**(99)**	(1,686)
Increase in inventories	**(2,795)**	(2,121)
Increase/(decrease) in trade and other payables	**190**	(412)
Employee defined benefit contributions	**(619)**	(692)
Cash generated from operations	**9,976**	6,357
Interest paid	**(301)**	(187)
Income tax paid	**(943)**	(1,000)
Net cash generated from operating activities	**8,732**	5,170
Cash flows from investing activities		
Investment in non-controlling interest	**-**	(195)
Purchases of intangibles	**(360)**	(443)
Proceeds from disposal of property, plant and equipment	**4**	-
Purchases of property, plant and equipment	**(11,385)**	(12,140)
Net cash used in investing activities	**(11,741)**	(12,778)
Cash flows from financing activities		
Proceeds from options exercised and issue of share capital	**30**	30
Repayment of borrowings	**(1,309)**	(1,319)
Proceeds from borrowings	**6,605**	7,894
Dividends paid to equity holders of the Parent	**(2,547)**	(2,474)
Net cash generated from financing activities	**2,779**	4,131
Net decrease in cash and cash equivalents	**(230)**	(3,477)
Cash and cash equivalents at 1 January	**2,063**	5,269
Exchange gains on cash and cash equivalents	**(23)**	271
Cash and cash equivalents at 31 December	**1,810**	2,063

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Share capital	Share premium	Own shares held	Capital redemption reserve	Translation reserve	Hedging reserve	Retained earnings	Non-controlling interest	Total equity
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2016		2,221	24,340	(38)	15	1,636	(189)	22,997	138	51,120
Foreign exchange translation gains on investment in subsidiaries		-	-	-	-	4,311	-	-	8	4,319
Effective portion of changes in fair value of cash flow hedges net of recycling		-	-	-	-	-	(159)	-	-	(159)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		-	-	-	-	-	29	-	-	29
Actuarial loss on defined benefit pension scheme		-	-	-	-	-	-	(2,707)	-	(2,707)
Tax relating to actuarial loss on defined benefit pension scheme		-	-	-	-	-	-	514	-	514
Profit/(loss) for the year		-	-	-	-	-	-	5,795	(99)	5,696
Total comprehensive income/(expense) for the year		-	-	-	-	4,311	(130)	3,602	(91)	7,692
Transactions with owners of the Parent:										
Options exercised		-	-	7	-	-	-	23	-	30
Purchase of non-controlling interest		-	-	-	-	-	-	(148)	(47)	(195)
Equity-settled share-based payments net of tax		-	-	-	-	-	-	210	-	210
Dividends paid		-	-	-	-	-	-	(2,474)	-	(2,474)
Total transactions with owners of the Parent		-	-	7	-	-	-	(2,389)	(47)	(2,429)
Balance as at 31 December 2016		**2,221**	**24,340**	**(31)**	**15**	**5,947**	**(319)**	**24,210**	**-**	**56,383**
Balance as at 31 December 2016 and 1 January 2017		2,221	24,340	(31)	15	5,947	(319)	24,210	-	56,383
Foreign exchange translation losses on investment in subsidiaries		-	-	-	-	(3,336)	-	-	-	(3,336)
Effective portion of changes in fair value of cash flow hedges net of recycling		-	-	-	-	-	508	-	-	508
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling		-	-	-	-	-	(93)	-	-	(93)
Actuarial gain on defined benefit pension scheme		-	-	-	-	-	-	2,080	-	2,080
Tax relating to actuarial gain on defined benefit pension scheme		-	-	-	-	-	-	(502)	-	(502)
Profit for the year		-	-	-	-	-	-	6,008	-	6,008
Total comprehensive (expense)/income for the year		-	-	-	-	(3,336)	415	7,586	-	4,665
Transactions with owners of the Parent:										
Options exercised		-	-	5	-	-	-	25	-	30
Equity-settled share-based payments net of tax		-	-	-	-	-	-	559	-	559
Dividends paid	4	-	-	-	-	-	-	(2,547)	-	(2,547)
Total transactions with owners of the Parent		-	-	5	-	-	-	(1,963)	-	(1,958)
Balance as at 31 December 2017		**2,221**	**24,340**	**(26)**	**15**	**2,611**	**96**	**29,833**	**-**	**59,090**

1. General overview and accounting policies

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

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

The information for the year ended 31 December 2017 does not constitute statutory accounts for the purposes of section 435 of the Companies Act 2006. A copy of the accounts for the year ended 31 December 2016 was delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under section 498(2) or 498(3) of the Companies Act 2006. The audit of the statutory accounts for the year ended 31 December 2017 is not yet complete. These accounts will be finalised on the basis of the financial information presented by the Directors in this 'preliminary results' and will be delivered to the Registrar of Companies following the Company's annual general meeting.

The preliminary results are prepared on the historical cost basis except for derivative financial instruments which are stated at their fair value. The same accounting policies, presentation and methods of computation are followed in the 'preliminary results' as were applied in the Group's 2016 annual audited financial statements.

2. Segment reporting

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

The Group 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.

- High-Performance Products ('HPP'): these foams exhibit high performance on certain key properties, such as improved chemical, flammability, temperature or energy management performance. Turnover in the segment is currently mainly derived from products manufactured from three main polymer types: PVDF fluoropolymer, polyamide (nylon) and polyether block amide (PEBA). Foams are sold under the brand name ZOTEK® while technical insulation products manufactured from certain materials are branded as T-FIT®.

- MuCell Extrusion LLC ('MEL'): licenses microcellular foam technology and sells related machinery.

	Polyolefins		HPP		MEL		Eliminations		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	£`000	£`000	**£`000**	£`000	**£`000**	£`000	**£`000**	£`000	**£`000**	£`000
Group revenue	**52,821**	44,729	**13,148**	9,988	**4,254**	2,733	**(77)**	(74)	**70,146**	57,376
Segment profit/(loss) before amortisation	**10,291**	8,003	**3,157**	2,483	**(1,031)**	(396)	**-**	-	**12,417**	10,090
Amortisation of acquired intangible assets	**-**	(48)	**-**	-	**(327)**	(419)	**-**	-	**(327)**	(467)
Segment profit/(loss)	**10,291**	7,955	**3,157**	2,483	**(1,358)**	(815)	**-**	-	**12,090**	9,623
Foreign exchange losses	-	-	-	-		-	-	-	(319)	(33)
Unallocated central costs	-	-	-	-		-	-	-	(2,397)	(1,944)
Operating profit before exceptional items							**-**	-	**9,374**	7,646
Financing costs	**-**	-	**-**	-		-	**-**	-	**(508)**	(393)
Share of loss from joint venture	**(53)**	(21)	**-**	-		-	**-**	-	**(53)**	(21)
Taxation (before exceptional items)	-	-	**-**	-		-	**-**	-	**(1,780)**	(1,342)
Profit for the year (before exceptional items)									**7,033**	5,890
Segment assets	**76,400**	68,610	**15,071**	11,607	**8,342**	10,409	**-**	-	**99,813**	90,626
Unallocated assets	-	-	-	-		-	-	-	451	851
Total assets									**100,264**	91,477
Segment liabilities	**(37,280)**	(30,643)	**(1,101)**	(980)	**(591)**	(1,828)	**-**	-	**(38,972)**	(33,451)
Unallocated liabilities		-		-		-	-	-	**(2,202)**	(1,643)
Total liabilities									**(41,174)**	(35,094)
Depreciation	**2,563**	2,626	**191**	122	**39**	37	**-**	-	**2,793**	2,785
Amortisation	**374**	391		-	**327**	419	**-**	-	**701**	810
Capital expenditure:										
Tangible fixed assets	**10,921**	10,996	**673**	1,162	**255**	-	**-**	-	**11,849**	12,158
Intangible fixed assets	**97**	245	**156**	198	**107**	-	**-**	-	**360**	443

Unallocated assets and liabilities are made up of corporation tax, deferred tax assets and liabilities and investment in joint ventures.

Following a reassessment of cost classifications, certain costs at the Group's subsidiaries, previously recognised as distribution costs in 2016, have been reclassified to cost of sales (£203,000) and administrative costs (£266,000).

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 & Eire	Continental Europe	North America	Rest of the world	Total
	£'000	£'000	£'000	£'000	£'000
For the year ended 31 December 2017					
Group revenue from external customers	**12,679**	**26,201**	**21,104**	**10,162**	**70,146**
Non-current assets	**30,028**	**-**	**30,372**	**397**	**60,797**
Capital expenditure	**3,708**	**-**	**7,744**	**397**	**11,849**
For the year ended 31 December 2016					
Group revenue from external customers	10,008	21,864	19,940	5,564	57,376
Non-current assets	29,399	-	25,648	-	55,047
Capital expenditure	3,708	-	7,593	857	12,158

Non-current assets do not include financial instruments, deferred tax assets or investments in joint ventures.

Major customer
Revenues from one customer of the Group represent approximately £5.51m (2016: £4.61m) of the Group's revenue.

3. Exceptional item

	Unaudited	Audited
	2017	2016
	£`000	£`000
Increase in past service costs	**1,265**	-
Restructuring costs	**-**	242
	1,265	242

During the current period, following legal advice received by the pension trustees and an estimate calculated by the actuaries, the Company has provided £1.24m for potential additional liabilities in its Defined Benefit Pension Scheme and £0.03m for other related expenses. This cost has been included in the Consolidated Income Statement as an operating exceptional item.

In the prior year the Group and the Company incurred redundancy costs totalling £242,000, as a result of an efficiency improvement programme, which was included in the Consolidated Income Statement as an operating exceptional item.

4. Dividends and earnings per share

	Unaudited	Audited
	2017	2016
	£`000	£`000
Final dividend prior year of 3.90p (2015: 3.80p) per 5.0p ordinary share	**1,710**	1,664
Interim dividend of 1.91p (2016: 1.85p) per 5.0p ordinary share	**837**	810
Dividends paid during the year	**2,547**	2,474

The proposed final dividend for the year ended 31 December 2017 of 4.02p per share (2016: 3.90p) is subject to approval by shareholders at the AGM and has not been recognised as a liability in these consolidated financial statements. The proposed dividend would amount to £1,785,461 if paid to all the shares in issue.

Earnings per ordinary share
Earnings per ordinary share is calculated by dividing consolidated profit after tax attributable to equity holders of the Parent Company of £6.0m (2016: £5.8m) 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 2017 was 521,351 (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*.

	Unaudited	Audited
	2017	2016
Weighted average number of ordinary shares in issue	**43,845,843**	43,750,811
Deemed issued for no consideration	**585,512**	590,974
Diluted number of ordinary shares issued	**44,431,355**	44,341,785