Zotefoams plc

Preliminary Results (unaudited) for the Year Ended 31 December 2018

19 March 2019 – 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 2018.

Significant financial progress during the year

- 16% increase in Group revenue (17% constant currency) to a record £81.04m (2017: £70.15m)
- 23% increase in reported profit before tax and exceptional item to a record £10.81m (2017: £8.81m)
- 31% increase in reported profit before tax to £9.86m (2017: £7.55m)
- 29% increase in EBITDA before exceptional item to £16.66m (2017: £12.87m)
- 35% increase in EBITDA to £15.71m (2017: £11.61m)
- 16% increase in basic EPS before exceptional item to 18.66p (2017: 16.04p)
- 24% increase in basic EPS to 16.96p (2017: 13.70p)

Successful strategic execution

- High-Performance Products now accounts for 27% of Group revenue (2017: 19%) following a 67% increase in sales mainly from footwear and aviation applications
- Core AZOTE® foams business grew by 8% while MuCell Extrusion refocused for expected return to growth in 2019
- Kentucky, USA facility commissioned in March 2018, adding approximately 20% to Group capacity
- Capacity increases on schedule for commissioning in UK and USA during 2019 and at a new site in Poland during 2020
- Successful bank refinancing and equity raise in May 2018 to support growth plans

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

"We are seeing the benefits of Zotefoams' strong portfolio of products, backed by unique technology, across multiple sectors and geographies. 2018 was another record year for Zotefoams and I'm delighted with both the performance and opportunities we are creating.

We have experienced a strong start to the year, consistent with our growth expectations across the business as a whole. Investments in recent years in our product portfolio, people and productive capacity have positioned Zotefoams for further growth. Whilst we appear to be in a generally less favourable macroeconomic environment than in 2018, with volatile foreign exchange rates, the Board remains confident about the future prospects for our business and is excited by the opportunities we see for continued progress."

The preliminary results presentation for the year ended 31 December 2018 will be made available on the investors section of the Company's website during the day.

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About Zotefoams plc

Zotefoams plc (LSE – ZTF) is a world leader in cellular materials technology. Utilising a variety of unique manufacturing processes, including environmentally friendly nitrogen expansion for lightweight AZOTE® polyolefin and ZOTEK® high-performance foams, Zotefoams sells to 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®). A third foam-manufacturing site, in Poland, is planned to begin operations in 2020.

www.zotefoams.com

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

Chairman's statement

Significant financial and strategic progress in the year

I am pleased to report another successful year of strong sales and earnings growth and a step-change in the development of our high margin High-Performance Products (HPP) business. To support future growth, the Group is progressing a number of significant capital investment projects to expand capacity internationally and completed a successful refinancing and equity raise in May 2018. The equity raised maintains the Group's financial flexibility and enables debt levels to be kept within the Board's desired level of leverage.

2018 performance

Group sales grew 16% to £81.04m (2017: £70.15m) and profit before tax and exceptional item grew 23%, a similar growth rate to last year, to £10.81m (2017: £8.81m). Basic earnings per share before exceptional item rose 16% from 16.04p to 18.66p. Profit before tax increased by 31% to £9.86m (2017: £7.55m) and basic earnings per share was up 24% to 16.96p (2017: 13.70p).

Sales of polyolefin foams grew across all regions, with continued strong demand being supported primarily in H2 by the additional capacity from our first high-pressure vessel in the USA. The HPP business grew significantly, driven by our footwear business and supported by a return to solid growth in aviation. MuCell Extrusion (MEL) had a disappointing year. The business has been reorganised to provide focus and greater clarity on the resources needed to deliver the full potential of the MuCell® technology.

We have continued to invest in our pipeline of commercial opportunities and in product and market development as well as in the governance structures to support an increasingly international, high-growth business.

Investments

In my 2017 statement I reported the Board's approval to invest in low-pressure autoclave capacity and infrastructure at the Croydon, UK site at a cost of £12m, primarily for expansion of our ZOTEK® range of HPP foams but with the flexibility to expand our full range of products. Commissioning is expected to commence at the beginning of Q2 2019. I also reported the Board's approval to proceed with a $9m investment to commission the second high-pressure autoclave, together with a supporting extrusion line, at our Kentucky, USA, site, following the start-up of our first high-pressure autoclave. I am pleased to advise that both of these projects are progressing well and are expected to be commissioned on time and on budget.

In May 2018 the Board approved a £23m investment in south-west Poland to increase foam manufacturing capacity. With the site acquired, contractors engaged and ground broken, we expect the production facility to be operational in H2 2020. To support these activities we have enhanced our engineering and project management capabilities and resources and are confident that the capacity expansion projects required to support our growth opportunities will be successfully delivered.

This remains an exciting time for Zotefoams. Upon completion of these investment projects and after including the start-up of our first high-pressure autoclave in the USA, we will have increased Group manufacturing capacity by over 60% and provided infrastructure to scale capacity growth further when required.

Brexit

At the time of writing there is considerable uncertainty over Brexit, both over the form it may take, its timing and its potential impact on our business. Zotefoams is predominantly a UK-based exporter utilising materials and expertise from global supply partners and invoicing approximately 87% of sales in currencies other than sterling, mostly US dollars or euros. The inherent risks of supply chain disruption and foreign exchange rate volatility are therefore high. We have assessed these risks in detail and have plans in place, co-operating closely with our suppliers, to mitigate the immediate impact of any disruption in supply chains and hedging our cash flows and balance sheet, where possible. Longer term our investments in the USA and Poland give us a more geographically diversified base from which to supply our AZOTE® polyolefin foam customers while we expect our UK facility to be more focused on production of HPP product, which is less sensitive to the macroeconomic trading environment.

Dividend

The Board is proposing a final dividend of 4.15p per ordinary share (2017: 4.02p) which, if approved by shareholders, would make a total of 6.12p per ordinary share for the year (2017: 5.93p), an increase of 3.2%. This reflects the Board's continued confidence in the Group's future and is in line with the policy of paying a progressive dividend. If approved, the final dividend will be paid on 30 May 2019 to shareholders on the register on 26 April 2019.

Board changes and governance

As I reported in the 2017 Annual Report Richard Clowes retired from the Board in May 2018 and, to prepare for this, Jonathan Carling joined the Board in January 2018. I also reported that Doug Robertson would replace Richard as the Senior Independent Director upon his departure. Following these changes, we have an experienced and engaged Board and no further changes have been made in 2018.

The interactions and communications between Executive and Non-Executive Directors continue to develop positively and as a result the Board is well placed to challenge, guide, and support the Executives in the delivery of our strategy.

The Board considers that it has fully applied all the principles and provisions of the UK Corporate Governance Code during 2018.

People

Having the right people at Zotefoams, which encompasses traits such as integrity, safety-consciousness and dedication as well as the right knowledge and skills, is critical to our future success. The average number of employees in the Group increased by 16% during the year. I would like to welcome the new employees who have joined us around the world during the past twelve months and extend my thanks to all our hard-working employees and their supportive families for making 2018 a year of significant progress for the Group.

Steve Good
Chairman

19 March 2019

Group CEO's review

Strong organic growth in line with our strategy

I am pleased to report another record year of profits and sales. We have delivered strong organic growth, in line with our strategy, from a long-term approach to investment in our product portfolio, supported by unique technology and focused around key market trends in an increasingly global business. Profit before tax and exceptional item increased 23% to £10.81m (2017: £8.81m) while Group revenue grew 16% to £81.04m (2017: £70.15m). Profit before tax increased 31% to £9.86m (2017: £7.55m).

Strategy update

As the world around us changes we regularly re-test our strategy. We believe our existing strategy continues to serve us well and continues to enable us to grow strongly. Our business faces challenges primarily with regard to how we manage our growth: investing at the appropriate time in the right places, allocation of resource across a portfolio of products and markets, and development of an organisation with flexible, talented people and a culture to support this growth.

Zotefoams remains well positioned competitively and environmentally. Our core materials offer improved product performance using less material than competitors and MEL licenses technology specifically to reduce polymer use. The emergence of a strongly negative public perception of plastic is, we believe, mainly driven by ill-considered single use applications predominantly in consumer packaging. Zotefoams' current markets are not immediately impacted by this, as products using our foams are almost solely integral components in larger systems or products (such as cars, planes, footwear, medical parts) or used in the long-term storage of items. They are very rarely used in consumer disposable items. Our foams save weight and fuel in cars, trains and planes, save energy by insulating, and provide protection to people and goods. Our products help our customers reduce emissions, lower energy usage, improve fuel efficiency and comply with increasingly stringent safety regulations. In common with other businesses we seek to minimise the use of natural resource through measures such as reducing energy and polymer usage, which benefits the environment and reduces our costs. In the medium term we anticipate our technology being used to meet the growing demand for improved sustainability, with foams which include recycled or renewable content polymers.

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 MEL business units, which offer these unique, disruptive products and solutions, together now account for 30% (2017: 25%) of Group revenues.
2. Sales of our highly differentiated AZOTE® polyolefin foam products grew by 8%, which was above our target rate of twice global GDP growth.
3. Group operating margins were 14.3% (2017: 13.4%).
4. Group return on capital, which excludes large asset investments not yet commissioned, increased to 16.5% from 15.5%.

Our consistent strategy has resulted in another year of record sales and profits. Zotefoams has become an international, diversified supplier of technical materials and retains a strong portfolio of opportunities to deliver further organic growth in line with our stated strategic intent.

People and embedding our culture to deliver

Developing our organisational capability and culture globally is something which has, over the past few years, become increasingly important for delivering our strategy. We have made significant investments in increasing and developing our workforce which, by the end of 2018, had grown to 459 people, an increase of 16% in the year. A third of our people have less than two years' service. In 2018 83% of our revenues and most of our sales growth came from outside the UK and we increased our non-UK headcount by 33%. Managing this growth as we scale up our international operations, ensuring governance and building a strong culture is therefore a primary focus for management. Zotefoams' culture is based around brand values and further development as a learning organisation, where lessons from failure may be the first step forward, where employees understand how we all contribute to the business and where we celebrate success and value the contributions of others. Within this structure, business units and brand leaders have significant autonomy to operate in a dynamic environment.

The top priority for our business is ensuring the health and safety of employees and site visitors. The Board tolerance for risk is set accordingly and health and safety is an agenda item at every Board and Executive committee meeting. We recognise that culture, and the behaviour of all employees, has a significant impact on safety, risk and performance. Management therefore has a clear priority to ensure safety culture is continuously improved across our business and we will not be satisfied until we achieve our goal of no-one getting hurt whilst working at Zotefoams.

Key investments

To match Zotefoams' growth ambition and attractive pipeline of opportunities we require sufficient capacity to meet projected demand for our products. A key challenge we face is that our capacity investments, which involve significant infrastructure and bespoke machinery, take time to bring on stream and are costly. The first increment of capacity on any site requires disproportionately high investment in infrastructure, but subsequent investment on the site can then be made more cost-effectively and quickly. As foams are bulky and can be expensive to transport over long distances, the manufacturing location also plays a major part in any investment decision as customers want optimised transport and swift service.

Zotefoams has embarked on a significant capital expansion programme, supported by an equity fundraising and debt refinancing in May 2018. In Kentucky, USA during 2018 we commissioned a high-pressure autoclave and two extruders which increased Group capacity by approximately 20%, and we are investing further on this site for a similar scale of capacity increase during 2019. To balance the investments in the USA, which will supply an existing low-pressure autoclave on that site, we have added two further low-pressure autoclaves on our UK site which will begin commissioning in Q2 2019. In addition, we have begun work on our third major Zotefoams manufacturing location, in south-west Poland, to deliver a further increase to group capacity of around 20%.

Our USA operation is now positioned as a significant, stand-alone contributor to Group capacity, initially focused on AZOTE® polyolefin foams, with the site large enough for further investment if required. The UK site will have significantly increased capacity to manufacture our ZOTEK® range of HPP foams, while remaining the primary production site for AZOTE® polyolefin foams in the foreseeable future, while Poland is specifically designed initially for polyolefin foam manufacture and could double its capacity with cost-effective investment in equipment relatively inexpensively on approximately an 18-month lead time. This gives Zotefoams the ability to react to increases in demand for all of our foams range, with an increase in HPP foams supplied via UK and some UK-supplied customers switching to Poland if needed.

These investments demonstrate confidence in the significant growth opportunities in our HPP portfolio and commitment to our customers in our growing Polyolefin Foams business.

Current trading and outlook

We have experienced a strong start to the year, consistent with our growth expectations across the business as a whole. Investments in recent years in our product portfolio, people and productive capacity have positioned Zotefoams for further growth. Whilst we appear to be in a generally less favourable macroeconomic environment than in 2018, with volatile foreign exchange rates, the Board remains confident about the future prospects for our business and is excited by the opportunities we see for continued progress.

Polyolefin foams

AZOTE®

Group revenue: £57.16m. **2017** £52.82m. **Growth** +8%
Segment profit margin: 17%. **2017:** 19%
Segment profit: £9.45m. **2017:** £10.29m. **Change** -8%

Sales in Polyolefin foams increased by 8% to £57.16m (2017: £52.82m). Sales volume grew by 6% while product mix, customer mix and some price increases, offset by modest headwinds in currency exchange rates, contributed a further 2% to growth. Segment profit declined to £9.45m (2017: £10.29m) impacted by higher fixed costs and depreciation of the Kentucky, USA facility which was largely expected at this point in the investment cycle.

Zotefoams uses a commodity polymer, most commonly low-density polyethylene ("LDPE"), and through infusion of nitrogen gas at high temperature and pressure via its unique autoclave technology, creates AZOTE® polyolefin foams. These foams are more consistent, lighter and possess higher purity than foams manufactured using traditional chemical foaming technology. These attributes make our foams ideal for multiple use or “permanent” product protection, lightweight parts in aircraft, cars and trains, construction applications and medical equipment.

The commercial focus of our AZOTE® Business Unit is to grow revenues through closer collaboration with end users and channel partners, to continually enhance our product range and deliver capacity and efficiency improvements from production.

Sales of polyolefin foams increased by 8% (9% in constant currency) with a strong performance in the UK and continental Europe, growing 10% and 12% respectively. Sales in North America grew by 1%, with stronger underlying demand for some of our more technically demanding AZOTE® products, supplied from the UK, dampened by product allocation. An increase of 7% in sales to the rest of the world was substantially driven by increased demand in Japan. Customers for AZOTE® foams are remarkably diverse, both geographically and in their use of our foams. However, the largest segments of product protection, industrial and transportation (which includes automotive, rail and aviation) account for around 70% of our polyolefin foam revenue and we recorded double-digit percentage increases in all three, offset by a decline in sport and leisure applications in Europe following the withdrawal of a channel partner from part of this market segment.

During H1 2018 we began operations at our Kentucky, USA facility. This relieved the capacity restrictions which had held back growth of the polyolefin product range during 2017 and early 2018. However, as previously reported, the start-up was not as smooth as expected and the costs of this, added to the additional overheads required to run such a facility, led to a decline in profitability of the AZOTE® foams range. Pleasingly, the issues encountered have largely been addressed and the additional volumes through the USA plant in the second six months of 2018 contributed to increased profit in the Business Unit in this period. Operational improvements in our UK facility delivered additional capacity and allowed us to increase sales volumes in the UK and Europe despite the increased allocation of this facility to HPP products, particularly in the second half of the year.

High-Performance Products

ZOTEK®, T-FIT®

Group revenue: £22.01m. **2017:** £13.15m. **Growth** +67%
Segment profit margin: 26%. **2017:** 24%
Segment profit: £5.81m. **2017:** £3.16m. **Change** +84%

HPP comprises ZOTEK® technical foams and T-FIT® insulation products. Sales increased by 67% (71% in constant currency) to £22.01m (2017: £13.15m) and segment profit increased by 84% to £5.81m (2017: £3.16m).

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

The HPP Business Unit accounted for 27% of Group Sales in 2018 (2017: 19%) with footwear and aviation, the two largest applications, both growing strongly. Footwear products now represent around half of HPP sales revenue while aviation is approximately one-third of HPP sales revenue. T-FIT® insulation products were modestly ahead of the previous year while revenues from our nylon product range remain relatively immaterial at this point.

In December 2017 we announced a significant strategic partnership with Nike, focused on the footwear market segment. The performance of our materials has been received extremely well in certain of Nike’s footwear product lines and we are now working together, with Zotefoams supplying exclusively to Nike, to develop further materials for other products and prove Zotefoams’ wider capability as a unique technology in this exciting market.

ZOTEK® F fluoropolymer foams, which are mainly sold for aviation applications, grew revenue by 20% compared to 2017 with our major aviation customer returning to growth following a period of destocking in prior years.

Sales of T-FIT® advanced insulation grew modestly this year, but behind our expectations for what is an exciting product range sold mainly into biotech and pharmaceutical markets with further opportunity in food, dairy and general process industries. We saw sales decline in the first six months as management attention focused on operational improvement of our facility in Kunshan, China while second half sales increased strongly, and gross margins improved, as more of our sales came from product manufactured in China rather than from our previous supplier. We expect this momentum to continue into 2019 and have invested in sales and development resource and set up an entity in India in early 2019 to deliver on these expectations. Key to future success of this insulation business is the development of the T-FIT® brand into a globally recognised solution which will also reduce our reliance on larger, project-driven revenues from the HPP Business Unit.

MEL

MuCell®

Group revenue: £1.95m. **2017** £4.25m. **Growth** -54%
Segment loss before amortisation: £(1.63)m. **2017:** £(1.03)m. **Change** -58%
Segment loss after amortisation: £(1.89)m. **2017:** £(1.36)m. **Change** -39%

MuCell Extrusion LLC ('MEL') licenses microcellular foam technology and sells related machinery. Sales declined to £1.95m (2017: £4.25m) and segment loss, before amortisation, increased to £(1.63)m (2017: £(1.03)m).

MEL's business model is to develop and license intellectual property ("IP"). MuCell® 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. MuCell® 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.

2018 was a difficult year for MEL. The business was substantially restructured mid-year to improve clarity over the development of new accounts, delivery of machinery and financial management. This resulted in senior staff being redeployed internally for a significant portion of the year and therefore the pace of sales, particularly of equipment, was negatively impacted, while our cost base increased. The annual decline in sales is particularly acute as 2017 included a single large contract which represented approximately 38% of that year's equipment sales. Royalty and License fees of USD $1.20m were at a slightly lower level than in 2017 (USD $1.30m). However, there is much to be positive about with MEL over the past six months and we expect a return to growth in 2019. Our focus on the creation of intellectual property has given us a strong pipeline of very interesting patent applications, the internal issues we experienced prior to the restructuring have been substantially addressed and the commercial momentum has improved in the latter part of 2018 and into 2019.

David Stirling
Group CEO

19 March 2019

Group CFO's review

Investing in growth

Overview

Zotefoams has delivered another year of strong performance. Sales were up 16%, following on from 2017's growth of 22%, while operating profit before exceptional item grew 23%, a similar growth rate to 2017.

Group revenue grew by over £10m to £81.04m (2017: £70.15m), with the stand-out sales performance coming from the footwear division of HPP, a very pleasing return to strong growth in ZOTEK® F and very satisfying growth across all geographical regions of Polyolefin Foams. In constant currency, net sales were up 17%, despite a decline in revenues from MuCell Extrusion (MEL), where the business is being refocused to deliver its longer-term potential. Operating profit before exceptional item was up 23% (up 31% after exceptional item), as our HPP business grew strongly and the Group benefitted from the accompanying higher margins. As expected, margin improvement was dampened by added deprecation and operating costs to run the new Kentucky facility as well as some unanticipated start-up inefficiencies. Investment also continued in operating infrastructure to position the Group to deliver on its expansion strategy. In constant currency, operating profit before exceptional item was up 17%.

In Q4 2018 the High Court ruled that all schemes with Guaranteed Minimum Pension (GMP) rights must ensure that equal benefits are paid to all members. Following calculations by the Trustee's Actuaries, we have provided £0.95m for additional liabilities, including related expenses, in the Company's Defined Benefit Pension Scheme (the "DB Scheme") and have recorded this as an operating exceptional item in the income statement.

Zotefoams is midway through an extensive capacity expansion programme. Our range of differentiated products requires a unique technology which is capital intensive, and investment is essential to meet our anticipated organic growth opportunities. Having completed the first stage of our $33m US expansion programme in March 2018, we have continued to invest in UK and US capacity expansion as well as started preparing for a new manufacturing facility in Poland. In 2018 the Group invested a total of £16.1m. We have also invested significantly in working capital during the year, with a net movement of £9.8m primarily supporting HPP growth.

To support this phase in the Group's lifecycle, where capital investment demand temporarily exceeds the cash generated from operations, Zotefoams raised £20.6m (before expenses) in May 2018 through a successful placing of new shares, with proceeds earmarked for the Group's capacity expansion projects. This cash infusion contributed to lower net debt of £13.0m at 31 December

2018 (2017: £18.0m). Simultaneously, we completed a debt refinancing, securing increased facilities of £57.5m (up 64% from previous facilities of approximately £35m) at improved pricing.

Group revenue

Group revenue for the year increased 16% to £81.04m (2017: £70.15m). Polyolefin foams sales increased 8% vs 2017, with the UK and Europe growing strongly, up 10% and 12% respectively, driven by sales volume growth of 7% and 3% respectively, continuing product mix enrichment, an improved customer mix achieved by supplying directly to some German customers previously serviced through an intermediary, and selected price increases. The North America polyolefin business grew 1%, with available capacity lower than expected in the ramp-up of its own manufacturing line. HPP sales were up 67%, driven by significant growth in ZOTEK® PEBA following successful market adoption of footwear products using this material. There was also a return to historical growth rates of the ZOTEK® F product range following two years of inventory consolidation at a key customer. T-FIT® insulation sales were up slightly on 2018, but below our expectations for the year. The business unit, however, made great progress in developing its product range, sales network and building recognition in the market place, and expects to start seeing the benefits of this going forward. MEL sales declined 54%, mostly due to the strong comparative in 2017 with a one-off capital contract. Despite significant volatility month-to-month and differing performances of sterling against the US dollar and euro, currency had a very modest negative impact on Group revenue of just 1%.

Revenue by market (%)	2018	2017
Product Protection	**30**	34
Transportation	**22**	21
Sports and Leisure	**19**	12
Building and Construction	**12**	13
Industrial	**9**	10
Medical	**6**	6
Other	**2**	4

Gross margin

Gross margin remained relatively stable at 35.8% (2017: 36.3%). In line with our strategy, the increased proportion of sales from HPP had a positive benefit on gross margin, as did further mix enrichment in polyolefin foam sales. Balancing these improvements were additional costs of depreciation and running the Kentucky facility, some of which were unplanned as a result of a slower than anticipated ramp up. As is normal in the early part of the investment cycle the operational gearing from this facility is low with investment in infrastructure and people not yet fully utilised. We expect this to improve as utilisation of the asset improves. The second phase of capacity on this site, planned for commissioning in late 2019, does not include significant infrastructure or people overhead costs and would be expected to improve margins more quickly as its capacity utilisation increases.

Distribution and administrative costs

The Group continues to pursue its expansion strategy, founded on proprietary cellular materials technology. Organic growth with a portfolio of unique and highly-differentiated products requires that we invest actively 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 consolidated income statement are sales and marketing, warehousing, 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 8% to £17.43m in 2018 (2017: £16.11m), however, they include a net gain from foreign exchange hedging contracts and foreign exchange translation of £0.82m (2017 net loss: £0.32m). See currency review for further information and context.

While production of finished product has grown on the Croydon, UK, site, storage facilities have been squeezed by the construction of the new facility for high-temperature low-pressure autoclaves and their ancillary equipment. This has required us to store products off-site and incur costs in 2018 of £0.8m (2017: £0.3m). Additionally, we have invested £0.8m during the year in infrastructure to support our Asian T-FIT® insulation activities based at our Kunshan site in China, ahead of expected development in sales, but with a partial offset in gross margin as we continue to switch to in-house production from contract manufacturing.

The Group expects to make further investments in distribution and administrative expenses as we pursue our ambitious growth targets and expand globally.

The Business Unit results are shown in note 2 to these preliminary results. They do not include central plc costs, which are not considered to be segment-specific. In 2018 central plc costs were £2.62m (2017: £2.40m).

Finance costs

The total interest charge for the year was £0.75m (2017: £0.51m) and includes £0.14m (2017: £0.19m) of interest on the Company's Defined Benefit pension obligation.

Profit before tax

Profit before tax and exceptional item increased by 23% to £10.81m (2016: £8.81m). Profit before tax increased by 31% to £9.86m (2017: £7.55m).

Exceptional item

During 2018 the Company recognised an additional liability in respect of GMP, as explained in further detail in the Pensions section below. This represents a charge of £0.95m, including £0.01m of expenses, which has been considered an operating exceptional item in the income statement.

During 2017, 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 was 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 took the steps available to it in 2018 to break this link, for which it had accrued £0.03m of expenses in the exceptional item.

Due to the magnitude and nature of these items, these are considered exceptional and have been treated as such in the financial statements.

Currency review

Zotefoams is a predominantly UK-based exporter. In most cases, we invoice in local currency. In 2018 approximately 87% of sales were denominated in currencies other than sterling, mostly US dollars or euros. Most costs are incurred in sterling, other than the main raw materials for polyolefin foams, which are euro-denominated for UK production, and US subsidiary production, operating cost, other subsidiaries staff, operational cost 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 contracts to hedge its foreign currency transaction risk. Zotefoams' policy is to cover approximately two-thirds of the estimated net cash foreign exchange exposure for the euro and US dollar for the next twelve months. The Group has also begun to hedge its exposure to foreign currency denominated assets by targeting an 85% offset with same-currency liabilities, primarily through borrowing in the relevant currency. The Group does not hedge for the translation of its foreign subsidiaries' assets or liabilities. This policy is kept under regular review and formally approved by the Board on an annual basis.

During the year the sterling average exchange rate against the US dollar strengthened by 4.0%, while the sterling average exchange rate against the euro weakened by 0.9%. In contradiction, the sterling spot rate against the US dollar from December 17 to December 18 weakened by 5.6%. Net revenues were £0.99m lower due to the Group's greater dependency on US dollar revenues, offset by £0.60m of currency-related operating cost benefits. The Group generated a net loss on forward contracts of £0.18m (2017 gain: £0.19m), offset by a translation gain, primarily on the Company's US dollar receivables, of £1.00m (2017 loss: £0.51m). In total, the net year-on-year currency impact on the income statement was a benefit of £0.43m.

We expect future growth to come mainly from outside the UK and recognise that one of our key risks is our exposure to foreign currency fluctuations, particularly in the US dollar. While this exposure will increase as the Group grows faster outside of the UK, we are mitigating this risk short term through hedging activities and longer term through investment in overseas operating locations. We recognise, however, that inherent risk will remain, with added uncertainty from Brexit. Based on current scale and structure, it is estimated that, with respect to transaction risk and for every one percent move in the USD/£ rate, profit moves by £0.10m if hedged and £0.30m if unhedged. It is estimated that, on the same basis, with respect to translation risk and for every one percent move in the USD/£ rate, profit moves by £0.13m if hedged and £0.35m if unhedged. In the year it is assumed that the transaction exposure from euro/sterling movements is substantially naturally hedged, with sales revenues offset by costs, primarily related to raw material purchases and certain further processing costs.

Currency impact on business segments in 2018

Group revenue £m

	2018 Reported	**2018 Adjusted***	2017 Reported	Net change % Reported	Net change % Adjusted
Polyolefin Foams	**57.16**	**57.57**	52.82	8%	9%
HPP	**22.01**	**22.54**	13.15	67%	71%
MEL	**1.95**	**2.00**	4.25	(54)%	(53)%
Eliminations	**(0.07)**	**(0.08)**	(0.07)	–	–
Group	**81.04**	**82.03**	70.15	16%	17%

* Constant currency, adjusting 2018 values to 2017 rates

Exchange rates

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

	2018	2017
GBP to Euro – average	**0.88**	0.88
GBP to Euro – year-end spot	**0.90**	0.89
GBP to USD – average	**0.75**	0.78
GBP to USD – year-end spot	**0.78**	0.74

Tax and earnings per share

The effective tax rate for the year is 20.32% (2017: 20.40%), which is higher than the Group's weighted average corporate tax rate for the year of 17.99% (2017: 18.54%), mainly due to prior year adjustments and other timing differences. Net income tax paid during the year was £2.14m (2017: £0.94m).

Basic earnings per share before exceptional item was 18.66p (2017: 16.04p), an increase of 16%. Basic earnings per share was 16.96p (2017: 13.70), an increase of 24%. In May 2018 the Group increased its share capital by 8.8% (3,886,792 shares) to 48,301,234 shares through a placing, and the dilutive impact of this is spread over the remaining seven-month period of the year.

Dividend

The Directors are proposing a final dividend of 4.15p (2017: 4.02p), which would be payable on 30 May 2019 to shareholders on the Company register at the close of business on 26 April 2019. Taken with the interim dividend of 1.97p (2017: 1.91p) this would bring the total dividend for the year to 6.12p per ordinary share (2017: 5.93p), an increase of 3.2%, in line with the Group's policy of paying a progressive dividend. It would also represent a dividend cover of 2.8 times (2017: 2.3 times).

Investments

£m	**2015**	**2016**	**2017**	**2018**	**Total**
Growth capital	6.1	6.9	7.8	12.8	33.6
Maintenance capital	2.6	5.2	3.6	3.0	14.4
Total investment in property, plant and equipment	**8.7**	**12.1**	**11.4**	**15.8**	**48.0**

Zotefoams' strategy is focused primarily on organic growth. Over the past four years Zotefoams has invested £48.0m in property, plant and equipment, the majority of which has been to increase capacity in its unique technology. Given the capital-intensive nature 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 Polyolefin Foams business, the Group's largest volume product range, informs the decision to increase total Group capacity versus relying 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. When Zotefoams embarks on a large investment in an existing or new location, such as installation of extrusion and high-pressure capability at our existing Kentucky, US site, or the planned investment in foam manufacturing at the Polish site, we take into account the importance of scale and dilution of heavy infrastructure cost over a (future) second or third line. As such, the first step is invariably more dilutive to capital return than any subsequent investments.

Zotefoams defines the return on capital employed (ROCE) 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. We also exclude significant capacity investments under construction until they enter production. We do not attempt to adjust for the first phase inefficiencies as mentioned above. In 2018 the return on capital increased to 16.5% (2017: 15.5%). Our increased profits in 2018, boosted by a stronger mix of HPP, more than offset the additional assets brought into our ROCE calculation following the commissioning of our first US high-pressure autoclave and its ancillary equipment. With the capacity investments still under construction included, the return on capital increased to 12.8% from 12.1% in 2017.

Group financing

Financing growth in an organisation with high capital intensity is a recognised risk to Zotefoams. In May 2018 we completed a debt refinancing to give us sufficient headroom and flexibility to continue to grow capacity and meet our expected demand growth, securing increased facilities of £57.5m (up 64% from previous facilities of approximately £35m) at improved pricing. Directly attributable costs for securing these facilities amounted to £1.0m. The facility comprises a five-year £25 million multi-currency term loan, a five-year £25 million multi-currency revolving credit facility and a further £7.5 million sterling annually renewable term loan. The negotiated facility also includes a £25 million accordion feature to provide additional flexibility to pursue future investment opportunities. Pricing is in the form of a ratchet, based on leverage, and maximum leverage under the covenant is a 3x multiple of net debt to EBITDA.

To mitigate the risk impact of increased leverage, we announced on 16 May 2018 that we had raised £20.6m (before directly attributable costs of £0.6m) of equity through a successful placing, representing 8.8% of the Company's existing issued share capital, or 3,886,792 shares. The placing price of 530p represented a discount of approximately 2.9% to the closing middle market price of 546p on 14 May 2018.

Cash flow

Net cash inflow from operations before investment in working capital increased 31% to £17.48m (2017: £13.30m), reflecting the strong cash-generation nature of the business. £9.75m (2017: £2.70m) of this was re-invested in working capital, partly representing business growth and the base build of inventory in the T-FIT® business in China, but primarily through accounts receivable to support the footwear growth in Asia and additional, higher value inventory to prepare the business for further HPP growth. HPP raw materials are significantly more expensive than their polyolefin counterparts and their uniqueness requires a different approach to minimum holding quantities. Zotefoams also recognises the importance of its supplier relationships and continues to honour agreed payment terms.

Zotefoams continued to invest significantly in property, plant and equipment during the year, with a net cash outflow of £15.80m in 2018 following outflows of £11.39m and £12.14m in 2017 and 2016 respectively. With the Group's largest project, in Kentucky, USA, completing in Q1 2018, our main investment focus in the year was progressing the £11.7m investment in high-temperature low-pressure vessels on the UK site and making the required down-payments on key equipment for the $9m Kentucky, USA investment centred around a second high-pressure autoclave. We also continue to invest in other parts of our UK facility, increasing capacity, flexibility and continuing to ensure a safe working environment.

After dividends paid in the year amounting to £2.71m (2017: £2.55m) and the proceeds of the May equity raise, closing net debt was £12.96m (2017: £17.96m). At the year end the Group remains comfortably within its covenants, with a ratio of EBITDA to net finance charges of 29 (2017: 29), versus a covenant minimum of 4 and net borrowings to EBITDA (leverage) of 0.7x (2017: 1.4x), against a covenant of 3.0x. Our stated capacity investment plans will see debt levels continue to increase as planned until peak leverage, comfortably below the Board's appetite of 2.0x, is reached in 2020, after which the strong cash generation of our business will allow those levels to reduce relatively quickly.

Pensions

In 1990 the European Court of Justice (ECJ) ruled that pensions must be equal for males and females. The key principle of equalisation is that any two people of the same age with identical pensionable service and pensionable salary history will be entitled to the same benefits, whether they are a man or a woman. Following the ECJ judgment, schemes equalised their retirement ages and, at the point members retired, (or left service if earlier), pensions were deemed equal. However, many pension schemes, such as the Zotefoams Defined Benefit Scheme (or "DB Scheme") were historically contracted out of the State Earnings Related Pension Scheme (SERPS), resulting in a Gross Minimum Pension ("GMP") benefit being payable. GMP mirrors SERPS and is unequal, and over time this has created inequality in scheme benefits. With the resource involved in equalising benefits for GMP often exceeding the value of any additional benefit granted, the pensions industry held off making adjustments until they had no option but to do so. On 26 October 2018 the High Court ruled that schemes are under a duty to make sure that equal benefits are paid, including where these benefits are in the form of GMP. As a result, all schemes with GMP rights are now being expected to act.

The Company has sought advice from the Actuaries of the Trustees and had this reviewed by its own pension advisors. While the pension industry is not clear which of a number of calculation alternatives might be pursued, a method has been proposed which would result in an additional liability of £0.95m. As the sponsoring employer, the Company may, therefore, have an additional liability for pension costs and feels it appropriate at this stage to provide for the possible increase in liability. The exceptional charge represents 2.8% of the DB Scheme obligation as at 31 December 2018 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.

In the previous year, following legal advice received by the pension trustees and an estimate calculated by the actuaries, the Company provided £1.27m for potential additional liabilities, which was treated as an exceptional item. During the first half of 2018 the process of obtaining informed consent from members of the DB Scheme, to close the scheme effectively, was completed. 70% of the affected members of the scheme consented and a majority of these members are in the higher salary bands, resulting in a low risk of material exposure. It is assumed that the members who did not provide consent to the break in salary linkage will on average receive future salary increases in line with the Consumer Price Index.

A full actuarial valuation of the DB Scheme was completed as at 5 April 2017, in line with the requirement to have a triennial valuation. The outcome, on a Statutory Funding Objective basis, calculated a deficit for the Pension Scheme of £4.18m. As a result, the Company agreed with the Trustees to make contributions to the DB Scheme of £43,300 per month to meet the shortfall by 31 October 2026, up from £41,000 per month previously. In addition, the Company pays the ongoing DB Scheme expenses of £15,000 per month (previously £10,600 per month) to cover death-in-service insurance premiums, the expenses of administering the Scheme and Pension Protection Fund levies.

The net IAS19 deficit on the DB Scheme increased by £1.91m to £8.08m as at December 2018 (2017: £6.17m). The main factors contributing to the increase in the deficit are the actual investment return achieved on the assets being lower than required to match the expected increase in defined benefit obligation over the year, and an increase in defined benefit obligation due to GMP equalisation.

Zotefoams does not consider its pension scheme to be a key risk to its ability to achieve its strategic objectives. The net impact of the events of the two past years represent 6.6% in aggregate of the Group's net liability and both represent cash out flows over many years to come. Mitigation of further risk is expected to come from our growth expectations and a refocus by the pension trustees on a lower-risk strategy to meet the DB Scheme's deficit shortfall.

Financial Reporting Council review letter

On 8 December 2017 Zotefoams received a letter from the Corporate Reporting Review Team (CRRT) of the Financial Reporting Council (FRC) in relation to its regular review and assessment of the quality of corporate reporting in the UK. The letter alerted the Group of the FRC's intention to review the Group's Annual Report ending 31 December 2017, focusing on the cash flow statement and tax disclosures. On 16 October 2018 Zotefoams received a letter from the FRC notifying us of the CRRT's findings, which did not raise any questions or queries. It did, however, highlight some improvements to our existing disclosures to benefit the users of the accounts going forward. The Group has considered these recommendations in preparing the 2018 Annual Report.

Gary McGrath
Group CFO

19 March 2019

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Consolidated income statement

For the year ended 31 December 2018

	Note	2018	2017
		£'000	£'000
Group revenue	2	**81,037**	70,146
Cost of sales		**(52,034)**	(44,659)
Gross profit		**29,003**	25,487
Distribution costs		**(7,193)**	(5,754)
Administrative expenses before exceptional item		**(10,236)**	(10,359)
Exceptional item	3	**(950)**	(1,265)
Total administrative expenses		**(11,186)**	(11,624)
Operating profit		**10,624**	8,109
Operating profit before exceptional item		**11,574**	9,374
Finance costs		**(753)**	(508)
Share of loss from joint venture		**(16)**	(53)
Profit before income tax		**9,855**	7,548
Profit before income tax and exceptional item		**10,805**	8,813
Income tax expense		**(2,003)**	(1,540)
Profit for the year		**7,852**	6,008
Profit for the year before exceptional item		**8,641**	7,033
Attributable to:			
Equity holders of the Company		**7,852**	6,008
		7,852	6,008
Earnings per share:			
Basic (p)	4	**16.96**	13.70
Diluted (p)		**16.69**	13.52

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Consolidated statement of comprehensive income

For the year ended 31 December 2018

	2018	2017
	£'000	£'000
Profit for the year	**7,852**	6,008
Other comprehensive income/(expense)		
Items that will not be reclassified to profit or loss		
Actuarial (losses)/gains on defined benefit schemes	**(1,449)**	2,080
Tax relating to items that will not be reclassified	**246**	(502)
Total items that will not be reclassified to profit or loss	**(1,203)**	1,578
Items that may be reclassified subsequently to profit or loss		
Foreign exchange translation gains/(losses) on investment in foreign subsidiaries	**1,442**	(3,336)
Change in fair value of hedging instruments	**(1,467)**	1,171
Hedging gains/(losses) reclassified to profit or loss	**920**	(663)
Tax relating to items that may be reclassified	**93**	(93)
Total items that may be reclassified subsequently to profit or loss	**988**	(2,921)
Other comprehensive expense for the year, net of tax	**(215)**	(1,343)
Total comprehensive income for the year	**7,637**	4,665
Attributable to:		
Equity holders of the Company	**7,637**	4,665
Total comprehensive income for the year	**7,637**	4,665

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Consolidated statement of financial position

As at 31 December 2018

	Note	**2018** **£'000**	2017 £'000
Non-current assets			
Property, plant and equipment		**67,608**	54,116
Intangible assets		**6,515**	6,681
Investments in joint venture		**73**	89
Trade and other receivables		**439**	-
Deferred tax assets		**923**	362
Total non-current assets		**75,558**	61,248
Current assets			
Inventories		**17,893**	14,710
Trade and other receivables		**26,371**	19,733
Derivative financial instruments		**6**	213
Cash and cash equivalents		**7,073**	4,360
Total current assets		**51,343**	39,016
Total assets		**126,901**	100,264
Current liabilities			
Trade and other payables		**(11,328)**	(10,429)
Derivative financial instruments		**(399)**	(59)
Current tax liability		**(1,978)**	(1,662)
Interest-bearing loans and borrowings	6	**(14,500)**	(11,316)
Bank overdraft		**-**	(2,550)
Total current liabilities		**(28,205)**	(26,016)
Non-current liabilities			
Interest-bearing loans and borrowings	6	**(5,537)**	(8,450)
Deferred tax liabilities		**-**	(540)
Post-employment benefits		**(8,078)**	(6,168)
Total non-current liabilities		**(13,615)**	(15,158)
Total liabilities		**(41,820)**	(41,174)
Total net assets		**85,081**	59,090
Equity			
Issued share capital	5	**2,415**	2,221
Share premium	5	**44,178**	24,340
Own shares held		**(21)**	(26)
Capital redemption reserve		**15**	15
Translation reserve		**4,053**	2,611
Hedging reserve		**(358)**	96
Retained earnings		**34,799**	29,833
Total equity		**85,081**	59,090

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Consolidated statement of cash flows

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Profit for the year		**7,852**	6,008
Adjustments for:			
Depreciation and amortisation		**5,082**	3,496
Finance costs		**753**	508
Share of loss from joint venture		**16**	53
Employee defined benefit service charges		**950**	1,235
Equity-settled share-based payments		**822**	459
Taxation		**2,003**	1,540
Cash generated from operations before changes in working capital and provisions		**17,478**	13,299
Increase in trade and other receivables		**(6,361)**	(99)
Increase in inventories		**(3,751)**	(2,795)
Increase in trade and other payables		**366**	190
Employee defined benefit contributions		**(619)**	(619)
Cash generated from operations		**7,113**	9,976
Interest paid		**(516)**	(301)
Income tax paid, net of refunds		**(2,136)**	(943)
Net cash generated from operating activities		**4,461**	8,732
Cash flows from investing activities			
Purchases of intangibles		**(294)**	(360)
Proceeds from disposal of property, plant and equipment		**3**	4
Purchases of property, plant and equipment		**(15,796)**	(11,385)
Net cash used in investing activities		**(16,087)**	(11,741)
Cash flows from financing activities			
Proceeds from options exercised and issue of share capital		**31**	30
Proceeds of share issue, net of expenses		**20,078**	-
Repayment of borrowings		**(45,055)**	(1,309)
Proceeds from borrowings		**44,576**	6,605
Dividends paid to equity holders of the Company	4	**(2,707)**	(2,547)
Net cash generated from financing activities		**16,923**	2,779
Net increase/(decrease) in cash and cash equivalents		**5,297**	(230)
Cash and cash equivalents at 1 January		**1,810**	2,063
Exchange losses on cash and cash equivalents		**(34)**	(23)
Cash and cash equivalents at 31 December		**7,073**	1,810

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Consolidated statement of changes in equity

For the year ended 31 December 2018

	Note	Share capital £'000	Share premium £'000	Own shares held £'000	Capital redemption reserve £'000	Translation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
Balance as at 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)
Change in fair value of hedging instruments recognised in other comprehensive income		-	-	-	-	-	1,171	-	1,171
Reclassification to income statement - administrative expenses		-	-	-	-	-	(663)	-	(663)
Tax relating to effective portion of changes in fair value of cash flow hedges, net of reclassification to income statement		-	-	-	-	-	(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 Company:									
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 Company		-	-	5	-	-	-	(1,963)	(1,958)
Balance as at 31 December 2017		2,221	24,340	(26)	15	2,611	96	29,833	59,090
Balance as at 1 January 2018		**2,221**	**24,340**	**(26)**	**15**	**2,611**	**96**	**29,833**	**59,090**
Foreign exchange translation gains on investment in subsidiaries		**-**	**-**	**-**	**-**	**1,442**	**-**	**-**	**1,442**
Change in fair value of hedging instruments recognised in other comprehensive income		**-**	**-**	**-**	**-**	**-**	**(1,467)**	**-**	**(1,467)**
Reclassification to income statement - administrative expenses		**-**	**-**	**-**	**-**	**-**	**920**	**-**	**920**
Tax relating to effective portion of changes in fair value of cash flow hedges, net of reclassification to income statement		**-**	**-**	**-**	**-**	**-**	**93**	**-**	**93**
Actuarial loss on defined benefit pension scheme		**-**	**-**	**-**	**-**	**-**	**-**	**(1,449)**	**(1,449)**
Tax relating to actuarial loss on defined benefit pension scheme		**-**	**-**	**-**	**-**	**-**	**-**	**246**	**246**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**7,852**	**7,852**
Total comprehensive income/(expense) for the year		**-**	**-**	**-**	**-**	**1,442**	**(454)**	**6,649**	**7,637**
Transactions with owners of the Company:									
Options exercised		**-**	**-**	**5**	**-**	**-**	**-**	**26**	**31**
Proceeds from shares issued, net of expenses		**194**	**19,838**	**-**	**-**	**-**	**-**	**-**	**20,032**
Equity-settled share-based payments net of tax		**-**	**-**	**-**	**-**	**-**	**-**	**998**	**998**
Dividends paid	4	**-**	**-**	**-**	**-**	**-**	**-**	**(2,707)**	**(2,707)**
Total transactions with owners of the Company		**194**	**19,838**	**5**	**-**	**-**	**-**	**(1,683)**	**18,354**
Balance as at 31 December 2018		**2,415**	**44,178**	**(21)**	**15**	**4,053**	**(358)**	**34,799**	**85,081**

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 2018 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 2017 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 2018 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 2017 annual audited financial statements, with the exception of any changes arising from new IFRS standards and amendments and IFRS IC interpretations as adopted by the European union effective from 1 January 2018 and related presentational changes.

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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 Chief Executive Officer primarily uses a measure of profit for the year (before exceptional item) to assess the performance of the operating segments.

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, 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.

	Polyolefin foams		HPP		MEL		Eliminations		Consolidated	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Group revenue	**57,158**	52,821	**22,009**	13,148	**1,945**	4,254	**(75)**	(77)	**81,037**	70,146
Segment profit/(loss) pre-amortisation	**9,448**	10,291	**5,814**	3,157	**(1,628)**	(1,031)	**-**	-	**13,634**	12,417
Amortisation of acquired intangible assets	**-**	-	**-**	-	**(262)**	(327)	**-**	-	**(262)**	(327)
Segment profit/(loss)	**9,448**	10,291	**5,814**	3,157	**(1,890)**	(1,358)	**-**	-	**13,372**	12,090
Foreign exchange gains/(losses)	**-**	-	**-**	-	**-**	-	**-**	-	**818**	(319)
Unallocated central costs	**-**	-	**-**	-	**-**	-	**-**	-	**(2,616)**	(2,397)
Operating profit before exceptional item									**11,574**	9,374
Financing costs	**-**	-	**-**	-	**-**	-	**-**	-	**(753)**	(508)
Share of loss from joint venture	**(16)**	(53)	**-**	-	**-**	-	**-**	-	**(16)**	(53)
Taxation (before exceptional item)	**-**	-	**-**	-	**-**	-	**-**	-	**(2,164)**	(1,780)
Profit for the year (before exceptional item)									**8,641**	7,033
Segment assets	**94,663**	76,400	**22,826**	15,071	**7,922**	8,342	**-**	-	**125,411**	99,813
Unallocated assets	**-**	-	**-**	-	**-**	-	**-**	-	**1,490**	451
Total assets									**126,901**	100,264
Segment liabilities	**(37,114)**	(37,280)	**(1,714)**	(1,101)	**(447)**	(591)	**-**	-	**(39,275)**	(38,972)
Unallocated liabilities	**-**	-	**-**	-	**-**	-	**-**	-	**(2,545)**	(2,202)
Total liabilities									**(41,820)**	(41,174)
Depreciation	**3,894**	2,563	**339**	191	**83**	39	**-**	-	**4,316**	2,793
Amortisation	**384**	376	**-**	-	**382**	327	**-**	-	**766**	703
Capital expenditure:										
Property, plant and equipment (PPE)	**15,243**	10,921	**989**	673	**62**	255	**-**	-	**16,294**	11,849
Intangible assets	**17**	97	**243**	156	**34**	107	**-**	-	**294**	360

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

Segment profit/(loss) is made up of operating profit/(loss) before foreign exchange gains/(losses) and unallocated central costs. Unallocated central costs are not directly attributable or cannot be allocated to a segment.

Segment profit/(loss) pre-amortisation only excludes amortisation on acquired intangibles assets.

ZOTEFOAMS

Geographical segments

Polyolefin foams, HPP and MEL are managed on a worldwide basis but operate from UK, US and Asian locations. In presenting information on the basis of geographical segments, segmental revenue is based on the geographical location of customers. Segment assets are based on the geographical location of assets.

	United Kingdom £'000	Continental Europe £'000	North America £'000	Rest of the World £'000	Total £'000
For the year ended 31 December 2018					
Group revenue from external customers	**13,137**	**29,342**	**21,340**	**17,218**	**81,037**
Non-current assets	**38,816**	**1,488**	**33,842**	**416**	**74,562**
Capital expenditure - PPE	**11,048**	**1,488**	**3,677**	**81**	**16,294**
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 - PPE	3,708	-	7,744	397	11,849

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

Major customer

Revenues from one customer of the Group contributes £10,092k (2017: £5,510k) to the Group's revenue.

3. Exceptional item

	2018 £'000	2017 £'000
Increase in past service costs	950	1,265

During the current year, following recent legislation regarding GMP equalisation, the Company has provided £940k for additional liabilities in its defined benefit pension scheme based on calculations by the Company's actuaries and £10k for related expenses. This cost has been included in the income statement as an exceptional operating item.

In the prior year, following legal advice received by the pension trustees and an estimate calculated by the actuaries, the Company provided £1,235k for potential additional liabilities in its defined benefit pension scheme and £30k for related expenses. This cost was included in the income statement as an exceptional operating item.

4. Dividends and earnings per share

	2018 £'000	2017 £'000
Prior year final dividend of 4.02p (2016: 3.90p) per 5.0p ordinary share	**1,763**	1,710
Interim dividend of 1.97p (2017: 1.91p) per 5.0p ordinary share	**944**	837
Dividends paid during the year	**2,707**	2,547

The proposed final dividend for the year ended 31 December 2018 of 4.15p per share (2017: 4.02p) is subject to approval by shareholders at the AGM and has not been recognised as a liability in these financial statements. The proposed dividend would amount to £1,988k if paid to all shareholders on the Company register at the close of business on 26 April 2019.

Earnings per ordinary share

Earnings per ordinary share is calculated by dividing consolidated profit after tax attributable to equity holders of the Company of £7,852k (2017: £6,008k) by the weighted average number of shares in issue during the year, excluding own shares held by the EBT which are administered by independent trustees. The number of shares held in the trust at 31 December 2018 was 403,758 (2017: 521,351). 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.

	2018	2017
Weighted average number of ordinary shares in issue	**46,310,356**	43,845,843

Adjustments for share options	**722,503**	585,512
Diluted number of ordinary shares issued	**47,032,859**	44,431,355

5. Issued share capital

	Number of shares	Par value £'000	Share premium £'000	Total £'000
Opening balance 1 January 2017	44,414,442	2,221	24,340	26,561
Movements during the year	-	-	-	-
Closing balance 31 December 2017	44,414,442	2,221	24,340	26,561
Opening balance 1 January 2018	**44,414,442**	**2,221**	**24,340**	**26,561**
Rights issue	**3,886,792**	**194**	**20,406**	**20,600**
	48,301,234	**2,415**	**44,746**	**47,161**
Less: Transaction costs arising on rights issue	**-**	**-**	**(568)**	**(568)**
Closing balance 31 December 2018	**48,301,234**	**2,415**	**44,178**	**46,593**

In May 2018 the Company raised £20,032k of equity, net of fees, through a placing of 3,886,792 shares at £5.30 per share.

6. Interest-bearing loans and borrowings

	Group		Company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Current bank borrowings	**14,500**	11,316	**14,500**	10,786
Non-current bank borrowings	**5,231**	8,067	**5,231**	3,647
Lease liabilities	**306**	383	**306**	383
	20,037	19,766	**20,037**	14,816

In May 2018 the Group completed a debt refinancing to enable it to continue to grow capacity and meet its expected demand growth. Switching to Handelsbanken plc and National Westminster Bank plc, the Group secured increased facilities of £57.5m (up 64% from previous facility of approximately £35m) at improved pricing. These facilities are secured against the property, plant and equipment and trade receivables of the Group. The facility comprises a £25 million multi-currency term loan, repayable in two equal instalments of £5m during year four and year five, with the remainder at the end of year five, a £25 million multi-currency revolving credit facility, repayable at the end of five years and a further £7.5 million sterling term loan, renewable annually and repayable over five years in equal quarterly repayments over the term. The negotiated facility also includes a £25 million accordion feature to provide additional flexibility to pursue further investment opportunities in the future.