Zotefoams plc

Interim Report for the Six Months Ended 30 June 2019

Successfully executing growth and capacity expansion plans

06 August 2019 - Zotefoams plc ("Zotefoams", "the Company" or "the Group"), a world leader in cellular materials technology, today announces its interim results for the six months ended 30 June 2019.

Highlights

- Record Group revenue of £42.30m, up 12% on prior period (2018: £37.89m) and 9% in constant currency:
  - 40% growth in High Performance Products ("HPP"), which now represents 30% (2018: 24%) of Group sales
  - 3% growth in Polyolefin Foams
  - 3% growth in MuCell Extrusion sales
- Profit before income tax up 7% to £4.93m (2018: £4.60m)
- Improvements in cash flows from operating activities:
  - Operating profit before changes in working capital and provisions up 11% to £8.29m (2018: £7.50m)
  - Cash generated from operations up £5.83m to £5.20m (2018: cash used in operations £0.63m)
- On schedule with the three major capital projects in the UK, USA and Poland to expand capacity and support growth
- Interim dividend increased by 3.0% to 2.03 pence
- Expect to meet market expectations for the full year

Financial highlights

	Six months ended 30 June 2019	Six months ended 30 June 2018	Change
	£m	£m	%
Group revenue	42.30	37.89	12
Gross profit	15.03	12.92	16
Gross profit margin	35.5%	34.1%	-
Operating profit	5.09	5.02	1
Profit before income tax	4.93	4.60	7
Basic EPS (p)	8.55	8.07	6
Interim dividend (p)	2.03	1.97	3

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

"Zotefoams' ambition is to be the world leader in cellular materials technology in our chosen markets and, in the period, we have again delivered strong organic growth with record Group revenue and half-year earnings.

Potential new projects in MuCell Extrusion and HPP, in particular, offer clear opportunity to grow the Zotefoams business to revenues of £100m and beyond. To hit this milestone in 2020 we need to maintain momentum in business development and technical support of these opportunities to create significant shareholder value in future years.

We expect Zotefoams to deliver further growth in 2019 and meet market expectations, however we are mindful of a difficult current trading environment in European polyolefin foams markets and the less stable political and macroeconomic environment. The Board remains confident in the future prospects for the business."

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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

Results overview

In the first six months of 2019 Group revenue increased by 12% to a record £42.30m (2018: £37.89m). As indicated in the May trading update, we experienced strong growth in the first four months of the year, with a return to trendline growth rates later in the period. In constant currency, growth was 9%, with particularly strong sales performance in our HPP business and in Polyolefin Foams in North America.

Gross profit margin increased from 34.1% to 35.5%, with a strong positive mix impact from our HPP business growth, some currency benefit and operational improvements since the start-up of US polyolefin capacity in the comparative period. Amortisation of acquired intangible assets for the period amounted to £0.14m (2018 £0.15m).

After continuing to invest in the Group's cost base to support anticipated future opportunities, H1 2019 profit before income tax grew by 7% to £4.93m (2018: £4.60m). Basic earnings per share increased to 8.55p (2018: 8.07p), with the previous period including only a two-month impact of the equity raise completed in May 2018. The Directors have decided to increase the interim dividend to 2.03p per share (2018: 1.97p), an increase of 3.0%, reflecting the Board's continued confidence in the Group's future.

Financial and operational review

High-Performance Products ('HPP')

HPP sales grew 40% to £12.70m (2018: £9.04m), or 34% in constant currency. All product lines within HPP delivered growth.

Footwear products, where we have an exclusive relationship with Nike, performed well, delivering 47% growth compared to the same period last year. Footwear is now the largest segment within HPP and is aligned to a two-year customer product cycle which began in late 2017. We therefore expect the remainder of the year to be relatively flat, with a typical tail-off at the end of the current product cycle and an uplift from the next product cycle beginning late this year.

ZOTEK® F fluoropolymer foams, mainly used in aviation markets, also grew strongly with sales increasing by 33% in the period as our portfolio of applications increases. Sales of ZOTEK® N nylon foams increased modestly, with both product lines showing a very positive pipeline of development opportunities.

T-FIT® advanced insulation products sales grew by almost 50% in the period, again with a positive momentum on both short and medium-term development opportunities, predominantly in China, India and Europe.

The segment profit in HPP is an aggregate of products and markets at different stages of development. Within this portfolio ZOTEK® PEBA and ZOTEK® F foams, mainly used for footwear and aviation respectively, have both reached a scale that makes them profitable. T-FIT® insulation has a mixture of profitable lines and earlier stage products, and the Group has continued to invest in operational and sales capability in China during the period, as well as set up a legal entity and sales team in India. We intend to continue with both this investment and that in nylon foam, both of which we believe offer good potential to support our long-term ambition. Segment profit in HPP increased by 67% to £2.80m (2018: £1.68m), delivering a 22% segment profit margin for the period (2018: 19%).

Polyolefin Foams

Polyolefin Foams sales increased 3% to £28.72m (2018: £27.98m), or 1% in constant currency. In continental Europe, our largest market, sales were strong in Q1 but declined in Q2 mainly as a result of challenges faced by industrial users, particularly in Germany which is our largest market for these foams. We expect Q3 this year to see similar low-levels of demand in continental Europe, accompanied by customer destocking, which is common as the supply chain settles into a lower-demand environment. In the UK, revenue was stable, with Brexit-related inventory build benefits experienced in Q1 reversing in Q2 and being subject to continuing uncertainty. In North America, sales increased 12%, supported by the Group's additional capacity which came on-line in March 2018, despite poor weather hitting the construction sector in particular.

Segment profit increased by 3% to £4.68m (2018: £4.55m). Lower average input costs for our main raw material, low density polyethylene ('LDPE') and higher operational efficiency in the USA more than offset the full period impact of additional depreciation and operating costs from the USA capacity expansion. This delivered a segment profit margin of 16% (2018: 16%).

MuCell Extrusion LLC ('MEL')
MEL licenses microcellular foam technology and sells related machinery. Sales in the period increased 3% to £0.89m (2018: £0.86m). In constant currency total sales declined by 1%. Operational improvements made in 2018 are beginning to benefit the MEL business, with better organisational control and delivery supporting expectations for a much stronger second half this year. More importantly, we believe the long-term potential of MEL has improved significantly, with further technology development opening up new potential applications. We expect to begin marketing these applications early in the fourth quarter following a successful initial customer launch earlier this year.

MEL reported a segment loss after amortisation costs of £1.11m (2018: loss £0.78m), which mainly reflected the additional cost base to support future growth.

Currency review
As a predominantly UK-based exporter, Zotefoams has over 80% of its sales denominated in US dollars and euros. With most costs incurred in sterling, other than the main raw materials processed at the Croydon, UK, plant, which are in euros, and the operating costs of the Group's US and Chinese activities, which are in US dollars, movements in foreign exchange rates can have a significant impact on the Group's results. The average Euro rate was 1.14: £1 for the first six months of 2019 (equivalent 2018 rate 1.14: £1) and the average US dollar rate was 1.29: £1 (equivalent 2018 rate 1.38: £1).

In the period a stronger dollar increased our reporting currency sales and costs of raw materials as well as our operating costs of North American facilities. The net profit effect of this was a benefit of approximately £0.6m. Offsetting this, our transactional hedging generated a loss of £0.41m (2018 gain: £0.19m). In addition, the Group recorded a non-cash translation gain of £0.18m (2018 gain: £0.49m) on foreign currency denominated balances which are not hedged. The combined effects of these are included in administration expenses.

Investment in organisation
The Group continues to pursue its expansion strategy, founded on proprietary cellular-materials technology with an increasing portfolio of differentiated products.

Organic growth, at the rate the Group is targeting, requires continued investment in manufacturing, processing and engineering capability to deliver the required capacity around the world. Within cost of sales, these costs increased by £1.36m in H1 2019 against the previous period, £1.10m of which was in relation to operations overseas.

This organic growth also requires continued investment in, and reprioritisation of, technical, sales-focused and administration resources to create, execute and manage it. Included within distribution and administrative expenses in the Group's 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, excluding the impact of foreign exchange hedges and translation, increased by a further £1.16m to £9.72m in H1 2019 (2018: £8.56m). The Group expects this investment to continue as it progresses its strategy of mix enrichment and completes its ongoing capital investments.

Tax and cash flow
Zotefoams' estimated average annual tax rate used for the period to 31 December 2019 is 18.79% (actual for the year ended 31 December 2018: 17.99%), which is in line with the UK corporation tax rate for the period of 19%. Cash generated from operations was £5.20m (2018: cash used in

operations £0.63m), following a prior period investment in working capital of £6.92m, primarily related to footwear sales. Capital expenditure was £10.92m (2018: £5.75m), related to the ongoing capacity expansion projects in the UK, USA and Poland. Finance costs reduced to £0.18m (2018: £0.42m) as a result of the realised gross proceeds of £20.6m, following the share placing in May 2018 and as a consequence of lower cost debt.

Net debt (cash less bank borrowings and lease liabilities) increased by £10.40m from £12.96m (December 2018) to £23.36m, as a result of the Group drawing down on its existing facility to finance the capital expenditures described above.

Pensions
There have been no material changes in assumptions to impact the net deficit on the Defined Benefit Pension Scheme ("DB Scheme") as at 30 June 2019. 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 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 will pay the ongoing DB Scheme expenses of £15,000 per month (previously £10,600), to cover death-in-service insurance premiums, the expenses of administering the scheme and Pension Protection Fund levies.

Capital expenditure
Zotefoams is proceeding well with its announced capacity increase initiatives across the Group. With the full process capability fully operational in Kentucky, USA since March 2018, following an investment of $33m to acquire and install a high-pressure vessel plus ancillary equipment and infrastructure, as well as acquire a second high-pressure vessel, the Group remains on target to commission this second vessel in Q4, 2019, at an incremental budgeted cost of $9m. Each vessel is estimated to add 20% additional Group capacity.

Since December 2017 the Group has also been investing in additional high-temperature, low-pressure capacity at its Croydon, UK, plant, at a total investment cost of £12m. Although capable of expanding all foams produced by Zotefoams, this is targeted at the fast-growing HPP business. In time and on budget, these assets are now in place and are currently being commissioned. Finally, Zotefoams is also investing in a new foam manufacturing plant in Poland, expected to become operational in 2020 and cost approximately £23m to cover land, buildings and the first phase of capacity. This is also progressing well, to plan and on budget. Interest capitalised during the period amounted to £0.44m (2018: £0.03m).

The Group has adopted IFRS 16 during the period, resulting in right-of-use assets of £1.37m being recognised on the Group's statement of financial position at the period end. An associated liability of £1.38m has also been recognised at the period end. See note 12 of the condensed consolidated interim financial statements for further details.

Employees and talent management
Hiring and retaining employees with the right skills, and management of these talented people, is very important to Zotefoams as it grows and evolves globally. We have a wide scope of opportunities and need to identify and develop the right people to define and deliver to our potential. Over the past six months we have continued to recruit to meet the needs of our business and now employ 481 globally, 30% of whom are outside the UK.

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

Dividend
Reflecting the Board's continued confidence in the Group's future, the Directors have increased the interim dividend by 3.0% to 2.03 pence per share (2018: 1.97 pence). The dividend will be paid on 10 October 2019 to shareholders on the Company's register at the close of business on 13 September 2019.

Principal risks and uncertainties
Zotefoams' business and share price may be affected by a number of risks, not all of which are within its control. The process Zotefoams has in place for identifying, assessing and managing risks is set out in the Risk Management and Principal Risks section, on pages 24 to 30, of the 2018 Annual Report. The specific principal risks (which could impact Zotefoams' sales, profits and reputation) and relevant mitigating factors, as currently identified by Zotefoams' risk management process, have not changed significantly since the publication of the last Annual Report. Detailed explanations of these can be found in the 2018 Annual Report. Broadly, these risks include operational disruption, global capacity management, scaling up international operations, technology displacement, external and loss of a key customer.

Current trading and prospects
Zotefoams' business is well diversified both within AZOTE® polyolefin foams and in our HPP and MEL businesses, the latter two being structurally high-growth opportunities.

In the second half we anticipate our sales growth rate to moderate as macroeconomic uncertainty impacts cyclical markets, such as automotive, which is currently in decline. This inevitably reduces demand in our Polyolefin Foams segment, exacerbated by destocking in the supply chain through which we serve such markets. Lower demand for polyolefin foams in Europe seen in the second quarter will undoubtedly continue through the third quarter, in addition to the uncertain effects of Brexit. However, the North American market for polyolefin foams remains strong, augmented by pent-up demand in construction following a slow build season due to inclement weather in the first half of the year.

In HPP we enter the second half of the year with strong positive momentum and confidence in significant growth in our aviation and technical insulation products. Footwear demand is likely to be at similar levels to the second half of 2018 before significant growth resumes in 2020.

In MEL we expect sales to be significantly above the first half, as there is a normal seasonality to this business combined with underlying growth opportunities.

Potential new projects in MEL and HPP, in particular, offer clear opportunity to grow the Zotefoams business to revenues of £100m and beyond. To hit this milestone in 2020 we need to maintain momentum in business development and technical support of these opportunities to create significant shareholder value in future years.

Sterling is currently weaker than in the second half of 2018 and, therefore, net of hedging we anticipate modest transactional benefit for the remainder of the year. Indications are that pricing of low-density polyethylene, our major raw material, will remain at a similar level to the first six months of this year.

Outlook
We expect Zotefoams to deliver further growth in 2019 and meet market expectations, however we are mindful of a difficult current trading environment in European polyolefin foams markets and the less stable political and macroeconomic environment. The Board remains confident in the future prospects for the business.

S P Good	D B Stirling
Chairman	Group CEO
5 August 2019	5 August 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

The Directors of Zotefoams plc are listed in the Zotefoams plc 2018 Annual Report as well as on the Zotefoams plc website: www.zotefoams.com

By order of the Board:

S P Good	G C McGrath
Chairman	Group CFO
5 August 2019	5 August 2019

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CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Six months ended		Year ended
		30-Jun-19	30-Jun-18	31-Dec-18
		(Unaudited)	(Unaudited)	(Audited)
	Notes	**£'000**	£'000	£'000
Revenue	6	**42,300**	37,888	81,037
Cost of sales		**(27,272)**	(24,972)	(52,034)
Gross profit		**15,028**	12,916	29,003
Distribution costs		**(4,076)**	(3,432)	(7,193)
Administrative expenses before exceptional item		**(5,865)**	(4,460)	(10,236)
Exceptional item	7	**-**	-	(950)
Administrative expenses after exceptional item		**(5,865)**	(4,460)	(11,186)
Operating profit		**5,087**	5,024	10,624
Operating profit before exceptional item		**5,087**	5,024	11,574
Finance costs		**(176)**	(419)	(753)
Share of profit/(loss) from joint venture		**19**	(3)	(16)
Profit before income tax		**4,930**	4,602	9,855
Profit before income tax and exceptional item		**4,930**	4,602	10,805
Income tax expense	8	**(829)**	(983)	(2,003)
Profit for the period/year		**4,101**	3,619	7,852
Profit for the period/year before exceptional item		**4,101**	3,619	8,641
Profit attributable to:				
Equity holders of the Company		**4,101**	3,619	7,852
		4,101	3,619	7,852
Earnings per share:				
Basic (p)	10	**8.55**	8.07	16.96
Diluted (p)	10	**8.43**	7.94	16.69

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended		Year ended
	30-Jun-19	30-Jun-18	31-Dec-18
	(Unaudited)	(Unaudited)	(Audited)
	£'000	£'000	£'000
Profit for the period/year	**4,101**	3,619	7,852
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss			
Actuarial losses on defined benefit pension schemes	**-**	-	(1,449)
Tax relating to items that will not be reclassified	**-**	-	246
Total items that will not be reclassified to profit or loss	**-**	-	(1,203)
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation gains on investment in foreign subsidiaries	**248**	371	1,442
Change in fair value of hedging instruments	**(426)**	1,041	(1,467)
Hedging gains/(losses) reclassified to profit or loss	**406**	(1,413)	920
Tax relating to items that may be reclassified	**3**	63	93
Total items that may be reclassified subsequently to profit or loss	**231**	62	988
Other comprehensive income/(expense) for the period/year, net of tax	**231**	62	(215)
Total comprehensive income for the period/year	**4,332**	3,681	7,637
Profit attributable to:			
Equity holders of the Company	**4,332**	3,681	7,637
Total comprehensive income for the period/year	**4,332**	3,681	7,637

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Notes	**30-Jun-19 (Unaudited) £'000**	30-Jun-18 (Unaudited) £'000	31-Dec-18 (Audited) £'000
Non-current assets				
Property, plant and equipment		**77,794**	58,533	67,608
Right-of-use assets	12	**1,370**	-	-
Intangible assets		**6,500**	6,582	6,515
Investments in joint venture		**92**	86	73
Trade and other receivables		**288**	-	439
Deferred tax assets		**619**	442	923
Total non-current assets		**86,663**	65,643	75,558
Current assets				
Inventories		**18,882**	16,516	17,893
Trade and other receivables		**27,695**	25,631	26,371
Derivative financial instruments	13	**-**	4	6
Cash and cash equivalents		**6,514**	5,802	7,073
Total current assets		**53,091**	47,953	51,343
Total assets		**139,754**	113,596	126,901
Current liabilities				
Trade and other payables		**(12,654)**	(10,641)	(11,328)
Derivative financial instruments	13	**(413)**	(222)	(399)
Current tax liability		**(1,331)**	(1,939)	(1,978)
Lease liabilities	12	**(365)**	-	-
Interest-bearing loans and borrowings		**(5,899)**	(7,477)	(14,500)
Total current liabilities		**(20,662)**	(20,279)	(28,205)
Non-current liabilities				
Lease liabilities	12	**(1,010)**	-	-
Interest-bearing loans and borrowings		**(22,598)**	(5,466)	(5,537)
Deferred tax liabilities		**-**	(614)	-
Post-employment benefits		**(7,795)**	(5,986)	(8,078)
Total non-current liabilities		**(31,403)**	(12,066)	(13,615)
Total liabilities		**(52,065)**	(32,345)	(41,820)
Total net assets		**87,689**	81,251	85,081
Equity				
Issued share capital		**2,415**	2,415	2,415
Share premium		**44,178**	44,178	44,178
Own shares held		**(9)**	(21)	(21)
Capital redemption reserve		**15**	15	15
Translation reserve		**4,301**	2,982	4,053
Hedging reserve		**(375)**	(213)	(358)
Retained earnings		**37,164**	31,895	34,799
Total equity		**87,689**	81,251	85,081

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

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended		Year ended
	30-Jun-19	30-Jun-18	31-Dec-18
	(Unaudited)	(Unaudited)	(Audited)
	£'000	£'000	£'000
Cash flows from operating activities			
Profit for the period/year	**4,101**	3,619	7,852
Adjustments for:			
Depreciation and amortisation	**2,865**	2,289	5,082
Finance costs	**176**	419	753
Share of (profit)/loss from joint venture	**(19)**	3	16
Employee defined benefit service charges	**-**	-	950
Equity-settled share-based payments	**338**	182	822
Taxation	**829**	983	2,003
Operating profit before changes in working capital and provisions	**8,290**	7,495	17,478
(Increase) in trade and other receivables	**(868)**	(6,045)	(6,361)
Increase in inventories	**(941)**	(1,938)	(3,751)
(Decrease)/increase in trade and other payables	**(896)**	166	366
Employee defined benefit contributions	**(383)**	(309)	(619)
Cash generated from/(used in) operations	**5,202**	(631)	7,113
Interest received	**28**	-	-
Interest paid	**(192)**	(272)	(516)
Income taxes paid	**(1,311)**	(773)	(2,136)
Net cash flows generated from/(used in) operating activities	**3,727**	(1,676)	4,461
Cash flows from investing activities			
Purchases of intangibles	**(184)**	(119)	(294)
Proceeds on disposal of property, plant and equipment	**1**	-	3
Purchases of property, plant and equipment	**(10,733)**	(5,629)	(15,796)
Net cash used in investing activities	**(10,916)**	(5,748)	(16,087)
Cash flows from financing activities			
Proceeds from options exercised and issue of share capital	**77**	31	31
Proceeds of share issue, net of expenses	**-**	20,078	20,078
Repayment of borrowings	**(750)**	(43,294)	(45,055)
Proceeds from borrowings	**9,436**	36,476	44,576
Lease payments	**(145)**	-	-
Dividends paid	**(1,997)**	(1,763)	(2,707)
Net cash generated from financing activities	**6,621**	11,528	16,923
Net (decrease)/increase in cash, cash equivalents and bank overdrafts	**(568)**	4,104	5,297
Cash, cash equivalents and bank overdrafts at start of period/year	**7,073**	1,810	1,810
Exchange gains/(losses)	**9**	(112)	(34)
Cash and cash equivalents at end of period/year	**6,514**	5,802	7,073

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

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2019

	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 2019	**2,415**	**44,178**	**(21)**	**15**	**4,053**	**(358)**	**34,799**	**85,081**
Foreign exchange translation gains on investment in subsidiaries	-	-	-	-	248	-	-	248
Change in fair value of hedging instruments recognised in other comprehensive income	-	-	-	-	-	(426)	-	(426)
Reclassification to income statement - administrative expenses	-	-	-	-	-	406	-	406
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling	-	-	-	-	-	3	-	3
Profit for the period	-	-	-	-	-	-	4,101	4,101
Total comprehensive income/(expenditure) for the period	-	-	-	-	248	(17)	4,101	4,332
Transactions with owners of the Parent:								
Options exercised	-	-	12	-	-	-	65	77
Equity-settled share-based payments net of tax	-	-	-	-	-	-	196	196
Dividends paid	-	-	-	-	-	-	(1,997)	(1,997)
Total transactions with owners of the Parent	-	-	12	-	-	-	(1,736)	(1,724)
Balance as at 30 June 2019 (Unaudited)	**2,415**	**44,178**	**(9)**	**15**	**4,301**	**(375)**	**37,164**	**87,689**

	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 2018	**2,221**	**24,340**	**(26)**	**15**	**2,611**	**96**	**29,833**	**59,090**
Foreign exchange translation gains on investment in subsidiaries	-	-	-	-	371	-	-	371
Change in fair value of hedging instruments recognised in other comprehensive income	-	-	-	-	-	1,041	-	1,041
Reclassification to income statement - administrative expenses	-	-	-	-	-	(1,413)	-	(1,413)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling	-	-	-	-	-	63	-	63
Profit for the period	-	-	-	-	-	-	3,619	3,619
Total comprehensive income/(expenditure) for the period	-	-	-	-	371	(309)	3,619	3,681
Transactions with owners of the Parent:								
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	-	-	-	-	-	-	180	180
Dividends paid	-	-	-	-	-	-	(1,763)	(1,763)
Total transactions with owners of the Parent	194	19,838	5	-	-	-	(1,557)	18,480
Balance as at 30 June 2018 (Unaudited)	**2,415**	**44,178**	**(21)**	**15**	**2,982**	**(213)**	**31,895**	**81,251**

During the six months period ended 30 June 2019, 217,462 (June 2018: 117,593) shares vested and were issued from the Zotefoams Employee Benefit Trust ('EBT') following the exercise of these options.

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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

1. GENERAL INFORMATION

Zotefoams plc ('the 'Company') and its subsidiaries and joint venture (together, 'the Group') manufacture and sell high-performance foams and license related technology for specialist markets worldwide.

The Group has manufacturing sites in the UK, the USA and China.

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

These condensed consolidated interim financial statements ("interim financial statements") were approved for issue on 5 August 2019.

These interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2018 were approved by the Board of Directors on 3 April 2019 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

These interim financial statements have been reviewed, not audited.

These interim financial statements for the six months ended 30 June 2019 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim financial reporting', as adopted by the European Union. The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with IFRSs as adopted by the European Union.

Forward-looking statements

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

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

2. BASIS OF PREPARATION

ACCOUNTING POLICIES

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

- The Group has had to change its accounting policies as a result of adopting the following new standard:
  - IFRS 16 'Leases'

  The above accounting standard became effective from 1 January 2019. No retrospective adjustments have been made on adoption of IFRS 16. See note 12 for further details.

- Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

3. ESTIMATES AND JUDGEMENTS

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018, with the exception of changes in estimates that are required in determining the provision for income taxes.

4. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

The interim financial statements do not include all the financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 December 2018.

There have been no changes during the period to the financial risks or the financial risk management policies as disclosed in the Group's annual financial statements for the year ended 31 December 2018. Refer to note 13 for changes to the Group's financial risks arising from developments during the six-month period ended 30 June 2019.

5. SEASONALITY OF OPERATIONS

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

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6. 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 items) 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 or temperature performance 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 names ZOTEK® while technical insulation products manufactured from certain materials are branded as T-FIT®.
- MuCell Extrusion LLC ('MEL'): licenses microcellular foam technology and sells related machinery.

	Polyolefins Foams		HPP		MEL		Consolidated	
Six months ended 30 June 19 (Unaudited)	**30-Jun-19 £'000**	30-Jun-18 £'000	**30-Jun-19 £'000**	30-Jun-18 £'000	**30-Jun-19 £'000**	30-Jun-18 £'000	**30-Jun-19 £'000**	30-Jun-18 £'000
Group revenue	**28,718**	27,982	**12,694**	9,044	**888**	862	**42,300**	37,888
Segment profit/(loss) pre-amortisation	**4,684**	4,552	**2,803**	1,683	**(977)**	(633)	**6,510**	5,602
Amortisation of acquired intangible assets	**-**	-	**-**	-	**(135)**	(150)	**(135)**	(150)
Segment profit/(loss)	**4,684**	4,552	**2,803**	1,683	**(1,112)**	(783)	**6,375**	5,452
Foreign exchange (losses)/gains							**(406)**	672
Unallocated central costs							**(882)**	(1,100)
Operating profit/(loss)	**4,684**	4,552	**2,803**	1,683	**(1,112)**	(783)	**5,087**	5,024
Financing costs							**(176)**	(419)
Share of profit/(loss) from joint venture							**19**	(3)
Taxation							**(829)**	(983)
Profit for the period							**4,101**	3,619
Segment assets	**106,798**	81,090	**24,555**	23,829	**7,690**	8,145	**139,043**	113,064
Unallocated assets							**711**	532
Total assets							**139,754**	113,596
Segment liabilities	**(46,646)**	(18,394)	**(2,964)**	(10,671)	**(711)**	(505)	**(50,321)**	(29,570)
Unallocated liabilities							**(1,745)**	(2,775)
Total liabilities							**(52,066)**	(32,345)
Depreciation	**2,181**	2,521	**304**	234	**41**	38	**2,526**	2,793
Amortisation	**199**	551	**-**	-	**140**	150	**339**	701
Capital expenditure:								
Property, plant and equipment (PPE)	**11,778**	11,447	**721**	360	**43**	43	**12,542**	11,850
Intangible assets	**79**	240	**71**	120	**34**	-	**184**	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 intangible assets.

Geographical segments

Polyolefin Foams, HPP and MEL are managed on a worldwide basis but operate from the UK, Europe, 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	Europe	North America	Rest of World	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	£`000	£`000	£`000	£`000	£`000
For the period ended 30 June 2019					
Group revenue from external customers	**6,489**	**14,849**	**10,352**	**10,610**	**42,300**
Non-current assets	**43,539**	**6,369**	**36,354**	**401**	**86,663**
Capital expenditure - PPE	**4,617**	**2,550**	**3,512**	**54**	**10,733**
For the period ended 30 June 2018					
Group revenue from external customers	6,217	14,748	9,300	7,623	37,888
Non-current assets	32,766	-	32,480	397	65,643
Capital expenditure - PPE	3,296	-	2,333	-	5,629

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

Major customer

Revenues from one customer of the Group located in "Rest of World" contributes £7,253k (2018: £3,914k) to the Group’s revenue.

Analysis of revenue by category

Breakdown of revenues by products and services for the Group:

	Six months ended	
	30-Jun-19	30-Jun-18
	(Unaudited)	(Unaudited)
	£'000	£'000
Sale of foam	**41,412**	37,026
Sale of equipment	**615**	326
Licence and royalty income	**273**	536
Group revenue	**42,300**	37,888

7. EXCEPTIONAL ITEMS

Items that are material either because of their size or their nature or that are non-recurring are considered as exceptional items and are presented within the line items to which they best relate. During the current period, no exceptional items have been recorded in the income statement. During the prior year, following a High Court ruling regarding GMP equalisation, the Company provided £940k for additional liabilities in its defined benefit pension scheme, based on calculations by the Company's actuaries, and £10k for related expenses.

8. INCOME TAX EXPENSE

	Six months ended 30-Jun-19 (Unaudited) £'000	Six months ended 30-Jun-18 (Unaudited) £'000
UK corporation tax	**751**	1,041
Adjustment for tax for prior years	**(98)**	-
Overseas tax	**11**	9
Total current tax	**664**	1,050
Deferred tax	**165**	(67)
Income tax expense	**829**	983

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 31 December 2019 is 18.79% (the effective tax rate for the year ended 31 December 2018 was 17.99%).

9. DIVIDENDS

A dividend of £1,997k (2018: £1,763k) that relates to the period to 31 December 2018 was paid in May 2019.

An interim dividend of 2.03 pence per share (2018: 1.97 pence per share) was proposed by the Board of Directors on 5 August 2019. It is payable on 10 October 2019 to shareholders who are on the register at 13 September 2019. This interim dividend, amounting to £981k (2018: £944k), has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the year to 31 December 2019.

10. EARNINGS PER SHARE

Earnings per ordinary share is calculated by dividing the consolidated profit after tax attributable to equity holders of the Parent Company of £4,101k (2018: £3,619k) by the weighted average number of shares in issue during the period, excluding own shares held by employee trusts which are administered by independent trustees. The number of shares held in the trust at 30 June 2019 was 186,296 (2018: 403,758). Distribution of shares from the trust is at the discretion of the trustees. Diluted earnings per ordinary share adjusts for the potential dilutive effect of share option schemes in accordance with IAS 33 Earnings per share.

	Six months ended 30-Jun-19 (Unaudited)	Six months ended 30-Jun-18 (Unaudited)
Weighted average number of ordinary shares in issue	**47,988,453**	44,839,931
Deemed issued for no consideration	**674,192**	777,033
Diluted number of ordinary shares issued	**48,662,645**	45,616,964

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11. RELATED PARTY TRANSACTIONS

There were no material related party transactions requiring disclosure for the periods ended 30 June 2019 and 30 June 2018.

12. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

The Group has adopted IFRS 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

a). Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's banking borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on the 1 January 2019 was 2.8%.

For leases previously classified as finance leases, the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

	2019 **£'000**
Operating lease commitments disclosed as at 31 December 2018	662
Discounted using the lessee's incremental borrowing rate at the date of initial application	644
Add: finance lease liabilities recognised as at 31 December 2018	306
(Less): short term leases recognised on a straight-line basis as an expense	(563)
(Less): low value leases recognised on a straight-line basis as an expense	(5)
Lease liability recognised as at 1 January 2019	**382**
of which are:	
Current lease liabilities	132
Non-current lease liabilities	250
	382

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules have always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

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The recognised right-of-use assets relate to the following types of assets:

	30 June 2019 £'000	1 January 2019 £'000
Property	136	104
Equipment	1,234	1,528
Total right-of-use assets	**1,370**	**1,632**

The change of accounting policy affected the following items in the balance sheet on 1 January 2019:

- property, plant and equipment - decrease by £306k
- right-of-use assets - increase by £1,632k
- borrowings - decrease by £306k
- lease liabilities - increase by £1,199k

The net impact on retained earnings on 1 January 2019 was £nil.

a (i). Impact on segment disclosures and earnings per share

Segment assets and segment liabilities at 30 June 2019 increased as a result of the change in accounting policy. Lease liabilities are now included in segment liabilities, whereas finance lease liabilities were previously excluded from segment liabilities. The following segments are affected by the change in policy.

	Segment Assets £'000	Segment Liabilities £'000
Polyolefin Foams	1,213	1,217
HPP	157	158
	1,370	**1,375**

The impact on adoption of IFRS 16 on the segmental results for the period was immaterial. There was no material change in the basic and diluted earnings per share for the six months to 30 June as a result of the adoption of IFRS 16.

a (ii). Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease.*

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(b). The Group's leasing activities and how these are accounted for

The Group leases various offices and equipment. Rental contracts are typically 2-5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the income statement on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the Group's incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar economic environment within similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low value are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of small items of office furniture and equipment.

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13. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Fair value estimation
To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2019 and 30 June 2018:

30-Jun-19	**Level 1 (Unaudited) £'000**	**Level 2 (Unaudited) £'000**	**Level 3 (Unaudited) £'000**	**Total (Unaudited) £'000**
Assets				
Forward exchange contracts	-	-	-	**-**
Total assets	-	-	-	**-**
Liabilities				
Forward exchange contracts	-	**(413)**	-	**(413)**
Total liabilities	-	**(413)**	-	**(413)**

30-Jun-18	Level 1 (Unaudited) £'000	Level 2 (Unaudited) £'000	Level 3 (Unaudited) £'000	Total (Unaudited) £'000
Assets				
Forward exchange contracts	-	4	-	4
Total assets	-	4	-	4
Liabilities				
Forward exchange contracts	-	(222)	-	(222)
Total liabilities	-	(222)	-	(222)

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

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted marked price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over–the–counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Group's valuation process
Derivatives financial instruments are valued using Handelsbanken and NatWest mid-market rates at the statement of financial position date.

The Group's finance department performs the valuation of forward exchange contracts required for financial reporting purposes.

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

The Group also has a number of financial instruments which are not measured at fair value in the statement of financial position. For the majority of these instruments, the fair values are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short term in nature. The fair value of the following financial assets and liabilities approximate to their carrying amount:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

Fair value of financial assets and liabilities measured at amortised cost
The fair value of lease liabilities and borrowings is as follows:

	30-Jun-19 (Unaudited) £'000	30-Jun-18 (Unaudited) £'000
Current	**6,264**	7,477
Non-current	**23,608**	5,466
Total	**29,872**	12,943

14. CAPITAL COMMITMENTS
Capital expenditure commitments of £10,705k (2018: £3,848k) have been contracted for at the end of the reporting period but not yet incurred, and are in respect of Property, Plant and Equipment.

15. EVENTS OCCURING AFTER THE REPORTING PERIOD
There are no material events occurring after the reporting period except for those given in note 9.