

Zotefoams plc

Interim Report for the Six Months Ended 30 June 2020

Strong balance sheet foundations for a return to growth

11 August 2020 - 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 2020.

Business highlights

- H1 experienced challenging conditions in a number of markets, particularly for Polyolefin Foams
- Swift and effective operational response to the COVID-19 pandemic by the Group, ensuring business continuity and preserving financial strength
- Proactive commercial response including specification in substantial UK Government PPE contract awarded to largest UK customer
- All government COVID-19 support now repaid
- General market conditions expected to remain subdued but stable in H2
- Specific growth factors generated good momentum in late Q2 and are expected to underpin record six-month revenues in the second half of the year:
 - Significantly increased footwear sales, as previously flagged
 - PPE demand to remain elevated during H2
 - Strong growth momentum in T-FIT® advanced insulation expected to continue
- Poland facility ready for commissioning Q4:2020, provides ability to respond to any acceleration in recovery

Financial highlights

- Group revenue of £34.6m, 18% below strong prior period comparative (30 June 2019: £42.3m):
 - 7% decline in High-Performance Products
 - 23% decline in Polyolefin Foams
 - 2% increase in MuCell Extrusion sales
- Gross margins broadly stable at 34.8% (30 June 2019: 35.5%)
- Strong cost control resulted in profit before income tax of £2.7m (30 June 2019: £4.9m)
- £6.0m (30 June 2019: £5.2m) cash generated from operations
- Liquidity headroom of £18.8m (31 December 2019: £24.5m) after £7.4m of capex mainly related to the Poland manufacturing facility
- Net borrowings to EBITDA ratio for the period to 30 June 2020 of 2.6x (bank covenant 4.0x)
- Interim dividend of 2.03p declared (30 June 2019: 2.03p), reflecting the resilience of the H1 performance as well as the Board’s confidence in future prospects

Financial summary

	Six months ended 30 June 2020	Six months ended 30 June 2019	Change
	£m	£m	%
Group revenue	34.6	42.3	(18)
Gross profit	12.0	15.0	(20)
Gross profit margin	34.8%	35.5%	-
Operating profit	3.1	5.1	(38)
Profit before income tax	2.7	4.9	(45)
Basic EPS (p)	4.48	8.55	(48)
Interim dividend (p)	2.03	2.03	-
Net debt	36.2	23.4	(55)

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

“Despite the impact of COVID-19 on the first half, the Group responded quickly and effectively to the challenges, implementing a number of operating, cost management and capital expenditure actions to protect the financial and operational capability of the business, with positive results.

“In light of the financial performance delivered by the business, as well as our ability to manage profitability and cash generation across a wide range of possible scenarios, the Board has sufficient confidence to pay an interim dividend.

“We expect the second six months of 2020 to deliver record sales, beating the previous best half year sales of £43.1m. Our expectations are based on relatively subdued but stable demand in most polyolefin foams markets other than PPE, where demand is very strong, and a much stronger second half for footwear products and T-FIT® technical insulation, continuing the momentum experienced late in the first half. We remain mindful of high levels of uncertainty in most markets as well as political uncertainties around Brexit, so these expectations must be tempered with caution, particularly around our assessment of market conditions.”

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About Zotefoams plc

Zotefoams plc (LSE – ZTF) is a world leader in cellular materials technology delivering optimal material solutions for the benefit of society. 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. Zotefoams also owns and licenses patented microcellular foam technology to reduce plastic use in extrusion applications and for ReZorce® mono-material recyclable barrier packaging.

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®, ReZorce® and T-FIT® are registered trademarks of Zotefoams plc.

Results overview

The first six months of 2020 were severely impacted by the COVID-19 pandemic. Group revenue decreased by 18% to £34.6m (30 June 2019: £42.3m), as we experienced broad-based declines in demand in many of our main markets, particularly for Polyolefin foams, as supply chains reacted to lower end-user demand and high levels of uncertainty.

As previously reported, the Group responded quickly and effectively to the challenges presented by COVID-19, implementing a number of operating, cost management and capital expenditure actions to protect the financial and operational capability of the business, with positive results. Despite the decline in sales, gross profit margin held firm at 34.8% (30 June 2019: 35.5%), benefiting from lower raw material prices and tight cost control as well as the differentiated nature of our products. The Group remained profitable in the period, generating an operating profit of £3.1m (30 June 2019: £5.1m), with £6.0m (30 June 2019: £5.2m) cash generated from operations. Profit before tax was £2.7m (30 June 2019: £4.9m). Basic earnings per share reduced to 4.48p (30 June 2019: 8.55p).

As a result of the effective cash preservation actions taken, closing net debt for the period rose by only £4.3m to £36.2m (31 December 2019: £31.9m), after planned capital expenditure of £7.4m (30 June 2019: £10.9m) mainly related to our new facility in Poland. Adjusting for the impact of IFRS 2 and IFRS 16, net debt under the Group's banking definition was £35.4m (31 December 2019: £30.7m), resulting in liquidity headroom of £18.8m. The bank facility leverage covenant (net borrowings to EBITDA) was 2.6x (31 December 2019: 2.0x), well below the 4.0x covenant the Group had negotiated with its banks in Q1 to mitigate potential risks identified early in the period.

In April 2020, due to uncertain market conditions, the Board announced its decision not to recommend a final dividend for the year ended 31 December 2019. Despite the continued uncertainty over future COVID-19 impacts, the Board has sufficient confidence from the financial performance delivered by the business, as well as our ability to manage profitability and cash generation across a wide range of possible future scenarios, to pay an interim dividend of 2.03p per share (30 June 2019: 2.03p per share).

COVID-19 update

The health and safety of our colleagues, their families and our business partners remains our primary concern. The Group has established COVID-secure working procedures at each of its sites, which has enabled the business to maintain operational continuity throughout the period. Alongside this, the Group's supply chain has remained resilient, ensuring that Zotefoams has continued to provide a high level of service to its customers.

During this period, our employees in sites around the world have proved themselves to be committed, flexible and responsive to the changing needs of the business and safety environment. On behalf of the Board we would like to thank them for helping keep our business safe and resilient.

Zotefoams plc benefitted from £0.1m government support to furlough employees for a short time in the early part of the COVID-19 uncertainty, plus deferral of approximately £1.2m HMRC payroll contributions. This allowed us to make a reasoned determination about the impact on our operations. As the business is now operating at record output levels, furloughed staff have returned to work. All furlough support was repaid to the government after 30 June 2020.

Business unit review

Markets

Zotefoams operates across a variety of markets globally. During Q1 we experienced a continuation of the lower level of demand in our western European and North American markets that we witnessed during the latter part of 2019, albeit with more encouraging conditions in certain segments. The onset of the COVID-19 pandemic from the latter part of Q1 materially impacted our major volume markets, particularly for Polyolefin Foams, including industrial protection, automotive, aviation and marine, which have all seen declines in excess of 30% in the period, with assembly plant shut-downs and supply chain contraction contributing to the impact on Zotefoams.

We anticipate that general levels of demand in the majority of these markets will be in a recovery phase in the latter part of this year or early in 2021, however, the timing and rate of any improvement

remains uncertain. We are mindful that certain segments are likely to remain challenging for an extended period, such as commercial aviation, with aircraft build rates scheduled to be around 30% lower than pre-COVID levels for some years. In other markets, such as sports & leisure and construction, demand conditions are likely to be more resilient for our products.

In all our markets we operate in specific niches, developed over the past few years, where our products have a clear performance advantage for customers. As such, we have the ability to benefit both from further sales penetration with key customers and from the development of new markets as we pursue growth in the latter part of this year and beyond. As an example of this, in June this year we announced that our largest UK customer had been awarded a contract for supply of PPE specifying Zotefoams Plastazote® polyolefin foam. This is a major contract for this customer and significant for Zotefoams, with most of the material to be supplied in the second half of 2020. This is the most obvious example of the flexibility and resilience of our business delivering optimal material solutions for the benefit of society. Our sales, development and technical teams have shown that we can find new opportunities even in the most difficult circumstances and we continue to work hard to open new markets and gain market share for our unique portfolio of products.

Polyolefin Foams

Polyolefin Foams represent 64% of Group revenue, with sales decreasing 23% to £22.0m (30 June 2019: £28.7m). In continental Europe, our largest market, sales declined 37% against a very strong H1:2019. Early in the period we experienced a continuation of the weak market demand seen in H2:2019, which was then exacerbated by COVID-19 related disruption. In the UK, sales increased 5% with the first shipments of previously announced PPE demand offsetting a decline of 27% in the wider market. In North America, sales declined 14%, with the predominantly agricultural construction segment performing strongly and partially offsetting weaker demand in the wider market. Outside these key geographies we experienced demand falls similar to those of continental Europe, driven by many of the same factors: much lower demand for automotive, aviation, sports & leisure and product protection products with other markets impacted, albeit to a lesser extent, by COVID-19 factors such as customer destocking to conserve cash.

Segment profit declined to £2.0m (30 June 2019: £4.7m). Lower polymer prices and improved operating efficiencies partly offset the burden of fixed costs on a lower sales base.

High-Performance Products (“HPP”)

HPP represented 34% of Group revenue in the period (30 June 2019: 30%) as sales declined 7% to £11.8m (30 June 2019: £12.7m). Sales of our largest application, footwear, fell slightly due to the timing of customer call offs, although underlying demand remained robust. Shipments of footwear products increased significantly in the latter part of the period and are expected to continue at this higher rate for the remainder of the year, with new customer programmes now in production. Aviation, which is the second largest application within HPP, performed as expected during the first quarter before declining significantly in Q2 in line with the challenging backdrop experienced in the sector, and is expected to remain subdued for the remainder of the year. T-FIT® advanced insulation, which is mainly used for cleanrooms in pharmaceutical, biotech and semiconductor manufacturing, grew strongly despite shipments at the period end being hampered by COVID-19 restrictions at ports, particularly in India. Our HPP team has focused its resources on developing new applications and extending our product offering in aviation interiors, where new opportunities are emerging as a result of the current pandemic, and in capturing more business outside the core cleanroom offering in T-FIT® technical insulation.

The segment profit in HPP reflects a mix 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® technical insulation, which has attractive underlying margin potential, has a mixture of profitable lines and earlier stage products, and the Group has continued to invest in operational and sales capability, mainly in China and 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, as well as extend our existing product range and launch completely new materials. Segment profit in HPP was £2.8m (30 June 2019: £2.8m), delivering a 23% segment profit margin for the period (30 June 2019: 22%).

MuCell Extrusion LLC (“MEL”)

MEL, which licenses microcellular foam technology and sells related machinery, accounted for 3% (30 June 2019: 2%) of Group revenues in the period with sales of £0.9m (30 June 2019: £0.9m). COVID-19 interrupted our business development activities considerably, particularly in South and Central America where we have recently been more active. Most current and potential licensees are in the food processing industry, where demand has not been impacted, but lockdown measures in the USA and other target markets have refocused customers and prevented our team travelling to develop business. This will negatively impact our expectations for growth in the second half of 2020, although our team has been redeployed to further develop our intellectual property portfolio which is stronger than ever and includes our ReZorce® mono-material barrier technology.

We are currently investing approximately US\$1m in a pilot line, which will allow development of specific applications for customers. This has also been interrupted by the COVID-19 lockdown, with commissioning now expected in Q4 this year.

MEL reported an improved segment loss after amortisation costs of £0.7m (30 June 2019: loss £1.1m), which mainly reflected an improved contribution from sales with some benefit from the lower expenditure levels in the business.

Capacity and Investment

In 2017, the Group began investment to increase our capacity to produce both ZOTEK® and AZOTE® foams. A 40% increase in Group capacity has already been achieved and all assets in the UK and the USA are operating as planned, albeit at utilisation rates in H1:2020 that were lower than expected when we made the investments. Development in Poland of a third major foam manufacturing facility, which will add a further 20% to Group capacity, is almost complete with approximately £3.4m of planned capital expenditure prior to commissioning. While the start-up date is dependent on market conditions, we estimate this facility can be operational within two months of that decision being made. The recent large capital expenditure programme has created ample capacity to support future growth and any economic recovery. As a result, capital expenditure across the business is now returning to much lower levels, more in line with depreciation.

Financial review

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 exchange rates used to translate the key flows and balances were:

	6 months to 30 June 20	6 months to 30 June 19	12 months to 31 Dec 19
GBP to euro – period average	0.87	0.87	0.88
GBP to euro – period-end spot	0.91	0.90	0.85
GBP to USD – period average	0.79	0.77	0.79
GBP to USD – period-end spot	0.81	0.79	0.76

The Group uses forward exchange contracts to hedge its foreign currency transaction risk and hedges its exposure to foreign currency denominated assets, where possible, by offsetting them with same-currency liabilities, primarily through borrowing in the relevant currency. These foreign currency denominated assets, which are translated on a mark to market basis every month and the movement taken to the income statement, include loans made by the Company to, and intercompany trading balances with, its overseas subsidiaries, the effect of which is cash neutral. They also include non-sterling accounts receivable, held on the Company's statement of financial position, the impact of which should reverse through forward currency contracts, but are subject to the timing difference between accounts receivable recording and cash received. The Group does not currently hedge for

the translation of its foreign subsidiaries' assets or liabilities. This policy is kept under regular review and is formally approved by the Board on an annual basis.

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 on the Group was a benefit of approximately £0.4m (30 June 2019 benefit: £0.6m). Offsetting this, our transactional hedging generated a loss of £0.4m (30 June 2019 loss: £0.4m). In addition, the Group recorded a non-cash translation gain of £0.4m (30 June 2019 gain: £0.2m) on foreign currency denominated net assets. The combined effects of these are included in administration expenses.

Operating costs

The Group is pursuing an expansion strategy, founded on proprietary cellular-materials technology with an increasing portfolio of differentiated products. Organic growth, at the rate the Group is targeting, has required investment in manufacturing, processing and engineering capability to deliver the required capacity around the world. During the period, as a consequence of the unprecedented challenges faced by COVID-19, this trend was temporarily put on hold to manage the balance sheet and ensure a firm platform for future growth once market confidence returns. Within cost of sales, these operating costs decreased by £0.9m in H1 2020 against the previous period. However, this was partly offset by a net increase in depreciation of £0.3m. While the UK and USA asset start-ups contributed to an increased depreciation charge for the period of £0.6m, this was reduced by £0.3m to reflect an adjustment in the depreciation rate of long life assets from 15 to 20 years, primarily the Group's extruders, high-pressure and low-pressure autoclaves.

The Group's organic growth also requires continued investment in, and reprioritisation of, technical, sales-focused and administration resources. 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. As a result of the COVID-19 related lockdown and reduced top-line demand, cost control around recruitment and other personnel expenses, travel and discretionary technical work resulted in these costs, excluding the impact of foreign exchange hedges and translation, being reduced by £0.9m, or 9%, to £8.8m in H1 2020 (30 June 2019: £9.7m). The Group expects to resume such expenditure as market conditions improve, and it progresses its strategy of mix enrichment and initiates activity from its capital expansion investments.

Finance Costs

Finance costs increased to £0.5m (30 June 2019: £0.2m) and include £0.1m (30 June 2019: £0.1m) of interest on the Company's Defined Benefit Scheme pension obligation. The Group capitalised £0.4m (30 June 2019: £0.4m) of interest in relation to the financing of its capacity enhancement project still under construction.

Taxation

Zotefoams' estimated average annual tax rate used for the period to 31 December 2020 is 19.89% (actual, before exceptional item, for the year ended 31 December 2019: 18.19%), which is broadly in line with the UK corporation tax rate for the period of 19%.

Cash flow

Cash generated from operations was £6.0m (30 June 2019: £5.2m). Included in this was a net increase in working capital of £2.7m (30 June 2019: net increase of £2.7m). Accounts receivable decreased £1.0m (30 June 2019: increased £0.9m), although this included an uplift arising from foreign exchange translation of £2.9m on mainly USD-denominated accounts, without which underlying accounts receivable reduced by £3.9m, reflecting lower sales and low overdue balances as a result of effective credit management. Inventories increased £6.0m in the period (30 June 2019: increased £0.9m), which is principally related to the anticipated increase in demand during the second half for several key product lines, as well as high inventories of PVDF raw material levels, used in aviation applications, which will take longer to consume after the recent downturn in activity in the aviation industry. Accounts payable increased £2.3m (30 June 2019: decreased £0.9m), with £1.2m related to agreed deferral of HMRC payroll contributions, subsequently fully repaid in July 2020.

Capital expenditure in the period was £7.4m (30 June 2019: £10.9m), reflecting committed expenditure on the Group's final capacity expansion project in Poland, and a reduction in all other expenditure with the exception of health and safety-related commitments on the UK site.

Net debt and covenants

Net debt (cash less bank borrowings and lease liabilities) increased by £4.3m, from £31.9m as at 31 December 2019 to £36.2m, as a result of the Group drawing down on its existing facility to finance the capital expenditures described above. Net debt includes £1.0m (31 December 2019: £1.2m) of lease liabilities in accordance with IFRS 16. Under the definition of the bank facility agreement, which adjusts for the impact of IFRS 2 and IFRS 16, net debt was £35.4m (31 December 2019: £30.7m).

In February 2020, the Group extended its leverage covenant for the period to 30 June 2020 from 3.0x to 4.0x. At the time, while liquidity headroom remained sufficient under the bank facility, the coincidence in timing of the disruption caused by COVID-19 and completion of the Group's capacity expansion initiatives had placed a degree of risk around the Group's ability to remain with its leverage covenant.

Throughout the first half of the year and at the period end, the Group remained comfortably within its bank facility covenants. At 30 June 2020, the ratio of EBITDA to net finance charges was 30x (31 December 2019: 73x), versus a covenant minimum of 4x and the ratio of net borrowings to EBITDA (leverage) was 2.6x (31 December 2019: 2.0x), against a covenant of 4.0x (returning to 3.0x for future periods). We expect to operate within normalised covenants going forward.

Post-employment benefits

A full actuarial valuation of the Defined Benefit Pension Scheme ("DB Scheme") was completed as at 5 April 2017 in line with the requirement to have a triennial valuation. The valuation as at 5 April 2020 will be completed by 5 July 2021 in line with the statutory deadline. The outcome of the 2017 valuation, on a Statutory Funding Objective basis, calculated a deficit of £4.2m. 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.

Since the previous year-end, long dated corporate bond yields have reduced. Taking into account the duration of the Scheme's liabilities, the discount rate used to place a value on the defined benefit obligation would reduce by around 0.5% pa. The impact of this change would increase the defined benefit obligation by approximately 10% as at 30 June 2020 and, after being partially offset by gains on the Scheme's assets, resulted in a net increase of £2.2m to the post-employment benefit liability on the statement of financial position.

Going Concern

At the time of publication of the 2019 Annual Report the Directors reported their continued belief that the Group was well placed to manage its business risks and had a reasonable expectation that the Group had adequate resources to continue in operational existence for the next 12 months following the date of approval of the financial statements. The Board considered, however, a downside scenario that reflected the prevailing unprecedented uncertainty in the global economy, which it considered to be severe but plausible. This scenario showed that there was sufficient liquidity in the business for a period of at least 12 months from the date of approval of the financial statements but showed the potential for a covenant breach during the test period. This scenario indicated a material uncertainty which may have cast significant doubt over the Company and Group's ability to continue as a going concern without further mitigating actions.

The Board now believes that the prevailing uncertainty has reduced significantly. The Group has demonstrated its resilience and adaptability in a very difficult environment. Its manufacturing facilities have remained open, the global supply chain has continued to run efficiently, and cost and cash saving measures have proven effective in ensuring bank covenant levels remain significantly below breach levels. Additionally, the Group's proactive commercial response included specification in a substantial UK Government PPE contract awarded to its largest UK customer. As a consequence of the above, the Board has sufficient confidence to pay an interim dividend.

The Directors believe that the Group is well placed to manage its business risks and, after making due enquiries, including a review of forecasts and predictions, taking into account reasonably possible changes in trading performances and considering the existing banking facilities, including the available liquidity, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months

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 our potential. These past six months have been a challenging time for all our staff, as the Group has had to adapt to life under COVID-19, and we have had to put our recruitment plans temporarily on hold in the period to manage the business through this pandemic. We currently employ 461 people globally (30 June 2019: 481 people), 33% (30 June 2019: 30%) of whom are outside the UK.

On behalf of the Board, we would like to thank all our employees for their continued contributions and commitment to Zotefoams, as well as their flexibility during this unprecedented period.

Dividend

An interim dividend of 2.03p per share (30 June 2019: 2.03p per share) will be paid on 9 October 2020 to shareholders on the Company's register at the close of business on 11 September 2020.

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 33 to 38, of the 2019 Annual Report.

In the opinion of the Board, 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, which was prepared at a time when the scale of the virus had already become clear and the UK was already in lockdown. Detailed explanations of these risks can be found in the 2019 Annual Report. Broadly, these risks include COVID-19, operational disruption, global capacity management, scaling up international operations, technology displacement, external and loss of a key customer. While uncertainty remains around the consequences of Brexit as the transition period deadline of 31 December 2020 approaches, the Board considers the risks and mitigants surrounding it to remain as per those reported in the 2019 Annual Report.

With respect to the impact of the COVID-19 pandemic during the period, the risks most impacted by COVID-19 are operational disruption and external (which includes debt facility management). During the period and until the date of release of this interim report and financial statements, the global supply chain has remained fully operational and both foam manufacturing facilities have remained open. Executive Management and Board have increased their engagement frequency to closely monitor health and safety, commercial and operational activities. The Group has taken successful action to ensure the safety of its staff across the world and has implemented effective working-from-home practices and effective social-distancing practices on site. It has also successfully managed operating cost and capital expenditure, demonstrated by good liquidity headroom and gearing ratios.

At the time of this report there continues to be indications of local flare-ups and concerns over second waves of COVID-19. The Group remains prepared to implement appropriate mitigation strategies to minimise any potential business disruption and will continue to carry out a regular and robust assessment and management of the Group's risks.

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 Polyolefin Foams, we anticipate significant sales of Plastazote® polyolefin foams for the substantial new PPE contract awarded to our largest UK customer in June. While there are early signs of a return in customer confidence across the wider Polyolefin Foams business, the outlook remains uncertain. If an improvement in demand, which would likely include an inventory increase in the supply chain, were to come at short notice, we are ready to commission our Poland manufacturing facility should it be required.

In HPP, we enter the second half of the year with high confidence in our business, with sales growth coming from an expected, and previously reported, demand increase in our footwear product range. We also forecast our T-FIT® technical insulation business to continue to grow strongly, but expect a challenging second half in aviation, in line with the industry-wide challenges faced from COVID-19.

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.

To create shareholder value over the medium term, we expect to increase investment in technical and business development activities, balanced by overall cost management appropriate to these highly uncertain times.

Sterling is currently stronger than in the second half of 2019 following a sharp rise at the end of July and therefore, net of hedging, we anticipate a modest transactional headwind 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 the second six months of 2020 to deliver record sales, beating the previous best half year sales of £43.1m. Our expectations are based on relatively subdued but stable demand in most polyolefin foams markets other than PPE, where demand is very strong, and a much stronger second half for footwear products and T-FIT® technical insulation, continuing the momentum experienced late in the first half. At this time, however, we are mindful of high levels of uncertainty in most markets as well as political uncertainties around Brexit, so these expectations must be tempered with caution, particularly around our assessment of market conditions.

S P Good
Chairman
11 August 2020

D B Stirling
Group CEO
11 August 2020

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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 2019 Annual Report as well as on the Zotefoams plc website: www.zotefoams.com.

By order of the Board:

S P Good
Chairman
11 August 2020

G C McGrath
Group CFO
11 August 2020

**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE SIX MONTHS ENDED
30 JUNE 2020**

	Notes	Six months ended		Year
		30-Jun-20 (Unaudited) £'000	30-Jun-19 (Unaudited) £'000	Ended 31-Dec-19 (Audited) £'000
Revenue	6	34,627	42,300	80,860
Cost of sales		(22,588)	(27,272)	(52,270)
Gross profit		12,039	15,028	28,590
Distribution costs		(3,235)	(4,076)	(8,008)
Administrative expenses before exceptional item		(5,672)	(5,865)	(11,481)
Exceptional item	7	-	-	1,050
Administrative expenses after exceptional item		(5,672)	(5,865)	(10,431)
Operating profit		3,132	5,087	10,151
Operating profit before exceptional item		3,132	5,087	9,101
Finance costs		(454)	(204)	(462)
Finance income		16	28	50
Share of profit from joint venture		1	19	72
Profit before income tax		2,695	4,930	9,811
Profit before income tax and exceptional item		2,695	4,930	8,761
Income tax expense	8	(536)	(829)	(1,594)
Profit for the period/ year		2,159	4,101	8,217
Profit for the period/ year before exceptional item		2,159	4,101	7,167
Profit attributable to:				
Equity holders of the Company		2,159	4,101	8,217
		2,159	4,101	8,217
Earnings per share:				
Basic (p)	10	4.48	8.55	17.10
Diluted (p)	10	4.40	8.43	16.84

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 2020

	Six months ended		Year ended
	30-Jun-20	30-Jun-19	31-Dec-19
	(Unaudited)	(Unaudited)	(Audited)
	£'000	£'000	£'000
Profit for the period/ year	2,159	4,101	8,217
Other comprehensive (expense)/income			
<i>Items that will not be reclassified to profit or loss</i>			
Actuarial losses on defined benefit pension schemes	(2,466)	-	(319)
Tax relating to items that will not be reclassified	469	-	54
Total items that will not be reclassified to profit or loss	(1,997)	-	(265)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange translation gains/(losses) on investment in foreign subsidiaries	2,666	248	(1,146)
Change in fair value of hedging instruments	(1,338)	(426)	(349)
Hedging losses reclassified to profit or loss	430	406	939
Tax relating to items that may be reclassified	169	3	(101)
Total items that may be reclassified subsequently to profit or loss	1,927	231	(657)
Other comprehensive (expense)/income for the period/ year, net of tax	(70)	231	(922)
Total comprehensive income for the period/ year	2,089	4,332	7,295
Profit attributable to:			
Equity holders of the Company	2,089	4,332	7,295
Total comprehensive income for the period/ year	2,089	4,332	7,295

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 2020

	Notes	30-Jun-20 (Unaudited) £'000	30-Jun-19 (Unaudited) £'000	31-Dec-19 (Audited) £'000
Non-current assets				
Property, plant and equipment	11	93,914	77,794	85,652
Right-of-use assets		1,027	1,370	1,207
Intangible assets		6,810	6,500	6,614
Investments in joint venture		146	92	145
Trade and other receivables		45	288	166
Deferred tax assets		486	619	327
Total non-current assets		102,428	86,663	94,111
Current assets				
Inventories		24,961	18,882	18,604
Trade and other receivables		22,951	27,695	23,315
Derivative financial instruments	14	31	-	332
Cash and cash equivalents		12,207	6,514	6,656
Total current assets		60,150	53,091	48,907
Total assets		162,578	139,754	143,018
Current liabilities				
Trade and other payables		(11,328)	(12,654)	(6,831)
Derivative financial instruments	14	(742)	(413)	(134)
Current tax liability		(631)	(1,331)	(261)
Lease liabilities		(357)	(365)	(369)
Interest-bearing loans and borrowings	12	(27,873)	(5,899)	(15,717)
Total current liabilities		(40,931)	(20,662)	(23,312)
Non-current liabilities				
Lease liabilities		(673)	(1,010)	(836)
Interest-bearing loans and borrowings	12	(19,535)	(22,598)	(21,630)
Deferred tax liabilities		(372)	-	(674)
Post-employment benefits		(9,150)	(7,795)	(6,926)
Total non-current liabilities		(29,730)	(31,403)	(30,066)
Total liabilities		(70,661)	(52,065)	(53,378)
Total net assets		91,917	87,689	89,640
Equity				
Issued share capital		2,431	2,415	2,415
Share premium		44,178	44,178	44,178
Own shares held		(24)	(9)	(9)
Capital redemption reserve		15	15	15
Translation reserve		5,573	4,301	2,907
Hedging reserve		(608)	(375)	131
Retained earnings		40,352	37,164	40,003
Total equity		91,917	87,689	89,640

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Six months ended		Year ended
	30-Jun-20 (Unaudited) £'000	30-Jun-19 (Unaudited) £'000	31-Dec-19 (Audited) £'000
Cash flows from operating activities			
Profit for the period/year	2,159	4,101	8,217
Adjustments for:			
Depreciation and amortisation	3,158	2,865	5,769
Disposal of assets	2	-	77
Finance costs	438	176	412
Share of profit from joint venture	(1)	(19)	(72)
Net exchange differences	2,497	-	(999)
Equity-settled share-based payments	220	338	391
Taxation	536	829	1,594
Operating profit before changes in working capital and provisions	9,009	8,290	15,389
Decrease/(increase) in trade and other receivables	982	(868)	2,659
Increase in inventories	(5,964)	(941)	(883)
Increase/(decrease) in trade and other payables	2,303	(896)	(3,720)
Employee defined benefit contributions	(350)	(383)	(1,674)
Cash generated from operations	5,980	5,202	11,771
Interest paid	(216)	(192)	(88)
Income taxes paid	(21)	(1,311)	(2,334)
Net cash flows generated from operating activities	5,743	3,699	9,349
Cash flows from investing activities			
Interest received	16	28	50
Interest paid	(369)	-	(933)
Purchases of intangibles	(239)	(184)	(914)
Proceeds on disposal of property, plant and equipment	-	1	-
Purchases of property, plant and equipment	(7,161)	(10,733)	(23,473)
Net cash used in investing activities	(7,753)	(10,888)	(25,270)
Cash flows from financing activities			
Proceeds from options exercised and issue of share capital	-	77	92
Repayment of borrowings	(3,803)	(750)	(3,829)
Proceeds from borrowings	11,429	9,436	22,578
Lease payments	(199)	(145)	(343)
Dividends paid to equity holders of the Company	-	(1,997)	(2,973)
Net cash generated from financing activities	7,427	6,621	15,525
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	5,417	(568)	(396)
Cash, cash equivalents and bank overdrafts at start of period/year	6,656	7,073	7,073
Exchange gains/ (losses)	134	9	(21)
Cash and cash equivalents at end of period/ year	12,207	6,514	6,656

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

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

During the period, the Group paid interest of £585k (30 June 2019: £192k, 31 December 2019: £1,021k) of which it capitalised £369k (30 June 2019: not disclosed, 31 December 2019: £933k) on qualifying assets under IAS 23 'Capitalisation of Borrowing Costs'. The interest paid has been split between operating activities and investing activities to reflect the Group's utilisation on interest paid.

The net exchange differences of £2,497k within operating activities relate to the foreign exchange movement of the borrowings in the period. This has been disclosed separately due to materiality (30 June 2019: immaterial, 31 December 2019: £999k).

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2020

	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 2020	2,415	44,178	(9)	15	2,907	131	40,003	89,640
Foreign exchange translation gains on investment in subsidiaries	-	-	-	-	2,666	-	-	2,666
Change in fair value of hedging instruments recognised in other comprehensive income	-	-	-	-	-	(1,338)	-	(1,338)
Reclassification to income statement - administrative expenses	-	-	-	-	-	430	-	430
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling	-	-	-	-	-	169	-	169
Actuarial loss on Defined Benefit Pension Scheme	-	-	-	-	-	-	(2,466)	(2,466)
Tax relating to actuarial loss on Defined Benefit Pension Scheme	-	-	-	-	-	-	469	469
Profit for the period	-	-	-	-	-	-	2,159	2,159
Total comprehensive income/(expenditure) for the period	-	-	-	-	2,666	(739)	162	2,089
Transactions with owners of the Parent:								
Options exercised	-	-	1	-	-	-	(1)	-
Proceeds of shares issued, net of expenses	16	-	(16)	-	-	-	-	-
Equity-settled share-based payments net of tax	-	-	-	-	-	-	188	188
Total transactions with owners of the Parent	16	-	(15)	-	-	-	187	188
Balance as at 30 June 2020 (Unaudited)	2,431	44,178	(24)	15	5,573	(608)	40,352	91,917

	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

During the six months period ended 30 June 2020, 28,260 (30 June 2019: 217,462) shares vested and were issued from the Zotefoams Employee Benefit Trust ("EBT") following the exercise of these options.

During the six months period ended 30 June 2020, 320,000 (30 June 2019: Nil) shares were issued to the EBT at par.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 US and China and will shortly also manufacture in Poland.

The Company is a public limited company which is 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 were approved for issue on 10 August 2020.

These condensed consolidated 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 2019 were approved by the Board of Directors on 9 April 2020 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified but contained an emphasis of matter paragraph in respect of a material uncertainty related to going concern in respect of the impact of COVID-19. The report of the auditors did not contain any statement under section 498 of the Companies Act 2006.

These condensed consolidated interim financial statements have been reviewed, not audited.

These condensed consolidated interim financial statements for the six months ended 30 June 2020 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 condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with IFRSs as adopted by the European Union.

Forward-looking statements

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

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

2. BASIS OF PREPARATION

ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except for income taxes. Taxes on income in the interim condensed consolidated financial statements are accrued using the tax rate that would be applicable to the expected full financial year results for the Group.

GOING CONCERN

At 30 June 2020 the Group's financing arrangements amount to £54.5m, comprising a multi-currency term loan of £25m, a multi-currency revolving credit facility of £25m, and a remaining balance of £4.5m sterling annually renewable term loan, repayable in equal quarterly instalments. The bank facility is for a five-year period and expires in May 2023. At the date of the condensed consolidated statement of financial position, £6.6m was undrawn on the facility. Including cash and cash equivalents, the Group's financial headroom stood at £18.8m.

The facility is subject to two covenants, which are tested semi-annually: net debt to EBITDA (leverage) and EBITDA to net finance charges. In recognition of the current macroeconomic environment, the Group's banks have amended the leverage covenant from 3.0x to 4.0x for the 12 months to June 2020. At the half year, the Group's net debt (as defined in the covenant) was £35.4m and the leverage ratio was 2.6x.

At the time of publication of the 2019 Annual Report the Directors reported their continued belief that the Group was well placed to manage its business risks and had a reasonable expectation that the Group had adequate resources to continue in operational existence for the next 12 months following the date of approval of the financial statements. The Board considered, however, a downside scenario that reflected the prevailing unprecedented uncertainty in the global economy, which it considered to be severe but plausible. This scenario showed that there was sufficient liquidity in the business for a period of at least 12 months from the date of approval of the financial statements but showed the potential for a covenant breach during the test period. This scenario indicated a material uncertainty which may have cast significant doubt over the Company and Group's ability to continue as a going concern without further mitigating actions.

The Board now believes that the prevailing uncertainty has significantly lessened. The Group has demonstrated its resilience and adaptability in a very difficult environment. Its manufacturing facilities have remained open, the global supply chain has continued to run efficiently, and cost and cash saving measures have proven effective in ensuring bank covenant levels remain significantly below breach levels. Additionally, the Group's proactive commercial response included specification in a substantial UK Government PPE contract awarded to its largest UK customer. As a consequence of the above, the Board has sufficient confidence to pay an interim dividend.

The Directors believe that the Group is well placed to manage its business risks and, after making due enquiries, including a review of forecasts and predictions, taking into account reasonably possible changes in trading performances and considering the existing banking facilities, including the available liquidity, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months.

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 condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019, 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 condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 December 2019.

There have been no changes in the risk management department or in any risk management policies since the year end. Refer to note 14 for changes to the Group's risks arising from developments during the six-month period ended 30 June 2020.

5. SEASONALITY OF OPERATIONS

The seasonality of the Group's business has been largely eliminated, with most 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.

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.

	Polyolefin foams		HPP		MEL		Inter-segment adjustment		Consolidated	
Six Months ended 30 June 20 (Unaudited)	30-Jun-20 £'000	30-Jun-19 £'000	30-Jun-20 £'000	30-Jun-19 £'000	30-Jun-20 £'000	30-Jun-19 £'000	30-Jun-20 £'000	30-Jun-19 £'000	30-Jun-20 £'000	30-Jun-19 £'000
Group revenue	22,026	28,718	11,780	12,694	902	888	(81)	-	34,627	42,300
Segment profit/(loss) pre-amortisation	2,049	4,684	2,755	2,803	(602)	(977)	-	-	4,202	6,510
Amortisation of acquired intangible assets	-	-	-	-	(128)	(135)	-	-	(128)	(135)
Segment profit/(loss)	2,049	4,684	2,755	2,803	(730)	(1,112)	-	-	4,074	6,375
Foreign exchange gains/(losses)	-	-	-	-	-	-	-	-	(67)	(406)
Unallocated central costs	-	-	-	-	-	-	-	-	(875)	(882)
Operating profit before exceptional items	2,049	4,684	2,755	2,803	(730)	(1,112)	-	-	3,132	5,087
Financing costs	-	-	-	-	-	-	-	-	(438)	(176)
Share of loss from joint venture	-	-	-	-	-	-	-	-	1	19
Taxation	-	-	-	-	-	-	-	-	(536)	(829)
Profit for the period	-	-	-	-	-	-	-	-	2,159	4,101
Segment assets	111,361	106,798	42,128	24,555	8,603	7,690	-	-	162,092	139,043
Unallocated assets	-	-	-	-	-	-	-	-	486	711
Total assets	-	-	-	-	-	-	-	-	162,578	139,754
Segment liabilities	(55,647)	(46,646)	(13,087)	(2,964)	(924)	(711)	-	-	(69,658)	(50,320)
Unallocated liabilities	-	-	-	-	-	-	-	-	(1,003)	(1,745)
Total liabilities	-	-	-	-	-	-	-	-	(70,661)	(52,065)
Depreciation	2,064	2,058	459	287	60	41	-	-	2,583	2,386
Depreciation of right-of-use assets	158	123	31	17	-	-	-	-	189	140
Amortisation	200	199	39	-	147	140	-	-	386	339
Capital expenditure:										
Property, plant and equipment (PPE)	5,907	11,778	1,216	721	128	43	-	-	7,251	12,542
Intangible assets	93	79	18	71	128	34	-	-	239	184

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 (Unaudited) £'000	Europe (Unaudited) £'000	North America (Unaudited) £'000	Rest of World (Unaudited) £'000	Total (Unaudited) £'000
For the period ended 30 June 2020					
Group revenue from external customers	6,117	9,322	9,823	9,365	34,627
Non-current assets	45,050	18,619	38,303	456	102,428
Capital expenditure - PPE	2,022	4,336	848	44	7,250
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

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

Major customers

Revenues from one customer of the Group located in the United Kingdom contributed £3,544k (30 June 2019: n/a) to the Group's revenue. Revenues from one customer of the Group located in "Rest of World" contributes £6,666k (30 June 2019: £7,253k) 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-20 (Unaudited) £'000	30-Jun-19 (Unaudited) £'000
Sale of foam	33,725	41,412
Sale of equipment	232	615
Licence and royalty income	670	273
Group Revenue	34,627	42,300

7. EXCEPTIONAL ITEMS

Items that are material either because of their size or their nature or that are nonrecurring 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, the Company was successful in a claim against the previous advisors to the Defined Benefit Pension Scheme (the "DB Scheme"), following legal advice that the linkage to future increases in salary had not been properly broken. The Company was awarded £1,050k following mediation and has recorded this as an operating exceptional item in the Income Statement. Of this amount, £941k was repaid to the DB Scheme and £109k expenses reimbursed to the Company.

8. INCOME TAX EXPENSE

	Six months ended	
	30-Jun-20	30-Jun-19
	(Unaudited)	(Unaudited)
	£'000	£'000
UK corporation tax	380	751
Adjustment for tax for prior years	-	(98)
Overseas tax	11	11
Total current tax	391	664
Deferred tax	145	165
Income tax expense	536	829

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 2020 is 19.89% (the effective tax rate, before exceptional item, for the year ended 31 December 2019 was 18.19%). The prior period current year tax charge includes a prior period tax credit of £98k which is suppressing the effective tax rate.

9. DIVIDENDS

No dividend was paid during the period (2019: £1,997k dividend relating to the period to 31 December 2018).

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 £2,159k (30 June 2019: £4,101k) 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 2020 was 470,135 (30 June 2019: 186,296). 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-20	30-Jun-19
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue	48,166,555	47,988,453
Deemed issued for no consideration	849,897	674,192
Diluted number of ordinary shares issued	49,016,452	48,662,645

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Under construction £'000	Total £'000
Half-year ended 30 June 2020					
Cost					
At 31 December 2019	31,075	83,974	3,915	29,532	148,496
Additions	97	242	33	6,878	7,250
Disposals	-	-	(2)	-	(2)
Transfers	144	11,524	1	(11,669)	-
Effect of movement in foreign exchange	677	2,251	74	1,629	4,631
At 30 June 2020	31,993	97,991	4,021	26,370	160,375
Accumulated depreciation					
At 31 December 2019	11,471	48,936	2,437	-	62,844
Depreciation charge	640	1,704	239	-	2,583
Effect of movement in foreign exchange	336	644	54	-	1,034
At 30 June 2020	12,447	51,284	2,730	-	66,461
Net book value					
At 31 December 2019	19,604	35,038	1,478	29,532	85,652
At 30 June 2020	19,546	46,707	1,291	26,370	93,914

12. INTEREST-BEARING LOANS AND BORROWINGS

	30-Jun-20	31-Dec-19
	(Unaudited)	(Audited)
	£'000	£'000
Current bank borrowings	27,873	15,717
Non-current bank borrowings	19,535	21,630
	47,408	37,347

In May 2018, the Group completed a debt refinancing to enable it to continue to grow capacity and meet its expected demand growth. These facilities are secured against the property, plant and equipment and trade receivables of the Group. The total facility of £54.5m comprises a £25m multi-currency term loan, repayable in two equal instalments during year four and year five, with the remainder at the end of year five, a £25m multi-currency revolving credit facility, repayable on demand and a further £4.5m sterling term loan, renewable annually and repayable over five years in equal quarterly repayments over the term. The negotiated facility also includes a £25m accordion feature to provide additional flexibility to pursue further investment opportunities in the future.

At the end of the period, the Group had utilised £24.8m (\$25m and £4.5m) of the multi-currency term loan, £18.6m (€13.5m and £3.5m) of the revolving facility and has an outstanding £4.5m on the sterling term loan. The total amount of £47.9m is gross of £0.5m origination fees paid up front, being amortised over the period of the loan.

13. RELATED PARTY TRANSACTIONS

There were no material related party transactions requiring disclosure for the periods ended 30 June 2020 and 30 June 2019.

14. 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 2020 and 30 June 2019:

	Level 1 (Unaudited) £'000	Level 2 (Unaudited) £'000	Level 3 (Unaudited) £'000	Total (Unaudited) £'000
30-Jun-20				
Assets				
Forward exchange contracts	-	31	-	31
Total assets	-	31	-	31
Liabilities				
Forward exchange contracts	-	(742)	-	(742)
Total liabilities	-	(742)	-	(742)

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

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

Derivative financial instruments are valued using Barclays Bank's mid-market rate at the Statement of Financial Position date.

The Group's finance department performs the valuation of forward exchange contracts required for financial reporting purposes. This is reported to the Audit Committee.

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

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 borrowings (excluding bank overdraft) is as follows:

	30-Jun-20	30-Jun-19
	(Unaudited)	(Unaudited)
	£'000	£'000
Current	27,873	6,264
Non-current	19,535	23,608
Total	47,408	29,872

15. CAPITAL COMMITMENTS

Capital expenditure commitments of £4,191k (30 June 2019: £10,705k) have been contracted for at the end of the reporting period but not yet incurred, and are in respect of Property, Plant and Equipment.

16. EVENTS OCCURRING AFTER THE REPORTING PERIOD

There are no material events occurring after the reporting period.