



Company Zotefoams PLC
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Preliminary Results for the Year Ended 31 December 2009

Solid performance in the face of adverse economic conditions

Zotefoams plc ("Zotefoams", or "the Group" or "the Company"), which manufactures and sells high-performance foams, today announces its preliminary results for the 12 months ended 31 December 2009.

HIGHLIGHTS

- Sales £31.82m (2008: £34.78m)
- Profit before tax and exceptional items £3.16m (2008: £3.93m)
- Cash generated from operations £7.04m (2008: £5.77m)
- Strong balance sheet with low gearing 2% (2008: 4%)
- Solid financial position - proposed final dividend of 3.0p, maintaining a total dividend for 2009 of 4.5p per ordinary share (2008: 4.5p)
- HPP sales more than doubled to £1.64m (2008: £0.80m)

Commenting on the results, Nigel Howard, Chairman, said:

"In what was undoubtedly a challenging year, Zotefoams once again demonstrated good resilience to record a solid set of financial results. We are particularly pleased with our improved sales mix, where our High-Performance Polymers ("HPP") segment continued to grow strongly and now accounts for 5% of sales.

We reacted quickly at the onset of the economic crisis by reducing our cost base and safeguarding our margins. During the year we recorded an operating cash flow of £7.04m (2008: £5.77m) and reduced our working capital by £0.86m.

The economic climate remains very uncertain and we have little forward visibility on our order books. However during the opening months of 2010 we have experienced improved sales volumes across all major territories and we are cautiously optimistic that we will continue to witness increased activity in our markets and top line growth. The Board has decided to maintain the annual dividend, reflecting its continued confidence in the future of the business."

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CHAIRMAN'S STATEMENT

STRATEGY

Zotefoams' strategy is to grow its existing business in polyolefin foams while developing a portfolio of high-performance polymers. We will seek to expand through a combination of profitable organic growth of both our Polyolefin and High-Performance Polymers ("HPP") businesses and through partnerships or acquisitions in related technologies, products or markets.

OBJECTIVES

We intend to grow sales in our core polyolefin business in excess of the rate of inflation in Europe and achieve double digit percentage growth in North America and Asia. Our sales growth in America is supported by our factory in Kentucky which opened in mid-2001 while in Asia we continue to consider a similar operation, either under a licence or as a joint venture, as sales increase to a level where such an investment becomes financially attractive. We are also committed to developing a portfolio of unique foam products from high-performance materials, with significant competitive advantages over rival materials. This will allow us to command higher margins and affirm our position as a leading foam technology company. We intend to achieve this growth while continuing to improve our operating margins and our return on capital employed.

BOARD

Our Board composition provides a balance of experience and independence, all aligned to our business needs and objectives. During 2009 there have been no changes to our Board.

EMPLOYEES

Our business relies on our employees and the restructuring of the business, a consequence of difficult economic conditions, made 2009 a difficult year for everyone at Zotefoams. On behalf of the Board I would like to thank all of our employees, past and present, whose talents, efforts and dedication sustained us through 2009.

RESULTS

In an extremely adverse economic environment, our 2009 profit before tax and exceptional items was £3.16m (2008: £3.93m). Cash generated from operations was £7.04m (2008: £5.77m) and we finished the year with a net debt of £0.43m (2008: £1.15m), our lowest level of net debt for many years. Exceptional costs of £0.41m were incurred relating to the restructuring programme undertaken in the first half of the year. Sales were £31.82m (2008: £34.78m) as sales volumes declined approximately 21% compared to 2008, although this was to some extent offset by the beneficial impact of exchange rates and an improved sales mix with our higher-margin HPP segment sales now accounting for 5% of sales (2008: 2% of sales). Profit before tax after exceptional items totalled £2.75m (2008: £3.93m, which included no exceptional items). Before exceptional items, gross margins increased to 31% (2008: 29%) and operating margins declined from 12% to 11% of sales. During the year we invested £1.44m in equipment to make thin roll foam based on technology from MuCell, our associate company in the USA. Although this is at an early-stage of development, we expect to generate our first sales in 2010 under the new brand of microZOTE™ technical foams.

DIVIDEND

The Board proposes to pay a maintained final dividend of 3.0p per ordinary share which would make a total of 4.5p per ordinary share for the year (2008: 4.5p). At this level the dividend would be covered 1.5 times by post-tax earnings excluding exceptional items. If approved, the dividend will be paid on 20 May 2010 to shareholders on the register on 23 April 2010.

OUTLOOK

We have experienced an encouraging start to 2010 with improved sales volumes across all major territories within our AZOTE® business. We also continue to make good progress in the development and sales of ZOTEK® HPP block foams and initial product development on our microZOTE™ roll foam line, commissioned late in 2009, looks promising at this very early stage. Exchange rates for the first two months of the year have been at similar levels to our 2009 average. Raw material costs are currently significantly higher than last year but are more than offset by the benefits of the increased sales volumes being experienced in the year to date.

Zotefoams operates in global markets across a wide variety of industries and is influenced by the global economic situation which remains uncertain. We enter 2010 with the belief that our robust operational cash generation in 2009 and investment in product development positions us well for the future. We have a strong balance sheet and low level of debt and are well placed to benefit as and when world markets recover.

NIGEL HOWARD

Chairman
8 March 2010

MANAGING DIRECTOR'S REVIEW

Zotefoams is the world's leading manufacturer of cross-linked block foams. Its products are used in a wide range of markets including sports and leisure, packaging, transport, healthcare, construction, marine and the military. Through a unique production process, the Company produces foams which have controlled properties and are of a strength, consistency, quality and purity superior to foams produced by other methods.

BUSINESS OVERVIEW

Zotefoams' business falls into two distinct product categories: polyolefin foams and high-performance polymers. Both businesses rely on our unique production process which uses nitrogen gas at high temperature and pressure to foam solid plastics. AZOTE® polyolefin foams are mainly made from polyethylene which, when foamed, produces a versatile material used in a wide variety of applications. Typically our products are sold to foam converters who process the foam by a variety of techniques such as cutting, welding, moulding and routing into finished or semi-finished parts based on end-user requirements. HPP polymers use the processing technology developed for polyolefin foams and applies it to other materials. This is an emerging business which offers an improved return on capital in new business segments. We have developed, patented and launched world leading products made from fluoropolymer and nylon which are branded "ZOTEK®" - our high-performance foams' trademark. These foams are targeted at highly technical and demanding applications in markets such as aerospace, pharmaceutical, semi-conductor, chemical processing and automotive where market development lead times are long. The timing of revenue generation is therefore inherently difficult to predict.

Our AZOTE® polyolefin foams are used in many segments both geographically and by application. This diversification helps insulate the business from the risks associated with a concentration of business. However, during 2009 the poor economic conditions affected all markets to varying extents, but particularly in automotive and construction. Sales volumes declined in all regions other than Asia which is an emerging market for Zotefoams. We began to see a weakening of sales volumes from November 2008 and responded appropriately through reductions in temporary manpower and overtime. During 2009 sales volumes declined by 21% and in March we took the decision to restructure the business, reducing the number of permanent employees and controlling costs to match lower activity levels. The costs associated with this exercise are shown as an exceptional item and described more fully below.

During the economic downturn we have continued to invest in areas we believe will benefit our future performance. In particular we continued with significant levels of employee training (with an average of 1.4 days per employee completed during the year), put more resource into sales and marketing (increasing staff numbers in Asia to match the levels of opportunity there) and increased our maintenance spend by 9%.

Despite the global recession, HPP sales grew by 105% during 2008 to £1.64 million. ZOTEK® F fluoropolymer foams currently represent approximately 80% of this business, T-Tubes™ high performance insulation sales grew in excess of 150% over last year and small amounts of nylon foams were sold late in the year. Our HPP business contributed 5% of Group revenues (2008: 2%) while the operating loss on this segment was at similar levels to last year due to increased investment in sales, marketing and product development. In particular development of consistent nylon foams has been a priority and during 2009 we also began to develop our microZOTE™ line of thin roll foams using technology licensed from our associate company MuCell

Extrusion LLC ("MEL"). Capital expenditure in this business segment of £1.51m (2008: £0.03m) and depreciation and amortisation costs of £151,000 (2008: £81,000) primarily relates to investment in extrusion systems and amortisation of associated licence fees for microZOTE™. We now have a strong commercial and development pipeline in our HPP business and are already exploring opportunities in other areas for future growth.

MEL is involved in the development and licensing of technology for microcellular foam extrusion sheet and profiles. This technology is widely applicable for many users of polymer extrusion systems and is currently in commercial use on three continents and future expectations are backed by a strong development pipeline. MEL is seasonally more profitable in the first six months of the year and, as the number and maturity of licences increased, so did Zotefoams' share of these profits, which was £99,000 (2008: a loss of £27,000 in the six months from date of acquisition). Zotefoams owns 30% of MEL and holds an option which can be exercised, subject to certain conditions, between July 2010 and June 2011 to acquire the remaining balance of 70% of the shares in MEL.

STRATEGY AND OBJECTIVES

Zotefoams' strategy is to grow its existing business in polyolefin foams while developing a portfolio of high-performance polymers. In 2009 the business environment was much worse than it has been for many years causing high volatility and poor visibility in many markets. With the benefit of a strong balance sheet and good operating cash generation we were able to maintain our commitment to the long-term strategy of the business while simultaneously managing the shorter term issues caused by weakening sales volumes in our AZOTE® polyolefin foams business.

Our stated objectives are to:

1. Grow sales in our polyolefin business in excess of the rate of inflation in Europe and achieve double digit percentage growth in North America and Asia.
2. Develop a HPP portfolio to deliver enhanced margins.
3. Improve our operating margins.
4. Improve our return on capital employed.

2009 was significantly impacted by the economic climate and our performance against these objectives was as follows:

1. Sales:
 - a. Polyolefin sales volumes in the UK and Europe declined by 24%. Revenues declined by 15% due to a more favourable exchange rate against the euro and an improvement in sales mix and selling prices;
 - b. In North America polyolefin sales volumes declined by 13%. Our North American business experienced a downturn in activity late in 2008 and compared to UK and Europe began to recover earlier in 2009. Revenues declined 2% in value mainly as a result of more favourable currency rates;
 - c. In constant currency polyolefin revenues in Asia grew by 6% with sales volumes increasing by 3%. This was a promising performance relative to global economic conditions.
2. HPP sales grew by 105%. The majority of sales are from our ZOTEK® F fluoropolymer foams where aviation and high performance insulation are currently the two largest markets. The operating loss on this segment was similar to 2008 due to increased sales and marketing costs and development costs for nylon foams and our MuCell™ technology.
3. Group operating margins, before exceptional items, declined by 0.9% to 10.7% as relatively fixed costs were absorbed over lower sales volumes.
4. Pre-tax return on average capital employed, excluding exceptional items, declined from 14% to 11% reflecting lower profitability with capital employed at similar levels to last year.

FINANCIAL RESULTS

Group turnover fell by 9% in absolute terms and 17% in constant currency. Gross margin excluding exceptional items increased by 2%, from 29% to 31%, mainly due to favourable exchange rates arising from a weaker pound. Although we hedge part of our foreign currency exposure forward we recorded a £0.76m exchange loss within our administrative expenses (2008: £0.19m loss).

Our major raw materials are commodity polymers. The price of low density polyethylene, by far our largest raw material cost, averaged £840 per tonne in 2009 compared to £1,000 per tonne in 2008.

Distribution costs (which include selling expenses) were similar to 2008 as were administration expenses excluding the £0.76m foreign exchange loss (2008: £0.19m) referred to above. Net financing costs increased to £0.36m (2008: £0.07m) due to a £0.27m notional net charge on the Company's Defined Benefit Pension Scheme ("the Scheme").

Due to the lower level of sales volumes experienced in the first half of the year staff numbers were reduced by 33 permanent employees in an exercise which commenced in March 2009. The costs of this exercise, net of a small VAT adjustment, have been recorded as an exceptional charge of £0.41m in the Income Statement. There were no exceptional items in 2008.

We purchased a 30% share of MuCell Extrusion LLC at the beginning of July 2008 and our share of its losses was £27,000, after amortisation costs, in the second half of 2008. Our share of its profit after amortisation in 2009 was £99,000. The business is seasonal and £94,000 of this profit relates to the first half of the year. During 2009 we received cash distributions of £104,000 (2008: £15,000) from MuCell.

Profit before tax and exceptional items was £3.16m (2008: £3.93m) and after exceptional items was £2.75m (2008: £3.93m).

The overall effective tax rate is 21% (2008: 24%) which is lower than the UK corporation tax rate of 28%. This is principally due to the lower tax charge incurred in our US subsidiary where we have brought forward tax losses and UK research and development tax credits. The cash impact of the tax charge is higher at 27% (2008: 27%) because of a deferred tax credit of £0.15m (2008: £0.15m) reflecting the difference in timing between tax allowances and accounting charges.

Earnings Per Share and Dividend

Group earnings per share were 6.8p (2008: 8.3p) before and 5.9p (2008: 8.3p) after exceptional items. The Directors are recommending that the final dividend is maintained at 3.0p per share, and, subject to shareholder approval, payable on 20 May 2010 to shareholders on the Company register at 23 April 2010. This would bring the total dividend to 4.5p per ordinary share for the year (2008: 4.5p).

Cash Flow

Despite lower revenues in 2009, EBITDA remained strong at £6.60m after exceptional items (2008: £6.96m). Cash generated from operations totalled £7.04m (2008: £5.77m) with a reduction in working capital of £0.86m offsetting payments to the pension fund of £0.72m. This funded capital expenditure of £3.43m (2008: £1.42m) which included finishing the refurbishment of a major high-pressure vessel and installing an extrusion line in Croydon to develop our microZOTE™ business. After the payment of dividends of £1.64m and tax of £1.12m, net debt was reduced by £0.72m (2008: £0.53m) to £0.43m (2008: £1.15m) and gearing remained low at 2% (2008: 4%).

Pensions

The gross IAS19 deficit on the Company's Scheme increased from £3.53m to £5.78m at 31 December 2009. The fall in corporate bond rates and rising expectations of inflation outweighed the benefits of an increase in the market value of investments and the contributions made by the Company to the Scheme. Company contributions to the Scheme in 2009 were £0.66m as agreed by the Company and the Trustees following the 2008 triennial review to reduce the deficit and ill-health early retirement/redundancy contributions of £0.08m. The Company closed the Scheme to future accrual of benefit in 2005.

DAVID STIRLING

Managing Director
8 March 2010

ZOTEK®, AZOTE®, Plastazote®, Evazote®, Supazote® and Propozote® are registered trademarks and microZOTE™ is a trademark of Zotefoams plc

T-Tubes™ is a trademark of UFP Technologies Inc. See www.t-tubes.com

MuCell® is a registered trademark of Trexel Inc.

CONSOLIDATED INCOME STATEMENT for the year ended 31 December 2009

	Note	2009 Pre- exceptional items £000	2009 Exceptional items (see note 4) £000	2009 Total £000	2008 £000
Revenue	2	31,816	-	31,816	34,781
Cost of sales		(21,941)	(312)	(22,253)	(24,658)
Gross profit		9,875	(312)	9,563	10,123
Distribution costs		(2,745)	(38)	(2,783)	(2,820)
Administrative expenses		(3,714)	(59)	(3,773)	(3,273)
Operating profit		3,416	(409)	3,007	4,030
Financial income	5	810	-	810	1,150
Finance costs	5	(1,168)	-	(1,168)	(1,222)
Share of profit/(loss) from associate		99	-	99	(27)
Profit/(loss) before tax		3,157	(409)	2,748	3,931
Taxation	6	(690)	106	(584)	(925)
Profit/(loss) for the year	3	2,467	(303)	2,164	3,006
Attributable to:					
Equity holders of the parent		2,467	(303)	2,164	3,006
Earnings per share					
Basic (p)	7			5.9	8.3
Diluted (p)	7			5.8	8.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2009

	2009 £000	2008 £000
Profit for the year	2,164	3,006
Other comprehensive income		
Foreign exchange translation differences on investment in foreign subsidiary/associate	(1,251)	3,043
Effective portion of changes in fair value of cash flow hedges net of recycling	1,228	(1,079)
Actuarial losses on defined benefit schemes	(2,698)	(1,658)
Tax relating to components of other comprehensive income	411	766
Other comprehensive (expenditure)/income for the period, net of tax	(2,310)	1,072
Total comprehensive (expenditure)/income for the year	(146)	4,078
Attributable to equity holders of the parent	(146)	4,078

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2009

	Note	2009 £000	2008 £000
Non-current assets			
Property, plant and equipment		25,829	26,775
Intangible assets		75	121
Investment in associate		1,687	1,912
Deferred tax assets		249	239
Total non-current assets		27,840	29,047
Current assets			
Inventories		4,382	4,335
Trade and other receivables		7,729	8,408
Cash and cash equivalents		2,975	429
Total current assets		15,086	13,172
Total assets		42,926	42,219
Non-current liabilities			
Interest-bearing loans and borrowings		(2,134)	-

Employee benefits	10	(5,783)	(3,527)
Deferred tax liabilities		(1,377)	(1,969)
Total non-current liabilities		(9,294)	(5,496)
Current liabilities			
Interest-bearing loans and borrowings		(660)	(300)
Bank overdraft		(611)	(1,281)
Tax payable		(547)	(937)
Trade and other payables		(4,132)	(4,984)
Total current liabilities		(5,950)	(7,502)
Total liabilities		(15,244)	(12,998)
Total net assets		27,682	29,221
Equity			
Issued share capital		1,915	1,889
Own shares held		(95)	(69)
Share premium		13,941	13,941
Capital redemption reserve		15	15
Translation reserve		1,040	2,291
Hedging reserve		(36)	(1,264)
Retained earnings		10,902	12,418
Total equity attributable to the equity holders of the parent		27,682	29,221

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2009

	2009	2008
	£000	£000
Cash flows from operating activities		
Profit for the year	2,164	3,006
Adjustments for:		
Depreciation, amortisation and impairment	3,588	2,931
Loss on sale of plant and equipment	90	-
Financial income	(810)	(1,150)
Finance costs	1,168	1,222
Share of (income)/loss from associate	(99)	27
Equity-settled share-based payments	211	165
Taxation	584	925
Operating profit before changes in working capital and provisions	6,896	7,126
Decrease/(increase) in trade and other receivables	577	(596)
(Increase)/decrease in inventories	(152)	227
Increase/(decrease) in trade and other payables	435	(387)
Decrease in provisions and employee benefits	(715)	(600)
Cash generated from operations	7,041	5,770
Interest paid	(110)	(68)
Tax paid	(1,123)	(698)
Net cash from operating activities	5,808	5,004
Interest received	18	14
Acquisition of property, plant and equipment	(3,431)	(1,420)
Acquisition of licence	-	(150)
Investment in associate	-	(1,410)
Distribution from associate	104	15
Net cash used in investing activities	(3,309)	(2,951)
New borrowings	3,289	-
Repayment of borrowings	(795)	(400)
Dividends paid	(1,638)	(1,638)
Net cash used in financing activities	856	(2,038)
Net increase in cash and cash equivalents	3,355	15
Cash and cash equivalents at 1 January	(852)	(984)
Effect of exchange rate fluctuations on cash held	(139)	117
Cash and cash equivalents at 31 December	2,364	(852)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009

	Share capital	Own shares held	Share premium	Capital redemption reserve	Translation reserve	Hedging reserve	Retained earnings	Total equity	
	Note	£000	£000	£000	£000	£000	£000	£000	
Balance at 1 January 2008		1,820	-	13,941	15	(752)	(185)	11,827	26,666
Shares issued		69	(69)	-	-	-	-	-	-
Total recognised income and expense		-	-	-	-	3,043	(1,079)	2,114	4,078
Equity-settled share-based payment transactions net of tax		-	-	-	-	-	-	115	115
Dividends	7	-	-	-	-	-	(1,638)	(1,638)	(1,638)
Balance at 31 December 2008		1,889	(69)	13,941	15	2,291	(1,264)	12,418	29,221
Balance at 1 January 2009		1,889	(69)	13,941	15	2,291	(1,264)	12,418	29,221
Shares issued		26	(26)	-	-	-	-	-	-
Total recognised		-	-	-	-	(1,251)	1,228	(123)	(146)

income and expense	-	-	-	-	-	-	245	245
Equity-settled share-based payment transactions net of tax	-	-	-	-	-	-	-	-
Dividends	7	-	-	-	-	-	(1,638)	(1,638)
Balance at 31 December 2009	1,915	(95)	13,941	15	1,040	(36)	10,902	27,682

The aggregate current and deferred tax relating to items that are credited to equity is £452,000 (2008: a credit of £685,000).

1. Accounting policies

Zotefoams plc (the 'Company') is a Company incorporated in Great Britain.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group').

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS").

The financial information does not constitute the Company's statutory accounts for the year ended 31 December 2009 or 2008 but is derived from those accounts. Statutory accounts for 2008 have been delivered to the Registrar of Companies, and those for 2009 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under Section 498 (2) of the Companies Act 2006.

2. Segment reporting

The Group manufactures and sells high-performance foams for specialist markets worldwide. These fall into two main business segments best categorised by their constituent raw materials. There are no transactions between reportable segments.

- Polyolefins: these foams are made from olefinic homopolymer and copolymer resin. The most common resin used is polyethylene.
- High-performance polymers (HPP): these foams exhibit high-performance on certain key properties, such as improved chemical, flammability or temperature performance, due to the resins on which they are based. Turnover in the segment is currently mainly derived from our ZOTEK® F foams made from PVDF fluoropolymer. Other polymers either commercially launched or being assessed in development include polyamide (nylon) and microZOTE™.

Due to our unique manufacturing technology Zotefoams can produce polyolefin foams with superior performance to other manufacturers. Our strategy is to use the capabilities of our technology to produce foams from other materials in addition to polyolefins. The development of a portfolio of foams from high-performance polymers is currently in its early stages with portfolio costs (including the technical and marketing costs to develop these materials) exceeding revenues.

	Polyolefins		HPP		Consolidated	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Revenue from external customers	30,174	33,981	1,642	800	31,816	34,781
Pre-exceptional operating profit/(loss)	3,933	4,567	(517)	(537)	3,416	4,030
Exceptional items					(409)	-
Net financing costs					(358)	(72)
Profit/(loss) from associate					99	(27)
Taxation					(584)	(925)
Profit for the year					2,164	3,006
Segment assets	37,740	39,929	4,937	2,051	42,677	41,980
Unallocated assets					249	239
Total assets					42,926	42,219
Segment liabilities	(12,884)	(10,088)	(436)	(5)	(13,320)	(10,093)
Unallocated liabilities					(1,924)	(2,905)
Total liabilities					(15,244)	(12,998)
Depreciation	3,437	2,850	105	52	3,542	2,902
Capital expenditure	1,922	1,394	1,509	26	3,431	1,420

Geographical segments

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

	UK and Eire £000	Europe £000	North America £000	Rest of the world £000	Total £000
For the year ended 31 December 2009					
Revenue from external customers	6,503	15,428	8,218	1,667	31,816
Segment assets	33,793	-	9,133	-	42,926
Capital expenditure	3,359	-	72	-	3,431
For the year ended 31 December 2008					
Revenue from external customers	8,369	17,374	7,659	1,379	34,781
Segment assets	30,812	-	11,407	-	42,219
Capital expenditure	1,400	-	20	-	1,420

Major customer

Revenues from one customer of the Group's polyolefins segment represents approximately £4,186k (2008: £5,154k) of the Group's total revenues.

3. Expenses and auditors' remuneration

	2009 £000	2008 £000
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Included in profit for the year are:

Research and development costs expensed	776	731
Net exchange losses	759	185
Auditors' remuneration:		
Group		
- audit of these financial statements	90	95
- fees receivable by the auditors and their associates in respect of other services:		
- other services pursuant with legislation	19	24
- other services relating to taxation	40	13
- other services relating to acquisition of associate	-	20
	149	152

4. Exceptional Items

In 2009 the Company classified the following as exceptional:

Restructuring costs.

Relating to termination payments, advisory and other associated costs for the termination of 33 employees in the first half of 2009.

VAT

Adjustment to exceptional item in prior year

	2009	2008
	£000	£000
Restructuring costs	(439)	-
VAT adjustment	30	-
Exceptional items before taxation	(409)	-
Tax on above	106	-
Exceptional items after taxation	(303)	-

5. Finance income and costs

Financial income

	2009	2008
	£000	£000
Interest on bank deposits	18	12
Expected return on assets of defined benefit pension fund	792	1,138
	810	1,150

Finance costs

	2009	2008
	£000	£000
On bank loans and overdrafts	103	80
Interest on defined benefit pension obligation	1,065	1,142
	1,168	1,222

6. Taxation

	2009	2008
	£000	£000
UK corporation tax	741	1,135
Overseas taxation	13	2
Adjustment to prior year UK tax charge	(20)	(66)
Current taxation	734	1,071
Deferred taxation	(150)	(146)
Total tax charge	584	925

Factors affecting the tax charge

The tax charge for the year is lower (2008: lower) than the standard rate of corporation tax in the UK of 28.0 % (2008: 28.5%). The differences are explained below:

	2009	2008
	£000	£000
Tax reconciliation		
Profit before tax	2,748	3,931
Tax at 28.0% (2008: 28.5%)	769	1,120
Effects of:		
Research and development tax credits and other allowances less expenses not deductible for tax purposes	(69)	(7)
Partial recognition of US tax losses	(10)	(60)
Lower tax rates on overseas earnings	(86)	(62)
Adjustments to UK corporation tax charge in respect of previous periods	(20)	(66)
Total tax charge	584	925

7. Dividends and earnings per share

	2009	2008
	£000	£000
Final dividend prior year of 3.0p (2007: 3.0p) net per 5.0p ordinary share	1,091	1,091
Interim dividend of 1.5p (2008: 1.5p) net per 5.0p ordinary share	547	547
Dividends paid during the year	1,638	1,638

The proposed final dividend for the year ended 31 December 2009 of 3.0p per share (2008: 3.0p) is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

Earnings per ordinary share

Earnings per ordinary share is calculated by dividing profit after tax of £2,164,000 (2008: £3,006,000) by the weighted average number of shares in issue during the year excluding own shares held by employee trusts which are administered by independent trustees. The number of shares held in the trust at 31 December 2009 was 1,891,147 (2008: 1,378,098). 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.

	2009	2008
Average number of ordinary shares issued	36,402,886	36,402,608
Deemed issued for no consideration	1,001,188	559,791
Diluted number of ordinary shares issued	37,404,074	36,962,399

Shares deemed issued for no consideration have been calculated based on the potential dilutive effect of the Executive Share Option Scheme, options granted under the HMRC Approved Share Option Scheme, Long Term Incentive Plans, the 2009 Share Bonus Plan and the Deferred Bonus Plan:

Date from which exercisable	Exercise price	Number of shares under option	
		2009	2008
7 April 2007	72.5p	152,834	152,834
22 December 2008	77.0p	684,213	684,213
11 March 2010	nil	217,775	-
10 May 2010	nil	-	306,959
20 March 2011	nil	230,304	233,283
12 August 2011	106.7p	253,044	267,911
16 March 2012	nil	516,387	-
11 March 2013	nil	30,165	-
		2,084,722	1,645,200

The average fair value of one ordinary share during the year was considered to be 67.9p (2008: 89.9p).

8. Investments in associates

Zotefoams Inc owns 30% of the units in MuCell Extrusion LLC, whose principal place of business is Massachusetts, USA, with an option to increase its unit holding to 100%. The earliest this option can be exercised is July 2010 but, depending on certain conditions it may be exercised as late as June 2011.

All the share capital of MuCell Extrusion LLC is denominated in units of the same class.

Summary aggregated financial information on associates - 100 per cent:

At 31 December:	2009	2008
	£000	£000
Goodwill	2,798	3,159
Intangible assets	2,129	2,642
Tangible assets	31	27
Current assets	288	243
Cash	268	173
Total assets	5,514	6,244
Total liabilities	(121)	(127)
Net assets	5,393	6,117
For the period ended 31 December:	2009	2008
	£000	£000
Revenue	1,651	315
Amortisation	(217)	(90)
Gain/(loss) after amortisation	330	(90)

MuCell Extrusion LLC was created on 1 July 2008 and therefore the above 2008 results reflect six months trading from 1 July 2008 to 31 December 2008.

The reporting date for MuCell Extrusion LLC is 30 June. The financial information included within these financial statements is based on management information as at 31 December.

Reconciliation of movement in MuCell valuation:

	2009	2008
	£000	£000
Initial cost of investment including expenses		1,410
Cost brought forward as at 1 January	1,912	-
Share of result for period	99	(27)
Distribution received	(104)	(15)
Effect of movement in foreign exchange	(220)	544
Investment in associate as at 31 December	1,687	1,912

9. Financial instruments

Policy

The Group's principal financial instruments include bank loans, cash and short-term deposits the main purpose of which is to raise finance for the Group's operations. Foreign exchange derivatives are used to help manage the Group's currency exposure. It is and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained fundamentally unchanged throughout the year.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

In 2009 and 2008, the Group had credit insurance to mitigate this risk. However, the uninsured exposure as at 31 December 2009 was £1,285,000 (2008: £1,377,000) so elements of risk remain.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the Balance Sheet.

Trade receivables can be analysed as follows:

	Group 2009 £000	Group 2008 £000
Amounts neither past due or impaired	5,672	6,625
Amounts past due but not impaired		
Less than 60 days	1,200	1,459
More than 60 days	-	-
Total past due but not impaired	1,200	1,459
Amounts impaired	479	126
Impairment allowance	(155)	(126)
Carrying amount of impaired receivables	324	-
Trade receivables net of allowances	7,196	8,084

Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group borrows in the desired currency generally at a variable rate of interest.

The interest rate profile of the Group's borrowings at 31 December was:

	2009			2008				
	Effective interest rate	Fixed rates £000	Variable rates £000	Total £000	Effective interest rate	Fixed rates £000	Variable rates £000	Total £000
Sterling	2%	-	3,405	3,405	4%	-	1,581	1,581
			3,405	3,405			1,581	1,581

The interest rate payable on the sterling overdraft is determined by LIBOR (or similar) plus a bank margin.

Liquidity risk

The Group's objective is to maintain a balance of continuity of funding and flexibility through the use of overdrafts, loans and finance leases as applicable.

The Group has a short-term facility of £4.9m which is freely transferable and convertible into sterling. This facility is repayable on demand and is utilised by Zotefoams plc and its subsidiary undertakings under a cross-guarantee structure.

In January 2009 Zotefoams plc borrowed £3.3m under a five year mortgage, repayable in equal quarterly instalments. This facility is secured over specific plant assets. At 31 December 2009 £2.8m of this mortgage was outstanding and £0.5m had been repaid.

Cash flow forecasts are produced to monitor the expected cashflow requirements of the Group against the available facilities.

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases, assets and liabilities which are denominated in a currency other than sterling. The currencies giving rise to this risk are primarily the euro and the US dollar.

The euro and US dollar rates used in preparing the accounts are as follows:

	2009		2008	
	Average	Closing	Average	Closing
Euro/sterling	1.12	1.13	1.25	1.03
US dollar/sterling	1.57	1.61	1.84	1.44

The Group hedges a proportion of its estimated cash exposure in respect of trade and other receivables, trade and other payables and forecast sales receipts and purchase payments for the next nine months. The Group uses forward exchange contracts to hedge its foreign currency risk. As at 31 December 2009 these forward currency contracts covered approximately two-thirds of the estimated net cash foreign exchange exposure for the next nine months. Further details are shown below in the paragraph on sensitivity analysis.

In respect of other monetary assets and liabilities held in currencies other than the euro and the US dollar, the Group ensures that the net exposure is kept to a manageable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Forecasted transactions

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The net fair value of forward exchange contracts used as hedges of forecasted transactions at 31 December 2009 was a net liability of £36,000 (2008: net liability of £1,264,000) comprising assets of £75,000 (2008: nil) and liabilities of £111,000 (2008: £1,264,000) that were recognised in fair value derivatives in 2009.

Recognised assets and liabilities

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the Income Statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of administrative expenses (see note 3).

The maturity profile of the forward contracts as at 31 December is as follows:

	Group 2009			Group 2008		
	Foreign Currency '000	Contract Value £000	Fair Value £000	Foreign Currency '000	Contract Value £000	Fair Value £000
Sell EUR	€5,000	4,411	4,454	€4,700	3,835	4,492
Sell USD	\$4,700	2,911	2,905	\$5,100	2,893	3,500

Sensitivity analysis

In managing currency risks the Group aims to reduce impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

Short-term fluctuations in interest rates are not hedged as the Group, at present, does not consider them material. At 31 December 2009 it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before tax by approximately £28,000 (2008: £16,000).

At 31 December 2009 it is estimated that an increase of one percentage point in the value of sterling against the euro and US dollar would decrease the Group's profit before tax by approximately £85,000 (2008: £106,000) before forward exchange contracts and £39,000 (2008: £60,000) after forward exchange contracts are included for the euro and £58,000 (2008: £69,000) for the US dollar before forward exchange contracts and £28,000 (2008: £33,000) after forward exchange contracts are included.

The Group has significant undertakings in the USA whose revenue and expenses are denominated in US dollars. It also makes a significant proportion of its sales to European customers and these revenues are predominantly in euros. It was the Group's policy in 2009 to hedge the foreign currency cash flows of invoiced sales net of expected foreign currency expenditure. Hedging is achieved by the use of foreign currency contracts expiring in the month of expected cash flow.

Fair values

The fair values together with the carrying amounts shown in the Balance Sheet are as follows:

	2009		2008	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Trade and other receivables	7,654	7,654	8,408	8,408
Cash and cash equivalents	2,364	2,364	(852)	(852)
Forward exchange contracts				
- assets	75	75	-	-
- liabilities	(111)	(111)	(1,264)	(1,264)
Secured bank loans	(2,794)	(2,805)	(300)	(300)
Trade and other payables	(4,021)	(4,021)	(3,720)	(3,720)

Estimation of fair values

The following summarises the major methods and assumptions used in estimating fair values of financial instruments reflected in the table.

a. Derivatives

Forward exchange contracts are marked to market using listed market prices.

b. Interest-bearing loans and borrowings and trade and other receivables/payables

Carrying amounts equals the fair value less loan arrangement fee of £11k (2008: nil).

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital which the Group defines as profit before tax divided by average net assets. The Board of Directors also monitors the level of dividends paid to ordinary shareholders.

10. Employee benefits

The Group and Company operate one defined benefit scheme in the UK which offers both pensions in retirement and death benefits to members. Pension benefits are related to the members' final salary at retirement and their length of service. Since 1 October 2001 the scheme has been closed to new members.

From 31 December 2005 future accrual of benefits for existing members of the scheme ceased.

Contributions to the plan for the year from the Company were £55,000 per month, a rate agreed with the Company and the Trustees following the triennial review in April 2008 to apply from January 2009 until June 2016.

The Company has opted to recognise all actuarial gains and losses immediately in Other Comprehensive Income. An actuarial valuation of the scheme was carried out as at 5 April 2008 and the results have been updated to 31 December 2009 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007
Discount rate	5.70%	6.30%	5.90%
Expected return on plan assets	6.72%	5.76%	6.62%
Rate of salary increase	n/a	n/a	n/a
Rate of increase to pensions in payment	3.90%	3.00%	3.30%
Rate of inflation	3.70%	3.10%	3.40%
Mortality assumption	PCA00 MC	PCA00 MC	PA92 MC
Life expectancy from age 65 of current male pensioners	21.7 years	21.6 years	22.5 years

The mortality tables used above are those published by the Institute and Faculty of Actuaries, with allowance for improvements in member longevity in line with "Medium Cohort" projections, based on members' year of birth. These adjusted rates suggest that a man aged 65 retiring at 31 December 2009 could expect to live, on average, until age 87. A 5% change in life expectancy from the age of 65 would increase/decrease the pension scheme's IAS 19 liability by approximately £0.6m (£0.4m after deferred tax), all other things being equal.

The overall expected return on assets assumption of 6.72% as at 31 December 2009 has been derived by calculating the weighted average of the expected rate of return for each asset class. The following approach has been used to determine the expected rate of return for each asset class:

- Equities - allowance for an additional return of 3.25% above that available on UK government securities;
- Fixed interest securities - current market yields
- Cash - based on the Bank of England base rate.

	Year ended 31 December 2009		Year ended 31 December 2008		Year ended 31 December 2007	
	Long term rate of return expected	Market value £000	Long term rate of return expected	Market Value £000	Long term rate or return expected	Market value £000
Present value of scheme assets						
Equities	7.8%	12,069	7.0%	9,298	7.1%	13,458
Bonds	4.5%	3,443	3.8%	3,154	4.6%	2,431
Other	0.5%	750	2.0%	1,417	5.5%	1,353
Insured pensioners		166		-		-
		16,428		13,869		17,242

Present value of defined obligation:

Funded plans	22,211	17,396
Total	22,211	17,396
Deficit in the scheme	(5,783)	(3,527)
Related deferred tax asset	1,619	988
Net pension liability	(4,164)	(2,539)

Reconciliation of opening and closing balances of the present value of the defined benefit obligation:

Benefit obligation at beginning of year	17,396	19,707
Interest cost	1,065	1,142
Actuarial losses/(gains)	4,538	(2,752)
Benefits paid	(983)	(701)
Past service costs	29	-
Inclusion of reserve for insured pensioners as at 31 December	166	-
Benefit obligation at end of year	22,211	17,396

Reconciliation of opening and closing balances of the fair value of plan assets:

Fair value of plan assets at beginning of year	13,869	17,242
Expected return on plan assets	792	1,138
Actuarial gain/(loss)	1,840	(4,410)
Contributions by employer	744	600
Benefits paid	(983)	(701)
Inclusion of reserve for insured pensioners as at 31 December	166	-
Fair value of plan assets at end of year	16,428	13,869

The amounts recognised in the Income Statement are:

Interest on obligation	1,065	1,142
Expected return on plan assets	(792)	(1,138)
Past service cost	29	-
Total expense	302	4

The expense/(income) is recognised in the following line items in the Income Statement:

	Group and Company	
	2009 £000	2008 £000
Cost of sales	29	-
Financial income	(792)	(1,138)
Finance costs	1,065	1,142
	302	4

Actuarial (losses)/gains shown in Other Comprehensive Income since 1 January 2005:

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Balance as at 1 January	131	1,789	648	222	264
Actuarial (losses)/gains	(2,698)	(1,658)	1,141	426	(42)
Balance as at 31 December	(2,567)	131	1,789	648	222

History of scheme assets, obligations and experience adjustments

	As at 31 December 2009 £000	As at 31 December 2008 £000	As at 31 December 2007 £000	As at 31 December 2006 £000	As at 31 December 2005 £000
Present value of defined benefit obligation	22,211	17,396	19,707	20,101	19,479

Fair value of scheme assets	16,428	13,869	17,242	15,861	14,259
Deficit in the scheme	(5,783)	(3,527)	(2,465)	(4,240)	(5,220)
Experience adjustments arising on scheme liabilities	4,538	(2,752)	(875)	233	1,621
Experience item as a percentage of scheme liabilities	20%	(16)%	(4)%	1%	8%
Experience adjustments arising on scheme assets	1,840	(4,410)	266	659	1,579
Experience item as a percentage of scheme assets	11%	(32)%	2%	4%	11%

Other pension schemes

On 1 January 2006 a separate stakeholder scheme was set up for those employees who were originally in the closed defined benefit scheme. The contributions paid by the Company in 2009 were £450,000 (2008: £505,000).

In addition to this scheme, Zotefoams plc operates a stakeholder scheme which is open to employees who joined after 1 October 2001. The contributions paid by the Company in 2009 were £80,000 (2008: £51,000).

For US based employees Zotefoams Inc. operates a 401(k) plan. The contributions paid by Zotefoams Inc. in 2009 were \$73,000 (2008: \$80,000).

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