INDITHERM plc

Interim Report
for the six months ended
30 June 2014

Chairman's Statement

Introduction

Revenue in the first half of 2014 was almost unchanged on the same period last year, but with a shift in sales mix reducing gross profit by 14%. With Overheads increased by 15%, reflecting the planned investment in sales & marketing, the Company closed the period with a loss before tax of £173k.

Financial Review

Revenue held steady at £998k (2013: £1,003k), with orders closer to historic levels than the exceptional intake in the corresponding period last year. Gross margin fell to 53% (2013: 61%), reflecting a shift towards export and ATOM distribution business. Overheads increased to £699k (2013: £609k). This delivered a loss on ordinary activities before taxation of £173k (2013: profit £4k), resulting in loss per share of 0.3p (2013: 0.0p).

The net cash outflow from operating and investing activities over the last 12 months has been £241k, but for the half year was £322k (2013: £24k), representing the trading loss together with a reduction in Trade and other payables due to the level of activity around the period ends. This gives a closing cash and cash equivalents balance of £1,313k in hand at the half year (31 December 2013: £1,635k).

Operational Review

Trading levels in the Medical business in the first half of 2014 were down 20% on the same period in 2013, without the previous year's benefit of large NHS orders and projects carried over from 2012. During the period we have used our extra resources, added last year, to support the development of the export markets, with extra focus and direction applied towards territories with the greatest potential.

The UK market this year has been characterised by typical smaller and slower conversions and replacement orders. We have not enjoyed the benefit of the more substantial projects seen in 2013, including some delayed from 2012, and as a consequence our UK Medical orders fell significantly. UK Medical sales, excluding ATOM, represented 41% of our Medical business (2013: 64%). This reflects continuing uncertainty in the NHS, particularly characterised by severe constraints on capital budgets, but with interest in our products sustained and prospects at a similar level to last year. The potential for larger projects remains and we continue to pursue a number of opportunities, albeit with longer gestation periods. Case studies for the operating theatre sector, including a number published by NICE in their further adoption support initiative for Inditherm technology, are being used to underpin our sales and marketing activity, particularly in the UK. We introduced a new Managed Service concept for our perioperative products during the period, with the aim of circumventing the delays and obstacles associated with significantly greater capital budget constraints currently being experienced in the NHS. Whilst this approach has been well received in the market, it has yet to convert to orders. If successful this not only has the potential to reduce sales conversion times, but also to generate a stronger ongoing revenue model. As anticipated and reported previously, the market dynamics remain challenging, with large variations in order intake from one period to another.

We have seen encouraging sales growth from our Medical export business in the first half of 2014, up 30% on the same period last year. This has been underpinned by a stronger performance in the Asia-Pacific region, including start-up stocks for a partner in Japan who will promote our operating room products under their own brand. Our increased resources in this area are adding focus to our export activities; we have taken steps to start identifying partners for the Latin American markets and to look for ways to strengthen our presence where we have underperforming distribution channels.

Chairman's Statement

Operational Review (continued)

We have continued our promotion of the ATOM neonatal range of products in the UK and Ireland. Whilst sales cycles are typically long, we are making progress and realising the benefit of ongoing revenue from sales of consumable parts required for routine maintenance.

Our OEM project timescales are controlled by the partners we are working with, but we continue to see progress. We are awaiting product launches and provided these are successful we would anticipate that orders will start to flow in the year ahead.

We continue to develop our Industrial business, including efforts in seeking new ways to enhance our routes to market, with focus devoted to the standard product ranges. This sector has held steady in the first half of this year and continues to make a positive contribution.

Outlook

The first half performance has been heavily influenced by the capital constraints in the NHS, combined with the demands related to cost saving projects which often affect the priority that Inditherm's proposition is given. Nevertheless we are finding that the more recent publications relating to real case studies in UK hospitals are helping to generate renewed interest in the perioperative sector. This combined with new marketing initiatives and our Managed Service offer gives us encouragement that we can return to stronger sales level in the year ahead, although we do not anticipate that the erratic order patterns will disappear. The last twelve months have presented an abnormal situation in our home market, however there are clear indications that the appetite for our product remains. The growing installed base, and references that are derived, continue to strengthen our market presence and credibility, and should give NHS managers greater confidence to adopt Inditherm technology and realise the substantial cost savings it can offer.

We expect the emphasis on export territories to continue, building on the recent increased focus and using the resources added last year. The addition of new distributors and focus on improving performance in key territories should allow us to continue to make progress in the overseas markets. Whilst the Middle East and European markets remain somewhat unpredictable, we expect the Asia-Pacific region to remain strong and anticipate that we will start to make progress in Latin America. This gives an expectation of a return to export growth overall.

Whilst the performance of the first half has been disappointing, albeit expected, we can now see a slowly improving trend in customer enquiries. Given the increased conversion times and the change in business mix towards export, it is likely that gross margins will remain at a healthy but lower level than last year. This will inevitably defer our ability to deliver profitable growth.

Accordingly, we are stepping up our efforts to identify strategic options capable of accelerating our prospects of delivering shareholder value.

MARK ABRAHAMS
Chairman

25 September 2014

Unaudited Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2014

	Notes	**6 months ended 30 June 2014 £'000**	6 months ended 30 June 2013 £'000	Audited Year ended 31 December 2013 £'000
Revenue		**998**	1,003	2,062
Cost of sales		**(474)**	(393)	(899)
Gross profit		**524**	610	1,163
Overheads		**(699)**	(609)	(1,262)
Operating (loss)/profit		**(175)**	1	(99)
Finance income		**2**	3	6
(Loss)/profit on ordinary activities before taxation		**(173)**	4	(93)
Taxation	3	**–**	–	16
(Loss)/profit for the period attributable to owners of the parent company		**(173)**	4	(77)
(Loss)/earnings per share from total Inditherm Group attributable to owners of the parent company during the period – basic and diluted	4	**(0.3p)**	0.0p	(0.2p)

All recognised gains and losses are included in the Consolidated Statement of Comprehensive Income. As such there is no other comprehensive income.

Unaudited Consolidated Balance Sheet

as at 30 June 2014

	6 months ended 30 June 2014 £'000	6 months ended 30 June 2013 £'000	Audited Year ended 31 December 2013 £'000
Assets			
Non-current assets			
Property, plant and equipment	**45**	30	44
Intangible assets	**–**	14	4
	45	44	48
Current assets			
Inventories	**220**	203	219
Trade and other receivables	**384**	391	349
Current tax asset	**16**	12	28
Cash and cash equivalents	**1,313**	1,554	1,635
	1,933	2,160	2,231
Liabilities			
Current liabilities			
Trade and other payables	**(271)**	(217)	(368)
Deferred Income	**(78)**	(55)	(85)
	(349)	(272)	(453)
Net current assets	**1,584**	1,888	1,778
Non Current Liabilities			
Deferred Income	**(148)**	(204)	(176)
Net assets	**1,481**	1,728	1,650
Shareholders' equity			
Called up share capital	**511**	511	511
Share premium account	**9,929**	9,929	9,929
Share based payment reserve	**152**	145	148
Accumulated losses	**(9,111)**	(8,857)	(8,938)
Total equity	**1,481**	1,728	1,650

Unaudited Consolidated Cash Flow Statement

for the six months ended 30 June 2014

	6 months ended 30 June 2014 £'000	6 months ended 30 June 2013 £'000	Audited Year ended 31 December 2013 £'000
Net operating (loss)/profit for the period	**(175)**	1	(99)
Share based payments	**4**	4	7
Depreciation and amortisation	**12**	15	35
Increase in inventories	**(1)**	(24)	(40)
Increase in trade and other receivables	**(35)**	(175)	(133)
(Decrease)/increase in trade and other payables	**(97)**	(49)	109
(Decrease)/increase in deferred income	**(35)**	214	209
Interest received	**2**	3	6
Taxation refund	**12**	–	–
Net cash (outflow)/inflow from operating activities	**(313)**	(11)	94
Cash flow from Investing activities			
Purchase of property, plant and equipment	**(9)**	(13)	(37)
Net cash used in investing activities	**(9)**	(13)	(37)
Net (decrease)/increase in cash and cash equivalents	**(322)**	(24)	57
Cash and cash equivalents at the beginning of the period	**1,635**	1,578	1,578
Cash and cash equivalents at the end of the period	**1,313**	1,554	1,635

Unaudited Consolidated Statement of Changes in Shareholder Equity

for the six months ended 30 June 2014

	6 months ended 30 June 2014 £'000	6 months ended 30 June 2013 £'000	Audited Year ended 31 December 2013 £'000
Opening shareholders' equity	**1,650**	1,720	1,720
Credit for Share based payments	**4**	4	7
(Loss)/profit for the period and total comprehensive expense	**(173)**	4	(77)
Closing shareholders' equity	**1,481**	1,728	1,650

Notes to the Interim Report

1. Basis of preparation

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with AIM Rule 18 in relation to half year reports. This information should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2. Going-concern basis

The group meets its day-to-day working capital requirements through its cash resources.

The current economic conditions continue to create uncertainty particularly over the level of demand for the group's products. The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within the level of its current resources. After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The group therefore continues to adopt the going concern basis in preparing its consolidated interim financial statements.

3. Taxation

No corporation tax has been provided for in the period due to the projected result for the period not exceeding the losses brought forward.

Deferred tax assets arising from accelerated capital allowances and trading losses have not been recognised on the basis that their future economic benefit is uncertain.

4. (Loss)/earnings per share

The calculation of loss per ordinary share is based on a loss of £173k (30 June 2013: Profit £4k, 31 December 2013: Loss £77k) and on a weighted average number of shares of 51,112,581 in issue for all periods.

The outstanding share options are currently anti-dilutive.

5. Contingent liabilities

Included within cash and cash equivalents is a deposit for £250k that is used as collateral for bank facilities provided by HSBC Bank plc. Bank facilities provided by HSBC Bank plc include a bank guarantee issued to Highbridge (Houndhill) Industries Limited for £143k being a rolling two years rent on the manufacturing facility at Rotherham. The company entered the lease on 11 March 2002 for an initial period of fifteen years, which ends on 10 March 2017.

In April 2007 the company introduced a Bonus Scheme, for all employees (excluding Directors) that were in the company's employment at that time and remain in the said employment when the conditions of the scheme are satisified, to reward loyalty and encourage on-going commitment to the company. In recognition of their contribution to achieving break-even in a half year accounting period, six employees would have received a total of £28k, which together with Employers National Insurance would cost a total of £32k (31 December 2013:£32k) had the conditions been fulfilled at 30 June 2014. The break-even condition is after bearing a charge for the costs of the bonus arrangement.

Notes to the Interim Report
continued

5. Contingent liabilities (continued)

Under the terms of a Unilateral Concession arrangement between Mr Bettles and the company, the total salary forgone to the end of the arrangement on 30 April 2012 was £17k. Had the profit performance criteria been achieved on 30 June 2014, the value of the concessionary payment (including Employers National Insurance) would have been £47k (31 December 2013: £47k). For the bonus payment to payout the profit criteria is after bearing a charge for the costs of the concessionary bonus arrangement.

During the normal course of business, the company offers warranties against clearly defined peformance specifications.

6. Related party transactions

Consulting Agreement – John Markham (Non-Executive Director)

As a result of a key employee leaving the company, the company and John Markham entered into a Consulting agreement on 1 November 2013, whereby John provides support and continuity by overseeing polymer production and development.

The annual remuneration under this agreement is £8,000 paid in 12 equal monthly installments. The term of this agreement is a rolling twelve months that can be terminated, without compensation, by either party serving three months written notice.

It is recognised that such an arrangement with a non-executive director is not the norm but in view of the size of the business it was felt by the remaining members of the Board that this was the most cost effective way of maintaining continuity and technically the best solution in respect of polymer production and ongoing development.

7. Principle risks and uncertainties

The principal risks and uncertainties for the period ended 30 June 2014 have not changed materially from those included on page 15 of the Annual Report and Financial Statements 2013.

8. Interim financial information

The interim financial information for the period ended 30 June 2014 is unaudited and does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The interim financial information for the period ended 30 June 2013 are also unaudited and were approved by the Board of Directors on 26 September 2013. The comparative figures for the financial year ended 31 December 2013 are extracted from the audited accounts for that period. The Company's annual report and financial statements for the year ended 31 December 2013 which were prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union, International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The standards used are those published by the International Accounting Standards Board (IASB) and endorsed by the EU at the time of preparing those statements. The annual report and financial statements were approved by the Board of Directors on 2 April 2014 and have been delivered to the Registrar of Companies with an unqualified audit report.

Copies of the announcement will be sent to shareholders and are available to members of the general public from the Company Secretary, Inditherm plc, Inditherm House, Houndhill Park, Bolton Road, Wath upon Dearne, S63 7LG or via the Company website at www.inditthermplc.com.

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Financial Calendar

- **Preliminary Announcement** – March/April
- **Annual General Meeting** – May
- **Half Year End** – June
- **Interim Announcement** – September
- **Year End** – December

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Headquarters and Registered Office:

Inditherm House
Houndhill Park
Bolton Road
Wath-upon-Dearne
Rotherham, S63 7LG

Telephone: +44 (0) 1709 761000
Fax: +44 (0) 1709 761066

e-mail: sales@indithermplc.com
website: www.indithermplc.com