

Regulatory Announcement

Company Accsys Technologies PLC
TIDM AXS
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ACCSYS TECHNOLOGIES PLC ("Accsys" or the "Company")

Interim Management Statement

Accsys, the chemical technology group, focused on the acetylation of wood, today issues its Interim Management Statement to 13 August, including the first quarter trading period.

Key points include:

- Total revenue increased by 29 per cent to €10.1m in the quarter to 30 June 2014 (2013: €7.9m); The previous year included licence income of €0.5m compared to nil in the quarter to June 2014;
- Revenue from sales of Accoya[®] increased by 37 per cent to €9.2m in the quarter to 30 June (2013: €6.7m);
- Significant increase in Accoya[®] orders received compared to same time last year provides greater confidence that Accoya[®] revenue growth will continue for remainder of the year;
- Total Accoya[®] production volumes increased by 46 per cent to 7,618 cubic meters in the quarter to 30 June 2014 (2013: 5,224 cubic meters);
- Significant progress made with Solvay, our Accoya[®] licensee:
 - Freiburg confirmed as location of their first Accoya[®] plant, expected to be operational in first half of 2016;
 - Entered binding term sheet for a global cooperation agreement;
 - Full agreements and approval of the plant construction are expected to be approved by December 2014;
- Arbitration tribunal issued an award in respect of the Diamond Wood licence agreement which we sought to terminate in August 2013:
 - Licence agreement is to continue in full force and effect;
 - Diamond Wood can only claim for limited damages up to a maximum of €250,000.
- Accoya[®] distributor and agency agreements now in place covering most of Europe, Australia, Canada, Chile, China, India, Mexico, Morocco, New Zealand, South Africa, parts of South-East Asia and the USA; and
- Cash balance of €13.5m at 30 June 2014 (March 2014: €15.2m).

Trading update

Accoya sales and production

Revenue from sales of Accoya[®] increased by 37 per cent to €9.2m in the quarter to 30 June 2014 compared to the same quarter in the previous year. Within this, sales to Accoya[®] customers (excluding sales to Medite) increased by 33 per cent to €8.2m.

Demand for Accoya[®] continues to increase and is attributable to both old and new distributors. We now have a significantly greater level of forward orders compared to last year which gives us greater confidence that sales will continue to grow for the remainder of this year. This is also evident from our sales recorded in July and so far in August. This level of growth is likely to remain at a lower level than that achieved in the comparative period in the prior year which benefitted from the significant impact of sales to Medite combined with significantly greater production levels at our Arnhem production facility.

We continue to increase production levels at our Arnhem plant, producing 7,618 cubic meters in the quarter. This compares to the previous financial year during which the first quarter production volume of 5,224 cubic meters ultimately led to full year production of 24,119 cubic meters. The increase in the most recent quarter has been achieved as we have successfully optimised short term production constraints. We are continuing to implement a number of process and production changes which have been identified from earlier R&D projects and which will help increase the production capacity further.

The increased volumes, together with price increases implemented towards the end of the last financial year has resulted in an improvement in the profitability of our manufacturing facility.

The more significant increase in production volumes compared to revenue is attributable to the higher proportion of material sold to Medite and to our tolling customers.

Solvay

We were pleased to announce earlier this month that Solvay, the Belgian chemical group, confirmed its intention to build a 63,000 cubic meters Accoya[®] wood production plant in Freiburg, Germany, with operations expected to start in the first half of 2016.

As we stated previously, the two parties had been exploring forms of further co-operation. As a result, Accsys was also pleased to confirm that it entered into a binding term sheet with Solvay, in respect of a three year non-exclusive global co-operation agreement to develop Accoya[®] under which Solvay will engage Accsys to carry out targeted marketing activities to develop the Accoya[®] market outside of Europe.

Accsys has granted Solvay a non-exclusive global Accoya[®] licence option for defined available regions, reflecting Solvay's interest in Accoya[®] licensing outside of Europe, under conditions that reflect the improved acceptance of Accoya[®] in the market. In addition Solvay has granted Accsys the option to invest up to a substantial minority share in both the European project and in any future Accoya[®] production projects. This would allow Accsys to benefit from future manufacturing profits of any Accoya[®] manufacturing plants that Solvay may construct under licence.

Accsys and Solvay have agreed to work together to complete the various full agreements, implementing the detail of the binding term sheet. These agreements, including the final approval of the plant construction, are subject to approval by both corporates and are expected to be entered into by the end of December 2014.

Diamond Wood

As reported on 25 July, the arbitration tribunal (the "Tribunal") delivered a 'First Partial Final Award' (the "Award") and ruling that, in response to Diamond Wood's claim for damages in excess of €100 million, Diamond Wood can only claim for limited damages, if any, up to a maximum of €250,000.

However, the Tribunal also ruled that the Licence Agreement is to continue in full force and effect.

As a result of the Award, and with immediate effect:

- Diamond Wood has the responsibility for all Accoya[®] wood promotion marketing and selling to all customers within the licensed territories in the Far East (which excludes various countries including Japan and South Korea, for which Accsys retains rights); and
- Diamond Wood is obliged to resume its endeavours towards the construction of an Accoya[®] manufacturing facility in the Far East.

The Tribunal has yet to make an award in respect of each party's respective legal costs.

Tricoya Technologies Limited ('TTL')

The market evaluation of Medite Tricoya[®] continues to be positive with increasing acceptance of the product leading to a significant increase in sales to customers. This is partly reflected by the sales of Accoya[®] to Medite for the manufacture of Medite Tricoya[®], prior to dedicated facilities for wood acetylation being built. These sales increased by 73 per cent to €991,000 in the quarter to June 2014 compared to €573,000 in the same quarter in the prior year.

In May 2014 we reported TTL's relationship with its licence option holder in Latin America, Masisa, took a step forward with the extension of the option and agreement to carry out an evaluation of Tricoya[®] including market testing, production testing and development of finished end-products with the launch of Masisa Tricoya[®] Super MDF.

Masisa has industrial facilities in Chile, Argentina, Brazil, Venezuela and Mexico as well as commercial operations in over 40 countries. Its main panel products are MDP (medium density particleboard), MDF (medium density fibreboard) and Melamine boards. The option agreement, originally signed in April 2012, if exercised, grants Masisa exclusive production and distribution rights for Tricoya[®] for the Latin American market, excluding Brazil, for which the sales and marketing rights are non-exclusive.

Financial results

Total revenue for the quarter ended 30 June 2014 increased by 29 per cent to €10.1m (2013: €7.7m). Total revenue included €1.0m of sales of Accoya to Medite (2013: €0.6m) to enable them to produce Medite Tricoya[®] and licence income of nil (2013: €0.6m).

The cash balance as at 30 June 2014 of €13.5m represents a decrease of €1.7m since 31 March 2014 (2013: €2.0m cash out-flow recorded in first quarter). The reduction included a cash outflow from operating activities (before changes in working capital) of €0.9m for the nine months ended 31 December 2013, which represents a 10 per cent decrease compared to the corresponding quarter in the previous year. This marginal improvement in cash out-flow is attributable to an improvement in the profitability of the Arnhem manufacturing facility, but offset by a lower R&D tax receipt and further Accsys legal costs associated with the Diamond Wood arbitration of approximately €0.7m.

Ends

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Notes to editors:

Accsys Technologies PLC (www.accsysplc.com) is an environmental science and technology company whose primary focus is on the production of Accoya[®] wood and technology licensing via its subsidiary, Titan Wood Limited, which has manufacturing operations in Arnhem, the Netherlands (through its subsidiary Titan Wood B.V.), a European office in Windsor, United Kingdom, and an American office in Dallas, Texas (via its subsidiary Titan Wood, Inc). All group subsidiaries are ultimately 100% owned by Accsys and trade as Accsys Technologies. Any references in this announcement to agreements with Accsys shall mean agreements with either Accsys or its subsidiary entities unless otherwise specified. Accsys Technologies PLC is listed on the London Stock Exchange AIM market and on Euronext Amsterdam by NYSE Euronext, under the symbols 'AXS'. Accsys' operations comprise three principal business units: (i) Accoya[®] wood production; (ii) technology development, focused on a programme of continuous development of and improvements to the process engineering and operating protocols for the acetylation of solid wood and the development of technology for the acetylation of wood elements; and (iii) the licensing of technology for the production of Accoya[®] wood and Tricoya[®] wood elements across the globe.

Accoya[®] wood (www.accoya.com) is produced using Accsys' proprietary patented acetylation technology, that effectively converts sustainably grown softwoods and non-durable hardwoods into what is best described as a "high technology wood". Distinguished by its durability, dimensional stability and, perhaps most importantly of all, its reliability (in terms of consistency of both supply and quality), Accoya[®] wood is particularly suited to exterior applications where performance and appearance are valued. Unlike most tropical and European hardwoods, its colour does not degrade when exposed to ultraviolet light. Moreover, the Accoya[®] wood production process does not compromise the wood's strength or machinability. The combination of UV resistance, dimensional stability, durability and retained strength means that Accoya[®] wood offers a wealth of new opportunities to architects, designers and specifiers. These benefits result in lower maintenance and total cost of ownership while using a higher sustainable and environmental responsible building material. For a full archive of Accoya[®] news, visit www.accoya.com/news.asp.

Tricoya[®] Wood Elements (www.tricoya.com) are produced using Accsys' proprietary technology for the acetylation of wood chips, and particles for use in the fabrication of wood based composites, including panel products. These composites demonstrate enhanced durability and dimensional stability which allow them to be used in a variety of applications that were once limited to solid wood or man-made products. Exploitation of Accsys' proprietary technology relating to Tricoya[®] Wood Elements is carried out through Tricoya Technologies Limited, a joint venture between Accsys and INEOS Industries Holdings Limited. Tricoya[®] Wood Elements are lauded as the first major innovation in the wood composites industry in more than 30 years.

Wood Acetylation is a process which increases the amount of 'acetyl' molecules in wood, thereby changing its physical properties. When carried out to a sufficient level throughout the wood, this process protects wood from rot by making it "inedible" to most micro-organisms and fungi, without - unlike conventional treatments - making it toxic. It also greatly reduces the wood's tendency to swell and shrink, making it less prone to cracking and ensuring that, when painted, it requires dramatically reduced maintenance.

Accsys Technologies is the trading name of Titan Wood Limited. ACCOYA[®], TRICOYA[®] and the Trimarque Device are registered trademarks owned by Titan Wood Limited ("TWL"), a wholly owned subsidiary of Accsys Technologies PLC, and may not be used or reproduced without written permission from TWL, or in the case of the Tricoya[®] registered trademark, from Tricoya Technologies Limited, a joint venture between TWL and INEOS Industries Holdings Limited with exclusive rights to exploit the Tricoya[®] brand.