

## Regulatory Announcement

**Company** Accsys Technologies PLC  
**TIDM** AXS  
**Headline** Interim Management Statement  
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**10 August 2011**

### **ACCSYS TECHNOLOGIES PLC** (“Accsys” or the “Company”)

#### **Interim Management Statement**

- Agreement to supply proprietary acetylated material to Medite for the production of Tricoya<sup>®</sup>, significantly accelerating the introduction of Tricoya<sup>®</sup> to the market;
- New patents granted, further protecting the process of producing Accoya<sup>®</sup> wood;
- Revenue from Accoya<sup>®</sup> increased by 12% (excluding sales to Diamond Wood) compared to the same quarter last year;
- Positive 4% gross manufacturing margin achieved in first quarter;
- Reduction in other operating costs by 16% compared to same period in previous year;
- Working capital control improved – cash of €26.6m at 30 June 2011 compared to €27.6m at 31 March 2011

In the first quarter, Accsys continued to deliver on its strategy of seeding the market with Accoya<sup>®</sup>, maintaining a focus on tight cost control and continuing to explore licensing opportunities.

We are also pleased to announce an agreement to supply acetylated material to Medite Europe Limited (“Medite”) for the production of Medite Tricoya<sup>®</sup> panels, the world’s first ultra-high performance, class 1 durability medium density fibre board (“MDF”) to be made using Accsys’s proprietary acetylation technology.

#### **Supply agreement with Medite Europe accelerates Medite Tricoya<sup>®</sup> market entry**

Under the terms of the agreement, over the next 17 months Accsys Technologies expects to supply Medite with up to 7,500m<sup>3</sup> of acetylated material, produced under the Company’s patented acetylation processes at its plant in Arnhem, The Netherlands. This speciality acetylated material will be transferred to Medite’s panel production facility in Clonmel, Ireland where it will be processed to produce Medite Tricoya<sup>®</sup>. First shipments of Medite Tricoya<sup>®</sup> are expected to reach the market within this financial year.

This agreement represents the next stage in the relationship between Accsys and Medite arising from the Joint Development Agreement (“JDA”) and greatly accelerates the entry of Medite Tricoya<sup>®</sup> into the market. Medite Tricoya<sup>®</sup> will be distributed and sold by Medite, for the purposes of final market testing and market seeding, to underpin a move to commercial scale production under the licence terms set out in the JDA.

The agreement moves Accsys significantly closer to realising the full licence terms within the JDA, while also demonstrating a new model for the production of Tricoya<sup>®</sup> for seeding purposes and providing sales of the acetylated material from the Arnhem plant.

At the same time, the JDA has been amended to provide that, amongst other things, Medite be granted exclusive rights to manufacture, market, sell and distribute Medite Tricoya<sup>®</sup> in the Netherlands in addition to the United Kingdom and the Republic of Ireland. This reflects the importance of the Dutch market and is the result of the progressive market research carried out by the parties over recent months.

Commenting on the agreement Paul Clegg, CEO of Accsys, said, *"This agreement represents a significant strengthening of the relationship between our two companies and is an important milestone in the on-going development of Tricoya<sup>®</sup>. By supplying acetylated material to Medite for processing we have been able to bring Tricoya<sup>®</sup> to the market two years earlier than had been expected."*

### **Cost control and cash management**

In the first quarter, continuing focus on operational activities has resulted in a 16% reduction in other operating costs compared to the same period in the previous year. Process improvements are continuing and, together with price increases, there has been a further improvement in gross manufacturing margin from negative 2% to positive 4% compared to the same period last year.

A cash balance of €26.6m at 30 June 2011 compared to €27.6m at 31 March 2011 demonstrates a significant improvement in control over working capital compared to last year together with reduced costs and improved margins.

Agreements for the sale and leaseback of part of our land and buildings in Arnhem were entered into earlier this month. Under these agreements, we expect to realise a total of approximately €4m in two tranches. The first tranche of €2.2m has already been received and the second is due within 18 months. Under the terms of the sale leaseback, the buyer has committed to build new storage facilities, which will also allow for an improvement in wood handling logistics, being the first steps in our intended expansion of the Arnhem facility.

### **Licensing update**

In January 2011, we entered into an option agreement with a major multinational corporation for a licence to build an Accoya<sup>®</sup> production plant in Europe together with the rights to manufacture and sell Accoya<sup>®</sup> in a number of European countries. Detailed due diligence and contract negotiations have been continuing since the option agreement was renewed in March and we continue to make positive progress towards what will hopefully be a full licence agreement.

We previously reported that Diamond Wood was, together with its bankers, in an advanced stage of preparing for an Initial Public Offering on the junior market of the Malaysian Stock exchange. We understand Diamond Wood continues to make progress in this respect, however this is still subject to regulatory review and formal due diligence also needs to be completed.

### **Expanding distribution network and ongoing brand development**

We continue to successfully seed the market with Accoya<sup>®</sup>, paving the way for our licensing activities. Whilst month on month sales have been variable, as they have been in the wider timber industry which continues to face challenging economic conditions, Accoya<sup>®</sup> revenues (excluding sales to Diamond Wood) increased by 12% compared to the same quarter in the previous year.

We have continued to expand our Accoya<sup>®</sup> distribution network with three new distribution and supply agreements signed during the period. The first of these provides for the supply of Accoya<sup>®</sup> into the Netherlands for garden and civil construction projects, and the other two extend our reach in the United States. We have continued to develop the Accoya<sup>®</sup> global brand and are increasingly committed to providing support to new and existing distributors. We launched an online 'Sales & Marketing Toolkit' for distributors which provides easy access to marketing collateral, product and test information and training materials. We also developed an "Accoya<sup>®</sup> Website" template which has

been rolled out to 17 distributors around the world, helping market Accoya® in a clear and consistent manner.

We have commenced an aggressive targeted multimedia campaign to educate the key architectural and specification audiences about the features and benefits of Accoya across many western European countries.

Accsys recently launched the revitalised and improved [www.accoya.com](http://www.accoya.com) and [www.accsysplc.com](http://www.accsysplc.com) websites, bringing them together in one clear and easily navigable site. The existing Accoya® website received 90,000 visitors in the last year and the new site will make it easier for visitors to find both corporate and brand information and to view Accoya projects.

Media coverage increased over the last 12 months with Accoya® featured in 299 articles in the UK and Europe and 102 articles in the USA. Accoya® will be exhibiting at a number of trade shows in the next 6 months such as Timber Expo in the UK, Dubo Nationale in Holland, Greenbuild in USA and Batimat in France.

### **Strengthening intellectual property protection and sustainability certifications**

Accsys has significantly strengthened its intellectual property portfolio having successfully been granted an additional patent protecting the process under which Accoya® wood is now produced. Patents have been granted in the United Kingdom and South Africa, with grants in other territories expected to follow. The patent, which provides Accsys with a monopoly right over the current process to produce Accoya®, is expected to further enhance the Company's licensing credentials and ability to robustly defend itself against potential competitors. Accsys now has a portfolio of three different patent families protecting its acetylation process, comprising 21 granted patents and 30 patent applications pending in various global territories.

Accoya® had its Cradle to Cradle Gold certification reviewed and renewed for another year and remains the only wood product to have received this level of sustainability certification. The certification provides a means to tangibly and credibly measure achievement in environmentally-intelligent design and helps customers purchase and specify products that are pursuing a broader definition of quality. This includes using environmentally safe and healthy materials such as Accoya®.

### **Employee share plan aligns employee and Company interests**

We were pleased that following the introduction of an Employee Share Participation Plan in June 2011, approximately 25% of Accsys employees participated in the first round of subscription, subscribing for a total of 783,283 new ordinary shares in the Company. The Plan is intended to promote the long term growth and profitability of Accsys by providing employees with an opportunity to acquire an ownership interest in shares in the Company as an additional benefit of employment. The Board hopes this will further incentivise employees to contribute to and participate in the success of Accsys.

Ends

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**Notes to editors:**

**Accsys Technologies PLC** ([www.accsysplc.com](http://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 100% owned subsidiary, Titan Wood Limited, which has manufacturing operations in Arnhem, the Netherlands, a European office in London and an Americas office in Dallas, Texas. Accsys Technologies' operations comprise three principal business units: (i) the Accoya® wood production facility located in Arnhem, The Netherlands; (ii) technology development, focused on a programme of continuous improvements to the process engineering and operating protocols for the acetylation of wood which are currently under development and the development of technology for the acetylation of wood fibre; and (iii) the licensing of technology for the production of Accoya® wood and Tricoya® wood elements across the globe. Accsys Technologies is the trading name of each of the companies within the Accsys Technologies PLC group.

**Accoya® Wood** ([www.accoya.com](http://www.accoya.com)) is produced by using a proprietary, non-toxic process that effectively converts sustainably grown softwoods and non-durable hardwoods into what is best described as a "high technology wood" via acetylation. 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. Moreover, the Accoya® wood production process does not compromise the wood's strength or machinability. The combination of dimensional stability, increased coatings life, durability and retained strength means that Accoya® wood offers a wealth of new opportunities to architects, designers and specifiers. Leading applications include external doors and windows, shutters/shading, siding and cladding, decking, outdoor furniture/equipment and glulam beams for structural use.

**Tricoya® Wood Elements** ([www.tricoya.com](http://www.tricoya.com)) is Accsys Technologies' proprietary technology for the acetylation of wood fibres, 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 which were once limited to solid wood or man-made products. Tricoya® Wood Elements is 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. The environmentally responsible process protects wood from rot by making it "inedible" to most micro-organisms and insects, 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. Acetylated wood's increased durability offers major carbon sequestration advantages, compared to other woods and man-made building materials such as steel, vinyl, and plastic.

**Wood Composites** include a range of derivative wood products which are manufactured by binding together the strands, particles, fibres, or veneers of wood together with adhesives to form composite materials. These products are engineered to precise design specifications which are tested to meet national or international standards.

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