PLASTICS Capital plc

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Dear Shareholder

I am writing to you on behalf of the Plastics Capital plc board because we have decided to offer shareholders the option of taking their final dividend for FY2015-16 of 2.94p per share, either in cash or in shares. This is often described as a 'scrip dividend' alternative. To assist you in making your decision, I would like to:

a. explain how and why we have come to this decision; and
b. provide further information about the Company's current investment plans.

In summary, we believe that a significant portion of the intrinsic value per share of our Company over the long term will come from our capital allocation decisions. Since 2011 we have been paying out our excess cash flow in the form of dividends and raising equity to partially fund acquisitions. For the near term future and given the opportunities we have, we believe it will create more shareholder value if we retain and re-invest more of this cash flow in projects we consider have growth opportunities and acquisitions.

The Company has paid dividends to its shareholders since 2011, and has increased the level of dividend payments significantly since that time. Once the aftermath of the financial crisis had passed, it became clear that the Company's cash flows exceeded the immediate potential for re-investment in organic growth and supported the payment of a dividend. At the time of payment of the first dividend in 2011, the Company's re-investment requirements for organic growth were modest, at no more than £1m per annum. We started in FY2011-12 with a 1p per share dividend and increased this by 1p a year to 4p in FY2014-15. These dividends were paid in cash throughout. This year we propose to increase the dividend by 10% to 4.4p per share, representing a dividend pay-out ratio of approximately 40%, which we consider to be reasonable for business of our type.

The Company has also issued new shares over this period to fund two acquisitions. These were (Flexipol Packaging Limited in November 2014 and Beijing Higher Shengli Printing Science and Technology Co. Ltd in March 2014), funded by, in aggregate, £7.7m of new equity and a £5.4m increase in bank facilities. These acquisitions have been a success (earnings accretive overall), however in hindsight we consider the decision to raise capital in the form of new shares was inferior relative to retaining and using cash flow that was instead used to fund dividends. At the same time as recognising this with respect to acquisition opportunities, we now also have a wave of significant and exciting organic investment opportunities.

Which brings us to our decision to offer you to take a 'scrip dividend' as an alternative to receiving your dividend in cash. Some of our investor base suggested that we scrap the dividend, retain the free-cash flow and allocate as much as we can to our reinvestment given the opportunities we have. Whilst we believe this provides for the best intrinsic value for the Company over time if our opportunities realise what we anticipate, we are also aware that this has not been policy that we have communicated to date. Most shareholders often expect a cash dividend payment; so, we would like to enable every shareholder to choose the option they prefer – cash or shares.

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As a policy, we consider new investment opportunities that we believe could achieve an annual return on investment of at least 25% and we now have a number of such attractive investment opportunities under review. We have identified investment opportunities falling into four different strategic themes:

1. **Customer specific projects**
- Our bearings business, BNL, which designs bespoke plastic bearing assemblies that are then tooled and put into mass production for major multinational customers, has won two new projects requiring £1.25m investment in automatic assembly and injection moulding machines. The projects are substantial and we believe have the potential to achieve annual sales exceeding £2m.

2. **Capacity expansion**
- We anticipate capacity bottlenecks in three parts of our business, all of which are growing:
  i. Flexipol, which makes specialist plastic sacks primarily for food manufacturing and distribution, has grown volumes at 7% per annum over the past six years and the same rate of growth is projected by us over the next three years. To be able to satisfy this projected growth, additional blown-film extrusion capacity needs to be added over the next year with an estimated cost of £0.75m. We expect that this will increase Flexipol's capacity by approximately one third.
  ii. Bell, which makes hose mandrel for hydraulic, automotive and industrial hose manufacturers, has won a significant amount of new business in recent months notwithstanding that its markets have been very weak. However, the directors believe that these markets will turn in the foreseeable future and seek to position Bell to capitalise on this opportunity by adding additional bespoke profile extrusion lines need over the next year to increase capacity by approximately one third.
  iii. BNL has gradually increased the proportion of its total sales manufactured in its low cost facility in Thailand to approximately 50% and this facility is now close to full capacity. We expect this trend to continue and so require an additional 20% injection moulding capacity in Thailand.
- In total, we believe that the demand for additional capacity translates into an investment requirement of £1.2m over the next 12 months.

3. **New product introduction**
- Both Palagan and C&T Matrix are working on new product developments which will require a total of £0.6m of investment to bring them into full production. In Palagan's case this will require new process machinery, whilst C&T's new product investment opportunity will include patent registration and tooling. This expenditure will be phased and be dependent on the results of tests and trials as they are completed.

4. **Corporate**
- In 2015, we announced that it was our intention to extend C&T's business from manufacturing creasing matrix into manufacturing and distributing a wide range of box making consumables, and to do this we would seek to integrate distribution businesses where this made sense. This brings us closer to our end-users and enables us to compete much more effectively on technical service and innovation. This strategy has now been implemented successfully in the UK and India. We are also now starting to diversify our C&T product offering in China.
- We have identified two opportunities to extend this strategy by investing in established businesses; one in the US and one in Europe. We anticipate that both investments would be effected by taking minority investments that may lead eventually to outright purchase if all goes well.
- We estimate that the total investment required for these opportunities over the next 12 months or so would be approximately £0.9m.

Our target for additional EBITDA to be derived from the four strategic initiatives is:

Strategic Theme	Incremental EBITDA Target by 2020
Customer specific projects	£0.7m
Capacity expansion	£0.7m
New product development	£0.3m
Corporate	£0.4m

The total capital required, if all these expenditures were to materialise, would be approximately £4m. Some of this expenditure could be derived from headroom on our existing bank facilities and the remainder from the Company's own existing cash resources. It is possible that some investment initiatives will be delayed or reviewed. However, the directors believe it would be beneficial to the long term value of your business if we made these investments in the short term and had the flexibility to make further investments in due course.

In addition, acquisition opportunities may arise from time to time that may also require investment. To date we have raised equity capital as necessary through placings to part-fund these acquisitions, but this can be expensive in terms of both fees and dilution.

In summary, the board considers that our surplus cash flow would be best utilised to fund such opportunities, both in terms of future acquisitions and organic investment initiatives described above. A programme of investment such as the one proposed is not without risk – for example, expected new sales may be lower than forecast, projects can be delayed or costs can be higher than estimated. However, the board believes on balance that the likely returns outweigh the inherent risks.

Some shareholders have also recently expressed a view to us that we should be conserving cash for organic development and future acquisitions rather than paying a generous dividend. However, we recognise that we have shareholders who have come to appreciate and expect a healthy cash dividend – an important attraction in a "low-yield" investment environment. Consequently we have concluded that the best way forward is to clearly explain the board's intentions and planned initiatives and to offer shareholders the choice of a cash or shares via the proposed scrip dividend alternative. We believe that this should enable those shareholders that want or need a cash dividend to take it, but also enable those that want capital growth to take their dividend in the form of shares.

Since this is the first time the Company has offered the scrip alternative to its shareholders, the board will consider the levels of election requested by shareholders this time, in order to decide what to do in subsequent years as regards payment of any dividends. It is possible that we will continue to offer the scrip dividend alternative but we will take into account what feedback we receive from shareholders on this occasion.

Whether or not you should elect to receive the scrip dividend instead of cash may depend on your own personal tax circumstances. If you are in any doubt as to the action you should take, you are advised to immediately consult an appropriate independent adviser (e.g. stockbroker, solicitor or accountant) duly authorised under the United Kingdom Financial Services and Markets Act 2000 or, if you are not in the United Kingdom, another appropriately authorised independent adviser.

Yours sincerely

Faisal Rahmatallah
Executive Chairman