



AZOTE®

ZOTEK®

T-FIT®

MUCELL®

Half Year Results 2016

David Stirling: Group CEO

Gary McGrath: Finance Director



ZOTEFOAMS

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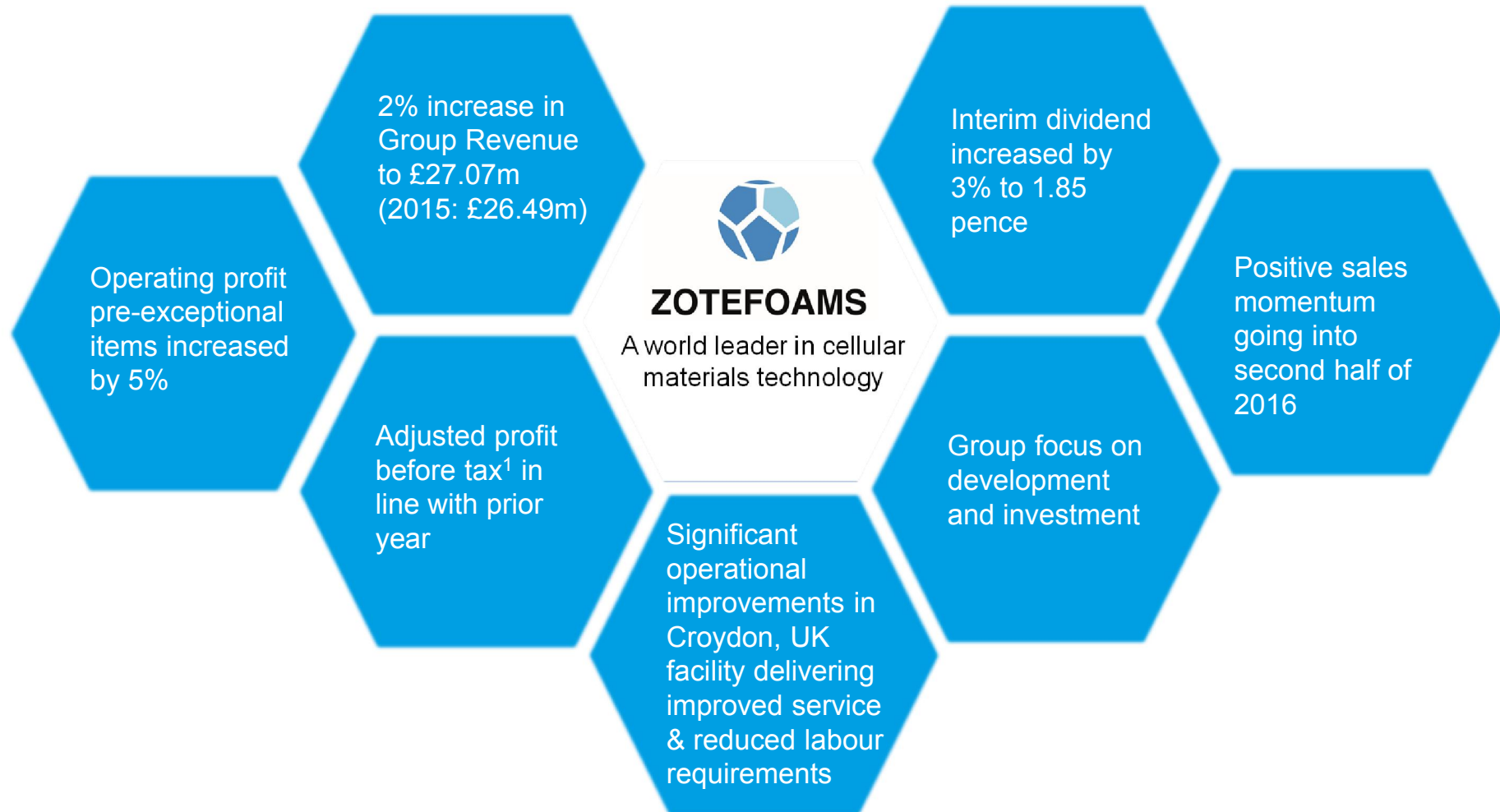
**Six months to
30 June 2016**

Summary



ZOTEFOAMS

Highlights



¹ Before amortisation of acquired intangible assets and exceptional items

Zotefoams is a world leader in cellular materials technology. Using a unique manufacturing process with environmentally friendly nitrogen gas expansion, Zotefoams produces lightweight foams in UK and USA for diverse markets worldwide. Zotefoams also owns and licenses patented MuCell® microcellular foams technology from a base in Massachusetts, USA to customers worldwide and sells T-FIT® advanced insulation.

1. Group Overview
2. Results
3. Business Review

Appendices

Group Overview - Locations



Zotefoams Midwest
Tulsa, OK, USA
Foam cutting

MuCell Extrusion HQ
Woburn, MA, USA
Licences MuCell
technology to end users

Zotefoams Plc
Croydon UK
AZOTE® and ZOTEK®
block foam manufacturing
site

Zotefoams Inc AZOTE
Walton, KY, USA
AZOTE® block foam
expansion



AZOTE Asia Limited
Hong Kong
Sales Joint Venture

Kunshan ZOTEK KingLai
Co Ltd.
Kunshan, PRC
T-FIT® products
manufacturing site

Key	
Sales Office	
Manufacturing Site	

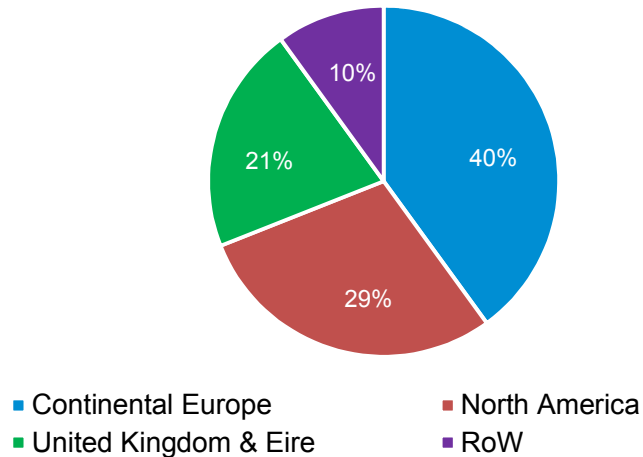
Zotefoams Operations Limited
Phuket, Thailand
T-FIT® Global Sales Office



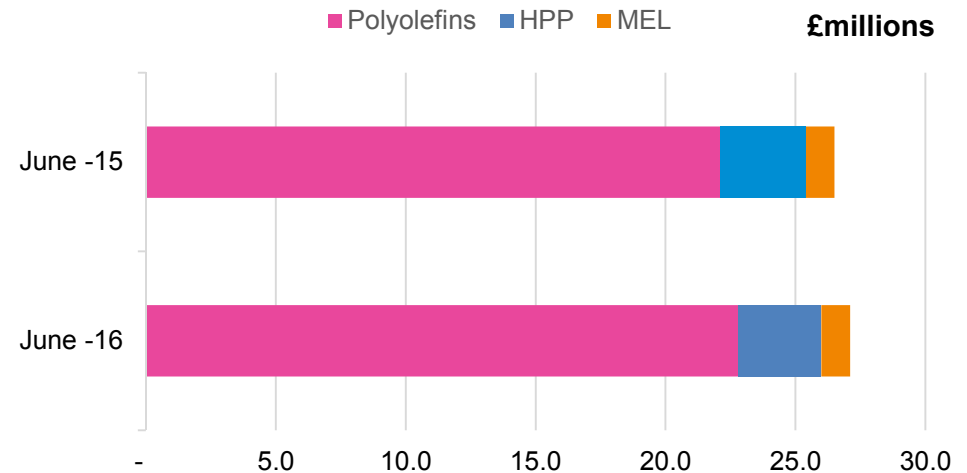
Group Overview



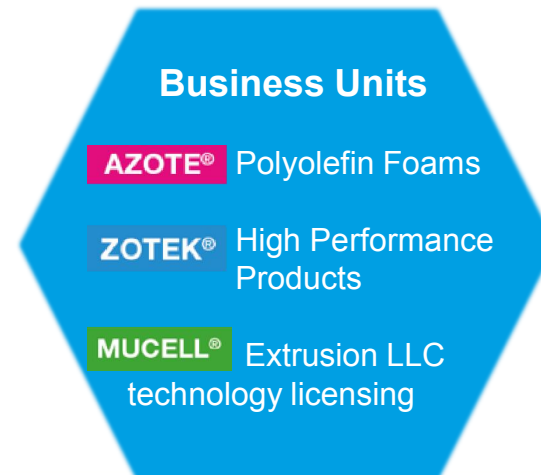
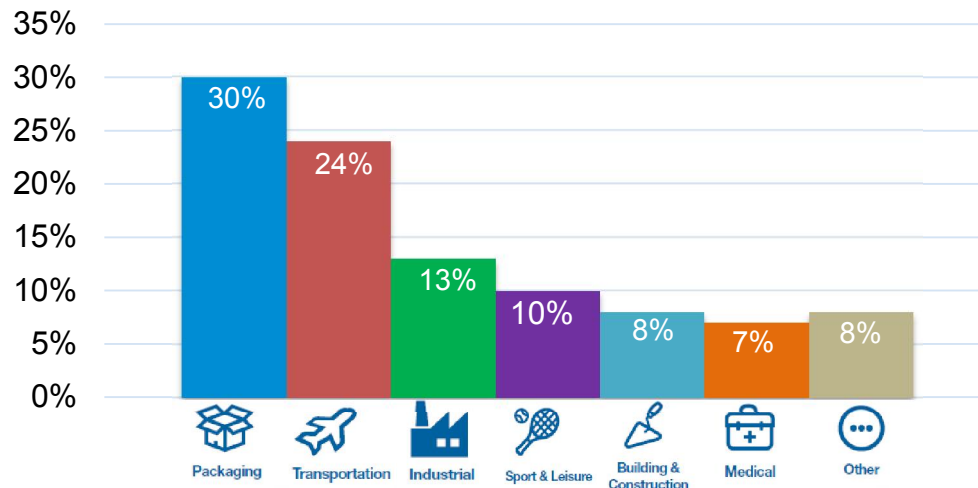
Revenue by Geography



Revenue By Business Unit



Revenue by Industry



Zotefoams' Strategy



Zotefoams' strategy is to expand through a combination of profitable organic growth of our **AZOTE®** and **HPP** foams businesses, new customers for our **MuCell®** extrusion-technology licensing business, and through partnerships or acquisitions in related technologies, products or markets.



Objective:

Improve our return on capital employed

Outcome:

An efficiency improvement programme at our Croydon, UK factory has increased effective capacity and will reduce operating costs in the future. Levels of capital employed will increase with the investment in our KY, USA site planned for commissioning in H1:2017

Objective:

Develop a HPP portfolio and MEL customer base to deliver enhanced margins

Outcome:

Sales strongly second-half weighted, gross margins held back by our investment for longer-term growth



Objective:

Improve our operating margin

Outcome:

Operating margin, excluding exceptional items, increased to 12.3% (2015: 12.0%)

Objective:

Sales growth in our polyolefin business to exceed twice the average rate of global GDP growth

Outcome:

Underlying growth, excluding customer destocking, estimated at 4%



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Income Statement



£ million	June-16	June-15	% Change
Group Revenue	27.07	26.49	2%
Gross Profit	8.14	7.94	2%
Distribution and admin expenses ¹	(5.31)	(4.33)	(23%)
FX translation gains/(losses)	0.51	(0.44)	
Operating Profit before exceptional item	3.33	3.17	5%
Net Interest/Joint Venture Loss	(0.31)	(0.16)	
PBT before exceptional item	3.03	3.01	0%
PBT after exceptional item	2.77	3.01	(8%)
Tax	(0.52)	(0.62)	15%
Profit after tax	2.24	2.40	(6%)
Earnings per share (p)	5.18	5.50	(6%)
Adjusted profit before tax ²	3.21	3.19	1%

- Gross margin of 30.1% in line with prior year (2015: 30.0%)
- Exceptional item relates to restructuring costs at the Croydon plant
- Effective tax rate of 19% (2015: 20.5%), both in line with statutory rates

Notes

¹ Excludes FX translation gains/losses and exceptional item ² Excludes amortisation costs of acquired intangible assets and exceptional item

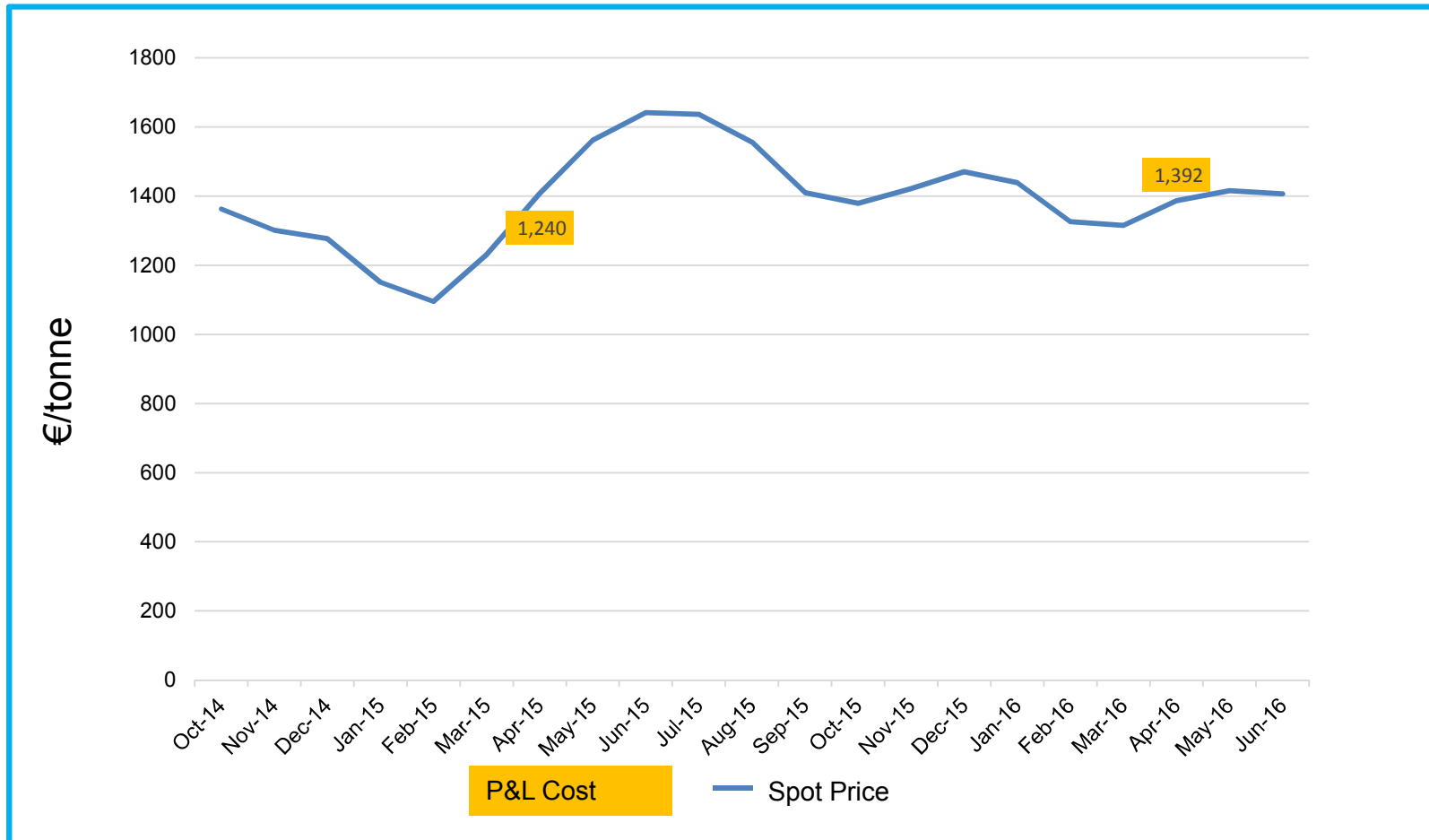
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T-FIT®

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Polymer (LDPE) Prices



- P&L impact up 15% Y-on-Y at the half year

Free Cash Flow



£ million	June-16	June-15
Operating profit (pre exceptional item)	3.33	3.17
Depreciation, impairment & amortisation	1.78	1.73
Working capital	0.34	0.28
Pension contributions	(0.33)	(0.33)
Other	(0.18)	0.14
Cash generated from operations	4.93	4.99
Tax & interest paid	(0.82)	(0.41)
Net capital expenditure	(8.00)	(3.37)
Free cash (out)/inflow	(3.89)	1.22

- Continued strong cash generation from operations
- High capital expenditure focused on capacity increase and new business opportunities

Cash Flow and Net Debt



£ million	June-16	June-15
Free cash (out)/inflow	(3.89)	1.22
Repayment of borrowings	(0.46)	(0.38)
Dividends	(1.66)	(1.62)
Other	0.29	(0.14)
Net cash used	(5.59)	(0.92)
Net cash at 1 st January	5.27	4.63
Net (debt)/cash at 30th June	(0.32)	3.71

£ million	June-16	June-15
Net (debt)/cash	(0.32)	3.71
Borrowings	(6.91)	(1.85)
Net (debt)/cash	(7.23)	1.86

- Net debt increase in line with expectations, US expansion planned to be completed H1 2017

Balance Sheet



£ million	June-16	June-15
Investments in joint venture	0.16	0.34
Intangible assets	7.22	6.79
Tangible assets	41.98	29.78
Net working capital	16.91	16.50
Retirement benefit obligations	(7.62)	(5.91)
Deferred tax, net	0.17	(0.40)
Tax payable	(0.44)	(0.49)
Net (debt)/cash	(7.23)	1.86
Total shareholders' equity	51.15	48.47

- Pension liability increased by £2.4m, following actuarial guidance to reflect current market conditions
- Return on capital employed, including Kentucky investment, 13.9% (2015: 14.9%)

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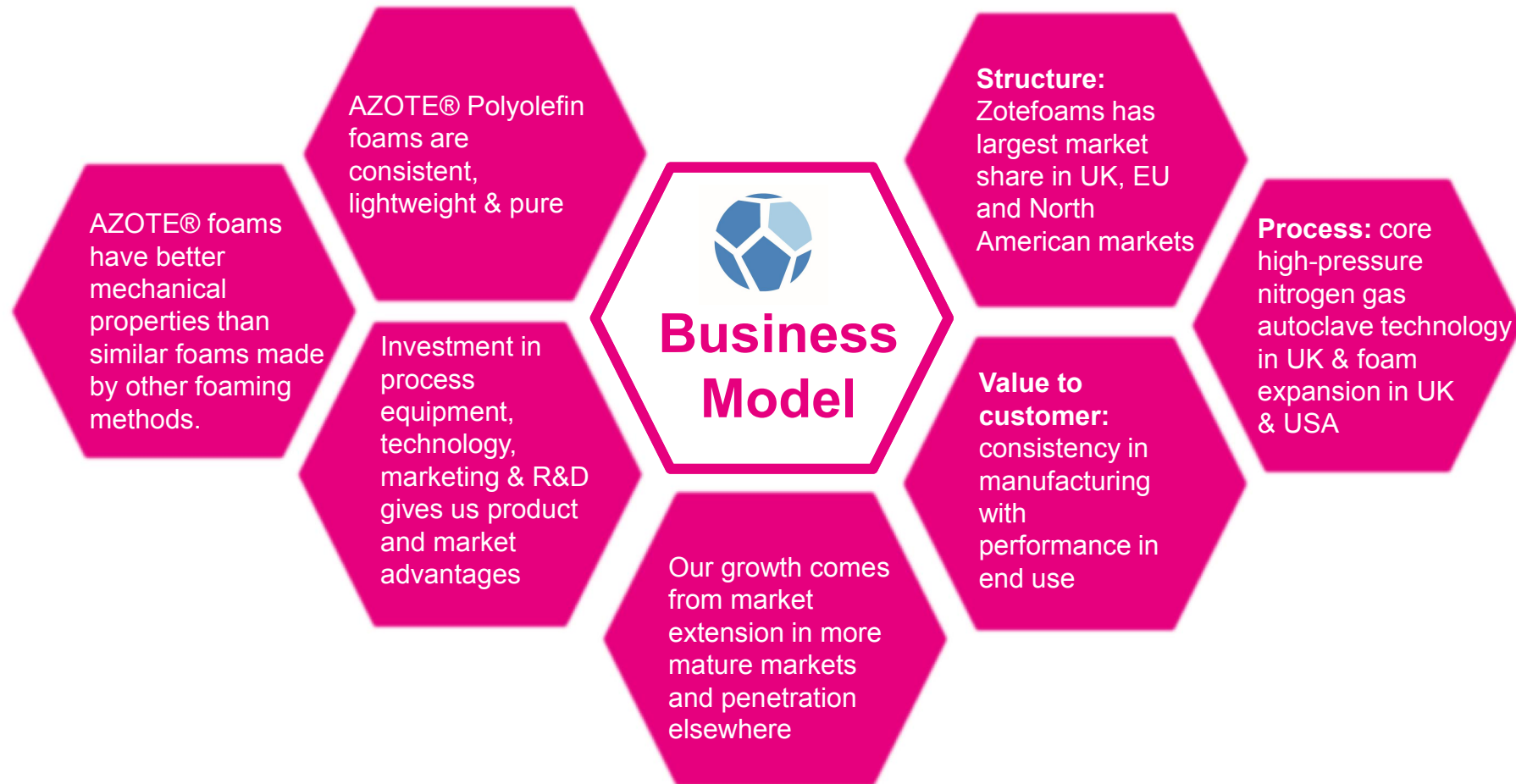


ZOTEFOAMS

AZOTE® Polyolefin Foams



High quality foams from a variety base polymers all manufactured using the same **nitrogen expansion process**



AZOTE® Polyolefin Foams



High quality foams from a variety of base polymers all manufactured using the same **nitrogen expansion process**



AZOTE® Polyolefin Foams: Results



Revenue

- Underlying volume estimated +4% offset by customer destocking
- Strong performance in UK +9%
- Continental EU volumes -5%
- Asia volumes -25%
- North America +9% volume with added benefit of Zotefoams Midwest
- Positive currency impact

Costs

- Euro-denominated LDPE +12%
- *Force majeure* impact estimated £0.4m
- Operational efficiency improving service levels and cost base

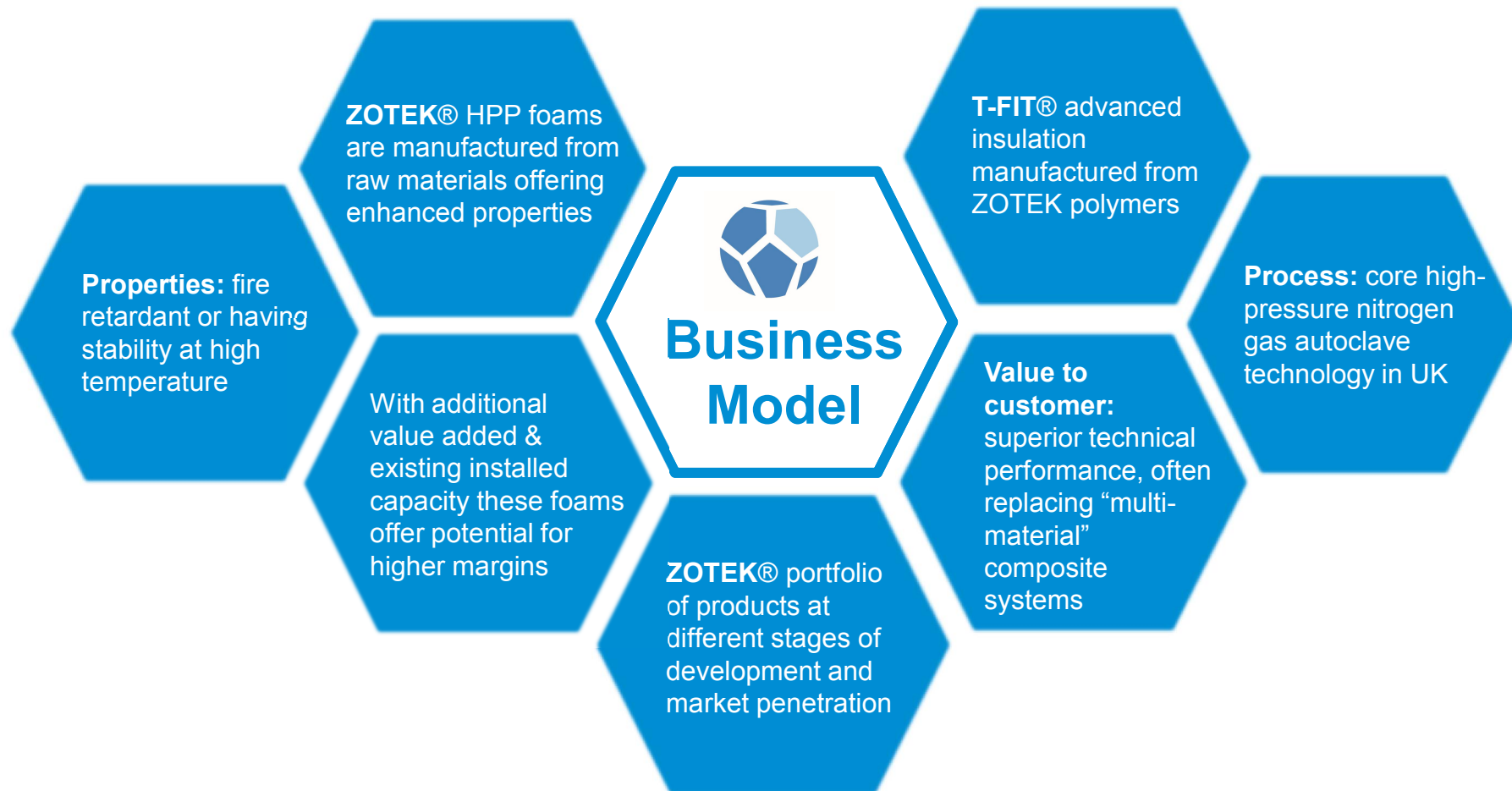
Polyolefin Foams	June-16 £m	June-15 £m	% Change
Group Revenue	22.79	22.09	3%
Segment profit pre amortisation	3.83	4.10	(7%)
Segment profit post amortisation	3.81	4.08	(7%)
Segment profit margin	17%	18%	

HPP

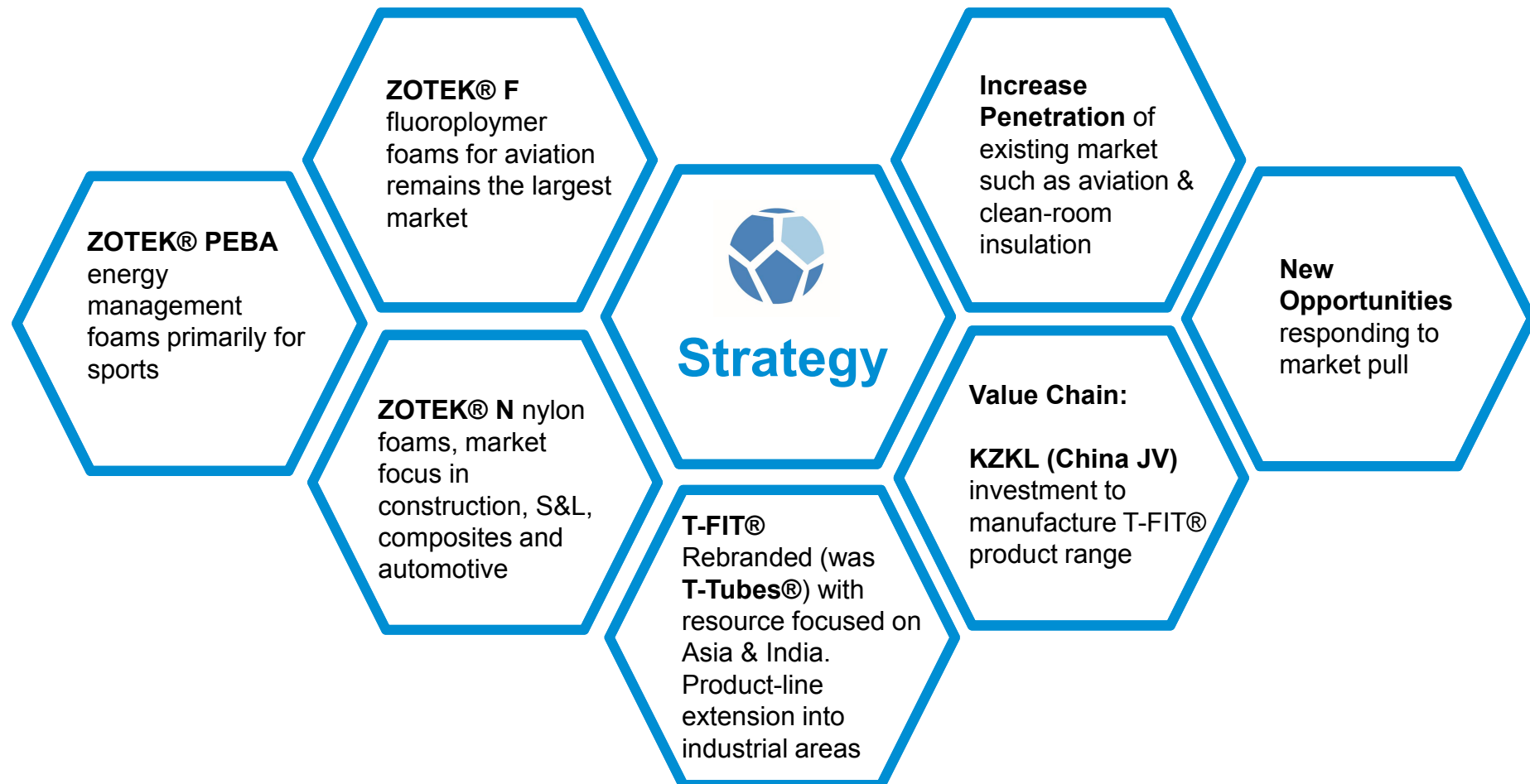


ZOTEFOAMS

High performance foams manufactured from advanced materials

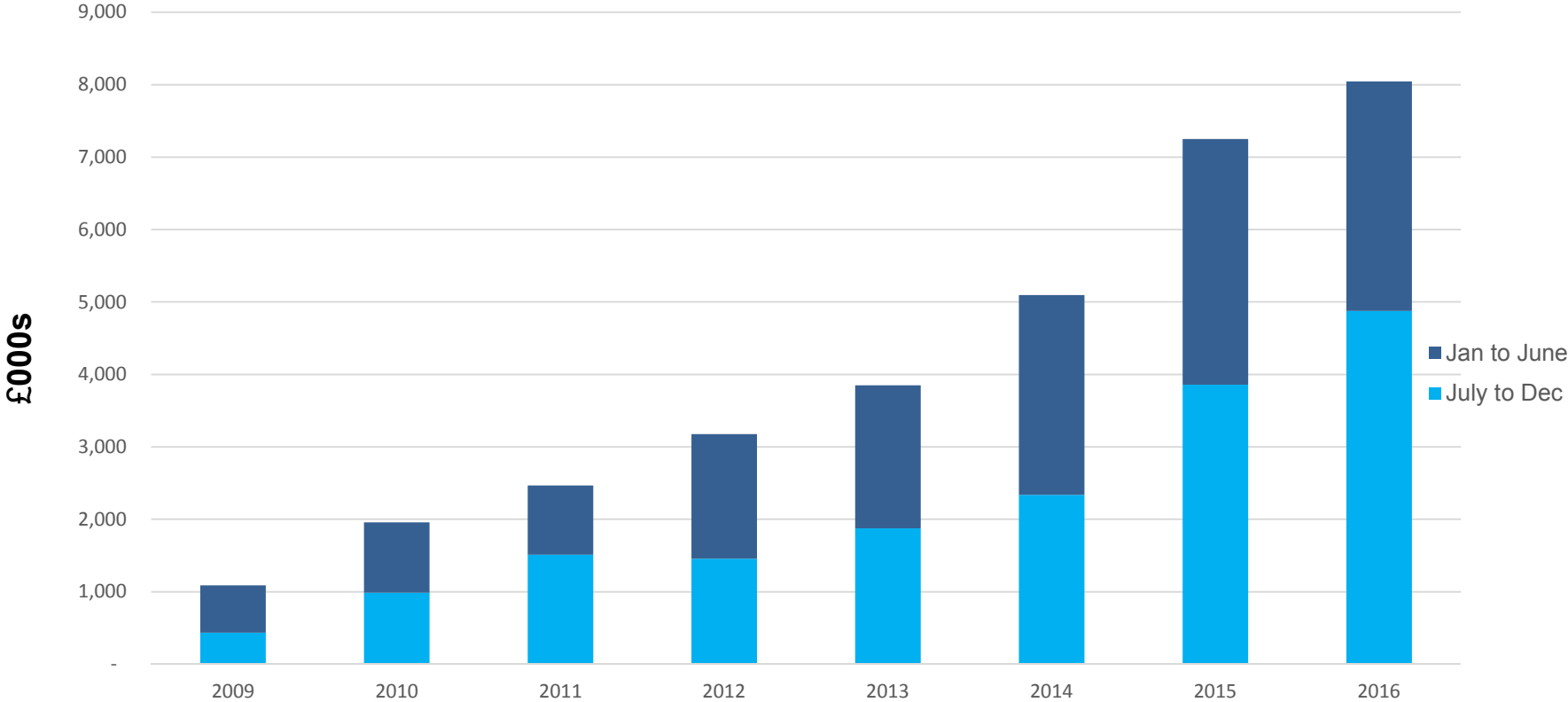


High performance foams manufactured from advanced materials



HPP Results: Sales History

12 months ended 30 June



HPP Results



Revenue

- H1:2016 sales impacted due to timing
- 12 months to 30 June 2016 2016 £8,046k (2015: £7,251k), 11% growth
- Strong second half with full year 2016 “orders + invoiced to date” for ZOTEK® technical foams ahead of 2015
- Very encouraging initial orders from sports & leisure

HPP	June-16 £m	June-15 £m	% Change
Group Revenue	3.17	3.39	(7%)
Segment profit pre-amortisation	0.30	0.67	(55%)
Segment profit post amortisation	0.30	0.67	(55%)
Segment profit margin	9%	20%	

Costs

- Fixed costs increased to support sales opportunity
- Cost increases in T-FIT® insulation due to delayed start-up in China and extension of product range

Margin

- HPP is a portfolio of products, some of which are below break-even revenue
- Cost growth ahead of anticipated revenue growth later in the year

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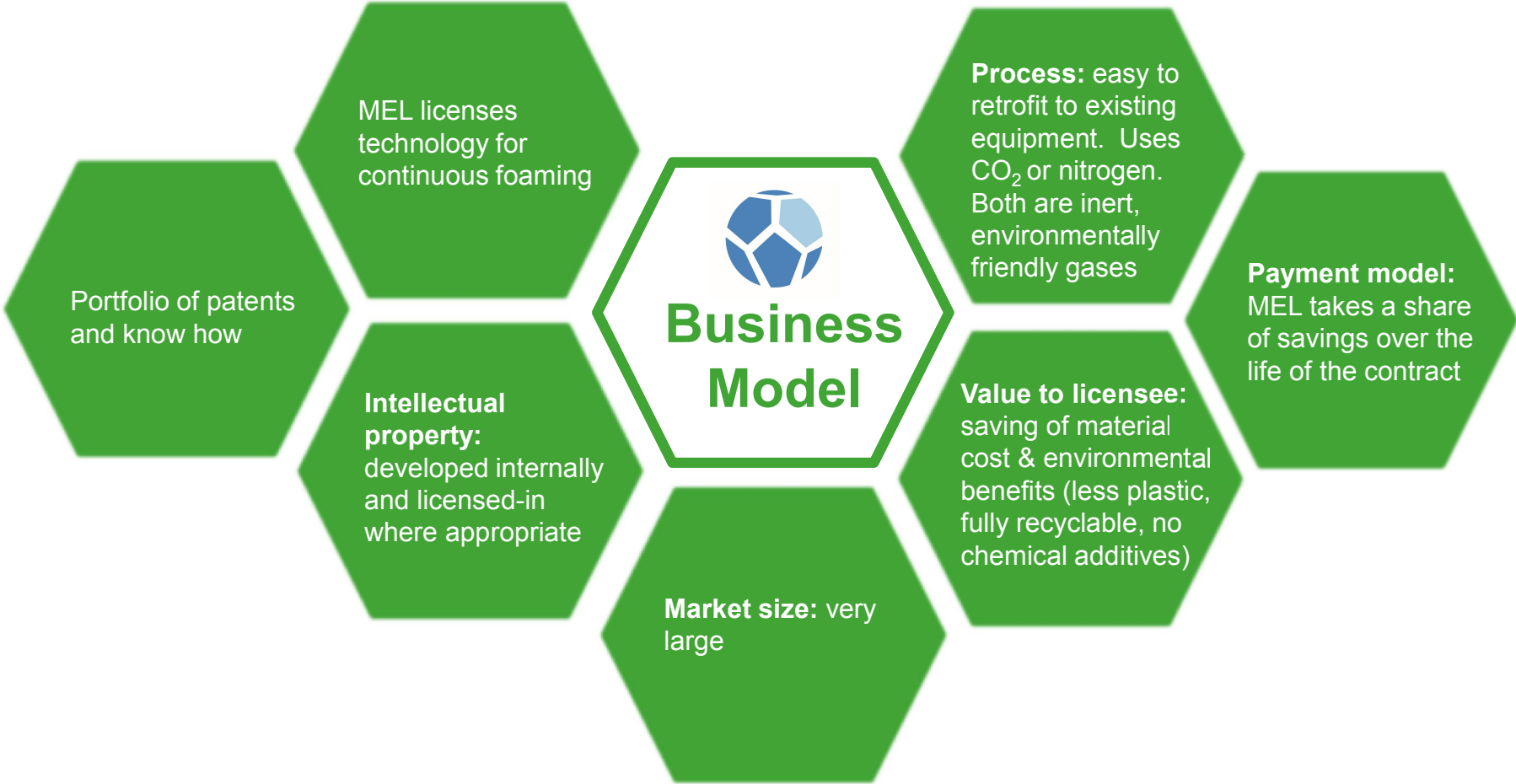
ZOTEFOAMS

MuCell Extrusion Business Model



ZOTEFOAMS

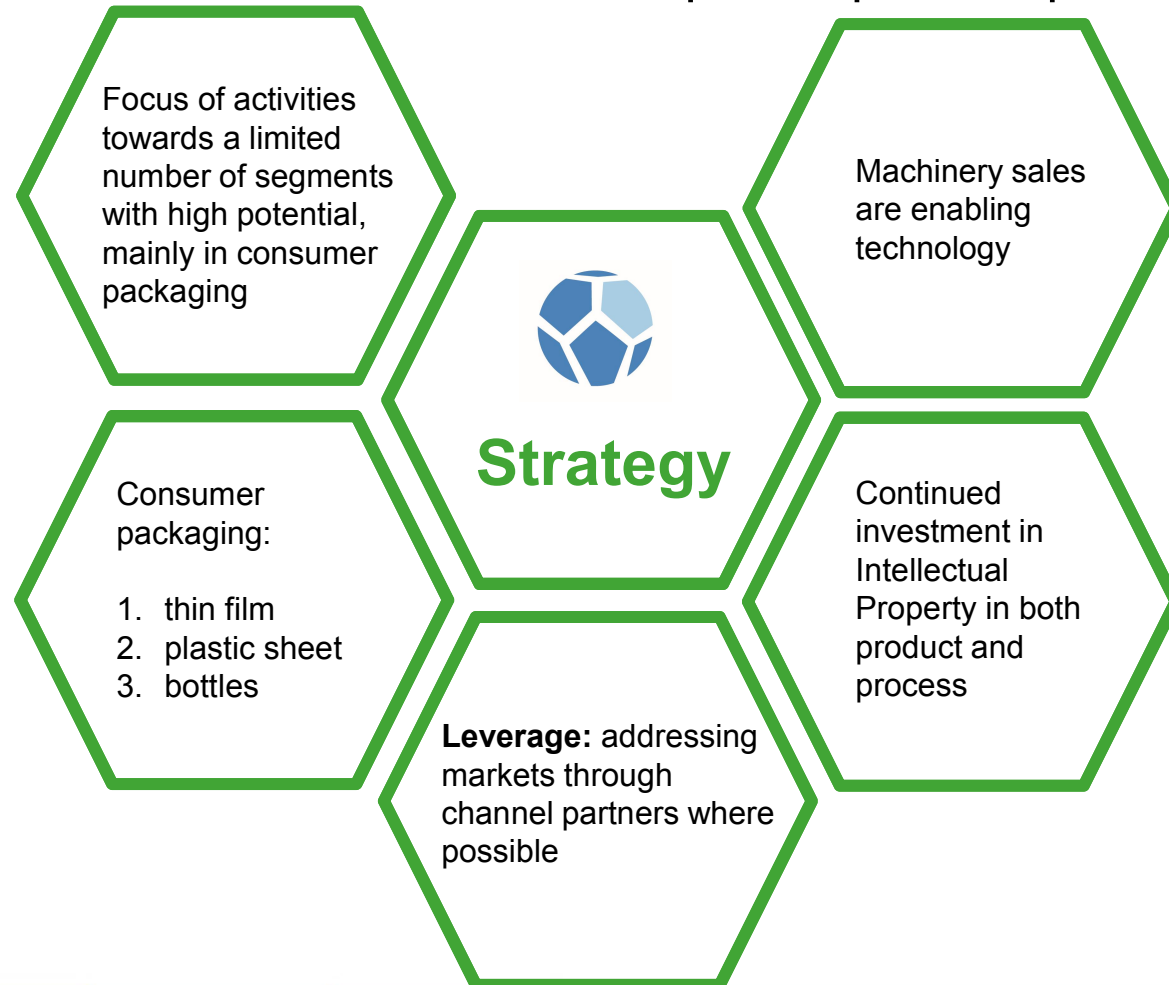
MUCELL® technology is a remarkable patented process that creates “micro-bubbles” in the core of plastic parts or products



MuCell Extrusion



MUCELL® technology is a remarkable patented process that creates “micro-bubbles” in the core of plastic parts or products



MuCell Extrusion: Results



Revenue

- Further 11 lines installed at licensees bringing total installed base to 99
- Co-operation with The Dow Chemical Company related to 2016 Rio Olympic Games
- Strong order book for H2:2016 buoyed by largest ever single order in excess of £1m for Japanese customer

Costs

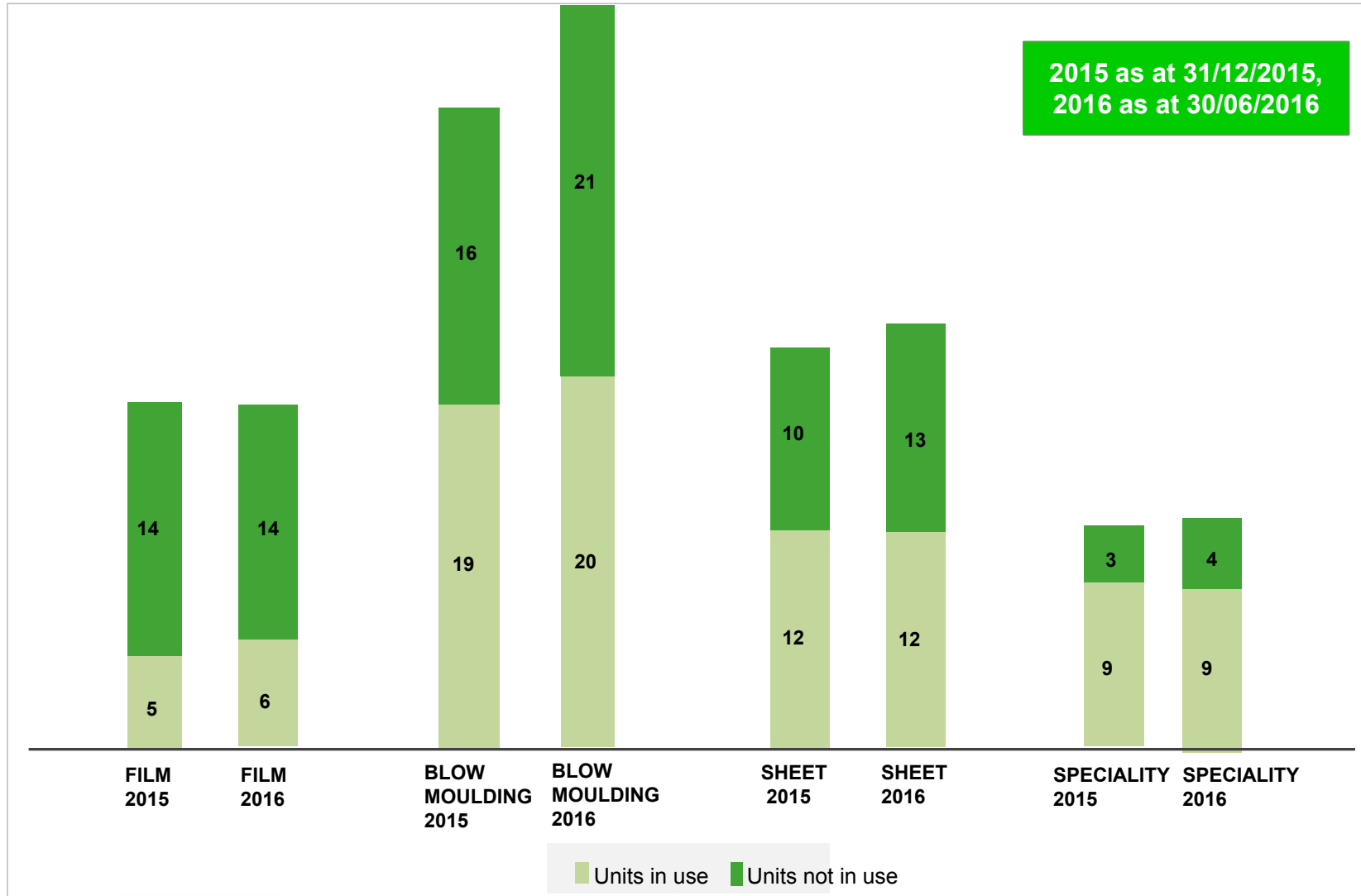
- Investment maintained to support growth
- Development of technology continues to be a priority

MEL	June-16 £m	June-15 £m	% Change
Group Revenue	1.11	1.01	10%
Segment loss pre amortisation	(0.24)	(0.22)	(9%)
Amortisation	(0.16)	(0.15)	(6%)
Segment loss post amortisation	(0.40)	(0.37)	(8%)

Growth Potential is a function of

- Number of lines
- Category
- Timing
- Utilisation factor

MuCell Extrusion: Equipment Base



Business Review : Other



ZOTEFOAMS

Group Investment



Autoclave technology used for both **AZOTE®** and **ZOTEK®** foams.
Investment in Kentucky & Croydon capacity based on demand expectations.



Kentucky, USA investment in capacity scheduled for commissioning H1:2017

New sites in Oklahoma, USA operational.
Kunshan, PRC expected to be operational from Q3:2016



Committed further specific investment in Croydon, UK, low-pressure autoclaves linked to expected growth in ZOTEK® foams

FLEXIBLE AND EFFICIENT TECHNOLOGY FOR HIGH-VOLUME 3D SHAPES

UNIQUE TECHNOLOGY ENHANCEMENT

- 3D foaming of the initial non-foamed shape allows efficient utilisation of raw materials and reduction (or elimination) of processing after the foaming step.
- Particularly suited to higher-cost polymers with complex 3D foam shapes where material yield loss is high value on conversion from cuboid sheet.
- Currently under development with pull-through from specific market opportunities.



GLOBAL CAPACITY EXPANSION ON EXISTING FREEHOLD SITE

FURTHER INVESTMENT & REAFFIRMATION OF PLANNED START-UP

Project scale extension by adding a second high-pressure autoclave

- Underpins investment in KY site
- Ability to deliver additional core gassing capacity at relatively short notice
- On-site in KY mid-year 2017 but no plans to commission at this stage

Increased Investment

- Capital Investment in this project now expected to be c\$30m
- Increased expenditure mainly due to second autoclave but with some impact due to delayed start-up

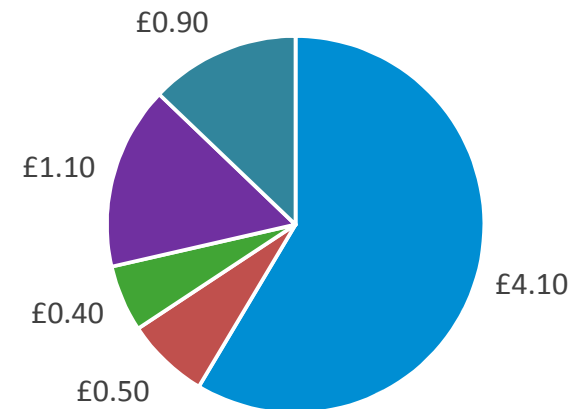
Capex Investment



An international business delivering significant growth through organic expansion and leverage of our unique technologies

INVESTMENT TO SUPPORT GROWTH

- Investment over 4 sites globally
- Kentucky, USA main focus
- Two business start ups
- UK balance of capacity increase and asset enhancement (capability, safety, replacement, environment)



- Kentucky, USA
- Zotefoams Midwest, USA
- Kunshan, PRC
- UK Capacity Expansion
- UK Asset Enhancement

All figures in GBP millions

Current Trading and Prospects



ZOTEFOAMS

In our **AZOTE®** Polyolefin foams business, where customers are predominantly based in the UK and continental Europe, the softening of orders experienced in June 2016 has continued into July 2016, whereas demand for August 2016 looks strong by comparison to previous years. The recent devaluation of Sterling against both the USD and Euro is positive for the business, as approximately 80% of our revenues are denominated in these currencies, however most raw materials are bought in Euros and our US operational costs are in USD, therefore giving a partial natural hedge. The trading impact of Sterling devaluation will benefit us a little for the remainder of this year, with a more significant positive impact during 2017 when our financial hedges at higher rates have expired. We expect the costs of LDPE for the remainder of the year to be at a similar level to the first six months. In our **HPP** business, orders plus invoiced sales for **ZOTEK®** technical foams currently exceed 2015 sales. In **T-Fit®** insulation products, where the order book is typically shorter, we anticipate growth in the second half of the year from a strong pipeline of bids. In **MEL** we have a record order book by value and a significant number of quotations out to potential customers, but the number of machines currently on order is below the record levels seen at this time last year.

We enter the second half of the year with a good order book, a strong product portfolio, growth expectations in all business units and the benefits of the weaker Sterling. Whilst recognising the significant uncertainty resulting from the macro-economic backdrop, the Board remains confident in the prospects for the business.

Appendices

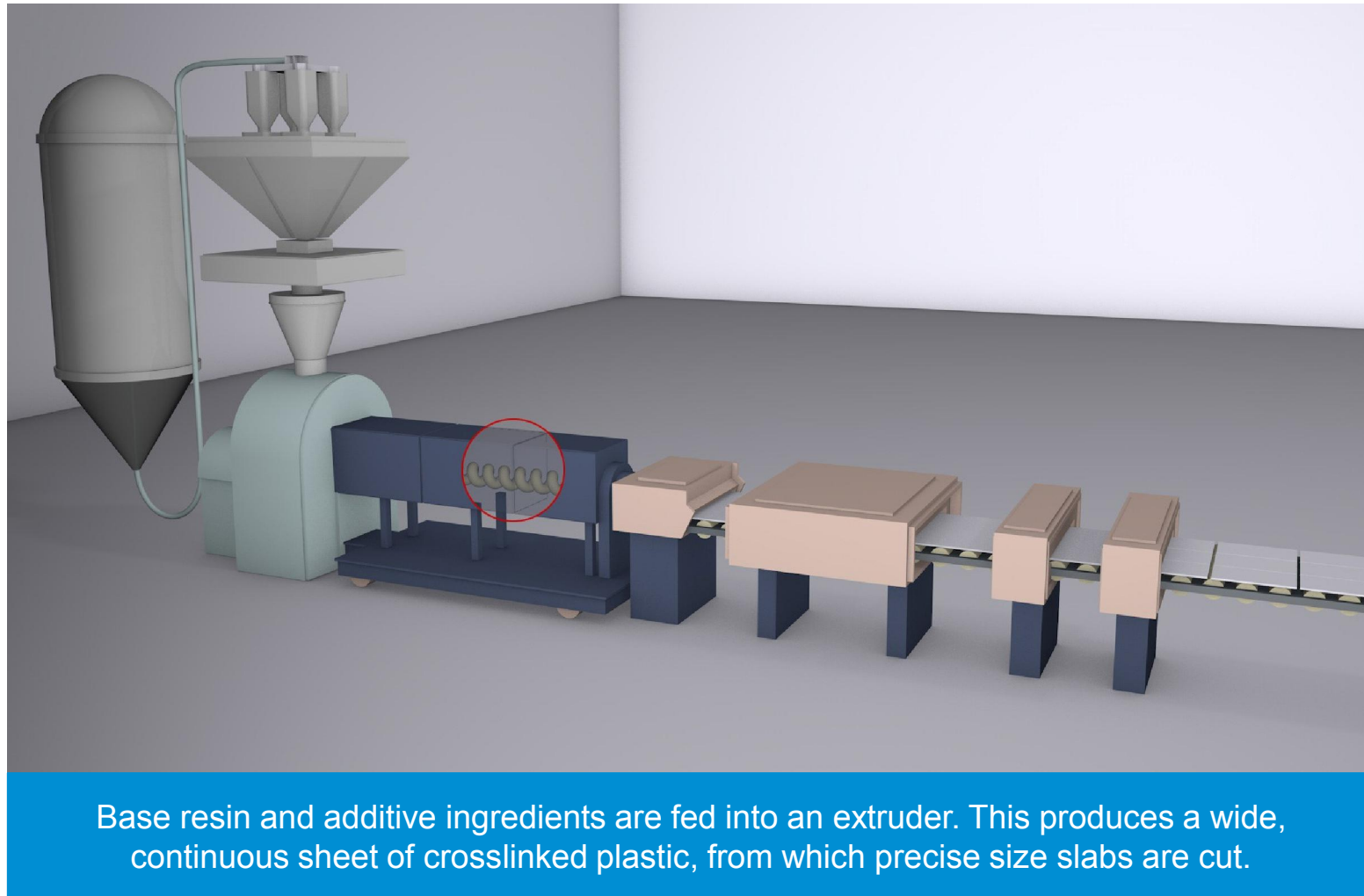


ZOTEFOAMS

Zotefoams Process



Stage 1: High quality extrusion and cross-linking of solid polymeric sheet

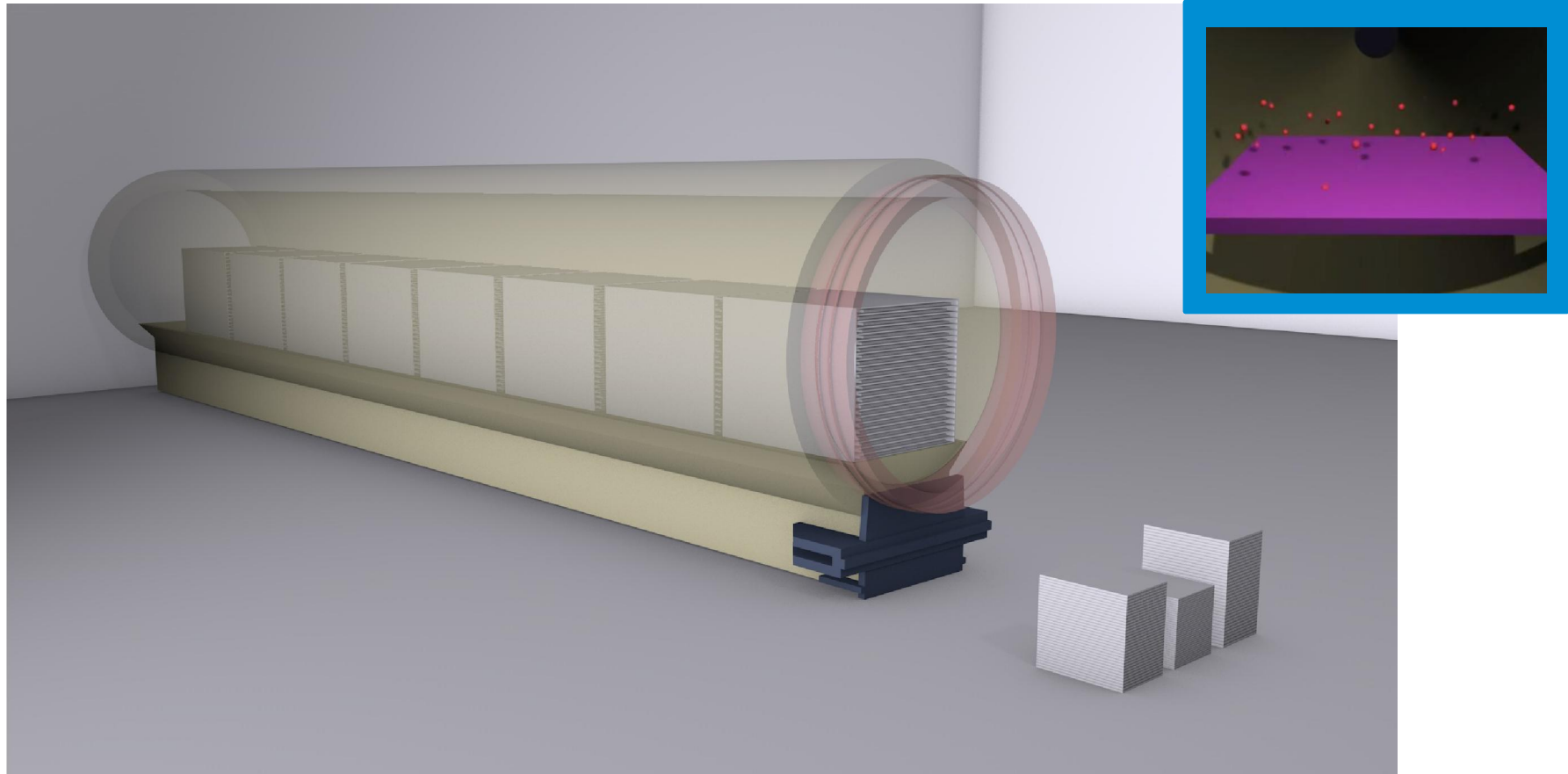


Base resin and additive ingredients are fed into an extruder. This produces a wide, continuous sheet of crosslinked plastic, from which precise size slabs are cut.

Zotefoams Process



Stage 2: Impregnation and saturation

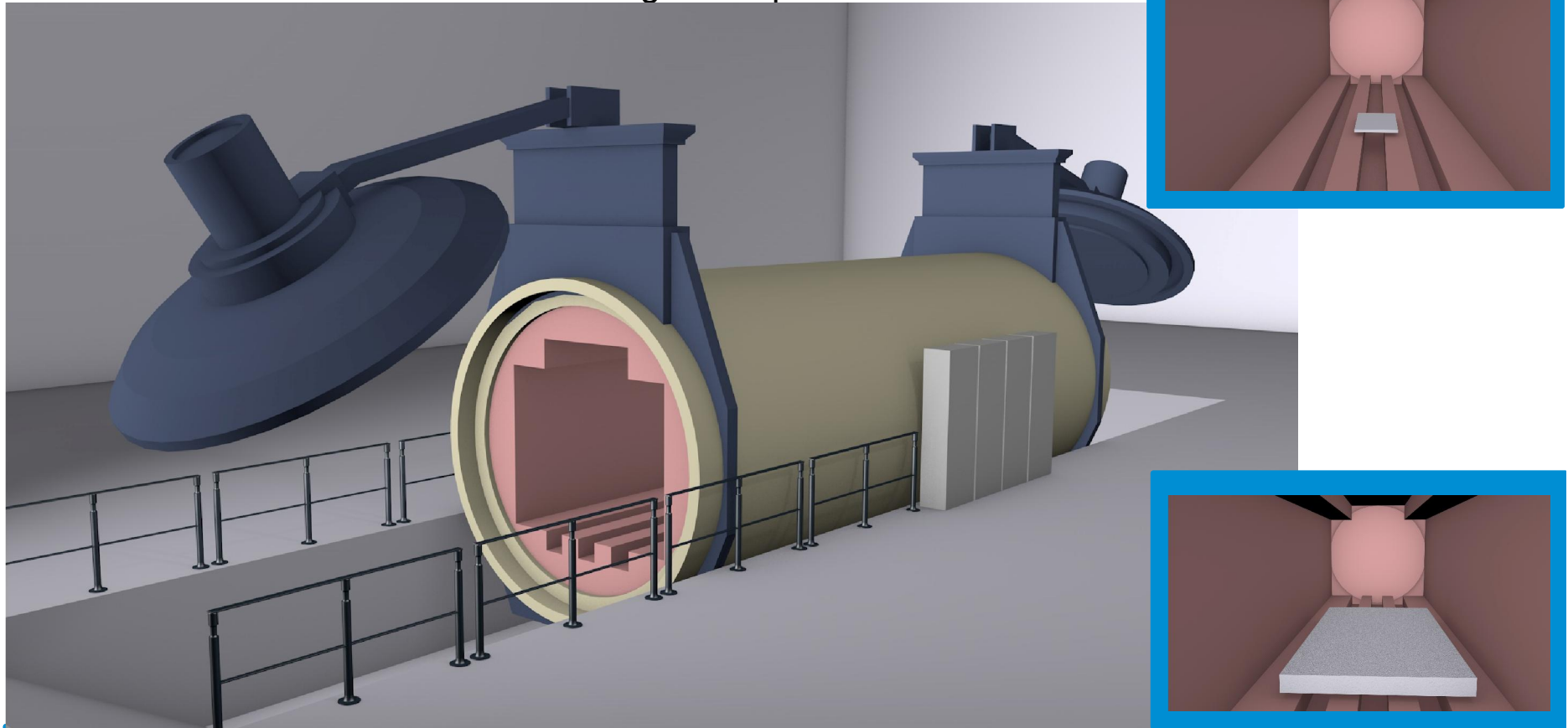


The extruded slabs are loaded into a high pressure autoclave. The plastic is heated above its softening temperature and subjected to a high pressure dose of pure nitrogen.

Zotefoams Process

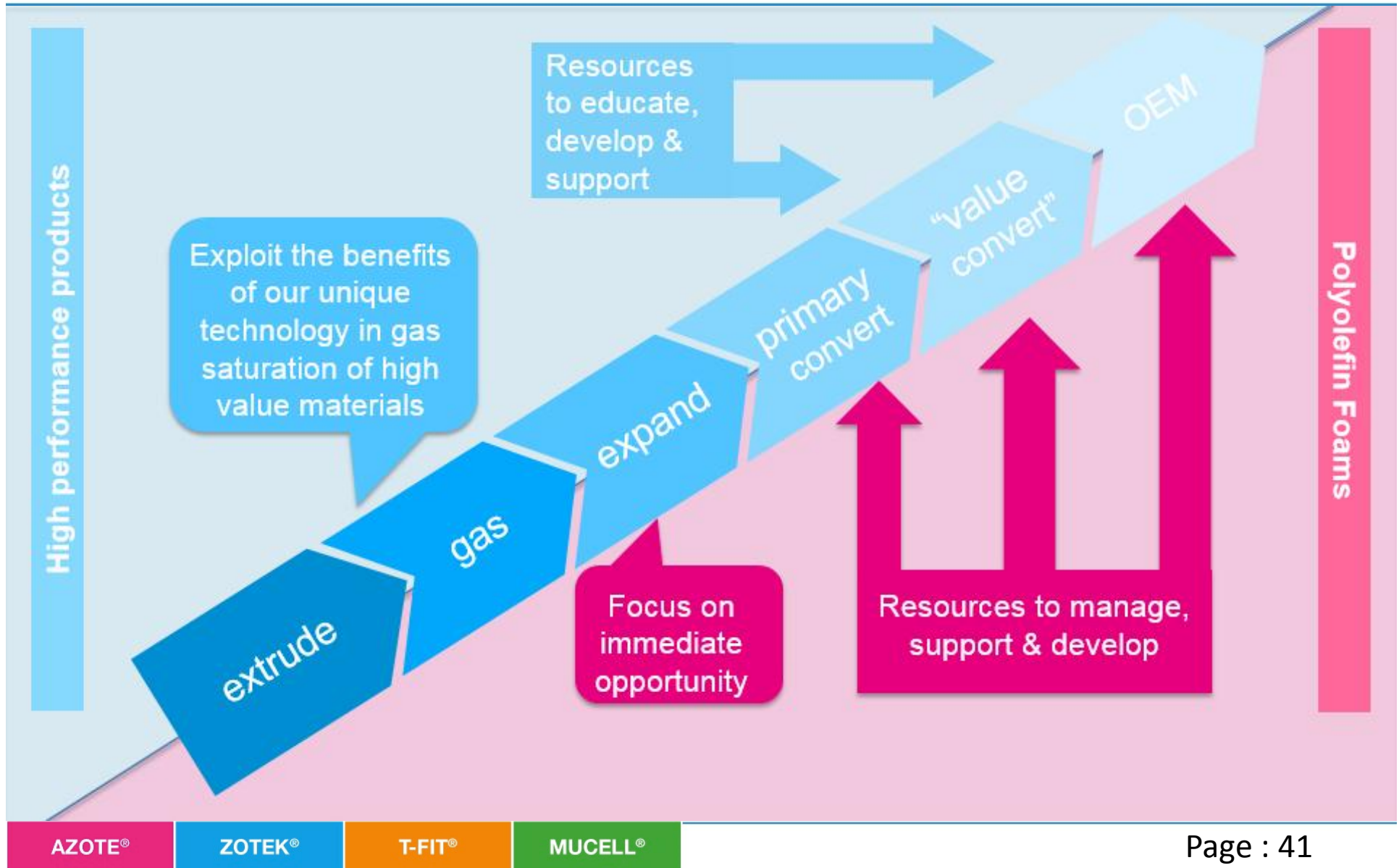


Stage 3: Expansion



The nitrogen charged slabs are loaded into a low pressure autoclave. The material is again heated above its softening temperature under a moderate air pressure; then the pressure is removed. Without the pressure, the nitrogen expands, physically foaming the soft plastic in a uniform fashion.

Value Chain / Strategy



Financial History



£million	Actual 2015	Actual 2014	Actual 2013	Actual 2012	Actual 2011	Actual 2010	Actual 2009	Actual 2008	Actual 2007	Actual 2006
Group Revenue	53.9	48.9	44.6	47.2	44.2	39.9	31.8	34.8	31.6	30.1
Revenue Growth	10%	10%	(6%)	7%	11%	25%	(9%)	10%	5%	7%
PBT (excl exceptionals)	6.0	5.3	3.9	5.8	5.5	4.7	3.2	3.9	3.4	2.7
Exceptionals	-	(1.3)	-	-	-	0.6	(0.5)	-	-	(1.1)
PBT (incl exceptionals)	6.0	4.0	3.9	5.8	5.5	5.3	2.7	3.9	3.4	1.6
Cash generated from operations	8.4	6.0	6.6	6.3	6.1	7.2	7.0	5.8	4.8	4.7
Capex (incl intangibles)	9.1	7.6	4.2	3.7	3.1	2.7	3.4	1.4	2.7	2.6
Net (funds)/debt	1.6	(2.4)	1.1	0.6	(1.9)	(1.9)	0.4	1.2	1.7	1.4
Gearing	3%	-	3%	3%	-	-	2%	4%	6%	6%
Basic eps (excl exceptionals)	11.1p	10.7p	8.0p	11.8p	11.8p	10.2p	6.8p	8.3p	8.0p	5.4p
Dividends (incl proposed)	5.60p	5.45p	5.30p	5.20p	4.90p	4.65p	4.50p	4.50p	4.50p	4.50p

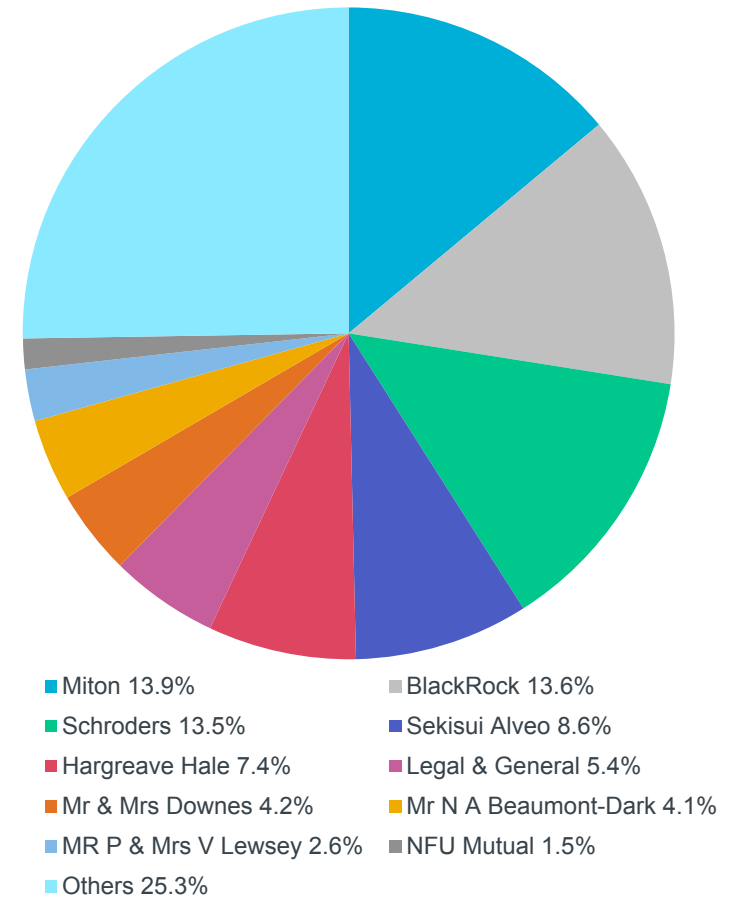
Market Information



Share price 265.0p (29/07/16)
 Market Main Market
 Ticker ZTF.L
 Market cap. £117.7m
 Ord. shares in issue 44,414,440



Shareholder Profile*



* Source: Investec Investor Relations (30/06/16)