



packaging2.co.uk
The UK's Largest Packaging Distributor

2006 Results

March 2007

Introduction

- **Executive Summary**
- **2006 Results**
- **Cash Flow**
- **Business Review**
 - **Packaging Distribution**
 - **Manufacture**
- **Pension Scheme Deficit**
- **2007 Priorities**



Executive Summary

- Profit before tax £1.5m
- Profit for the year after tax of £2.1m
- Group sales growth 2%, Distribution \uparrow 9% (2% Bloomfield) Manufacturing \downarrow 7%
- Margin pressure in Distribution and US & lower sales in Labels - main issues
- Net debt £5.7m versus £6.4m 2005
- Dividend £1.1m & pension deficit £1.3m
- Continuing cash generation
- Dividend intentions unchanged 2p per share



2006 Results



£m	2006	2005.	Comments
Distribution	80.9	73.9	£1.4m acqn
Manufacture	49.2	53.3	£2m Labels/US
Sales	130.1	127.2	
Distribution	24.2	22.9	29.9% vs 31.0%
Manufacture	17.4	19.1	35.4% vs 35.8%
Margin	41.6	42.0	
Distribution	0.6	0.4	
Manufacture	1.6	2.3	
Operating profit	2.2	2.7	
Interest	(0.7)	(1.1)	Debt/pensions
PBT continuing	1.5	1.6	
Gain on property	0.0	1.3	Govan sale
Discontinued	0.9	0.8	Hungary impact
Pre-tax profit	2.4	3.7	

Cash flow

• Opening debt	(£6.4m)
Net from trading	£1.4m
Asset disposal	£1.5m
Capex	(£0.6m)
Business disposal	£2.1m
Acquisition	(£1.3m)
Dividends	(£1.1m)
Pension deficit	<u>(£1.3m)</u>
• Closing debt	(£5.7m)



Packaging Distribution

2006 – Distribution

- Distribution sales growth 7½% versus 2005
- Bloomfield acquired - good contribution in final quarter
- Margins down by 1.1% vs. 2005 caused through delay in fully recovering supplier cost increases in Q2/Q3
- Continued investment in e-commerce capability, new business team and strengthening RDC management team
- 11/16 RDCs trading profitably in 2006



Packaging Distribution

Actions – Distribution

- Daily reporting on sales and margin, concentrating on price pass through
- New business team leading approach to larger accounts
- Local RDC management strengthened
- E-commerce investment in Packaging2U
- Further acquisitions targeted

2007 start – Distribution

- Sales in 2007, growth 7½% ahead vs 2006
- Margin recovery - back above 30.5%
- New Business Team wins



Manufacture

2006 – Manufacture

- Sales down 7% versus 2005
- Labels ↓ 13% as business moves to brand product base from own label business
- US/Mexico ↓ by 12% economy/exchange and additional costs in the US to fully service customers
- Margins down by 0.4% vs. 2006 caused through pressure on Labels customers and delayed pass through in US
- Strong performance in UK Packaging and Plastics
- However cost base reduced by £1.1m to partly compensate for lower sales



Actions – Manufacture

- Labels have strengthened sales team and are securing additional business
- US have recovered margins partly by pass through partly reduced direct labour
- Deliver benefits from Tijuana location
- Continue improvements in Packaging Manufacture and Plastics

2007 start – Manufacture

- 2007 sales will demonstrate growth in H2
- Margin recovery - back above 33%
- Sales team have wins in pipeline



Pension Scheme deficit

- Pension deficit is £16m at 31-Dec-06
- Actuarial deficit has reduced to £7m
- Scheme closed to new members 2002
- Contribution rates increased in 2004
- Following actuarial valuation in May 2005 additional contributions for 3 years
- However tax charge of £0.3m in relation to first contributions
- 31-Dec-06 position reflected higher bond yields which brought deficit < £16m
- Additional options to reduce the deficit currently being implemented
 - Capping pensionable salary increases
 - Enhancing transfer values out



2007 Priorities

- Distribution to grow sales organically and through acquisition
- Benefit from investment in new business team and RDC management
- Labels to deliver new sales in branded products sector and Reseal-It sales
- US/Mexico to restore profitability through margin and cost focus and deliver the benefits from Tijuana
- UK Packaging to continue operational efficiencies, grow sales, link with Distribution
- Plastics to maintain its good momentum
- Strategy to give keener focus to Group
- Dividend proposals for 2007 2p per share

