MACFARLANE GROUP

2009 Interim Results

August 2009

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Contents

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Executive Summary

	2009	2008
• Operating profit before exceptional costs	**£1.1m**	£1.4m
• Profit before exceptional costs	**£0.5m**	£1.0m
• Packaging Distribution operating profit	**£1.2m**	£0.6m
• Manufacturing Operations operating loss	**(£0.2m)**	£0.9m

- Exceptional costs of £0.4m to align cost base with demand
- Net debt £9.6m an increase of £2.4m versus 2008 yr. end
- Increase in pension fund deficit
- Dividend re-phasing - 0.5p per share will be paid in Oct-09
- Full year outlook in line with expectations

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RESULTS	**H1 2009**	**H1 2008**	***H2 2008***
Sales £m	**59.1**	64.4	*67.0*
Sales (reduction)/growth	**(8%)**	12%	*7%*
Distribution	**(7%)**	15%	*9%*
Manufacturing	**(11%)**	3%	*2%*
GP %	**32.2%**	31.6%	*32.5%*
Operating profit %	**1.8%**	2.2%	*4.9%*
Pre-tax profit £m	**0.5**	1.0	*2.7*
Tax charge (credit)	**0.1**	0.3	*0.5*
Discontinued operations	**0.2**	(0.6)	*(0.5)*
Net debt £m	**9.6**	8.7	*7.2*

CASH FLOW	H1 2009	H1 2008	*H2 2008*
Operating profit	0.8	1.6	*3.4*
Depreciation	0.7	1.0	*0.7*
Working capital (net)	(2.4)	(3.7)	*3.8*
Interest and Tax	(0.5)	(0.9)	*(0.4)*
Pensions scheme payment	(0.7)	(0.7)	*(0.7)*
Disposal of subsidiary	1.6	0.0	*(0.6)*
Acquisitions	(0.5)	(3.6)	*(3.8)*
Net capital expenditure	(0.3)	1.8	*0.2*
Dividends	(1.1)	(1.1)	*(1.1)*
Movement in debt	(2.4)	(5.6)	*1.5*
Opening debt	(7.2)	(3.1)	*(8.7)*
Closing debt	(9.6)	(8.7)	*(7.2)*

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Dividend

- Payments re-established in 2004
- Recognised confidence/need to reward shareholders
- Dividend funding is based on trading performance, cash flow and distributable reserves
- Strategy is to align pattern of dividend payments with the pattern of results
- H1 trading reflects the economic slowdown
- Pension deficit impacts distributable reserves
- Interim dividend reduced to 0.5p per share, fuller final dividend planned

H1 2009 – Distribution

- Distribution sales 8% below H1 2008
- New business 41% ahead of H1 2008
- Gross margin increased to 31.3% vs. 29.5% H1 2008
- Overhead costs 7% reduction versus H1 2008
- Integration benefits from Online acquisition
- Underlying returns in Distribution continue to improve 2.3% (2008 1.1%)

H1 2009 – Manufacturing Operations - Labels

- Sales 4% below H1 2008
- Strong own brand sales at expense of brands
- Slow down in Re-Seal It as customer preferences change from premium products
- Raw material price increases have reduced gross margin
- Negative impact of exchange rates
- H1 2009 profit slightly below H1 2008

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H1 2009 Manufacturing Operations – Packaging

- Sales 21% down versus H1 2008
- Key weaknesses in automotive and electronics sectors
- Customer wins in aerospace sector – Meggitt
- Re-structure of cost base - incurred £0.3m exceptional cost in H1 2009
- Packaging Manufacturing made a loss in H1 2009 but is currently trading profitably in H2

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Pension Deficit

- Gross deficit £20.7m vs. £17.5m at 31-Dec-08
- Increase in deficit caused by:-

  - 2009 equity performance < expectation - £0.7m

  - Decrease in discount rate from 6.25% to 6.20% combined with inflation assumptions - £2.5m
- New contribution level currently being agreed
- Closed to new members since 2002
- Future accrual of benefit limited
- Now looking at additional measures

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Market Outlook

- Overall UK demand conditions remain weak - mixed outlook by sector
- Evidence of some fall-out of smaller competitors and suppliers
- Suppliers looking for certainty with customer base
- Customers looking for certainty with supplier base
- New business opportunities remain strong
- Impact of Euro on certain raw materials
- Focus on all working capital elements high priority

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2009 H2 Priorities – Distribution

- Strengthen new business momentum
- Maintain strong focus on gross margins
- Continue Best Practice Programme to drive RDC improvement
- Ongoing examination of all areas of cost structure
- Deliver integration benefits of acquisitions
    - Online now fully integrated
    - Allpoint at end of 2009
- Further improve cash management

2009 H2 Priorities - Manufacturing

Labels

- Manage impact of higher raw material prices
- Build Re-Seal It opportunity in US
- Improve operational efficiencies

Packaging Manufacturing

- Complete the restructuring of the business
- Continue to flex costs in line with demand
- Focus on new business both directly and through partnership with Distribution

Conclusions

- UK market conditions remain difficult and this is reflected in H1 2009 performance
- Distribution results demonstrating robust nature of business model
- Re-structuring in Packaging Manufacturing reflected in return to profitability in H2 2009
- Full year outlook remains in line with the Board’s expectation
- Well positioned to be a beneficiary as UK demand conditions begin to improve

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