2011 Interim Results

Contents

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Executive Summary

	2011	2010
• Profit before exceptional items	**£0.9m**	£0.7m

- Continuing challenge for all businesses from the inflationary pricing environment
- Sales growth of 7% across the range of Group activities
- Net debt £10.4m up £3.4m vs. Dec-10 due to working capital increase – strong cash generation expected H2
- Dividend maintained 0.5p per share will be paid in Oct-11
- Despite economic uncertainty, full year outlook continues in line with Board's expectations

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RESULTS £m	H1 2011	H1 2010	*H2 2010*
Sales	**68.5**	64.1	*71.4*
Sales growth Distribution	**7%**	9%	*10%*
Manufacturing	**7%**	7%	*7%*
GP %	**30.1%**	31.2%	*30.7%*
Operating profit %	**1.9%**	2.0%	*2.9%*
Pre-exceptional profit	**0.9**	0.7	*2.7*
Exceptional items	**0.0**	1.2	*(0.4)*
Pre-tax profit £ m	**0.9**	1.9	*2.3*
Tax charge	**0.2**	0.5	*0.7*
Post tax profit	**0.7**	1.4	*1.6*

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CASH FLOW £m	H1 2011	H1 2010	*H2 2010*
Operating profit	**1.3**	1.3	*3.3*
Depreciation	**0.6**	0.7	*0.6*
Exceptional items	**0.0**	1.1	*(0.3)*
Working capital	**(2.5)**	(2.7)	*1.6*
Interest and Tax	**(0.2)**	(0.2)	*(0.3)*
Pension scheme payments	**(1.0)**	(1.3)	*(1.3)*
Net capital expenditure	**(0.5)**	(0.2)	*(0.2)*
Dividends	**(1.2)**	(1.1)	*(0.6)*
Movement in debt	**(3.5)**	(2.4)	*2.8*
Opening debt	**(6.9)**	(7.3)	*(9.7)*
Closing debt	**(10.4)**	(9.7)	*(6.9)*

H1 2011 – Distribution

- Distribution sales 7% >H1 2010 price 5% volume 2%
- Gross margin reduced to 29.2% vs. 29.9% in H1 2010
- Margin similar in H2-10 & H1-11 continued lag effect
- New business is 5% ahead of H1 2010, Unipart, GSi Commerce, Garmin and Honda Logistics
- Overhead costs show a 4% increase vs. H1 2010, reflects investment in people for new initiatives
- 3 older sites in Hayes absorbed into 1 lower-cost site
- Progress on new initiatives encouraging:
  - Presentational Packaging – 150 live prospects – new customers include Lush, Thermofisher, Delphi & Lakeland
  - 3PL Sales – 12%+ growth in 2011

H1 2011 – Manufacturing Operations

- Labels sales revenue up 6% vs. 2010 – 2% volume
- Recent raw material cost increases not fully recovered
- Own-brand producers see pressure from major retailers, impacting self-adhesive label sales
- Good growth in ReSeal-it – US customer demand and entry into the UK market
- Labels profitable but reduced profitability vs. H1 2010
- Packaging Manufacturing sales 8% > H1 2010 – similar price/volume split as Packaging Distribution
- Manufacturing customers' export-driven growth strong
- Distribution partnership is 24% total sales (2010 –27%)
- Grantham/Westbury both profitable – further improvements targeted in H2 2011

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Pension Deficit

- Investment values at Jun-11 £45.7m vs. £45.3m in Dec-10
- Liabilities at Jun-11 £61.2m vs. £61.0m in Dec-10
- Deficit at Jun-11 of £15.6m vs. £15.7m in Dec-10, broadly similar given unchanged assumptions
- Deficit reduction contributions continue at £2.0m p.a. until conclusion of May-11 valuation early in 2012
- Investment review in H1 concluded on more use of Absolute Return Funds rather than tracker funds
- Investment values will have fallen since Jun-11, increasing deficit, therefore continued management focus
- Continuing to enhance transfer values and introducing pension increase exchange in 2011

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2011 Strategic Agenda – Distribution

- Focus on customer retention/product penetration
- Gross margin recovery and protection continue to be key
- Build on new business momentum
- Focus on growth sectors e.g. 3PL and internet retail
- Accelerate development of presentational packaging
- Optimise benefit of www.macfarlanepackaging.com
- Additional property savings being delivered
- Further improve cash management, esp. inventories

2011 Strategic Agenda - Manufacturing

- Rebuild Labels margin through more beneficial customer mix
- Improve supplier price recovery performance
- Continue to improve operational efficiencies
- Further develop ReSeal-It in US/other geographies
- Optimise benefit of recent ReSeal-It entry to UK market

- Building sales momentum in sectors where exports are key
- Improve operating margins at both sites
- Strengthen relationship with Distribution

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Market Outlook and Conclusions

- Cautious on overall demand - mixed outlook by sector
- Trading agenda to drive profits
  - Protect margins and continue strategic initiatives
  - Build ReSeal-It and recover self-adhesive margins
- Busy balance sheet agenda to reduce debt
  - Focus on reduction in inventories
  - Regular review of customer and supplier terms
- Bank facilities of £12.0m renewed until February 2012
- A strong platform for progress in 2011 and beyond, based on the implementation of strategic actions