MACFARLANE GROUP

2011 Results

March 2012

Contents

Executive Summary

- UK demand weak, supplier price inflation across the Group and margin pressure on self-adhesive label sector
- 2011 Sales growth of 7% and PBT growth of 15% vs. 2010
- Resilient performance in Packaging Distribution
- Manufacturing Operations profitability maintained
- Net debt increased by £0.6m to £7.6m
- Substantial increase in pension fund deficit
- Final dividend maintained at 1.05p per share

RESULTS	**2011**	2010	2009
Sales	**144.6**	135.5	123.6
Sales Trend	**7%**	10%	(6%)
Distribution	**7%**	10%	(5%)
Manufacturing	**5%**	7%	(11%)
Gross Profit %	**30.2%**	30.9%	32.5%
Operating profit %	**3.2%**	3.3%	3.6%
Operating profit pre exceptional	**4.7**	4.5	4.4
Exceptional credits/(costs)	**0.0**	0.8	(0.7)
Interest	**(0.8)**	(1.1)	(1.2)
Pre-tax profit	**3.9**	4.2	2.5
Tax	**0.5**	1.2	0.5
Net result	**3.4**	3.0	2.0

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CASH FLOW	2011	2010	2009
Operating profit	**4.7**	5.3	3.7
Depreciation	**1.4**	1.3	1.4
Working capital movements	**(1.1)**	(1.1)	(0.6)
Interest and Tax	**(0.5)**	(0.5)	(0.8)
Pensions scheme payment	**(2.2)**	(2.6)	(2.3)
Acquisitions/Disposals	**0.0**	0.0	0.7
Net capital expenditure	**(1.1)**	(0.4)	(0.5)
Dividends	**(1.8)**	(1.7)	(1.7)
Movement in debt	**(0.6)**	0.3	(0.1)
Opening debt	**(7.0)**	(7.3)	(7.2)
Closing debt	**(7.6)**	(7.0)	(7.3)

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2011 – Distribution

- Distribution sales ↑ 7% over 2010 – 5% is price recovery
- Progress on new initiatives:
  - 3PL – 24% growth in 2011, sales > £10.0m
  - Presentational Packaging – 2011 sales > £2.5m
  - Online sales now 11% of total sales
- Gross margin 29.2% vs. 29.6% in 2010 – Q4 recovery continues into 2012
- Reduced annual property cost £0.5m - Hayes and Coventry
- Overhead costs reflect £0.6m investment in new initiatives
- Bad debts £0.2m in Q4 2011 - high street retail-related

Major New Business wins in 2011

LUSH
WE BELIEVE

apollo
WORLD CLASS FIRE SOLUTIONS

amazon.co.uk

HONDA
The Power of Dreams

GARMIN

ELC early learning centre

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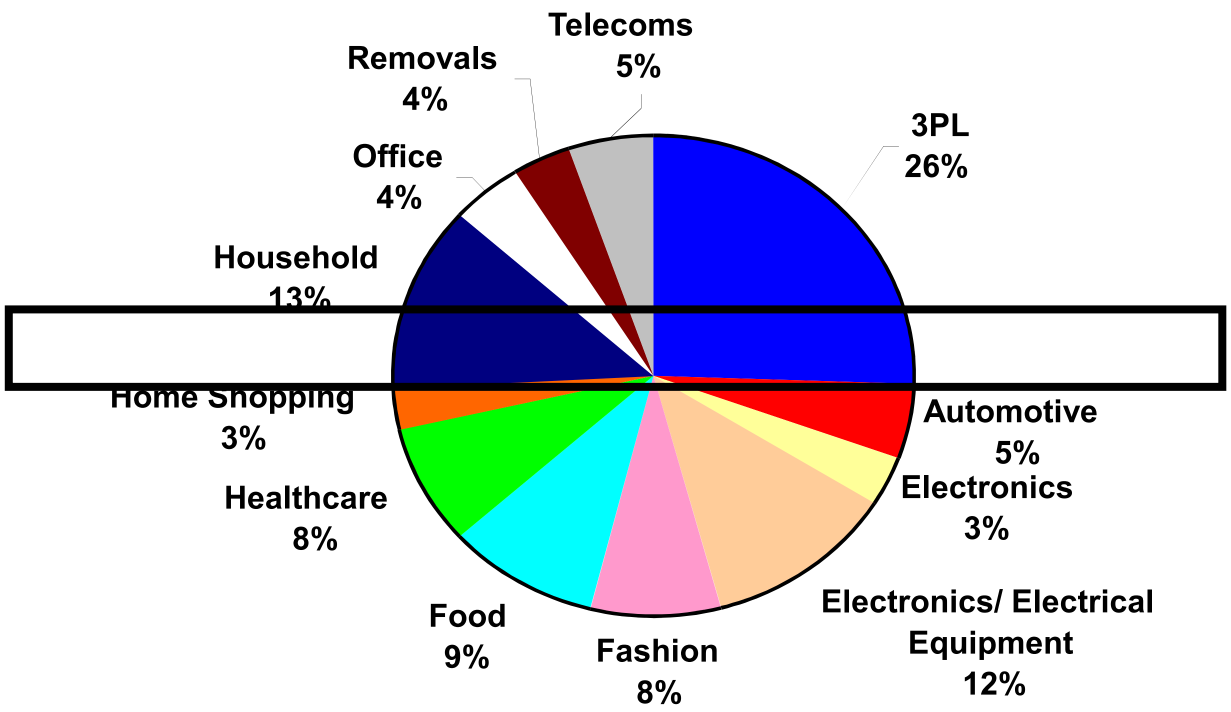
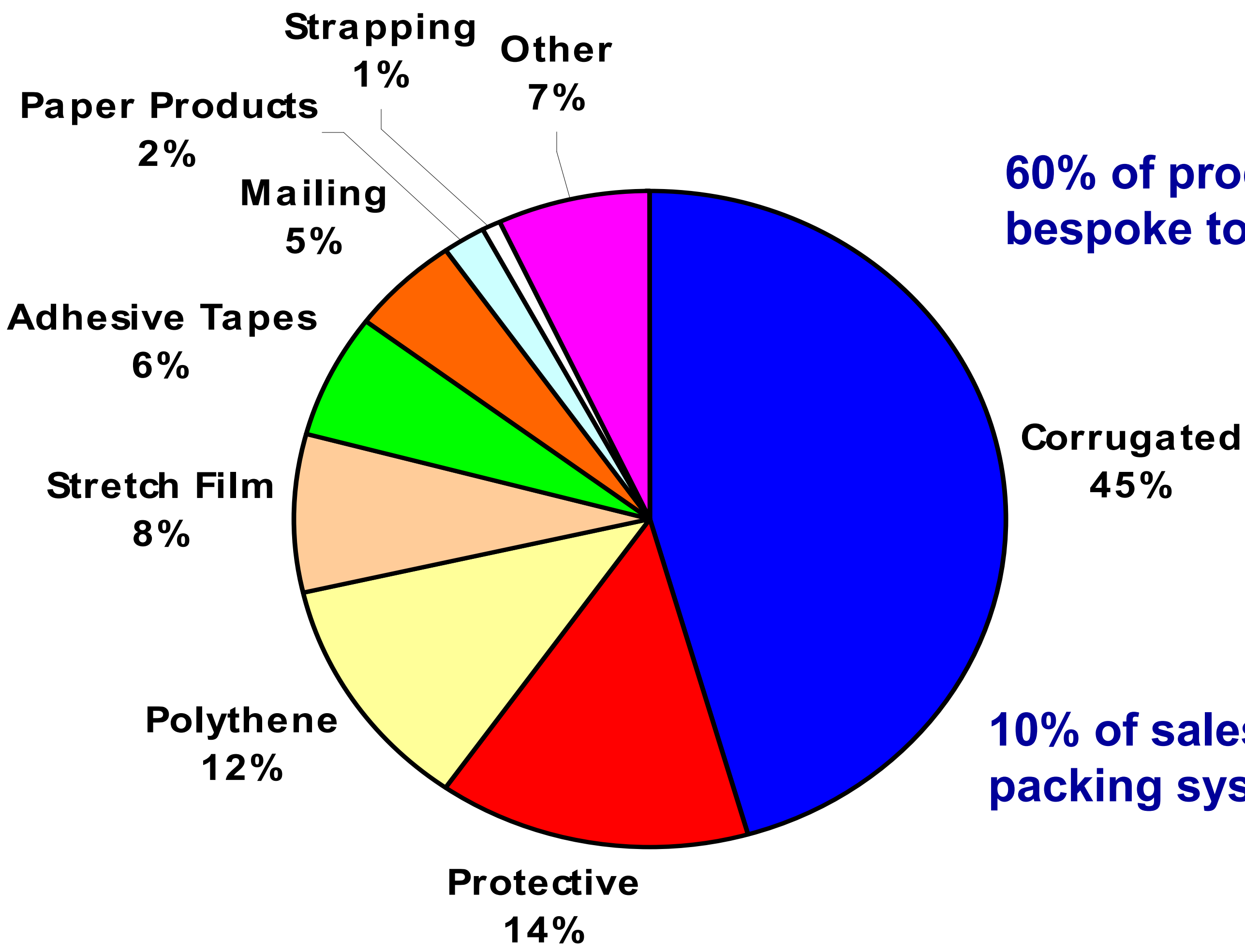
Distribution Top 30 Customers by Sector



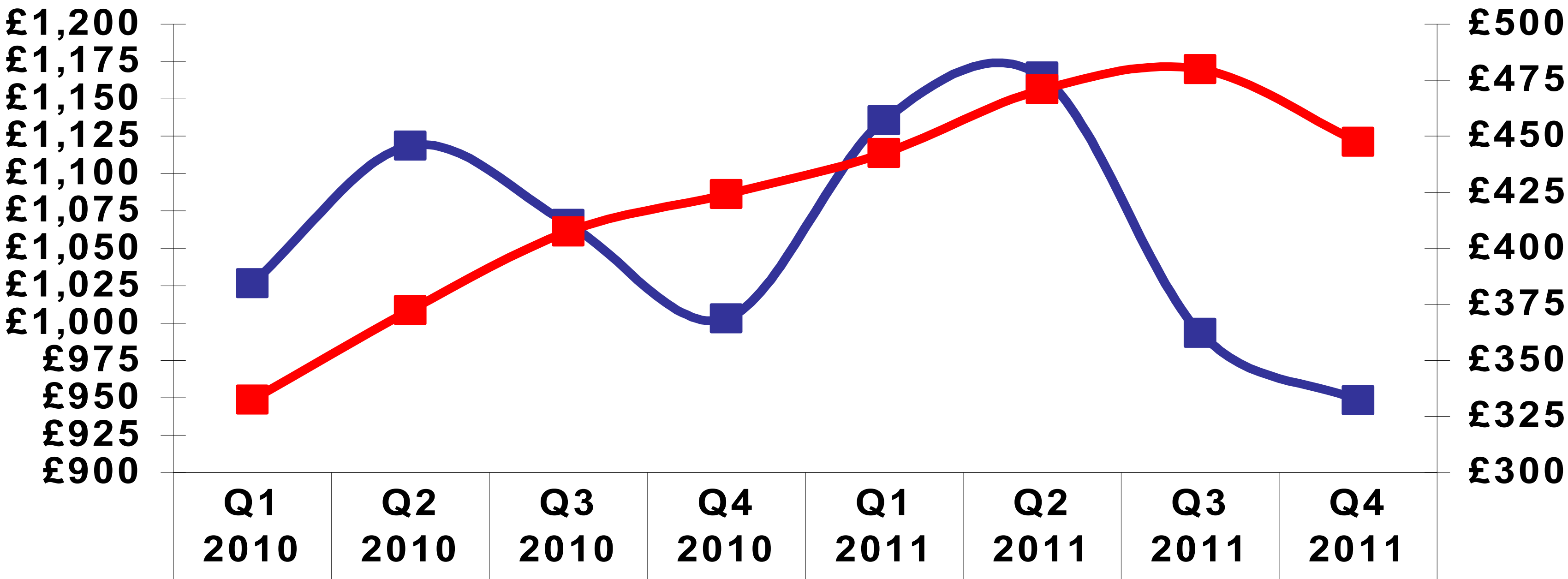
Distribution Product Categories



60% of product is bespoke to customer

10% of sales link to packing system sales

Raw material prices



	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Polymer £/tonne	£1,027	£1,119	£1,066	£1,003	£1,136	£1,165	£993	£948
Paper £/tonne	£333	£373	£408	£424	£443	£471	£480	£448

2011 – Manufacturing Operations

- **Labels** - sales increase of 4% over 2010
- Margin weakness from retailer pressure particularly in self- adhesive labels
- Good growth in ReSeal-it – US customer demand / UK start up
- Reduced level of profitability in 2011 but 2H improvement

- **Packaging Manufacturing** – sales 6% above 2010
- Good growth in Manufacturing/Aerospace - high export volumes
- New business wins eg Thales, Parkair Systems, Dudley Industries, Clean Diesel Technologies, CMS Computers.
- Partnership with Distribution key - 25% total sales

Pension Deficit

- Investment values at £47.0m (2010 - £45.3m)
- Liabilities £67.5m (2010 - £61.0m), major increase due to discount rate reducing by 0.7% - £7.0m impact
- Deficit of £20.5m (2010 - £15.7m)
- Deficit reduction contributions continue at £2m pa and are subject to renegotiation by Jul-12
- Historic actions on pensionable salaries, CPI movement and transfer values generated £4.0m reduction 2008-2010
- Introducing PIEx in first half of 2012
- Dividend sensitive to further increase in deficit due to pressure on reserves.
- Other non-pension steps being taken to rebuild reserves

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2012 Key Actions – Distribution

- Focus on customer retention/product penetration
- Gross margin recovery and protection
- Build on new business momentum
- Focus on growth sectors e.g. markets - 3PL and products - PRP
- Optimise benefit of www.macfarlanepackaging.com
- Additional property savings being realised
- Further improve cash management, esp. inventories and receivables
- Ongoing evaluation of acquisition opportunities – both for geographic presence and to utilise current infrastructure

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2012 Key Actions - Manufacturing

Labels

- Rebuild self-adhesive labels margin through more beneficial customer mix
- Improve operational efficiencies
- Build ReSeal-it momentum in US/new geographies/new products
- Optimise benefit of recent ReSeal-it entry to UK market

Packaging Manufacturing

- Build sales momentum in sectors with strong export activity
- Improve operating margins at both manufacturing locations
- Strengthen relationship with Distribution

Outlook

- Cautious on overall demand - mixed outlook by sector
- Trading actions to build profitability:
  - Distribution - Protect margins & focus on strategic initiatives
  - Labels - Build ReSeal-it & recover self-adhesive margins
- Working capital actions to reduce debt:
  - Focus on reduction in inventories
  - Regular review of customer and supplier terms
- Pension scheme actions to reduce deficit and rebuild reserves
- Intention to maintain dividend dependent on pension deficit and reserves actions
- Bank facilities of £11.5m renewed until February 2013

APPENDICES

2011 Results

March 2012