2012 Interim Results

September 2012

Contents

MACFARLANE GROUP

Executive Summary

MACFARLANE GROUP

	2012	2011
• Profit before exceptional items	**£1.5m**	£0.9m

- Continuing challenge for all businesses from lower demand
- Sales are flat across the range of Group activities
- Profit increase from improved margin in all businesses and from reduced property costs
- Pension deficit management action – deficit down by £3.2m
- Net debt £7.8m – strong cash generation expected H2
- Dividend maintained 0.5p per share will be paid in Oct-12 - register date 14 Sep-12
- Despite economic uncertainty, full year outlook continues in line with Board's expectations

Results £m

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		H1-12		H1-11		H2-11	
Sales		**68.0**		68.5		***76.1***	
Gross profit	**(32.1%)**	**21.8**	(30.1%)	20.6	***(30.4%)***	***23.1***	
Overheads		**19.8**		19.3		***19.7***	
EBIT	**(RoS 2.9%)**	**2.0**	(1.9%)	1.3	***(4.4%)***	***3.4***	
Interest		**0.5**		0.4		***0.4***	
PBT		**1.5**		0.9		***3.0***	
Tax		**0.5**		0.2		***0.3***	***(use of losses)***
Profit for period		**1.0**		0.7		***2.7***	
EPS		**0.93p**		0.62p		***2.39p***	

Subdued sales levels, but seasonality effect in H2

Margin improvements and strong cost control

Non-recurring Pension Increase Exchange benefit covered later

Cash £m

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	H1-12	H1-11	***H2-11***
EBIT	**2.0**	1.3	***3.4***
DA	**0.6**	0.6	***0.8***
EBITDA	**2.6**	1.9	***4.2***
Working capital	**0.1**	(2.5)	***1.5***
Interest	**(0.2)**	(0.2)	***(0.3)***
Capex	**(0.4)**	(0.5)	***(0.8)***
Pensions	**(1.1)**	(0.9)	***(1.3)***
Dividend	**(1.2)**	(1.2)	***(0.6)***
Movement in debt	**(0.2)**	(3.4)	***2.7***

Our traditionally stronger H2 cash flow is again anticipated
Strict working capital control in H1 2012
Tax payments will resume in H2 2012 £0.8m

Distribution

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		H1-12		H1-11
Sales		55.0		54.8
Gross profit	(30.4%)	16.7	(29.2%)	16.0
Overheads		15.0		14.7
EBIT	(RoS 3.1%)	1.7	(2.3%)	1.3
Sales volume		+1%		+2%
Sales price		-2%		+5%
New business		£2.8m		£2.6m
3PL		£4.8m		£4.1m
PRP		£0.9m		£0.7m
Electronic sales		£5.6m		£5.5m
Base		£40.9m		£41.9m

Distribution

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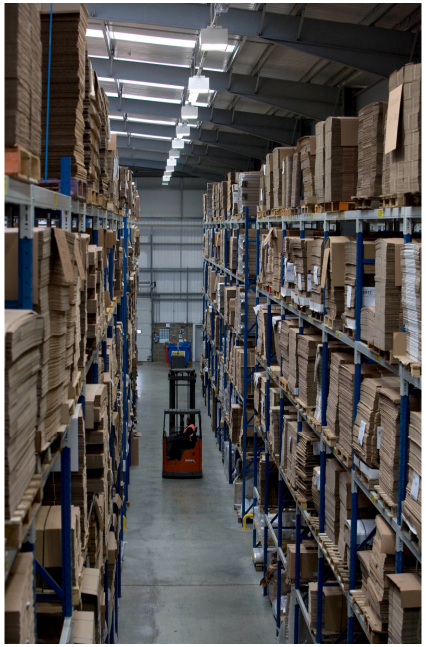
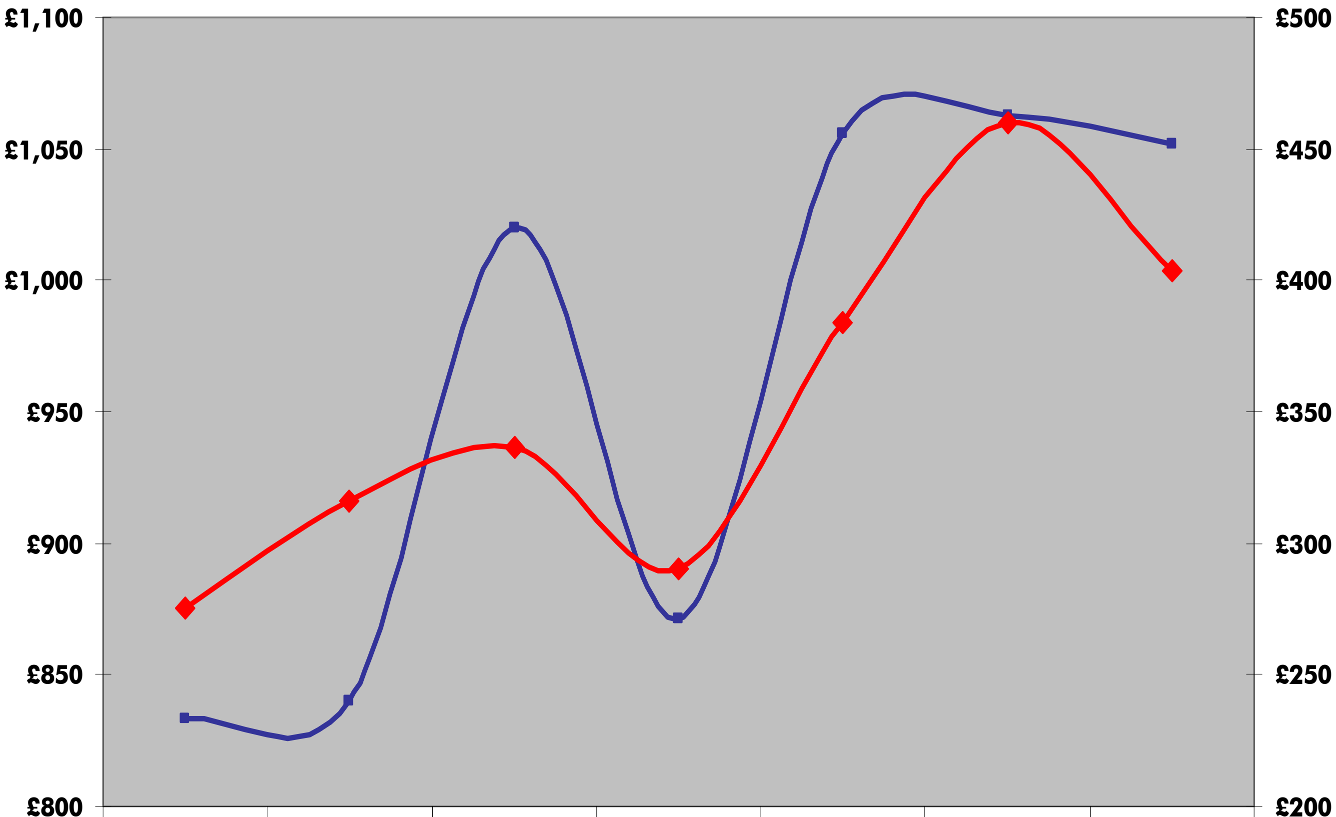
Raw material price movements





	2006	2007	2008	2009	2010	2011	2012
Polymer £/tonne	£833	£840	£1,020	£871	£1,056	£1,063	£1,052
Paper £/tonne	£275	£316	£337	£290	£384	£460	£403

Manufacturing Operations

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- Labels sales revenue down 5% vs. 2011, volume down 3%
- Recovery of price increases from own-brand producers, benefiting self-adhesive label margins
- Exiting lower margin business
- Improved production efficiencies
- Better customer and product mix
- US customer demand for ReSeal-it up by 50% to £1.3m
- Labels profitability increased vs. H1 2011

Printpack inc.
Packaging Better Ideas.

Manufacturing Operations

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- Packaging Manufacturing sales 2% below H1 2011
- Manufacturing customers' export-driven growth strong
- Exiting lower margin business
- Design-led work has helped increase gross margins
- Distribution partnership is 23% total sales (2011 – 24%)
- Both sites profitable and profitability ahead of 2011

Pension Deficit £m

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Deficit at 1-Jan-12	(20.5)	
Interest cost	(0.2)	
Contributions	1.1	Contributions agreed
Pension Increase Exchange	1.9	Exercise completed
Bond yield ↓ 0.2% to 4.6%	(2.1)	
Inflation (RPI)↓ 0.1% to 2.9%	0.9	
Spouse's pension assumption	1.6	Evidence from PIEx
Deficit at 30-Jun-12	(17.3)	(See Appendix 1)

Features H1 2012	Benefit of PIEx exercise Continued reduction in bond yields
Actions H2 2012	Potential for further transfer values Consider buy-in (to fix) PIEx liabilities Longevity assumptions review

2012 Key priorities

- Focus on customer retention, product penetration & new business
- Gross margin protection continues to be key
- 3PL, PRP and internet retail offer growth opportunities
- Optimise benefit of www.macfarlanepackaging.com
- Ongoing attention to cost reduction continues
- Develop NovuPak relationship with partners (see Appendix 2)
- Further improve cash management, esp. inventories

2012 Key priorities

- Maintain Labels margin through more beneficial customer mix
- Continue to improve operational efficiencies
- Further develop Reseal-it in US/other geographies
- Optimise benefit of recent Reseal-it entry to UK market

- Packaging Manufacturing focus on higher margin design activities
- Building sales momentum in sectors where exports are key
- Improve operating margins at both sites
- Strengthen relationship with Distribution

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
  - Continued focus on pension deficit actions
  - Cash generation drive in H2 2012
- Bank facilities of £11.5m renewed until February 2013
- A strong platform for progress in 2012 and beyond, based on the implementation of strategic actions

Appendix 1

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Pension Scheme details

- **Investments comprise**

UK Corporate Bonds/Gilts	£22.6m
Overseas Equities – tracker funds	£ 6.3m
Diversified Growth Funds	£12.5m
UK equities – actively managed	£ 6.6m
Cash	£ 0.6m
Total	£48.6m

- **Liabilities comprise**

Active members	(30)	£ 5.9m
Deferred members	(339)	£29.2m
Pensioners	(308)	£30.8m
Total	(677)	£65.9m

Appendix 2

- **Boxon**
- Founded 1932
- Helsingborg, Sweden
- Serving Scandinavia
- Sales Euro 100m
- 150 Employees

- **Transpak**
- Founded 1975
- Solms, Germany
- Germany & Central Europe
- Sales Euro 80m
- 270 Employees

- **Moonen**
- Founded 1955
- Weert, Holland
- Market - Benelux
- Sales Euro 40m
- 85 Employees

- **Macfarlane**
- Founded 1949
- Coventry UK
- UK market
- Sales £116m
- 400 Employees