



CHAIRMAN'S ADDRESS TO AGM

In my statement with the Annual Report and Accounts on 3 March 2009, I said that trading predictions in the current climate were very difficult but that the Board expected that the broad range of industries we serve and our continued focus on improving operational performance would enable the business to withstand the difficult economic conditions: and that statement is just as appropriate now as it was two months ago.

2008 was a year of further progress for Macfarlane Group as we continued to re-shape the business and sharpen our focus on core activities, substantially increasing profits from our continuing operations in the process.

The benefits of the strategy that we set out three years ago are evident now and we have shown that we can grow the business significantly, through both organic growth and the 2008 acquisitions of Online Packaging Limited in January and Allpoint Packaging Limited in October.

In 2008, pre-tax profits from continuing operations increased to £3.7 million from £2.5 million in 2007.

In our Packaging Distribution business, turnover increased by 12% from £92.7 million to £103.7 million with operating profits increasing from £1.3 million in 2007 to £2.9 million in 2008. The acquisitions of Online for £5.0 million and Allpoint for £4.3 million, inclusive of deferred consideration, have demonstrated what targeted acquisitions can achieve.

Our Manufacturing Operations' turnover grew by 3%, with operating profits increasing from £1.7 million to £1.8 million. The link between our Packaging Distribution and Packaging Manufacturing businesses in the UK has become more important and valuable. We believe there is significant opportunity for these two businesses to work even more closely in the future. Our Labels business, benefiting from efficiency improvements and strong Euro-dominated sales improved its performance in 2008, with turnover up 6%.

During 2008 our borrowings increased due to our planned acquisition activity costing nearly £8.0 million. Cash and debt control was effective however and at the year-end our net debt was £7.2 million. We received the proceeds from the disposal of our Plastics business realising £1.4 million, after attributable expenses, at the start of 2009 and the Group continues to operate well within existing bank facilities.

Turning now to trading in the current year, whilst it is inevitable that we will feel the headwind of recession, particularly where our customers are most seriously affected, equally the resilience I referred to earlier is being demonstrated.

In our Packaging Distribution business, turnover reductions of 6%, that is organic reductions of 14% offset by acquisition impact of 8% are being more than offset by margin improvements and overhead reductions. Profits in Packaging Distribution have increased albeit with the support of the Allpoint Packaging acquisition but also through new business wins and in the current climate, the improvement achieved is encouraging.

Within our Manufacturing Operations, the Labels business has performed well in the first quarter but is now facing higher raw material prices. It is in the Packaging Manufacturing business that reduced customer demand is having the greatest effect. In this business a 17% reduction in demand has required that we carry out an extensive examination of cost structures and restructuring plans are being implemented to reduce the cost base accordingly, with an inevitable impact on performance and results.



With regard to the 2009 trading outlook, the cost of restructuring to meet current market conditions will clearly have an impact on the results for the first half of 2009. However the benefits of the restructuring, the current margins trend and the benefits of new business wins will all feature more significantly in the second half. It would be very bold to make firm predictions in these times but the Board believes that the steps the Group has taken should enable Macfarlane Group to perform in line with our expectations for 2009. I emphasise that the outcome will be dependent on how the economy behaves in the remainder of the year.

We propose to pay a dividend of 1p per share on 11 June 2009. Our dividend objectives remain unchanged, but payment will of course be dependent on trading performance and conditions and the level of the Group's pension deficit.

A lot has been achieved in recent times but we are very conscious that there is more to be done as we continue to generate better returns principally through aligning our businesses with the developing needs of our customers. We believe that the Group's stability, reliability and strong market position will be viewed by our 20,000 customers as compelling strengths as they seek to ensure continuity of supply for their packaging and labelling needs through this period of economic uncertainty.

The development of Macfarlane Group into an increasingly robust and progressive business has demanded substantial effort and considerable personal commitment from management and staff alike. The Board very much appreciates the energy and enthusiasm shown so clearly by our people and would like to take this opportunity to thank them all for their contribution to our progress.