Chairman's Statement

Helmut Mamsch
Chairman

Introduction

The Group has had a good year with sales growth of 5%, headline profit before tax of £96m, some 12% higher than last year and a strong cash flow of £75m. The UK Business grew sales for the second successive year and delivered higher profits whilst our International Business increased profit by around £6m. In addition, the gross margin has been stable for 18 months.

We are pleased with the benefits realised from EBS to date; in particular the increase in the Group's stock turn from 2.7 times last year to 2.9 times this year. We have maintained our focus on creating a lower cost infrastructure and our actions across many areas in the year have achieved a further £2.6m of annualised cost savings. We have met the £10m target we set in May 2005.

Strategy

The new strategic direction announced in May 2005 has contributed to the significant improvement in the Group's performance over the last two years. The Board has now reviewed the next stage in the implementation of the strategy and the output from this review is set out in the Strategy Update section of the Chief Executive's Review. This highlights the four drivers of future growth for the Business:

- Focus on fast growing international markets, which represent today more than 60% of the Group's revenue, whilst delivering a stable UK performance;
- Accelerate research and development and maintenance offer development;
- Exploit the full potential of e-Commerce;
- Leverage global infrastructure and increase operating margins.

Capital structure and dividend

In 2005 the Board announced that it would maintain the dividend for the following three years. For the full year to 31 March 2008 the dividend will be maintained at 18.4p per share, which is the final year of this three year commitment.

The Board has decided to pursue a policy in relation to future dividend payments and the Group's capital structure that ensures that shareholders receive a sustainable dividend that is able to grow progressively with earnings in the future, whilst delivering an efficient balance sheet and financial metrics that assist investors to value the business on its fundamentals.

The future dividend and capital structure policy has two main elements:

Ordinary dividends

The ordinary dividend for 2009 will be rebased to 11p per share, which would represent pay out ratios of 74% of headline earnings and 64% of free cash flow based on the 2008 financial results. The ordinary dividend will be paid in two instalments; an interim dividend of 5p per share payable in January 2009 and a final dividend of 6p per share payable in July 2009. The Board intends to pursue a progressive dividend policy once the earnings payout ratio reaches 65%.

Special dividends

It is proposed that a special dividend of 7.4p per share will be declared for payment in July 2009 in order to maintain the total dividend payment for the year ending 31 March 2009 at the current level of 18.4p per share.

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The Group has a strong balance sheet with net debt to EBITDA of 1.2 times for the financial year. It is proposed that further returns should be paid over time based upon the performance of the business, the future investment needs of the Group, and the potential to progressively increase net debt. The Board has set a target gearing ratio for the Group of net debt being in a range of 1.3 to 1.8 times EBITDA.

People
To enable the business to meet its customers' expectations and improve results, we are reliant on the contribution and dedication of all our people. The work undertaken by our team in Allied, our North American business, to move to their new office and warehouse premises, deserves particular mention this year. On behalf of the Board, I wish to thank everyone for their hard work.

As we previously announced, Keith Hamill will be retiring at the Annual General Meeting after nine years on the Board. The Board is grateful for the broad contribution that he has made to the business over the years.

Paul Hollingworth has been appointed to the Board as a Non-Executive Director. Paul is a Director and Chief Financial Officer of Mondi Group, the integrated paper and packaging group. Previously, he was Group Finance Director of BPB plc and prior to that, of De La Rue plc and Ransomes plc. Paul brings a wealth of experience to the Board, including his strong international financial expertise.

Current trading and outlook
In the first eight weeks of the new financial year Group revenue has grown at around 2% year on year. The International business has grown revenue by around 5% and the UK business has declined by around 2%.

While being mindful of general macro economic conditions the Board believe that the Group will benefit from its strong competitive position and its clear strategy to drive future performance.

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