MACFARLANE GROUP

5 March 2013

MACFARLANE GROUP PLC ANNUAL RESULTS FOR THE YEAR TO 31 DECEMBER 2012

- Profit before tax and before exceptional items of £4.9m (2011: £3.9m)
- Group turnover of £141.8m (2011: £144.6m)
- Profit before tax of £5.9m (2011: £3.9m) after net exceptional credits in 2012 of £1.0m
- Net debt reduces to £6.8m (2011: £7.6m)
- Pension deficit reduces to £18.9m (2011: £20.5m)
- Proposed final dividend of 1.05p per share, providing full year total of 1.55p (2011 – 1.55p)

Graeme Bissett, Chairman of Macfarlane Group PLC today said: -

"Macfarlane Group increased profit before tax and exceptional items in 2012 by 27% to £4.9m. Our main market is the UK where demand levels have remained subdued, making the achievement of increased profit all the more creditable. We have attracted a range of new customers in 2012 and we continue to see success from the strategic development of our business in key sectors such as internet retail and with our partners in the third party logistics sector.

Trading

Our Packaging Distribution business grew operating profit before exceptional items by 7% to £4.9m. New business wins offset the impact of weak demand and we generated strong growth through our focus on the supply of protective packaging to internet retailers. Management took action that saw gross margin improve over 2011 and costs were held close to their 2011 levels as savings from reduced property costs were invested in strengthening the teams in key functions that will contribute to future growth.

Our Manufacturing businesses have also demonstrated the capability to adapt their business models and operating profit before exceptional items increased to £1.0m compared to £0.1m in 2011. Our Labels and Packaging Design and Manufacture businesses have each focused on more profitable areas of their respective markets and the consequent fall in turnover of 3% was more than offset by enhancements in gross margin and improved cost savings.

The benefit from active management of change in our business is clear. This could not be achieved without the commitment of our people, who respond to the challenges of difficult markets and the changing needs of our customers with energy, enthusiasm and flexibility. On behalf of the Board, I would like to thank them for all their efforts in 2012.

Exceptional items

In the first half of 2012, a Pension Increase Exchange exercise was undertaken by management in conjunction with the Pension Scheme Trustees that has resulted in an improvement in the deficit of £1.65m and is reflected as an exceptional credit in the year.

As announced in November 2012 we will relocate our labels manufacturing site in Dublin in 2013 to our higher quality and better-located site in Wicklow. This will become the base from which we will accelerate the development of our labels business and expand our current activities in Ireland. The transition will be completed by the end of the first quarter of 2013. This decision resulted in an exceptional charge of £0.66m in our 2012 financial statements of which £0.46m is non-cash.

Pension Deficit

The Group's pension scheme deficit continues to prove a challenging legacy issue. In common with many other companies, we encounter influences beyond our control such as those of bond yields and volatile returns from stock markets. Working in partnership with the scheme's trustees, we have taken action to control the deficit whilst balancing the interests of all stakeholders and the deficit at the end of the year was £18.9m compared to £20.5m a year previously. We will continue to take action to address this issue.

Net Debt

The Group operated comfortably within its banking facilities, which are established primarily to finance seasonal working capital.

Dividends

The directors propose to maintain the final dividend at 1.05p per share, making 1.55p per share for the year and, subject to the approval of shareholders at the Annual General Meeting in May 2013, this will be paid on 6 June 2013. The level of profitability and cash generation achieved by the Group supports this level of dividend.

Whilst the adverse impact of bond yields on our pension scheme deficit may in the future reduce distributable reserves from which dividends are paid, it is the intention of the Board to sustain dividend levels.

Board Composition

During 2012, I was delighted to welcome Mike Arrowsmith and Stuart Paterson to the Board as non-executive directors. Both bring a wealth of relevant experience and I am sure they will make a valuable contribution to the company's development in the years ahead.

Kevin Mellor will step down from the Board at our Annual General Meeting in May 2013. Kevin has been a valued colleague for nine years and we will miss his insightful views. On behalf of the Board, I would like to thank Kevin for the significant role that he has played in the success of Macfarlane Group and to wish him every success in the future.

To complete the reshaping of our Board, I am delighted to welcome Bob McLellan as a new non-executive director. Bob has rightly gained an impressive reputation and sector-wide respect over many years in the packaging industry and I am confident that Macfarlane Group will benefit greatly from his experience in the years ahead.

Future Prospects

Macfarlane Group's performance in the early months of 2013 has continued the trends shown in 2012. Whilst there is little evidence of any increase in market demand, we believe that success in these difficult times will flow from ongoing rational and determined action such as that already taken in 2012. We will continue to focus on those sectors, such as internet retailing, which display real growth and I am confident that Macfarlane Group will demonstrate its strengths again in 2013 as we continue to focus on developing the medium term prosperity of the Group."

Further enquiries:	**Macfarlane Group**		Tel: 0141 333 9666
	Graeme Bissett	Chairman	
	Peter Atkinson	Chief Executive	
	John Love	Finance Director	
	Spreng & Co		Tel: 0141 548 5191
	Callum Spreng		Mob: 07803 970103

Notes to Editors:

- Macfarlane Group PLC is listed on the main London Stock Exchange (LSE: MACF) in the Industrials Sector.
- The company has more than 60 years' experience in the UK packaging industry.
- Macfarlane Group has three businesses:
    - **Macfarlane Packaging** is the leading UK distributor of a comprehensive range of protective packaging products.
    - **Labels** designs and prints high quality self-adhesive and re-sealable labels, principally for FMCG companies.
    - **Packaging Design and Manufacture** specialises in designing and producing protective packaging for high value, fragile products.
- Macfarlane Group is headquartered in Glasgow, Scotland, and employs over 700 people at 22 sites, principally in the UK and Ireland.
- The company has 20,000+ customers in the UK, Europe and the USA providing 600,000+ lines to a wide range of industry sectors including: consumer goods; food manufacturing; logistics; internet retail; mail order; electronics; defence and aerospace.

Business Review

Trading performance Group Segment	**Revenue 2012 £000**	**Profit before exceptional items 2012 £000**	Exceptional Items (note 3) 2012 £000	**Profit before tax 2012 £000**	Revenue 2011 £000	* Profit before tax 2011 £000
Packaging Distribution	**114,807**	**4,867**	776	**5,643**	116,674	4,562
Manufacturing Operations	**27,016**	**967**	217	**1,184**	27,883	127
Revenue - continuing operations	**141,823**				144,557	
Operating profit		**5,834**	993	**6,827**		4,689
Net finance costs		**(920)**	-	**(920)**		(815)
Profit before tax		**4,914**	993	**5,907**		3,874

* There were no exceptional items in 2011.

The UK economic environment was particularly challenging in 2012 with weak demand and price deflation. As a result Macfarlane Group's sales in 2012 were 1.9% below the level achieved in 2011. However the sales performance was more than offset by management actions to improve margins and, as a result, profit before tax and exceptional items at £4.9m was 27% ahead of the level achieved in 2011.

The Packaging Distribution business experienced a sales decline versus 2011 of 1.6% primarily resulting from the impact of this weak demand and price deflation, particularly on corrugate products. However new business generation in 2012 was good and we generated strong growth through our focus on the supply of protective packaging to internet retailers both directly and through our partnerships with major third party logistics ("3PL") customers. The benefit of product mix and improved sourcing enabled us to improve gross margin by 1.1% compared with 2011. Costs in 2012 were broadly in line with 2011 as the benefit of lower property costs was used to add to the resource in the business specifically in marketing and the strengthening of our major account sales and purchasing teams. Despite the sales weakness, operating profit before tax and exceptional items in the Packaging Distribution business at £4.9 million showed a growth of 7% versus 2011.

2012 was a year of recovery for our Manufacturing Operations. The focus for both our Labels and Packaging Design and Manufacture businesses in 2012 was to concentrate attention on their higher added value activities and this resulted in some changes to both the customer and product mix. As a result of these actions sales in our Manufacturing Operations reduced by 3.1% versus 2011 but this was more than offset by improvements in gross margin. Both businesses reduced their cost base and improved operational performance, resulting in 2012 operating profit before tax and exceptional items at £1.0 million compared with £0.1 million in 2011.

We are not assuming any improvement in the economic environment in 2013. However, our performance track record in weak economic conditions is good. We operate a flexible business model and our focus on the most attractive UK market sectors for our products and services gives us confidence in 2013 being another year of progress for Macfarlane Group.

Business Review

The principal risks and uncertainties faced by the Group and factors mitigating these risks are detailed below.

Risk	Mitigating Factors
Raw material prices All the Group's businesses are vulnerable to commodity-based raw material prices and manufacturer energy costs, with profitability sensitive to supplier price changes. The principal components are corrugated paper, polythene films, timber and foam, which means that changes to paper and oil prices have a direct impact on the price we pay to our suppliers.	The Group works closely with its supplier base to effectively manage the scale and timing of price increases to end-users and we have extensive IT support to monitor and measure our effectiveness in recovering supplier price changes. Where possible, alternative supplier relationships are maintained to minimise supplier dependency. We work with our customers to redesign packs and reduce packing cost to mitigate the impact of cost increases.
Funding defined benefit pension scheme The Group's defined benefit pension scheme is sensitive to a number of key factors; the value of the investments, the discount rate used to calculate the scheme's liabilities (which is based on corporate bond yields) and mortality assumptions for the members of the scheme. The IAS 19 valuation of the Group's defined benefit pension scheme as at 31 December 2012 estimated the scheme deficit to be £18.9 million. While the scheme is closed to new members, changes in these assumptions could mean that the deficit increases further.	Steps undertaken in recent years include: - The scheme was closed to new members in 2002. Benefits for active members were amended by freezing pensionable salaries at 30 April 2009 salary levels. The revaluation of deferred members' benefits has reflected Consumer Prices Index as the measure of inflation since 2010. During 2012 a Pension Increase Exchange exercise was completed to offer flexibility to pensioner members in the current level of pension benefits and the rate of future increases. Further actions in relation to scheme liabilities will be evaluated in 2013.
Financial liquidity, debt covenants and interest rates The Group needs continuous access to funding to meet its trading obligations and to support organic growth. There is a risk that the Group may be unable to obtain the necessary funds or that such funds will only be available on unfavourable terms. The Group's borrowing facilities comprise an annual facility including requirements to comply with specified covenants, with a breach potentially resulting in Group borrowings becoming repayable immediately. The Group does not have longer-term facilities in place.	The Group seeks to maintain an appropriate level of committed overdraft facility that provides sufficient headroom above peak projected borrowing requirements. The Group continually monitors net debt and forecast cash flows to ensure that it will be able to meet its financial obligations as they fall due. Compliance with debt covenants is monitored on a monthly basis and sensitivity analysis is applied to forecasts to assess the impact on covenants.
Decentralised structure The Packaging Distribution business model reflects a decentralised approach driven by the local customer base with a high dependency on effective local decision-making. There is a risk that management control is less effective and local decisions do not meet overall corporate objectives.	A comprehensive management information system is maintained with key performance indicators monitored consistently and regularly and actions taken when required. During 2012 there was a significant upgrade to the IT system, which will enhance the access to management information.

Risk	Mitigating Factors
Property Given the multi-site nature of its business the Group has an extensive property portfolio comprising 4 owned sites and 27 leased sites of which 5 are sublet with 3 vacant at the balance sheet date. This portfolio gives rise to risks in terms of ongoing lease costs, dilapidations and fluctuations in value.	Where a site is non-operational the Group seeks to assign or sub-lease the building to mitigate the financial impact. Where this is not possible the Group provides for rental voids on vacant properties taking into account assumptions about the likely period of vacancy. In 2012 the Group announced a planned move in Ireland to optimise the use of its property portfolio.
Working capital The Group has a significant investment in working capital in the form of trade receivables and inventories. There is a risk that this investment is not fully recovered.	Credit risk is controlled by applying rigour to the management of trade receivables by our credit control team, managed by a credit control manager and subject to additional scrutiny from the Group Finance Director. Credit insurance is not used. Inventory levels and order patterns are regularly reviewed and risks arising from holding bespoke stocks are managed by obtaining order cover from customers.

There are a number of other risks that we manage but are not considered to be key risks. In addition the Group is subject to the effect of general economic conditions, the competitive environment and risks associated with business continuity. These are all mitigated in ways that are common to all businesses and there are no specific differences for Macfarlane Group.

The above are complemented by an overall governance framework that includes clear and delegated authorities, business performance monitoring and appropriate insurance cover for a wide range of potential risks. There is a dependence on good quality local management, which requires investment in training and development and ongoing performance evaluation.

Business Review

Macfarlane Packaging Distribution is the leading specialist UK distributor of protective packaging materials. In a highly fragmented market, Macfarlane is the market leader. The business operates through 16 Regional Distribution Centres ("RDCs") supplying customers with a comprehensive range of protective packaging materials and services on a local, regional and national basis.

Competition in the packaging distribution market is from local and regional protective packaging specialist companies and national distribution generalists who supply a range of products, including protective packaging materials. Macfarlane competes effectively on a local basis through its strong focus on and regular monitoring of customer service, its breadth and depth of product offer and through the recruitment and retention of staff with good local market knowledge. On a national basis Macfarlane has focus, expertise and a breadth of product and service knowledge all of which enables it to compete effectively against non-specialist packaging distributors.

Macfarlane Packaging benefits its customers by enabling them to ensure their products are cost-effectively protected in transit and storage through the supply of a comprehensive product range, single source supply, Just In Time delivery, tailored stock management programmes, electronic trading and independent advice on both packaging materials and packing processes.

2012 Performance

In 2012 Packaging Distribution operating profit was £5.6 million (2011 - £4.6 million). The comparable amounts before exceptional items showed an increase in operating profit from £4.6 million to £4.9 million in 2012.

A number of factors contributed to these results:

- Sales revenue reduced by 1.6% due to price deflation and overall lower revenue per order as weak UK demand impacted a number of the market sectors we serve;
- We experienced good growth in sales to internet retail businesses both directly and through our partnerships with key 3PL companies and this sector now represents almost 20% of Packaging Distribution sales;
- We increased direct sales through our web site macfarlanepackaging.com by 24% versus 2011;
- Our new business performance in 2012 was again strong and at similar levels to that achieved in 2011. New relationships were created with a number of major companies;
- We increased sales of Presentational & Retail Packaging ("PRP") products by 24% versus 2011;
- In 2012 our On-Time-In-Full ("OTIF") deliveries averaged 90% (2011 – 85%) against our benchmark of 90%. The method we use to measure OTIF is applied as an internal logistics efficiency monitor rather than a customer satisfaction measure;
- Gross margin in 2012 stands at 30.3% and compares favourably with 29.2% in 2011 with the improvement generated primarily through more effective sourcing strategies and improved purchasing activity;
- We continued to invest in the business with incremental resource added to our marketing, purchasing and major account sales teams, the benefits of which we will see in 2013;
- Our property costs in 2012 were £0.5 million below 2011 reflecting the ongoing benefit of the changes to our property footprint implemented in the second half of 2011;
- During 2012 we implemented a successful major upgrade to our ERP system, which was achieved in line with both the planned timescales and budget; and
- In recognition of the demand from certain of our UK based customers requiring our service in Europe, Macfarlane Packaging joined a network of European specialist protective packaging companies – NovuPak.

Business Review

Trading Performance (continued)

Packaging Distribution

Performance Potential

The 16 RDCs in our network are managed and measured as profit centres. In 2012 we had 13 RDCs performing above the target return on sales level of 5%. The remaining three RDCs continue to demonstrate improvements that indicate their ability to achieve the target return on sales.

Acquisitions

During 2012 we considered a number of opportunities to acquire quality businesses in order to accelerate growth and better utilise our current RDC infrastructure. However none of the opportunities was pursued as they failed to meet our return criteria.

Future Plans

We expect general demand levels to remain subdued in 2013. Therefore our plans for 2013 are focused on those market areas showing growth, building market share and improving operational effectiveness through the following actions:

- Implementation of an updated sales strategy which will improve customer retention levels, increase product penetration and accelerate new business through a more focused approach to key segments of our customer base;
- Improvements to our penetration of the growing internet retail sector both directly and through our partnerships with key 3PL organisations;
- Expansion of our focus in industry sectors which benefit from Macfarlane's national coverage through our specialist National Account sales team;
- Acceleration of the sales development of the PRP product range to both existing and new customers through the specialist sales team and the launch of a new website;
- Continuation of the development of our web-based presence through macfarlanepackaging.com to improve online visibility and access to our products and services;
- Creation of a new service, through our membership of NovuPak, for UK based customers requiring our capabilities on a wider European basis;
- Improvements in RDC productivity and customer engagement through the re-launch of our electronic trading system Customer Connect;
- Development of additional opportunities to reduce property cost by evaluating alternatives to our current property footprint;
- Implementation of further operational savings in logistics through expanded use of the Paragon vehicle management system;
- Identification of suitable acquisition opportunities; and
- Maintenance of the focus on working capital management to reduce borrowing levels.

Business Review

Trading Performance (continued)

Manufacturing Operations

Macfarlane's Manufacturing Operations comprise **Labels,** which includes self-adhesive and resealable labels and our **Packaging Design and Manufacture** business.

In 2012 Macfarlane's Manufacturing Operations recorded an operating profit of £1.2 million (2011 - £0.1 million) and before exceptional items the operating profit performance increased to £1.0 million (2011 - £0.1 million). The key features of the Manufacturing Operations performance in 2012 were:

- Sales declined by 3.1% versus 2011 partly through weak demand but also as a result of management actions to focus on the sales of higher added value products and services;
- Gross margins improved compared to 2011 through the focus on higher added value products and services; and
- Net overheads were largely flexed in line with sales, increasing only marginally as a percentage of sales from 33.9% in 2011, to 35.6% in 2012.

Labels

Our Labels businesses design and produce self-adhesive labels for major FMCG customers in the UK and Europe and resealable labels for major customers in the UK, Europe and the USA. The businesses operate from production sites in Kilmarnock and Dublin and a sales and design office in Sweden, which focuses on the development and growth of our resealable labels business - Reseal-it. The Labels businesses have a high level of dependency on a small number of major customers. Management works closely with these key customers to ensure high levels of service and to introduce product and service development initiatives to create competitive differentiation.

Business Performance

2012 was a year of recovery for Macfarlane Labels where despite a sales decline of 2.1%, profits were well ahead of the level achieved in 2011. The profit improvement resulted from the focus on higher added value products and services and improved operational efficiency.

We continued to make good progress in the development of the resealable range of labels and systems. Competition in the resealable label sector is increasing but total sales for Reseal-it grew by 9.1% versus 2011 with increased momentum in the USA through our partnership with Printpack and new penetration in the UK market through major retailers.

Future Plans

The priorities for Labels in 2013 are: -

- Maintaining the strategic focus on higher added value products and services;
- Continued improvement in operational efficiencies to counterbalance competitive price pressure;
- Further development of the Reseal-it product in the US market through the Printpack partnership and in the UK through improved penetration with key retailers;
- Launch of additional resealable label ranges to broaden the appeal of the product to new market sectors; and
- Relocation of our manufacturing facility in Ireland to improve our ability to effectively serve the Irish market.

Business Review

Trading Performance (continued)

Manufacturing Operations

Packaging Design and Manufacture

The principal activity of the **Packaging Design and Manufacture** business is the design, manufacture and assembly of custom-designed packaging solutions for customers requiring cost-effective methods of protecting high value products in storage and transit. The primary raw materials are corrugate, timber and foam. The business operates from two manufacturing sites (Grantham and Westbury) supplying both direct to customers and also through the RDC network of the Packaging Distribution business.

Key market sectors supplied are aerospace, medical equipment, electronics and automotive. The markets in which we operate are highly fragmented with a range of locally based competitors. We differentiate ourselves through our technical expertise, design capability, industry accreditations and national capability through the partnership with Macfarlane Packaging Distribution.

Business Performance

2012 sales were 4.8% below those achieved in 2011 partly through weak demand but mainly as a result of management actions to improve the mix of products and services towards those with higher added value. The benefit of the improved product/service mix was an improvement in gross margin, which contributed to an overall level of profitability in 2012 ahead of that achieved in 2011. There was good progress during 2012 in the development of new customer relationships and this was aided by our first time attendance as an exhibitor at the Farnborough Air Show and the launch of a new website.

Future Plans

The priorities for 2013 are:

- Improvement in sales penetration of our target market sectors both directly and through the relationship with Macfarlane Packaging Distribution;
- Maintenance of gross margins through a continuation of our plan to focus on higher added value products and services;
- Continuous review and flexing of the cost base of the business to ensure it is at a level consistent with demand levels; and
- Improvements in operational efficiency through selective capital investment and more flexible working patterns.

2013 Outlook

We expect general market demand in 2013 to remain comparable with the levels we experienced in 2012.

However there are specific market sectors such as internet retail, which are forecast to show good growth and Macfarlane Group is well positioned to benefit from the growth expected through this sector.

The Macfarlane Group businesses all have good market positions with strong, differentiated product and service offerings.

We have a flexible business model and a clear strategic plan, incorporating a range of actions, which is being effectively implemented. Our track record of profitable growth reflects the successful execution of this plan.

We expect 2013 to be another successful year for Macfarlane Group.

Going Concern

The Directors, in their consideration of going concern, have reviewed the Group's future cash flow forecasts and revenue projections, which they believe are based on prudent market data and past experience. The Group's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the Chairman's Statement and Business Review on pages 1 to 10.

The Group's principal financial risks in the medium term relate to liquidity and credit risk. Liquidity risk is managed by ensuring that the Group's day-to-day working capital requirements are met by having access to banking facilities with suitable terms and conditions to accommodate the requirements of the Group's operations. Credit risk is managed by applying considerable rigour in managing the Group's trade receivables. The Directors believe that the Group is adequately placed to manage its financial risks effectively despite the current uncertain economic outlook.

The Group's principal banking facilities of £11.0 million have been renewed until 28 February 2014 when a further renewal of facilities is expected and the Directors are of the opinion that the Group's cash forecasts and revenue projections, taking account of reasonably possible changes in trading performance given current market and economic conditions, show that the Group should be able to operate within its current facilities and comply with its banking covenants.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Cautionary Statement

The Chairman's Statement and the Business Review on pages 1 to 10 have been prepared to provide additional information to members of the Company to assess the Group's strategy and the potential for the strategy to succeed. It should not be relied on by any other party or for any other purpose.

This report and the financial statements contain certain forward-looking statements relating to operations, performance and financial status. By their nature, such statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors, including both economic and business risk factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report.

Responsibility Statement Of The Directors

The responsibility statement below has been prepared in connection with the company's full annual report for the year ending 31 December 2012. Certain parts of the full annual report are not included within this announcement. The Directors of Macfarlane Group PLC are

G. Bissett	Chairman
P.D. Atkinson	Chief Executive
J. Love	Finance Director
K.D. Mellor	Non-Executive Director and Senior Independent Director
M. Arrowsmith	Non-Executive Director
S. Paterson	Non-Executive Director

To the best of the knowledge of the Directors (whose names and functions are set out above), the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit for the Company and the undertakings included in the consolidation taken as a whole; and

Pursuant to Disclosure and Transparency Rules, Chapter 4, the Directors' Report of the Company's annual report includes a fair review of the development and performance of the business and the position of the Company, and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties faced by the business.

Peter Atkinson
Chief Executive
5 March 2013

John Love
Finance Director
5 March 2013

Macfarlane Group PLC

Consolidated income statement

For the year ended 31 December 2012

	Note	**Year to 31 December 2012 before exceptional items £000**	Exceptional items £000 (see Note 3)	**Year to 31 December 2012 £000**	Year to 31 December 2011 £000
Continuing operations	3				
Revenue		**141,823**	-	**141,823**	144,557
Cost of sales		**(96,510)**	-	**(96,510)**	(100,903)
Gross profit		**45,313**	-	**45,313**	43,654
Distribution costs		**(7,382)**	-	**(7,382)**	(6,976)
Administrative expenses		**(32,097)**	993	**(31,104)**	(31,989)
Operating profit	3	**5,834**	993	**6,827**	4,689
Finance income	4	**2,716**	-	**2,716**	2,958
Finance costs	4	**(3,636)**	-	**(3,636)**	(3,773)
Profit before tax		**4,914**	993	**5,907**	3,874
Tax	5	**(1,327)**	(390)	**(1,717)**	(455)
Profit for the period	7	**3,587**	603	**4,190**	3,419
Earnings per ordinary share	7				
Basic and diluted		**3.16p**	0.53p	**3.69p**	3.01p

There were no exceptional items in 2011.

There is no dilution of earnings per share in either 2011 or 2012.

Macfarlane Group PLC

Consolidated statement of comprehensive income/(expense)

For the year ended 31 December 2012

	Note	2012 £000	2011 £000
Exchange differences on translation of foreign operations		**(63)**	(70)
Actuarial loss on defined benefit pension schemes	9	**(2,205)**	(6,432)
Tax on items taken directly to equity			
Actuarial loss for the year	10	**507**	1,608
Deferred tax on pension related items	10	**(365)**	(313)
Other comprehensive expense for the year		**(2,126)**	(5,207)
Profit for the year		**4,190**	3,419
Total comprehensive income/(expense) for the year		**2,064**	(1,788)

Macfarlane Group PLC

Consolidated statement of changes in equity

For the year ended 31 December 2012

	Note	Share Capital £000	Revaluation Reserve £000	Own Shares £000	Translation Reserve £000	Retained Earnings £000	Total £000
At 1 January 2011		28,755	70	(855)	316	(1,051)	27,235
Profit for the year		-	-	-	-	3,419	3,419
Dividends	6	-	-	-	-	(1,761)	(1,761)
Exchange differences on translation of foreign operations		-	-	-	(70)	-	(70)
Actuarial loss on defined benefit pension schemes	9	-	-	-	-	(6,432)	(6,432)
Tax on actuarial loss for the year	10	-	-	-	-	1,608	1,608
Deferred tax on pension related items	10					(313)	(313)
Transfer of own shares to pension scheme		-	-	45		(24)	21
Credit in respect of share-based payments		-	-	-	-	8	8
At 31 December 2011		**28,755**	**70**	**(810)**	**246**	**(4,546)**	**23,715**
Profit for the year		**-**	**-**	**-**	**-**	**4,190**	**4,190**
Dividends	6	**-**	**-**	**-**	**-**	**(1,761)**	**(1,761)**
Exchange differences on translation of foreign operations		**-**	**-**	**-**	**(63)**	**-**	**(63)**
Actuarial loss on defined benefit pension schemes	9	**-**	**-**	**-**	**-**	**(2,205)**	**(2,205)**
Tax on actuarial loss for the year	10	**-**	**-**	**-**	**-**	**507**	**507**
Deferred tax on pension related items	10					**(365)**	**(365)**
At 31 December 2012		**28,755**	**70**	**(810)**	**183**	**(4,180)**	**24,018**

Macfarlane Group PLC

Consolidated balance sheet at 31 December 2012

	Note	2012 £000	2011 £000
Non-current assets			
Goodwill and other intangible assets		**25,710**	26,016
Property, plant and equipment		**7,718**	8,414
Other receivables		**1,783**	1,916
Deferred tax assets	10	**4,906**	5,744
Total non-current assets		**40,117**	42,090
Current assets			
Inventories		**8,120**	8,637
Trade and other receivables		**34,515**	36,609
Cash and cash equivalents	8	**289**	199
Total current assets		**42,924**	45,445
Total assets	**3**	**83,041**	87,535
Current liabilities			
Trade and other payables		**31,705**	34,006
Current tax liabilities		**256**	350
Provisions		**332**	332
Finance lease liabilities	8	**126**	233
Bank borrowings	8	**6,954**	7,434
Total current liabilities		**39,373**	42,355
Net current assets		**3,551**	3,090
Non-current liabilities			
Retirement benefit obligations	9	**18,898**	20,484
Deferred tax liabilities	10	**381**	467
Provisions		**250**	250
Trade and other payables		**88**	105
Finance lease liabilities	8	**33**	159
Total non-current liabilities		**19,650**	21,465
Total liabilities	**3**	**59,023**	63,820
Net assets		**24,018**	23,715
Equity			
Share capital		**28,755**	28,755
Revaluation reserve		**70**	70
Own shares		**(810)**	(810)
Translation reserve		**183**	246
Retained earnings		**(4,180)**	(4,546)
Total equity	3	**24,018**	23,715

Macfarlane Group PLC

Consolidated cash flow statement

For the year ended 31 December 2012

	Note	2012 £000	2011 £000
Net cash inflow from operating activities	8	**3,358**	2,232
Investing activities			
Interest received		**31**	11
Disposal of subsidiary undertaking	8	**25**	24
Proceeds on disposal of property, plant and equipment		**3**	45
Purchases of property, plant and equipment		**(825)**	(1,228)
Net cash used in investing activities		**(766)**	(1,148)
Financing activities			
Dividends paid	6	**(1,761)**	(1,761)
Repayments of obligations under finance leases	8	**(233)**	(288)
Increase in bank loans	8	**-**	1,000
Net cash used in financing activities		**(1,994)**	(1,049)
Net increase in cash and cash equivalents	8	**598**	35
Cash and cash equivalents at beginning of year		**(1,235)**	(1,270)
Effect of exchange rate fluctuation on cash and cash equivalents held		**(28)**	-
Cash and cash equivalents at end of year	8	**(665)**	(1,235)

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2012

1. General information

The financial information set out in this preliminary announcement does not constitute the Group's statutory financial statements as defined in Section 435 of the Companies Act 2006 and has been extracted from the full statutory accounts for the years ended 31 December 2012 and 31 December 2011 respectively.

The financial statements for 2012 were approved by the Board of Directors on 5 March 2013. The auditor's report on the statutory financial statements for the year ended 31 December 2012 was unqualified pursuant to Section 498 of the Companies Act 2006 and did not contain a statement under sub-section 498 (2) or (3) of that Act.

The comparative figures for the financial year ended 31 December 2011 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's previous auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2. Basis of preparation

The Group's business activities, together with the factors likely to affect its future development, performance and financial position are set out on pages 1 to 10.

The Group's principal financial risks in the medium term relate to liquidity and credit risk. Liquidity risk is managed by ensuring that the Group's day-to-day working capital requirements are met by having access to banking facilities with suitable terms and conditions to accommodate the requirements of the Group's operations. Credit risk, which is heightened as a result of the difficulties customers may face in the current climate, is managed by applying considerable rigour in managing the Group's trade receivables. The Directors believe that the Group is adequately placed to manage its financial risks effectively despite the current uncertain economic outlook.

The Group's principal banking facility of £11.0 million has been renewed until 28 February 2014 and the Directors are of the opinion that the Group's cash forecasts and revenue projections, which they believe are based on prudent market data and past experience taking account of reasonably possible changes in trading performance given current market and economic conditions, show that the Group should be able to operate within its current facilities and comply with its banking covenants.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2012.

3. Segmental information

The Group's principal business segment is **Packaging Distribution,** comprising the distribution of packaging materials and supply of storage and warehousing services in the UK. This constitutes over 80% of Group turnover and profit and as such, the Group has elected to combine the remaining operations for the manufacture and supply of self-adhesive and resealable labels to a variety of FMCG customers in the UK & Europe and the design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK into one segment headed **Manufacturing Operations**. No individual business segments within Manufacturing Operations represents more than 10% of Group turnover or profit.

3. Segmental information (continued)

Packaging Distribution	**2012 Before Exceptional items £000**	2012 Exceptional items £000	**2012 £000**
Revenue	**114,807**	**-**	**114,807**
Cost of sales	**(80,077)**	**-**	**(80,077)**
Gross profit	**34,730**	**-**	**34,730**
Net operating expenses	**(29,863)**	**776**	**(29,087)**
Operating profit	**4,867**	**776**	**5,643**
Manufacturing Operations			
Revenue	**27,016**	**-**	**27,016**
Cost of sales	**(16,433)**	**-**	**(16,433)**
Gross profit	**10,583**	**-**	**10,583**
Net operating expenses	**(9,616)**	**217**	**(9,399)**
Operating profit	**967**	**217**	**1,184**

Packaging Distribution	2011 £000
Revenue	116,674
Cost of sales	(82,594)
Gross profit	34,080
Net operating expenses	(29,518)
Operating profit	4,562
Manufacturing Operations	
Revenue	27,883
Cost of sales	(18,309)
Gross profit	9,574
Net operating expenses	(9,447)
Operating profit	127

Exceptional items 2012	Packaging Distribution £000	Manufacturing Operations £000	**2012 £000**
Pension Scheme			
Pension Increase Exchange exercise	872	983	**1,855**
Related professional costs	(96)	(109)	**(205)**
	776	874	**1,650**
Provisions for relocation costs in Ireland	-	(657)	**(657)**
	776	217	**993**

3. Segmental information (continued)

During 2012, the Group made the decision to amend benefits for pensioner, deferred and active members in the defined benefit pension scheme by making a Pension Increase Exchange ("PIE") offer to pensioner members at 1 May 2012 and providing a PIE option for deferred and active members after 1 May 2012. The PIE offer enabled current pensioners to exchange non-statutory increase to pensions in payment for higher flat-rate pensions, which do not escalate in future years. The PIE option enables deferred and active members to have the same principle applied to their pension options on retirement.

Following the agreement of the Pension Scheme Trustees and the completion of a Deed of Amendment, the PIE offer was made to the pensioner members. The pensioner members who accepted the offer, represented 35% of the pensioner liabilities and the changes to their benefits took effect on 1 May 2012. For all retirements after 1 May 2012, it has been assumed that 35% of deferred and active members take up the option to receive a higher flat-rate pension in place of non-statutory increases. As a result of both of these actions, a gain of £1.65 million was recorded in the first half of 2012 after charging attributable professional expenses of £0.20 million.

As announced in November 2012, our Manufacturing site in Dublin will be relocated to our site in Wicklow by the end of the first quarter in 2013 with the Dublin property becoming available for sale at that point. The Dublin relocation has given rise to an estimated exceptional charge of £0.66 million of which £0.46 million relates to the impairment of the Dublin property and is non-cash.

Exceptional items are those transactions material to the income statement where separate disclosure is necessary for an appropriate understanding of the Group's financial performance. There were no exceptional items in 2011.

Group segment	**2012 £000**	2011 £000
Packaging Distribution	**5,643**	4,562
Manufacturing Operations	**1,184**	127
Operating profit – continuing operations	**6,827**	4,689
Net finance costs	**(920)**	(815)
Profit before tax	**5,907**	3,874
Tax	**(1,717)**	(455)
Profit for the year	**4,190**	3,419

	Assets £000	**Liabilities £000**	**Net assets £000**
Group segments			
Packaging Distribution	**69,054**	**50,868**	**18,186**
Manufacturing Operations	**13,987**	**8,155**	**5,832**
Net assets 2012	**83,041**	**59,023**	**24,018**
Packaging Distribution	71,838	54,801	17,037
Manufacturing Operations	15,697	9,019	6,678
Net assets 2011	87,535	63,820	23,715

4. Net finance expense

	2012 **£000**	2011 £000
Interest on bank loans and overdrafts	**(434)**	(460)
Interest on obligations under finance leases	**(16)**	(33)
Interest cost of pension scheme liabilities	**(3,186)**	(3,280)
Total finance costs	**(3,636)**	(3,773)
Expected return on pension scheme assets	**2,685**	2,947
Investment income	**31**	11
Total finance income	**2,716**	2,958
Net finance expense	**(920)**	(815)

5. Tax

	2012 **£000**	2011 £000
Current tax		
United Kingdom corporation tax at 24.5% (2011: 26.5%)	**(811)**	(381)
Foreign tax	**(12)**	(12)
Total current tax	**(823)**	(393)
Total deferred tax	**(894)**	(62)
Total	**(1,717)**	(455)

The standard rate of tax based on the UK average rate of corporation tax, is 24.5% (2011 – 26.5%). Taxation for other jurisdictions is calculated at the rates prevailing in these jurisdictions. The actual tax charge for the current and previous year varies from 24.5% (2011 – 26.5%) of the results as set out in the income statement for the reasons set out in the following reconciliation:

	2012 **£000**	2011 £000
Profit before taxation	**5,907**	3,874
Tax on profit at 24.5% (2011 – 26.5%)	**(1,447)**	(1,027)
Factors affecting tax charge for the year:-		
Other timing differences	**(27)**	67
Adjustment in respect of prior years	**(129)**	451
Impairment of land and buildings	**(114)**	-
Utilisation of tax losses not previously recognised	**-**	54
Tax charge for the year	**(1,717)**	(455)

6. Dividends

	2012	2011
	£000	£000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2011 of 1.05p per share (2010 – 1.05p per share)	**1,193**	1,193
Interim dividend for the year ended 31 December 2012 of 0.50p per share (2011 – 0.50p per share)	**568**	568
	1,761	1,761

Dividends are not payable on own shares held in the employee share trust.

In addition to the amounts shown above, a proposed dividend of 1.05p per share will be paid on 6 June 2013 to those shareholders on the register at 10 May 2013 and is subject to approval by shareholders at the Annual General Meeting in 2013 and has not been included as a liability in these financial statements.

7. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	2012	2011
	£000	£000
Earnings per share	**3.69p**	3.01p
Earnings from continuing operations for the purposes of earnings per share being profit for the year from continuing operations	**4,190**	3,419

Number of shares in issue for the purposes of calculating basic and diluted earnings per share	**2012 No. of shares '000**	2011 No. of shares '000
Weighted average number of ordinary shares in issue	**115,019**	115,019
Weighted average number of shares in Employee Share Ownership Trusts	**(1,436)**	(1,463)
Weighted average number of shares in issue for the purposes of basic earnings per share	**113,583**	113,556
Effect of dilutive potential ordinary shares due to share options	**-**	-
Weighted average number of shares in issue for the purposes of diluted earnings per share	**113,583**	113,556

8. Notes to the cash flow statement

	2012 £000	2011 £000
Operating profit before exceptional items	**5,834**	4,689
Adjustments for:		
Amortisation of intangible assets	**306**	390
Depreciation of property, plant and equipment	**1,020**	998
Loss on disposal of property, plant and equipment	**1**	11
Operating cash flows before movements in working capital	**7,161**	6,088
Decrease in inventories	**517**	443
Decrease/(increase) in receivables	**2,202**	(3,155)
(Decrease)/increase in payables	**(2,572)**	1,557
Adjustment for pension scheme funding	**(2,583)**	(2,169)
Cash generated by operations	**4,725**	2,764
Income taxes paid	**(917)**	(39)
Interest paid	**(450)**	(493)
Net cash inflow from operating activities	**3,358**	2,232

Movement in net debt		**2012 £000**	2011 £000
Decrease in cash and cash equivalents in the year		**570**	35
Increase in bank loans		**-**	(1,000)
Repayment of obligations under finance leases		**233**	288
Movement in net debt in the year		**803**	(677)
Opening net debt		**(7,627)**	(6,950)
Closing net debt		**(6,824)**	(7,627)
Net debt comprises:			
Cash and cash equivalents		**289**	199
Bank overdrafts and loans		**(954)**	(1,434)
Cash and cash equivalents in statement of cash flows		**(665)**	(1,235)
Bank loans		**(6,000)**	(6,000)
Net bank debt		**(6,665)**	(7,235)
Obligations under finance leases	Due within one year	**(126)**	(233)
	Due outwith one year	**(33)**	(159)
Closing net debt		**(6,824)**	(7,627)

Cash and cash equivalents (which are presented as a single class of asset on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with maturity of three months or less.

Bank overdrafts and loans comprise £6.0m of loans repayable within one year, the remainder being bank overdrafts repayable on demand for which there is no right of offset against cash and cash equivalents on the balance sheet. For the purposes of the cash flow statement, the overdraft is included within cash and cash equivalents.

Retention monies of £25,000 relating to previous years' disposals were received in 2012 (2011 - £24,000). These represent the only cash flows in 2012 and 2011 from discontinued operations.

9. Pension scheme

The Group operates a pension scheme based on final pensionable salary for its UK operations. Active employees accrue benefits of 1/60 of pensionable salary for each completed year's service on attainment of a normal retirement age of 65. The assets of the scheme are held separately from those of the Group in managed funds under the overall supervision of the scheme trustees.

The pension scheme's qualified actuary carries out triennial valuations using the Projected Unit method to determine the level of deficit. The most recent triennial valuation was completed at 1 May 2011. The principal assumptions adopted were that investment returns would average 6.15% per annum and that no further salary increases would apply for active members. The results of the valuation showed that the market value of the assets of the scheme was £46,959,000 and the actuarial value of these assets represented 66% of the value of benefits that had accrued to members.

The final salary scheme was closed to new entrants during 2002.

The employer contribution rate is now 11.6% of pensionable salary, and the employee contribution rate is 7% of pensionable salary from 1 July 2012 following actuarial advice.

During 2012, the Group made the decision to amend benefits for pensioner, deferred and active members in the defined benefit pension scheme by making a Pension Increase Exchange ("PIE") offer to pensioner members at 1 May 2012 and providing a PIE option for deferred and active members after 1 May 2012. Details are set out in note 3 and as a result of both of these actions, a gain of £1.65 million was recorded in the first half of 2012 after charging attributable professional expenses of £0.20 million.

Balance sheet disclosures

The assets in the scheme, the net liability position for the scheme and the expected rates of return have been based on the results of the actuarial valuation as at 1 May 2011, updated to the year-end.

	Fair value 2012 £000	Fair value 2011 £000	Fair value 2010 £000	Fair value 2009 £000	Fair value 2008 £000
Asset class					
Equities	**14,474**	12,782	26,577	23,315	18,332
Multi-asset diversified funds	**13,026**	12,206	-	-	-
Bonds	**23,544**	21,806	18,436	17,277	17,506
Other (cash)	**305**	174	280	30	105
Fair value of assets	**51,349**	46,968	45,293	40,622	35,943
Present value of scheme liabilities	**(70,247)**	(67,452)	(61,018)	(60,988)	(53,420)
Deficit in the scheme	**(18,898)**	(20,484)	(15,725)	(20,366)	(17,477)
Related deferred tax asset (see note 10)	**4,346**	5,121	4,246	5,702	4,894
Net pension scheme liability	**(14,552)**	(15,363)	(11,479)	(14,664)	(12,583)

The investments of £51,349,000 (2011 - £46,968,000) include a holding of 1,145,918 ordinary shares in Macfarlane Group PLC (2011 – 1,1,45,918) held at a value of £321,000 (2011 - £215,000).

9. Pension scheme (continued)

The scheme's liabilities were calculated on the following bases as required under IAS 19:

Assumptions	**2012**	2011	2010	2009	2008
Discount rate	**4.40%**	4.80%	5.50%	5.75%	6.25%
Rate of increase in salaries	**0.00%**	0.00%	0.00%	3.50%	2.75%
Inflation assumption (RPI)	**3.00%**	3.00%	3.50%	3.50%	2.75%
Inflation assumption (CPI)	**2.30%**	2.20%			
Spouse's pension assumption					
Pensioner members	**70%**	90%	90%	90%	90%
Deferred and active members	**80%**	90%	90%	90%	90%
Life expectancy beyond normal retirement date of 65					
Male	**22.4 years**	22.3 years	21.5 years	21.3 years	21.3 years
Female	**24.6 years**	24.6 years	24.0 years	24.0 years	24.0 years

Movement in scheme deficit	**2012 £000**	2011 £000	2010 £000	2009 £000	2008 £000
At 1 January	**(20,484)**	(15,725)	(20,366)	(17,477)	(14,272)
Current service cost	**(146)**	(150)	(119)	(240)	(237)
Settlement (losses)/gains	**-**	(13)	50	134	86
Pension Increase Exchange gain	**1,855**	-	-	-	-
Curtailment gain	**-**	-	1,200	-	-
Employer contributions	**2,583**	2,169	2,705	2,415	1,558
Net finance cost	**(501)**	(333)	(735)	(916)	(445)
Actuarial (loss)/gain in year	**(2,205)**	(6,432)	1,540	(4,282)	(4,167)
At 31 December	**(18,898)**	(20,484)	(15,725)	(20,366)	(17,477)

The present value of scheme liabilities increased significantly in 2012 as a direct consequence of corporate bond yields reducing from 4.80% to 4.40%. This caused liabilities in 2012 to increase by just over £4.0 million.

Longevity assumptions were strengthened to reflect improvements in life expectancy and whilst this also increased liabilities, the effect was more muted.

Following the triennial valuation at 1 May 2011, the Company reached agreement with the Pension Scheme Trustees on a new schedule of contributions to take effect from 1 May 2012, which assumes a recovery plan period of 13 years. The estimated cash contributions to the scheme to reduce the deficit in 2013 will not exceed £2.5 million.

The Company's pension scheme deficit is sensitive to movements in interest rates, inflation and longevity assumptions. This constitutes an ongoing risk, creating significant volatility in the charges and equity in each financial year.

10. Deferred tax

	2012 £000	2011 £000
At 1 January	**5,277**	4,044
Charged in income statement	**(894)**	(62)
Charged in other comprehensive income		
Deferred tax on actuarial loss	**507**	1,608
Deferred tax on pension related items	**(365)**	(313)
At 31 December	**4,525**	5,277

	2012 £000	2011 £000
Retirement benefit obligations (see note 9)	**4,346**	5,121
Corporation tax losses	**728**	1,109
Accelerated tax depreciation and tax on held over gains	**(168)**	(486)
Disclosed as deferred tax asset	**4,906**	5,744
Other intangible assets		
Disclosed as a deferred tax liability	**(381)**	(467)
At 31 December	**4,525**	5,277

The Chancellor's Autumn Statement on 5 December 2012 announced that the UK corporation tax rate will reduce to 21% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

The impact of the rate reductions, which will be reflected in the next reporting period, is estimated to reduce our UK deferred tax balances by a net value of £0.4 million, however the actual impact will be dependent on our deferred tax position at that time.

11. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed.

Details of individual and collective remuneration of the Company's Directors and dividends received by the Directors for calendar year 2012 will be disclosed in the Group's Annual Report for the year ending 31 December 2012.

The fair value of investments at 31 December 2012, shown in the pension scheme disclosures in note 9, include 1,145,918 (2011 – 1,145,918) shares in Macfarlane Group PLC with a value of £321,000 (2011 - £215,000).

The directors are satisfied that there are no other related party transactions occurring during the six month period which require disclosure.

12. Posting to shareholders and Annual General Meeting

The Annual Report and Accounts will be sent to shareholders on Thursday 28 March 2013 and will be available to members of the public at the Company's Registered Office, 21 Newton Place, Glasgow G3 7PY from 5 April 2013. The Annual General Meeting will take place at the Thistle Hotel, Cambridge Street Glasgow at 12 noon on Tuesday 7 May 2013.