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# CHAIRMAN'S STATEMENT

## PERFORMANCE IN THE SIX MONTHS TO 30 JUNE 2012

Macfarlane provides a comprehensive range of packaging and label products to a broad base of UK and international customers. Our customers operate in a diverse range of business sectors, some experiencing good growth and others affected by the generally difficult economic environment. Our ability to respond to the changing requirements of our customers across these different business sectors is one of the Group's core strengths and has assisted in achieving the progress reflected in these results.

Sales growth in the first six months of the year was hard to generate in the face of reduced demand, price deflation and the active management of lower-margin business. Despite the difficult conditions, new business achievement has been positive. The Group has strengthened its margins, through the effective management of supplier price movements, improved productivity and a more favourable customer and product mix.

In Packaging Distribution, operating profit before exceptional items increased to £1.7 million (2011: £1.3 million). Our Manufacturing Operations also grew operating profit before exceptional items to £0.3 million (2011: £0.1 million). Overall, the Group recorded a 65% increase in profit before tax and exceptional items to £1.5 million (2011: £0.9 million). This increase in first half profits represents solid progress in tough conditions.

## PENSION DEFICIT AND NET DEBT

The Group's pension deficit at 30 June 2012 was £17.3 million, a reduction of £3.2 million compared to the deficit at 31 December 2011. Along with many other companies, we experienced a further substantial and adverse impact from bond yield movements in the six-month period, over which the Group has no control. However, the Pension Increase Exchange exercise undertaken by management in conjunction with the Pension Scheme Trustees has resulted in an improvement in the deficit. The ongoing objective is to achieve a fair balance between the interests of Macfarlane shareholders and the members of the pension scheme, both of whose interests are best served by a strong and growing Macfarlane Group and we continue to work on ways to manage the deficit.

Net debt at 30 June 2012 was £7.8 million, a reduction of £2.6 million compared to the same point last year. This reflects a continued focus

on effective cash management and our limited requirement for capital expenditure on a well-invested infrastructure. The Group is again expected to be cash generative in the second half of the year.

## DIVIDEND

In reporting our full year results for 2011, we explained the potential difficulty posed by volatile bond yield movements and their effect on the reserves we need to maintain dividend levels. I am pleased to confirm that the action taken on the pension deficit has enabled the Board to recommend that the interim dividend be maintained at its 2011 level of 0.50p per share to be paid on 11 October 2012 to shareholders on the register as at Friday 14 September 2012.

The continued impact of bond yield movements across the whole market means that we must continue to register caution with respect to the full year dividend. Over time we believe we will successfully and progressively contain the pension deficit and I reiterate the Board's objective to pay a full dividend for 2012. Shareholders will be kept advised of our progress.

## BOARD COMPOSITION

Since my appointment as Chairman in May of this year, we have been actively engaged in the recruitment of new Non-Executive Directors and expect to make an announcement about this in the near future.

## OUTLOOK

Trading in July and August 2012 to date continues to be satisfactory and in line with our expectations.

Demand conditions in the UK remain weak and it would be unwise to presume that general economic conditions will improve in the foreseeable future. However, our first half results indicate what can be achieved by talented and determined management and staff, working closely with our customers and other partners, and this gives us confidence that we can deliver to our expectations for 2012.



**Graeme Bisset**  
Chairman  
30 August 2012



# INTERIM RESULTS – MANAGEMENT REPORT

Macfarlane Group's trading activities comprise two divisions, **Packaging Distribution** and **Manufacturing Operations**.

## PACKAGING DISTRIBUTION

The Macfarlane **Packaging Distribution** business is the leading UK distributor of a comprehensive range of packaging consumable products and in a highly fragmented market, Macfarlane is the market leader. The business operates through 16 Regional Distribution Centres (RDCs) supplying customers on a local, regional and national basis. We benefit customers by enabling them to ensure their products are cost-effectively protected in transit and storage by providing them with a broad product range, single source supply, just in time delivery and tailored stock management programmes.

In the first half of 2012, operating profit achieved by Macfarlane Packaging Distribution before exceptional items was £1.7 million (2011: £1.3 million). Demand levels in the UK economy remained weak in the first half of 2012 and this together with price deflation impacted sales in a number of the market sectors we serve. There was continued volatility with supplier price movements but active management of these movements was a major focus resulting in the strengthening of our gross margin. Overhead costs benefited from the continuing reorganisation of the property footprint.

The main features of our first half performance were:

- > Sales at £55.0 million were at similar levels to 2011, reflecting price deflation as well as reduced demand across a number of the key customer sectors we supply;
  - > New business revenue was strong and ahead of 2011 levels;
  - > Supplier price movements have remained a key feature in 2012. However the considerable work at the end of 2011 and the start of this year has enabled us to improve gross margins to 30.4% (2011: 29.2%);
  - > Operating costs (before exceptional items) increased by 2% compared to 2011, primarily driven by incremental expenditure to support the development of our strategic initiatives outlined below;
  - > Significant work has taken place in preparation for the upgrading of our major software platform in 2H 2012;
  - > Property costs were 10% below 2011 as a result of the relocation of the Coventry NDC in H2 2011, the consolidation of the sites in Hayes in 2011 and the closure of our RDC at Basingstoke and its absorption into our Fareham RDC in February 2012;
  - > In order to improve our ability to service customers requiring a broader European capability, Macfarlane has become a member of the NovuPak partnership, a network of packaging companies currently active in Scandinavia, Germany, Belgium and Holland; and
  - > Momentum continues to build in the development of our key strategic initiatives particularly: improved penetration of the third party logistics sector ("3PL"), good new business levels in our presentational and retail packaging ("PRP") business and increased visitor numbers to our upgraded website: [www.macfarlanepackaging.com](http://www.macfarlanepackaging.com).
- We expect demand to remain subdued in the second half of 2012 and therefore our focus will be on a selection of key areas:
- > We will build on our new business momentum in 2H 2012, as we expand our focus on specific industry sectors, which benefit from Macfarlane's national coverage;
  - > Supplier pricing remains volatile and we will work closely both with our suppliers and customers to maintain gross margins in the remainder of the year;
  - > Opportunities are being investigated to reduce further the long-term property costs of our Packaging Distribution business although these may not produce benefits until 2013;
  - > We will introduce our new upgraded software platform, which will provide a more robust base as we seek to grow the business in future years;
  - > We will accelerate the development of our key strategic initiatives, particularly
    - our penetration of the 3PL sector;
    - the roll out of our PRP business; and
    - utilising our web-based packaging service, [www.macfarlanepackaging.com](http://www.macfarlanepackaging.com);

- > We will look to use our membership of NovuPak to create growth opportunities with pan-European customers and to reduce supplier prices through pooling our purchasing spend; and
- > Productivity improvement initiatives will be introduced through Best Practice programmes, which will help support all RDCs to ensure that they operate to their full potential.

## MANUFACTURING OPERATIONS

Macfarlane's manufacturing businesses comprise **Labels** producing high quality self-adhesive and resealable labels and **Packaging Manufacturing**, which designs and manufactures bespoke, composite transit packaging and protective packaging components.

In the first half of 2012 the **Manufacturing Operations** recorded an operating profit before exceptional items of £0.3 million (2011: £0.1 million). Key features of the performance in the first six months of 2012 were:

- > Sales decreased by 4% as we took positive actions to reduce the impact of lower margin business;
- > Demand for packaging remained subdued across the industrial manufacturing sector and pricing, particularly in the self adhesive label sector, continued to be highly competitive; and
- > Gross margins increased to 38.5% compared with 33.4% in the first half of 2011 reflecting management actions on lower margin customers in both businesses and improved operational efficiency particularly in Labels.

**Labels** operate from two plants, Kilmarnock and Dublin, designing and producing high quality self-adhesive and resealable labels primarily for consumer packs.

In the first half of 2012 sales revenue was 5% below the same period in 2011 reflecting the impact of our actions on the lower margin contracts. However the self-adhesive label sector remains extremely competitive as retailer pressure continues to impact margins unfavourably. The position in the resealable sector is more positive and we have generated good first half sales growth. New product sectors are beginning to adopt the resealable label format and we are experiencing improved penetration of our Reseal-it product in the UK, Europe and the USA.

Despite the sales weakness, Labels margins have improved gradually in the first six months and as a result, profit in the first half of 2012 was well above that achieved in the same period in 2011.

We operate the **Packaging Manufacturing** business from two UK sites – Grantham and Westbury, both of which design and manufacture bespoke packaging solutions for customers who require cost-effective methods of protecting higher-value products in storage and transit.

Sales in our Packaging Manufacturing operations were 2% behind the same period in 2011 as demand remained subdued in a number of the key sectors of UK industry that we serve and we reduced our exposure to some lower margin customers. However gross margins strengthened as we concentrated on the higher added value key growth sectors and as a result, Packaging Manufacturing profit in 1H 2012 was also ahead of that achieved in the same period in 2011.

The priorities for Manufacturing Operations in the second half of 2012 are to:

- > Accelerate the Reseal-it growth momentum through improved geographic penetration, extending the Reseal-it product range and introducing Reseal-it to new product sectors;
- > Increase our new business in the UK self-adhesive labels market, particularly in the branded sectors in order to create a more balanced customer portfolio;
- > Maintain focus on operational and customer service improvements at both Packaging Manufacturing sites;
- > Accelerate Packaging Manufacturing sales growth, particularly in key sectors, e.g. Defence, Aerospace and Medical; and
- > Continue to strengthen the relationship between our Packaging Manufacturing operations and our Packaging Distribution business to create both sales and cost synergies.

## SUMMARY AND FUTURE PROSPECTS

The outlook for the UK economy remains subdued and with uncertain levels of demand, it is clear that trading conditions will continue to be challenging. Our immediate priority is to ensure that we successfully manage through this period by focusing our sales activities on added value products in those UK market sectors less vulnerable to the economic downturn.

# INTERIM RESULTS – MANAGEMENT REPORT

We will continue to invest in our key strategic initiatives while exercising overall tight cost control.

The future progress of the business is dependent on the successful execution of our plans in respect of the current strategic development opportunities. The encouraging progress of these plans has been a factor in helping to counter lower overall demand in the UK market.

The Macfarlane business is well positioned and has a flexible business model, focused for both the short and medium-term. The current operational and strategic initiatives being implemented have helped improve performance in recent years. Further concentration on these initiatives will enable the business to progress towards achieving its full potential.

## RISKS AND UNCERTAINTIES

The principal risks and uncertainties, which could impact on the performance of the Group, were outlined in our Annual Report and Accounts for 2011 (available on our website at [www.macfarlanegroup.com](http://www.macfarlanegroup.com)) together with the mitigating actions. These remain substantially the same for the remaining six months of the financial year and are summarised below:

- > In Packaging Distribution, the business model reflects a decentralised approach with a high dependency on effective local decision-making, which is closely monitored with regular reviews of performance and prospects for all locations;
- > All parts of the Group are vulnerable to commodity-based raw material prices and manufacturer energy costs, with profitability sensitive to supplier price changes, however the Group works closely with its supply partners to effectively manage the scale and timing of these changes and any resultant impact on profit;
- > 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 the mortality assumptions for the members of the scheme. The Group has sought to manage the volatility of the pension scheme deficit caused by these factors by undertaking a number of exercises to reduce the deficit and additional exercises will be considered in the future;

- > Given the multi-site nature of its business the Group has an extensive property portfolio, which can give rise to risks for ongoing lease costs, dilapidations and fluctuations in value and accordingly the Group adopts a proactive approach to managing property costs and exposures;
- > The Group needs continuous access to funding to meet its trading obligations and to support organic growth and 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 fulfils this requirement for access to funding through an annually renewed facility with acceptable covenant tests. This arrangement has been in place consistently for a number of years and it is expected that a similar facility will be established at the expiry of the current facility in February 2013. The relationship with our bankers Lloyds Banking Group remains strong and constructive; and
- > The Group has a significant investment in working capital in the form of trade receivables and inventories and there is a risk that this investment is not fully recovered. However considerable rigour is applied to the management of trade receivables and inventories to mitigate these risks.

The Group operates a formal framework for the identification and evaluation of the major business risks faced by each business and determines an appropriate course of action to manage these risks.

## CAUTIONARY STATEMENT

This announcement has been prepared solely to provide additional information to shareholders 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 announcement contains certain 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 announcement. Such statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. These statements should be treated with caution as 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.

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

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/ Senior Independent Director

The Directors confirm that, to the best of their knowledge:

- (i) the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- (ii) the interim management report includes a fair review of the information required by:
  - a. DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

- b. DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Approved by the Board of Directors on 30 August 2012 and signed on its behalf by:



**Peter D. Atkinson**  
Chief Executive

**John Love**  
Finance Director

# INDEPENDENT REVIEW REPORT TO MACFARLANE GROUP PLC

## INTRODUCTION

We have been engaged by the Company to review the condensed set of financial statements in the half yearly financial report for the six months ended 30 June 2012, which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated balance sheet, the condensed consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

## DIRECTORS' RESPONSIBILITIES

The half yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1 the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in the half yearly financial report has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU.

## OUR RESPONSIBILITY

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half yearly financial report based on our review.

## SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of the persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.



**Craig Anderson**  
for and on behalf of KPMG Audit Plc  
Chartered Accountants  
191 West George Street  
Glasgow G2 2J  
30 August 2012



**CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)**

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	NOTE	SIX MONTHS TO 30 JUNE 2012 BEFORE EXCEPTIONAL ITEMS £000	EXCEPTIONAL ITEMS £000 (SEE NOTE 4)	SIX MONTHS TO 30 JUNE 2012 £000	SIX MONTHS TO 30 JUNE 2011 £000	YEAR TO 31 DECEMBER 2011 £000
<b>CONTINUING OPERATIONS</b>	3					
Revenue		68,043	–	68,043	68,520	144,557
Cost of sales		(46,280)	–	(46,280)	(47,926)	(100,903)
<b>GROSS PROFIT</b>		21,763	–	21,763	20,594	43,654
Distribution costs		(3,679)	–	(3,679)	(3,375)	(6,976)
Administrative expenses		(16,099)	1,650	(14,449)	(15,884)	(31,989)
<b>OPERATING PROFIT</b>	3	1,985	1,650	3,635	1,335	4,689
Finance income	5	1,348	–	1,348	1,480	2,958
Finance costs	5	(1,809)	–	(1,809)	(1,894)	(3,773)
<b>PROFIT BEFORE TAX</b>		1,524	1,650	3,174	921	3,874
Tax	6	(469)	(396)	(865)	(217)	(455)
<b>PROFIT FOR THE PERIOD</b>	8	1,055	1,254	2,309	704	3,419
<b>EARNINGS PER ORDINARY SHARE</b>	8					
Basic and diluted		0.93p	1.10p	2.03p	0.62p	3.01p

There were no exceptional items in 2011.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	NOTE	SIX MONTHS TO 30 JUNE 2012 £000	SIX MONTHS TO 30 JUNE 2011 £000	YEAR TO 31 DECEMBER 2011 £000
Exchange difference on translation of foreign operations		(63)	88	(70)
Actuarial gain/(loss) on defined benefit pension schemes	10	491	(535)	(6,432)
Tax on items taken direct to equity				
Actuarial (gain)/loss for the period	11	(118)	144	1,608
Long-term corporation tax rate change on pension deficit	11	(205)	(155)	(313)
<b>OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD</b>		105	(458)	(5,207)
Profit for the period		2,309	704	3,419
<b>TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD</b>		2,414	246	(1,788)

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	NOTE	SHARE CAPITAL £000	REVALUATION RESERVE £000	OWN SHARES £000	TRANSLATION RESERVE £000	RETAINED EARNINGS £000	TOTAL £000
At 1 January 2012		28,755	70	(810)	246	(4,546)	23,715
Profit for the period		–	–	–	–	2,309	2,309
Dividends	7	–	–	–	–	(1,193)	(1,193)
Exchange differences on translation of foreign operations		–	–	–	(63)	–	(63)
Actuarial gain on defined benefit pension scheme	10	–	–	–	–	491	491
Tax on actuarial gain	11	–	–	–	–	(118)	(118)
Long-term corporation tax rate change on deferred tax	11	–	–	–	–	(205)	(205)
<b>AT 30 JUNE 2012</b>		28,755	70	(810)	183	(3,262)	24,936

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	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 period		–	–	–	–	704	704
Dividends	7	–	–	–	–	(1,193)	(1,193)
Exchange differences on translation of foreign operations		–	–	–	88	–	88
Actuarial loss on defined benefit pension scheme	10	–	–	–	–	(535)	(535)
Tax on actuarial loss	11	–	–	–	–	144	144
Long-term corporation tax rate change on deferred tax	11	–	–	–	–	(155)	(155)
Transfer of own shares to pension scheme		–	–	44	–	(24)	20
Credit in respect of share-based payments		–	–	–	–	8	8
<b>AT 30 JUNE 2011</b>		<b>28,755</b>	<b>70</b>	<b>(811)</b>	<b>404</b>	<b>(2,102)</b>	<b>26,316</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE YEAR ENDED 31 DECEMBER 2011

	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	7	–	–	–	–	(1,761)	(1,761)
Exchange differences on translation of foreign operations		–	–	–	(70)	–	(70)
Actuarial loss on defined benefit pension scheme	10	–	–	–	–	(6,432)	(6,432)
Tax on actuarial loss	11	–	–	–	–	1,608	1,608
Long-term corporation tax rate change on deferred tax	11	–	–	–	–	(313)	(313)
Transfer of own shares to pension scheme		–	–	45	–	(24)	21
Credit in respect of share-based payments		–	–	–	–	8	8
<b>AT 31 DECEMBER 2011</b>		<b>28,755</b>	<b>70</b>	<b>(810)</b>	<b>246</b>	<b>(4,546)</b>	<b>23,715</b>

**CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)**

AT 30 JUNE 2012

	NOTE	30 JUNE 2012 £000	30 JUNE 2011 £000	31 DECEMBER 2011 £000
<b>NON-CURRENT ASSETS</b>				
Goodwill		24,149	24,149	24,149
Other intangible assets		1,714	2,104	1,867
Property, plant and equipment		8,357	8,297	8,414
Other receivables		1,850	857	1,916
Deferred tax asset	11	4,784	4,388	5,744
<b>TOTAL NON-CURRENT ASSETS</b>		<b>40,854</b>	<b>39,795</b>	<b>42,090</b>
<b>CURRENT ASSETS</b>				
Inventories		9,157	10,355	8,637
Trade and other receivables		32,465	33,973	36,609
Cash and cash equivalents	9	307	187	199
<b>TOTAL CURRENT ASSETS</b>		<b>41,929</b>	<b>44,515</b>	<b>45,445</b>
<b>TOTAL ASSETS</b>	3	<b>82,783</b>	<b>84,310</b>	<b>87,535</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables		30,738	30,632	34,006
Current tax liabilities		642	13	350
Provisions		332	332	332
Obligations under finance leases	9	137	277	233
Bank overdrafts and loans	9	7,899	10,050	7,434
<b>TOTAL CURRENT LIABILITIES</b>		<b>39,748</b>	<b>41,304</b>	<b>42,355</b>
<b>NET CURRENT ASSETS</b>		<b>2,181</b>	<b>3,211</b>	<b>3,090</b>
<b>NON-CURRENT LIABILITIES</b>				
Retirement benefit obligations	10	17,256	15,558	20,484
Deferred tax liabilities	11	411	544	467
Provisions		250	250	250
Other creditors		97	113	105
Obligations under finance leases	9	85	225	159
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>18,099</b>	<b>16,690</b>	<b>21,465</b>
<b>TOTAL LIABILITIES</b>		<b>57,847</b>	<b>57,994</b>	<b>63,820</b>
<b>NET ASSETS</b>	3	<b>24,936</b>	<b>26,316</b>	<b>23,715</b>
<b>EQUITY</b>				
Share capital		28,755	28,755	28,755
Revaluation reserve		70	70	70
Own shares		(810)	(811)	(810)
Translation reserve		183	404	246
Retained earnings		(3,262)	(2,102)	(4,546)
<b>TOTAL EQUITY</b>		<b>24,936</b>	<b>26,316</b>	<b>23,715</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	NOTE	SIX MONTHS TO 30 JUNE 2012 £000	SIX MONTHS TO 30 JUNE 2011 £000	YEAR TO 31 DECEMBER 2011 £000
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	9	1,404	(1,799)	2,232
<b>INVESTING ACTIVITIES</b>				
Interest received		5	6	11
Disposal of subsidiary undertaking		25	23	24
Proceeds on disposal of property, plant and equipment		–	3	45
Purchases of property, plant and equipment		(428)	(455)	(1,228)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		(398)	(423)	(1,148)
<b>FINANCING ACTIVITIES</b>				
Dividends paid	7	(1,193)	(1,193)	(1,761)
Repayments of obligations under finance leases		(170)	(178)	(288)
Increase in bank loans		–	1,000	1,000
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		(1,363)	(371)	(1,049)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		(357)	(2,593)	35
Cash and cash equivalents at beginning of period		(1,235)	(1,270)	(1,270)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	9	(1,592)	(3,863)	(1,235)

# NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2012

## 1. BASIS OF PREPARATION

This condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

The annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. As required by the Disclosure and Transparency Rules of the Financial Services Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2011.

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 the Interim Management Report on pages 1 to 5.

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 £11.5 million has been renewed until 28 February 2013 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. The Group has held preliminary discussions with its bankers about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on commercially acceptable terms.

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 this condensed set of financial statements.

These condensed financial statements were approved by the Board of Directors on 30 August 2012.

KPMG Audit Plc was appointed as auditor at the Annual General Meeting on 8 May 2012. This condensed set of financial statements is unaudited but has been formally reviewed by the auditor and their Independent Review Report to the Company is set out on page 6.

## 2. GENERAL INFORMATION

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.

The interim report will be posted to shareholders on 10 September 2012. Copies will be available from the registered office, 21 Newton Place, Glasgow G3 7PY and available on the Company's website, [www.macfarlanegroup.com](http://www.macfarlanegroup.com), from that date.

### 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.

#### Trading results continuing operations

	SIX MONTHS TO 30 JUNE 2012 BEFORE EXCEPTIONAL ITEMS £000	EXCEPTIONAL ITEMS £000 (SEE NOTE 4)	SIX MONTHS TO 30 JUNE 2012 £000
<b>PACKAGING DISTRIBUTION</b>			
<b>REVENUE</b>	54,957	–	54,957
Cost of sales	(38,237)	–	(38,237)
<b>GROSS PROFIT</b>	16,720	–	16,720
Net operating expenses	(15,021)	1,320	(13,701)
<b>OPERATING PROFIT</b>	1,699	1,320	3,019
<b>MANUFACTURING OPERATIONS</b>			
<b>REVENUE</b>	13,086	–	13,086
Cost of sales	(8,043)	–	(8,043)
<b>GROSS PROFIT</b>	5,043	–	5,043
Net operating expenses	(4,757)	330	(4,427)
<b>OPERATING PROFIT</b>	286	330	616

	SIX MONTHS TO 30 JUNE 2011 £000
<b>PACKAGING DISTRIBUTION</b>	
<b>REVENUE</b>	54,831
Cost of sales	(38,809)
<b>GROSS PROFIT</b>	16,022
Net operating expenses	(14,748)
<b>OPERATING PROFIT</b>	1,274
<b>MANUFACTURING OPERATIONS</b>	
<b>REVENUE</b>	13,689
Cost of sales	(9,117)
<b>GROSS PROFIT</b>	4,572
Net operating expenses	(4,511)
<b>OPERATING PROFIT</b>	61

## NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2012

### 3. SEGMENTAL INFORMATION (CONTINUED)

#### Trading results continuing operations (continued)

	YEAR TO 31 DECEMBER 2011 £000
<b>PACKAGING DISTRIBUTION</b>	
<b>REVENUE</b>	116,674
Cost of sales	(82,594)
<b>GROSS PROFIT</b>	34,080
Net operating expenses	(29,518)
<b>OPERATING PROFIT</b>	4,562
<b>MANUFACTURING OPERATIONS</b>	
<b>REVENUE</b>	27,883
Cost of sales	(18,309)
<b>GROSS PROFIT</b>	9,574
Net operating expenses	(9,447)
<b>OPERATING PROFIT</b>	127

	SIX MONTHS TO 30 JUNE 2012 £000	SIX MONTHS TO 30 JUNE 2011 £000	YEAR TO 31 DECEMBER 2011 £000
<b>GROUP SEGMENT – TOTAL REVENUE</b>			
Packaging Distribution	54,957	54,831	116,674
Manufacturing Operations	15,043	15,925	32,566
Inter-segment revenue	(1,957)	(2,236)	(4,683)
<b>EXTERNAL REVENUE CONTINUING OPERATIONS</b>	68,043	68,520	144,557
<b>OPERATING PROFIT CONTINUING OPERATIONS</b>			
Packaging Distribution	3,019	1,274	4,562
Manufacturing Operations	616	61	127
<b>OPERATING PROFIT</b>	3,635	1,335	4,689
Net finance costs (see note 5)	(461)	(414)	(815)
<b>PROFIT BEFORE TAX</b>	3,174	921	3,874
Tax (see note 6)	(865)	(217)	(455)
<b>PROFIT FOR THE PERIOD</b>	2,309	704	3,419

The Packaging Distribution business benefits from additional demand in the final months of the year and accordingly revenue and profitability are higher in the second half of the year.



**3. SEGMENTAL INFORMATION (CONTINUED)**

	30 JUNE 2012 £000	30 JUNE 2011 £000	31 DECEMBER 2011 £000
<b>TOTAL ASSETS</b>			
Packaging Distribution	69,740	67,395	71,838
Manufacturing Operations	13,043	16,915	15,697
<b>TOTAL ASSETS</b>	<b>82,783</b>	<b>84,310</b>	<b>87,535</b>
<b>NET ASSETS</b>			
Packaging Distribution	16,803	19,840	17,037
Manufacturing Operations	8,133	6,476	6,678
<b>NET ASSETS</b>	<b>24,936</b>	<b>26,316</b>	<b>23,715</b>

**4. EXCEPTIONAL ITEMS**

	SIX MONTHS TO 30 JUNE 2012 £000
<b>PENSION SCHEME</b>	
Pension Increase Exchange exercise (see note 10)	1,855
Related professional costs	(205)
	<u>1,650</u>
Taxation charge thereon	(396)
<b>EXCEPTIONAL CREDIT AFTER RELATED TAX</b>	<b>1,254</b>

During 2012, Macfarlane Group PLC, 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 £0.2 million.

Exceptional items are those transactions that are material to the income statement and their separate disclosure is necessary for an appropriate understanding of the Group's financial performance.

## NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2012

### 5. FINANCE INCOME AND FINANCE COSTS

	SIX MONTHS TO 30 JUNE 2012 £000	SIX MONTHS TO 30 JUNE 2011 £000	YEAR TO 31 DECEMBER 2011 £000
Expected return on pension scheme assets (see note 10)	1,343	1,479	2,947
Investment income	5	1	11
<b>TOTAL FINANCE INCOME</b>	<b>1,348</b>	<b>1,480</b>	<b>2,958</b>
Interest on bank loans and overdrafts	(188)	(219)	(460)
Interest on obligations under finance leases	(15)	(17)	(33)
Interest cost of pension scheme liabilities (see note 10)	(1,606)	(1,658)	(3,280)
<b>TOTAL FINANCE COSTS</b>	<b>(1,809)</b>	<b>(1,894)</b>	<b>(3,773)</b>
<b>NET FINANCE COSTS</b>	<b>(461)</b>	<b>(414)</b>	<b>(815)</b>

### 6. TAX

	SIX MONTHS TO 30 JUNE 2012 £000	SIX MONTHS TO 30 JUNE 2011 £000	YEAR TO 31 DECEMBER 2011 £000
<b>CURRENT TAX</b>			
UK corporation tax	(175)	–	(381)
Overseas tax	15	(29)	(12)
Prior year adjustments	(124)	1	–
<b>TOTAL CURRENT TAX</b>	<b>(284)</b>	<b>(28)</b>	<b>(393)</b>
<b>TOTAL DEFERRED TAX</b> (see note 11)	<b>(581)</b>	<b>(189)</b>	<b>(62)</b>
<b>TOTAL</b>	<b>(865)</b>	<b>(217)</b>	<b>(455)</b>

Tax for the first six months has been charged at 27.3% representing the best estimate of the effective tax charge for the full year. The charge in the year to 31 December 2011 benefited from the use of previously unrecognised losses of £0.5 million.

## 7. DIVIDENDS

	SIX MONTHS TO 30 JUNE 2012 £000	SIX MONTHS TO 30 JUNE 2011 £000	YEAR TO 31 DECEMBER 2011 £000
<b>AMOUNTS RECOGNISED AS DISTRIBUTIONS TO EQUITY HOLDERS IN THE PERIOD</b>			
Final Dividend (1.05p per share) (2011: 1.05p per share)	1,193	1,193	1,193
Interim Dividend (2011: 0.50p per share)	–	–	568
<b>DISTRIBUTIONS IN THE PERIOD</b>	<b>1,193</b>	<b>1,193</b>	<b>1,761</b>

Dividends are not payable on shares held in the Employee Share Trust.

The dividend of 0.50p per share, payable on 11 October 2012 was declared on 30 August 2012 and has therefore not been included as a liability in these condensed financial statements.

## 8. EARNINGS PER SHARE

	SIX MONTHS TO 30 JUNE 2012 £000	SIX MONTHS TO 30 JUNE 2011 £000	YEAR TO 31 DECEMBER 2011 £000
<b>EARNINGS</b>			
Earnings from continuing operations for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	2,309	704	3,419
<b>NUMBER OF SHARES '000</b>			
Weighted average number of ordinary shares in issue	115,019	115,019	115,019
Weighted average number of Own shares in Employee Share Ownership Trusts	(1,436)	(1,490)	(1,463)
<b>WEIGHTED AVERAGE NUMBER OF SHARES IN ISSUE FOR THE PURPOSES OF BASIC EARNINGS PER SHARE</b>	<b>113,583</b>	<b>113,529</b>	<b>113,556</b>
Effect of dilutive potential ordinary shares due to share options	–	25	–
<b>WEIGHTED AVERAGE NUMBER OF SHARES IN ISSUE FOR THE PURPOSES OF DILUTED EARNINGS PER SHARE</b>	<b>113,583</b>	<b>113,554</b>	<b>113,556</b>

## NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2012

### 9. NOTES TO THE CASH FLOW STATEMENT

	SIX MONTHS TO 30 JUNE 2012 £000	SIX MONTHS TO 30 JUNE 2011 £000	YEAR TO 31 DECEMBER 2011 £000
<b>OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS</b>	1,985	1,335	4,689
Adjustments for:			
Amortisation of intangible assets	153	153	390
Depreciation of property, plant and equipment	485	481	998
Loss on disposal of property, plant and equipment	–	–	11
<b>OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL</b>	2,623	1,969	6,088
(Increase)/decrease in inventories	(520)	(1,275)	443
Decrease/(increase) in receivables	4,185	517	(3,155)
(Decrease)/increase in payables	(3,531)	(1,916)	1,557
Adjustment for pension scheme funding	(1,145)	(861)	(2,169)
<b>CASH GENERATED BY/(USED IN) OPERATIONS</b>	1,612	(1,566)	2,764
Income taxes paid	(5)	(16)	(39)
Interest paid	(203)	(217)	(493)
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	1,404	(1,799)	2,232
<b>MOVEMENT IN NET DEBT</b>			
Increase in cash and cash equivalents in period	108	49	61
Increase in bank overdrafts	(465)	(3,642)	(1,026)
Cash flows from lease financing	170	178	288
<b>MOVEMENT IN NET DEBT IN THE PERIOD</b>	(187)	(3,415)	(677)
Opening net debt	(7,627)	(6,950)	(6,950)
<b>CLOSING NET DEBT</b>	(7,814)	(10,365)	(7,627)
<b>NET DEBT COMPRISES:</b>			
Cash and cash equivalents at end of period	307	187	199
Bank overdraft	(1,899)	(4,050)	(1,434)
Cash and cash equivalents in statement of cash flows	(1,592)	(3,863)	(1,235)
Bank loans	(6,000)	(6,000)	(6,000)
<b>NET BANK DEBT</b>	(7,592)	(9,863)	(7,235)
Obligations under finance leases			
Due within one year	(137)	(277)	(233)
Due outwith one year	(85)	(225)	(159)
<b>CLOSING NET DEBT</b>	(7,814)	(10,365)	(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 £6.0 million 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.

## 10. RETIREMENT BENEFIT OBLIGATIONS

The figures below have been based on the results of the triennial actuarial valuation as at 1 May 2011, updated to 30 June 2012 and 31 December 2011. The assets in the scheme, the net liability position of the scheme as calculated under IAS 19 and the principal assumptions were:

	30 JUNE 2012 £000	30 JUNE 2011 £000	31 DECEMBER 2011 £000
Fair value of assets	48,651	45,664	46,968
Present value of scheme liabilities	(65,907)	(61,222)	(67,452)
<b>PENSION SCHEME DEFICIT</b>	<b>(17,256)</b>	<b>(15,558)</b>	<b>(20,484)</b>
Deferred tax asset (see note 11)	4,141	4,045	5,121
<b>PENSION SCHEME DEFICIT NET OF RELATED DEFERRED TAX ASSET</b>	<b>(13,115)</b>	<b>(11,513)</b>	<b>(15,363)</b>

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

### Assumptions

	30 JUNE 2012	30 JUNE 2011	31 DECEMBER 2011
Discount rate	4.60%	5.50%	4.80%
Rate of increase in salaries	0.00%	0.00%	0.00%
Rate of increase in pensions in payment	3% or 5% for fixed increases or 2.90% for LPI	3% or 5% for fixed increases or 2.75% for LPI	3% or 5% for fixed increases or 2.90% for LPI
Spouse's pension assumption			
Pensioner/deferred and active members*	70%/80%	90%/90%	90%/90%
Inflation assumption (RPI)	2.90%	3.50%	3.00%
Inflation assumption (CPI)	1.90%	3.00%	2.20%
Life expectancy beyond normal retirement age of 65			
Male	22.4 years	21.7 years	22.3 years
Female	24.6 years	24.1 years	24.6 years

\* The assumption now reflects the results from the PIE exercise, giving an actuarial gain of £1.6 million.

	SIX MONTHS TO 30 JUNE 2012 £000	SIX MONTHS TO 30 JUNE 2011 £000	YEAR TO 31 DECEMBER 2011 £000
<b>MOVEMENT IN SCHEME DEFICIT IN THE PERIOD</b>			
At start of period	(20,484)	(15,725)	(15,725)
Normal service cost	(73)	(79)	(150)
Contributions	1,218	951	2,169
Settlement gains/(losses)	–	9	(13)
Pension increase exchange gains (see note 4)	1,855	–	–
Other finance charges	(263)	(179)	(333)
Actuarial gain/(loss) in the period	491	(535)	(6,432)
<b>AT END OF PERIOD</b>	<b>(17,256)</b>	<b>(15,558)</b>	<b>(20,484)</b>

## NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2012

### 10. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

	SIX MONTHS TO 30 JUNE 2012 £000	SIX MONTHS TO 30 JUNE 2011 £000	YEAR TO 31 DECEMBER 2011 £000
<b>MOVEMENT IN FAIR VALUE OF SCHEME ASSETS</b>			
Scheme assets at start of period	46,968	45,293	45,293
Expected return on scheme assets	1,343	1,479	2,947
Actual return less expected return on scheme assets	209	(535)	(517)
Contributions from sponsoring companies	1,218	951	2,169
Contributions from scheme members	40	38	84
Benefits paid	(1,127)	(1,562)	(3,008)
<b>SCHEME ASSETS AT END OF PERIOD</b>	<b>48,651</b>	<b>45,664</b>	<b>46,968</b>
<b>MOVEMENT IN PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS</b>			
Obligations at start of period	(67,452)	(61,018)	(61,018)
Service costs	(73)	(79)	(150)
Interest costs	(1,606)	(1,658)	(3,280)
Settlement gains/(losses)	–	9	(13)
Pension increase exchange gains	1,855	–	–
Contributions from scheme members	(40)	(38)	(84)
Actuarial loss on liabilities in the period	282	–	(5,915)
Benefits paid	1,127	1,562	3,008
<b>OBLIGATIONS AT END OF PERIOD</b>	<b>(65,907)</b>	<b>(61,222)</b>	<b>(67,452)</b>

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 2012 and 2013 will not exceed £2.3 million and £2.5 million respectively.

### 11. DEFERRED TAX

	30 JUNE 2012 £000	30 JUNE 2011 £000	31 DECEMBER 2011 £000
<b>DEFERRED TAX ASSET ON PENSION SCHEME DEFICIT</b>			
At start of period	5,121	4,246	4,246
(Charge)/credit on actuarial movement in the period applied through statement of comprehensive income	(118)	144	1,608
Charge on actuarial deficit in the period due to long-term corporation tax rate change applied through statement of comprehensive income	(205)	(155)	(313)
Charge through income statement based on curtailment gain in the period	(445)	–	–
Charge through income statement based on payments made to reduce deficit in the period	(212)	(190)	(420)
Deferred tax asset on pension scheme deficit (see note 10)	4,141	4,045	5,121
Deferred tax assets on other timing differences	643	343	623
<b>DEFERRED TAX ASSET AT END OF PERIOD</b>	<b>4,784</b>	<b>4,388</b>	<b>5,744</b>

**11. DEFERRED TAX (CONTINUED)**

	30 JUNE 2012 £000	30 JUNE 2011 £000	31 DECEMBER 2011 £000
<b>DEFERRED TAX ASSET ON OTHER TIMING DIFFERENCES</b>			
At start of period	623	426	426
Credit/(charge) through income statement	20	(83)	197
<b>DEFERRED TAX ASSET AT END OF PERIOD</b>	<b>643</b>	<b>343</b>	<b>623</b>
<b>DEFERRED TAX LIABILITY ON OTHER INTANGIBLE ASSETS</b>			
At start of period	(467)	(628)	(628)
Credit through income statement			
Credit on movement in other intangible assets in the period	39	42	119
Long-term corporation tax rate change	17	42	42
<b>DEFERRED TAX LIABILITY AT END OF PERIOD</b>	<b>(411)</b>	<b>(544)</b>	<b>(467)</b>

The Finance Act 2011, which provided for a reduction in the main rate of corporation tax from 25% to 24% effective from 1 April 2012, was substantively enacted on 26 March 2012. The rate reduction has been reflected in these financial statements.

The Finance Act 2012 provides for a reduction in the main rate of corporation tax from 24% to 23% effective from 1 April 2013. As it was not substantively enacted at 30 June 2012, the rate reduction is not yet reflected in these financial statements in accordance with IAS 10, as it is a non-adjusting event occurring after the reporting period.

The impact of the rate reduction, which will be reflected in the next reporting period, is estimated to reduce our UK deferred tax balances at 30 June 2012 by a net value of £0.2 million.

The Government has also indicated that it intends to enact future reductions in the main tax rate of 1% each year down to 22% by 1 April 2014. The future 1% main tax rate reductions are expected to have a similar impact on our financial statements as outlined above, however the actual impact will be dependent on our deferred tax position at that time.

**12. RELATED PARTY TRANSACTIONS**

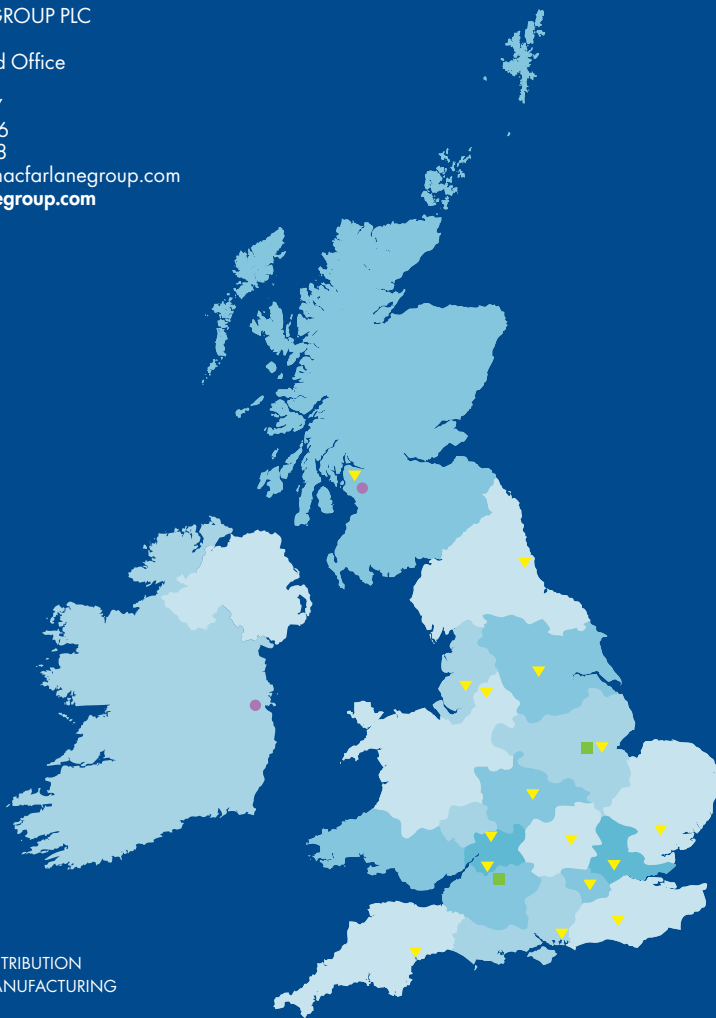
Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed.

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, shown in the pension scheme disclosures in note 10, includes 1,145,918, shares in Macfarlane Group PLC at 30 June 2012, 31 December 2011 and 30 June 2011 with a value of £195,000, £215,000 and £309,000 respectively.

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

Macfarlane Head Office  
21 Newton Place  
Glasgow G3 7PY  
T: 0141 333 9666  
T: 0141 333 1988  
E: investorinfo@macfarlanegroup.com  
[www.macfarlanegroup.com](http://www.macfarlanegroup.com)



- ▼ PACKAGING DISTRIBUTION
- PACKAGING MANUFACTURING
- LABELS

## LOCAL DIRECTORY

- ▼ **BRISTOL** T 0844 770 1401  
E [bristol@macfarlanepackaging.com](mailto:bristol@macfarlanepackaging.com)
- ▼ **COVENTRY** T 0844 770 1407  
E [coventry@macfarlanepackaging.com](mailto:coventry@macfarlanepackaging.com)
- ▼ **ENFIELD** T 0844 770 1409  
E [enfield@macfarlanepackaging.com](mailto:enfield@macfarlanepackaging.com)
- ▼ **EXETER** T 0844 770 1411  
E [exeter@macfarlanepackaging.com](mailto:exeter@macfarlanepackaging.com)
- ▼ **FAREHAM** T 0844 770 1413  
E [fareham@macfarlanepackaging.com](mailto:fareham@macfarlanepackaging.com)
- ▼ **GLASGOW** T 0844 770 1421  
E [glasgow@macfarlanepackaging.com](mailto:glasgow@macfarlanepackaging.com)
- ▼ **GLOUCESTER** T 0145 255 5550  
E [gloucester@macfarlanepackaging.com](mailto:gloucester@macfarlanepackaging.com)
- ▼ **GRANTHAM** T 0844 770 1415  
E [grantham@macfarlanepackaging.com](mailto:grantham@macfarlanepackaging.com)
- ▼ **HAYES** T 0208 813 5322  
E [hayes@macfarlanepackaging.com](mailto:hayes@macfarlanepackaging.com)
- ▼ **HORSHAM** T 0844 770 1419  
E [horsham@macfarlanepackaging.com](mailto:horsham@macfarlanepackaging.com)
- ▼ **MANCHESTER** T 0844 770 1423  
E [manchester@macfarlanepackaging.com](mailto:manchester@macfarlanepackaging.com)
- ▼ **MILTON KEYNES** T 0844 770 1425  
E [miltonkeynes@macfarlanepackaging.com](mailto:miltonkeynes@macfarlanepackaging.com)
- ▼ **NEWCASTLE** T 0844 770 1427  
E [newcastle@macfarlanepackaging.com](mailto:newcastle@macfarlanepackaging.com)
- ▼ **SUDBURY** T 0844 770 1429  
E [sudbury@macfarlanepackaging.com](mailto:sudbury@macfarlanepackaging.com)
- ▼ **WAKEFIELD** T 0844 770 1433  
E [wakefield@macfarlanepackaging.com](mailto:wakefield@macfarlanepackaging.com)
- ▼ **WIGAN** T 0844 770 1437  
E [wigan@macfarlanepackaging.com](mailto:wigan@macfarlanepackaging.com)
- **GRANTHAM** T 0844 770 1417  
E [granthamsales@macfarlanepackaging.com](mailto:granthamsales@macfarlanepackaging.com)
- **WESTBURY** T 0844 770 1435  
E [westburysales@macfarlanepackaging.com](mailto:westburysales@macfarlanepackaging.com)
- **DUBLIN** T 00 353 (1) 832 0220  
E [sales@macfarlanelabels.com](mailto:sales@macfarlanelabels.com)
- **KILMARNOCK** T 01563 525151  
E [sales@macfarlanelabels.com](mailto:sales@macfarlanelabels.com)
- **SWEDEN** T 0046 4213 7555  
E [info@reseal-it.se](mailto:info@reseal-it.se)

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