ANNUAL REPORT AND ACCOUNTS 2012

HEADQUARTERED IN GLASGOW, MACFARLANE GROUP PLC EMPLOYS 700 PEOPLE AT 20 SITES ACROSS THE UK, 1 SITE IN IRELAND AND 1 SITE IN SWEDEN AND SERVICES MORE THAN 20,000 CUSTOMERS IN A WIDE RANGE OF SECTORS.

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CHAIRMAN'S STATEMENT

"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 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.

Graeme Bissett
Chairman
5 March 2013

PACKAGING DISTRIBUTION

OUR BUSINESS

THE BUSINESS

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 supplying customers with a comprehensive range of protective packaging materials and services on a local, regional and national basis.

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.

MARKET CONDITIONS

In 2012 Packaging Distribution sales revenue reduced by 1.6% to £114.8 million due to price deflation and overall lower revenue per order as weak UK demand impacted a number of the market sectors we serve. However our new business performance was again strong and at a similar level to that achieved in 2011. Gross margin in 2012 stands at 30.3% and compares favourably with 29.2% in 2011. 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. Operating profit before exceptional items showed an increase from £4.6 million to £4.9 million.

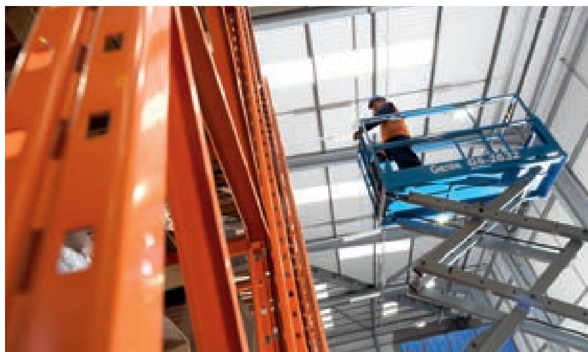
FUTURE OPPORTUNITIES

We expect general demand levels to remain subdued in 2013. Therefore our plans are focused on those markets showing growth, building market share by implementing 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.

We will continue to focus on industry sectors, which benefit from Macfarlane's national coverage through our specialist National Account sales team, as well as improving RDC productivity and customer engagement through the re-launch of our electronic trading system Customer Connect.

“WE EXPERIENCED GOOD GROWTH IN SALES TO INTERNET RETAIL BUSINESSES BOTH DIRECTLY AND THROUGH OUR PARTNERSHIPS WITH KEY THIRD PARTY LOGISTICS COMPANIES AND THIS SECTOR NOW REPRESENTS ALMOST 20% OF PACKAGING DISTRIBUTION SALES.

OUR NEW BUSINESS PERFORMANCE IN 2012 WAS AGAIN STRONG AND AT A SIMILAR LEVEL TO THAT ACHIEVED IN 2011.



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.

PACKAGING DESIGN AND MANUFACTURE

THE BUSINESS DESIGNS, MANUFACTURES AND ASSEMBLES CUSTOM-DESIGNED PACKAGING SOLUTIONS FOR CUSTOMERS REQUIRING COST-EFFECTIVE METHODS OF PROTECTING HIGH VALUE PRODUCTS IN STORAGE AND TRANSIT.

THE BUSINESS

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.

MARKET CONDITIONS

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 OPPORTUNITIES

The priorities for 2013 are to improve sales penetration in our target market sectors both directly and through the relationship with Macfarlane Packaging Distribution as well as continuing to focus on higher added value products and services.

KEY MARKET SECTORS SUPPLIED ARE AEROSPACE, MEDICAL EQUIPMENT AND ELECTRONICS.

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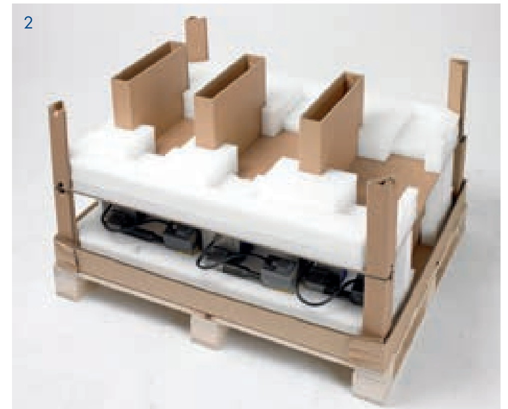

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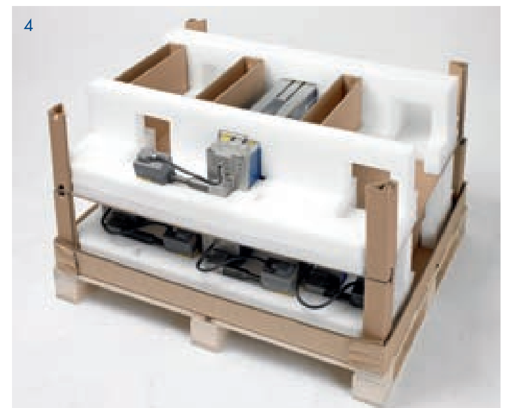

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LABELS

IN 2013 MACFARLANE LABELS AIMS TO ACCELERATE SALES OF THE RESEAL-IT PRODUCT.

THE BUSINESS

Macfarlane Labels 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. Management works closely with key customers to ensure high levels of service and to demonstrate product **INNOVATION** to create competitive differentiation.

MARKET CONDITIONS

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.

FUTURE OPPORTUNITIES

The priorities for Labels in 2013 are to maintain the strategic focus on higher added value products and services, launch additional resealable label ranges to broaden the appeal of the product to new market sectors and relocate our manufacturing facility in Ireland to improve our ability to effectively serve the Irish market.

"ACTIVITY IN RESEAL-IT APPLICATIONS IN A NUMBER OF MARKETS CONTINUES TO GROW SIGNIFICANTLY REFLECTING OUR STRONG PARTNERSHIP WITH PRINTPACK INC, WHO DISTRIBUTE OUR PRODUCTS IN NORTH AMERICA AND NEW PENETRATION IN THE UK THROUGH MAJOR RETAILERS.

BUSINESS REVIEW

PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS AT £4.9M WAS 27% AHEAD OF THE LEVEL ACHIEVED 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 £4.9 million 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 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 ability to 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.

GROUP PERFORMANCE

SEGMENT	REVENUE 2012 £000	PROFIT BEFORE EXCEPTIONAL ITEMS 2012 £000	EXCEPTIONAL ITEMS 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 FROM CONTINUING OPERATIONS	141,823				144,557	
OPERATING PROFIT		5,834	993	6,827		4,689
NET FINANCE COSTS		(920)	–	(920)		(815)
PROFIT BEFORE TAX – CONTINUING OPERATIONS		4,914	993	5,907		3,874

*There were no exceptional items in 2011

The principal risks and uncertainties faced by the Group and the 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. Whilst 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. • The 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 pensioners 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.
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 for 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 and incentives to re-let. In 2012 the Group announced a planned move in Ireland to optimise the use of its property portfolio.
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 with actions taken when required. During 2012 there was a significant upgrade to the IT system, which will enhance the access to management information.
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 which 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 not specific to Macfarlane Group.

The risks set out 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

THE BUSINESS OPERATES THROUGH 16 REGIONAL DISTRIBUTION CENTRES SUPPLYING CUSTOMERS WITH A COMPREHENSIVE RANGE OF PROTECTIVE PACKAGING MATERIALS AND SERVICES ON A LOCAL, REGIONAL AND NATIONAL BASIS.

PACKAGING DISTRIBUTION

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 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 website macfarlanepackaging.com by 24% versus 2011;

> Our new business performance in 2012 was again strong and at a similar level 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;

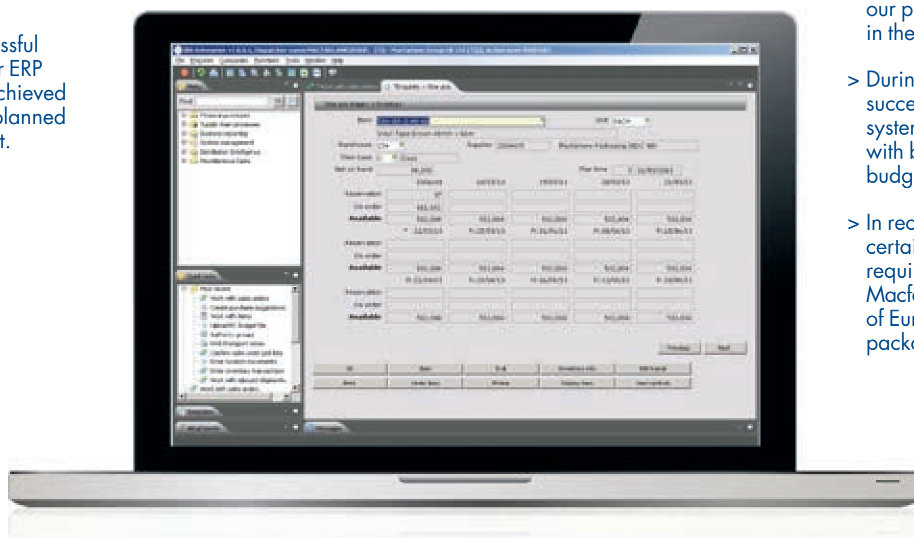
> We continued to invest in the business with incremental resource added to our marketing, purchasing and major account sales teams, the benefits of which we will see in 2013;

> 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 timescale 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.

During 2012 we implemented a successful major upgrade to our ERP system, which was achieved in line with both the planned timescale and budget.



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 markets 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;

> The 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.

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.

…PROFIT IMPROVEMENT RESULTED FROM THE FOCUS ON HIGHER ADDED VALUE PRODUCTS AND SERVICES AND IMPROVED OPERATIONAL EFFICIENCY.

FUTURE PLANS

The priorities for Labels in 2013 are:

> Maintenance of 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

WE DIFFERENTIATE OURSELVES THROUGH OUR TECHNICAL EXPERTISE, DESIGN CAPABILITY AND INDUSTRY ACCREDITATIONS.

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 the 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.

Peter D. Atkinson
Chief Executive
5 March 2013

FINANCIAL REVIEW

	NOTE	PROFIT BEFORE EXCEPTIONAL ITEMS 2012 £000	EXCEPTIONAL ITEMS 2012 £000	*TOTAL 2012 £000	*TOTAL 2011 £000
REVENUE	1	141,823	–	141,823	144,557
COST OF SALES		(96,510)	–	(96,510)	(100,903)
GROSS PROFIT	2	45,313	–	45,313	43,654
NET OPERATING EXPENSES	3,4	(39,479)	993	(38,486)	(38,965)
OPERATING PROFIT		5,834	993	6,827	4,689
NET FINANCE COSTS	5	(920)	–	(920)	(815)
PROFIT BEFORE TAX	6	4,914	993	5,907	3,874
TAX	7	(1,327)	(390)	(1,717)	(455)
PROFIT AFTER TAX	8	3,587	603	4,190	3,419
EARNINGS PER SHARE	9	3.16p	0.53p	3.69p	3.01p

*There were no exceptional items in 2011

GROSS MARGINS INCREASED BY 1.8% FROM 30.2% TO 32.0%.

TRADING PERFORMANCE

1. Group revenues in 2012 were £141.8 million, £2.7 million below 2011. Sales reduced by 1.6% in Packaging Distribution, with reduced demand partly offset by new business wins. Our Manufacturing Operations saw a decrease in sales of 3.1% as sales teams addressed the pricing of lower margin business as well as focusing on higher value design-led products.

2. Gross margins increased by 1.8% from 30.2% to 32.0% reflecting the recovery of successive raw material and purchase price increases from 2011 as well as the focus on higher value design-led products. The increase in gross profit of £1.6 million reflects this margin focus combined with our strong new business performance.

3. Net operating expenses increased by £0.5 million primarily due to investments to increase headcount resource and enhance the teams involved in our strategic initiatives.

4. Exceptional items
   During 2012, Macfarlane Group PLC entered into a process aimed at reducing the overall deficit through agreed amendments to 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. As a result of both of these actions, a gain of £1.65 million was recorded in 2012 in relation to the members opting to take up the offer.

   In November 2012, we announced that our Label manufacturing site in Dublin would be closed and activities relocated to our site in County Wicklow by the end of the first quarter in 2013. The planned 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.

5. Net finance costs increased by £0.1 million due to higher funding costs for the pension scheme deficit.

6. Group profit from continuing operations before tax increased by £2.0 million from £3.9 million in 2011 to £5.9 million in 2012.

   The profit before exceptional items increased by £1.0 million to £4.9 million (2011 – £3.9 million).

7. The tax charge for the year from continuing operations was £1.7 million on the profit before tax of £5.9 million, higher than the prevailing statutory tax rates primarily due to the non-cash impairment charge for the Dublin property not being tax deductible.

   This compared with a tax charge of £0.5 million on the profit before tax of £3.9 million in the previous year, which benefited from the use of previously unrecognised losses of £0.5 million.

8. As a result the profit after tax from continuing operations was £4.2 million compared to £3.4 million in 2011.

9. Basic earnings per share from all activities totalled 3.69p per share in 2012 compared to 3.01p in 2011.

BUSINESS REVIEW

A DIVIDEND OF 0.50P WAS PAID ON 11 OCTOBER 2012. A FURTHER DIVIDEND OF 1.05P PER SHARE IS SUBJECT TO APPROVAL BY SHAREHOLDERS AT THE ANNUAL GENERAL MEETING IN MAY 2013.

DIVIDENDS

A dividend of 0.50p was paid on 11 October 2012. A further dividend of 1.05p per share is subject to approval by shareholders at the Annual General Meeting in May 2013 and has not been included as a liability in these financial statements.

SHAREHOLDERS' FUNDS AND SHARE PRICE MOVEMENTS

At the year-end the Company's market capitalisation was £32.2 million, compared with £21.6 million last year. The share price at 31 December 2012 was 28.00p, compared with 18.75p at 31 December 2011. The range of transaction prices for Macfarlane Group shares during 2012 was 16.00p to 28.50p for each ordinary share of 25p.

CASH FLOW AND NET DEBT

Cash inflow from operating activities was £3.4 million (2011 – £2.2 million). The Group's financing requirements have been met by bank borrowings with access to adequate funds ensured by maintaining committed levels of borrowing facilities. Bank facilities of £11.0 million are in place for the period to 28 February 2014 to meet the Group's anticipated financing requirements.

The Group spent £0.8 million on capital expenditure in 2012 (2011 – £1.2 million) with the major capital project in the year being a significant upgrade of our IT system at a cost of £0.6 million. We will continue to invest where there are needs or opportunities to meet future growth plans. Capital expenditure in 2013 is expected to be below the annual depreciation charge, reflecting the well-invested nature of our businesses.

The Group had net debt of £6.8 million at 31 December 2012, a reduction of £0.8 million from the previous year, primarily due to slightly lower levels of working capital. The Group will strive to ensure that in 2013, profit generation is, at the very minimum, matched by cash generation.

The Group will remain prudent in its assessment of the likely returns from capital expenditure and potential acquisitions. The aim is to seek immediate returns in excess of our weighted-average cost of capital.

FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise bank borrowings, cash balances, short-term deposits, and other items, such as trade receivables and trade payables that arise directly from its operations as well as shareholders' equity. The main purpose of any financial instruments is to provide finance for the Group's operations. It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments is undertaken. The main risks arising are liquidity risk and credit risk and the secondary risks are interest rate risk and currency risk. The Board reviews and agrees policies for managing these risks, which are summarised below. The policies have remained unchanged since the beginning of 2012.

LIQUIDITY RISK

The Group's policy with regard to liquidity remains one of ensuring adequate access to funds by maintaining appropriate levels of committed short-term overdraft facilities, which are then reviewed on a regular basis. The principal Group borrowing facility of £11.0 million is in place for the period to 28 February 2014. The maturity profile of debt outstanding at 31 December 2012 is set out in notes 14 and 17 to the financial statements.

CREDIT RISK

The Group's exposure to credit risk is managed by dealing only with banks and financial institutions with good credit ratings and by applying considerable rigour in managing trade receivables. The Group's principal credit risk is attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior impairment experience and their assessment of the current economic environment.

INTEREST RATE RISK

The Group finances its business through a mixture of reserves and bank borrowings. The Group borrows in the desired currencies at floating rates of interest. Interest rate exposures are reviewed regularly and financial instruments considered. Currently it is not deemed necessary to cover interest rate exposures by the use of financial instruments.

CURRENCY RISK

The Group has two overseas subsidiaries, operating in Ireland and Sweden. Revenues and expenses are denominated exclusively in Euros and Swedish Krone respectively. As a result, movements in the Euro and Swedish Krone to sterling exchange rates could affect the Group's sterling balance sheet. The Group has reviewed the need to hedge exposures on a monthly basis and it was not deemed necessary to cover any currency exposures during 2012 by the use of financial instruments. This will continue to be regularly reviewed in 2013.

Some of the Group's recent trading growth has resulted in increased sales of resealable label products directly to the US and increased purchases of PRP products from the Far East. Both these transactions are denominated primarily in US dollars and covered by a natural foreign exchange hedge within Macfarlane Group's operations.

PENSION SCHEME DEFICIT AND ASSOCIATED RISKS

The Company's pension scheme deficit is sensitive to movements in bond yields, inflation, investment returns and longevity assumptions, which create significant volatility in the charges and liability in each financial year.

The present value of scheme liabilities increased significantly from 2010 to 2012 as a direct consequence of corporate bond yields reducing from 5.50% to 4.80% and then to 4.40% over the period. This factor alone caused liabilities at the end of 2011 and 2012 to increase by just over £7.0 million and £4.0 million respectively.

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

Following the triennial actuarial valuation of the scheme 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 assumed a recovery plan period of 13 years. The estimated cash contributions to the scheme in 2013 to reduce the deficit will not exceed £2.5 million.

PENSION SCHEME DEFICIT MOVEMENTS

	2012 £000	2011 £000	2010 £000
FAIR VALUE OF SCHEME ASSETS	51,349	46,968	45,293
PRESENT VALUE OF SCHEME LIABILITIES	(70,247)	(67,452)	(61,018)
PENSION SCHEME DEFICIT	(18,898)	(20,484)	(15,725)
RELATED DEFERRED TAX ASSET	4,346	5,121	4,246
NET PENSION DEFICIT AT 31 DECEMBER	(14,552)	(15,363)	(11,479)

INTERNATIONAL FINANCIAL REPORTING STANDARDS

As detailed in the 2011 Annual Report, the new International Financial Reporting Standards adopted during 2012 had no major impact on the disclosures and accounting policies in these financial statements.

ACCOUNTING POLICIES

The Group continues to comply with all International Financial Reporting Standards adopted by the European Union.

GOING CONCERN

The Directors, in their consideration of going concern, have reviewed the Group's future cash flow forecasts and profit projections, which they believe are based on prudent market data and past experience as set out in the accounting policies on page 36.

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.

John Love
Finance Director
5 March 2013

FIVE YEAR RECORD

FIVE YEAR RECORD

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
TURNOVER – ALL OPERATIONS	141,823	144,557	135,450	123,596	138,549
PROFIT BEFORE INTEREST, DISCONTINUED OPERATIONS, EXCEPTIONAL ITEMS AND TAX	5,834	4,689	4,518	4,406	4,708
NET INTEREST PAYABLE	(920)	(815)	(1,167)	(1,223)	(1,006)
EXCEPTIONAL ITEMS	993	–	846	(699)	–
CONTRIBUTION FROM DISCONTINUED ACTIVITIES	–	–	–	–	271
PROFIT/(LOSS) ON DISPOSAL OF OPERATIONS	–	–	–	351	(1,378)
PROFIT BEFORE TAX	5,907	3,874	4,197	2,835	2,595
TAXATION	(1,717)	(455)	(1,211)	(514)	(800)
PROFIT FOR THE FINANCIAL YEAR	4,190	3,419	2,986	2,321	1,795
EARNINGS PER ORDINARY SHARE	3.69p	3.01p	2.63p	2.06p	1.60p
DIVIDENDS	(1,761)	(1,761)	(1,700)	(1,688)	(2,252)
DIVIDENDS PER ORDINARY SHARE	1.55p	1.55p	1.50p	1.50p	2.00p
DIVIDEND COVER	2.4	1.9	1.8	1.4	0.8

This table reflects the five-year record for continuing and discontinued operations as classified at 31 December 2012.

FINANCIAL DIARY

FINANCIAL DIARY

FINANCIAL RESULTS

INTERIM:	ANNOUNCED – AUGUST
FINAL:	ANNOUNCED – MARCH

ACCOUNTS AND ANNUAL GENERAL MEETING

REPORT AND FINANCIAL STATEMENTS:	POSTED TO SHAREHOLDERS ON 28 MARCH 2013
ANNUAL GENERAL MEETING:	HELD IN GLASGOW ON 7 MAY 2013

SHAREHOLDER ENQUIRIES

Macfarlane Group PLC's ordinary shares are classified under the 'Industrial – General' section of the Industrial Sector on the London Stock Exchange.

Enquiries regarding shareholdings, dividend payments, dividend mandate instructions, lost share certificates, tax vouchers, changes of address, transfers of shares to another person and other administrative matters should be addressed to the Company's registrars:

Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
Telephone: 0871 384 2439
Fax: 0871 384 2100
Website: www.shareview.co.uk

The Company's website www.macfarlanegroup.com provides details of all major Stock Exchange announcements, details of the current share price and information about Macfarlane Group's business.

DIRECTORS AND ADVISERS

1. GRAEME BISSETT
CHAIRMAN

Graeme Bissett joined the Board on 11 May 2004 as a non-executive director, becoming Chairman on 8 May 2012. He is Chairman of the Nominations Committee and a member of the Remuneration Committee. Graeme has previously served as finance director of international groups and as a partner with Arthur Andersen and is currently Chairman or non-executive director of a number of listed and private companies. He is Chairman of Children 1st, the children's welfare charity, and is a member of the Council of The Institute of Chartered Accountants of Scotland. Given his relevant financial experience, Graeme assumed the chair of the Audit Committee during 2004 and continued in this role until 31 December 2012.

2. PETER ATKINSON
CHIEF EXECUTIVE

Peter joined Macfarlane Group as Chief Executive on 6 October 2003. He has a strong sales and marketing background through his career at Procter & Gamble and S.C. Johnson. Peter also has significant general management experience gained during his time at GKN PLC and its joint venture partners where he worked from 1988 to 2001 in a number of senior executive roles in their business-to-business operations. He has a successful track record of both business turnarounds and business development with extensive exposure to international business, having worked in the UK, Continental Europe and the USA. From 2000 to 2003, he was responsible for the US automotive and materials handling businesses of Brambles Industries PLC. Peter was a non-executive director of Speedy Hire plc until July 2011.

3. JOHN LOVE
FINANCE DIRECTOR

A member of The Institute of Chartered Accountants of Scotland, John has been with the Group for seventeen years and was appointed Finance Director on 12 July 1999. He was with Deloitte and its predecessor firms for sixteen years before joining Macfarlane Group in 1996.

4. KEVIN MELLOR
NON-EXECUTIVE DIRECTOR (SENIOR INDEPENDENT DIRECTOR)

Kevin Mellor joined the Board on 11 May 2004 as a non-executive director and is the Group's nominated Senior Independent Director. He retired in 2007 as President of Bax Global for Europe, Middle East and Africa. Kevin adds significant operations experience to the Board, having previously held senior executive positions at Exxon, B.E.T. PLC, Tibbett & Britten Group Plc and Transport Development Group. He chairs the Remuneration Committee and is a member of the Nominations Committee and the Audit Committee. Kevin will step down from the Board at the Annual General Meeting on 7 May 2013 having served nine years as a non-executive director.

5. STUART PATERSON
NON-EXECUTIVE DIRECTOR

Stuart Paterson joined the Board on 1 January 2013 as a non-executive director. He is a Chartered Accountant and is currently Chief Financial Officer at Forth Ports Limited, joining in March 2011 when it was listed on the London Stock Exchange. In June 2011, the company was acquired by Arcus Infrastructure Partners. Prior to his current role, Stuart was Chief Financial Officer of Johnston Press PLC from 2001 to 2010 and previously worked in senior financial management roles at the electronics group Motorola Corporation, and then as Group Finance Director and then Managing Director Europe for Aggreko PLC, the global power hire group. He served as a non-executive director with Devro plc from 2006 to 2012, where he chaired the Audit Committee. Stuart succeeded Graeme Bissett as Chairman of the Audit Committee on 1 January 2013 and is also a member of the Remuneration and Nominations Committees.

6. MIKE ARROWSMITH
NON-EXECUTIVE DIRECTOR

Mike joined the Board on 26 September 2012. He was Group Chief Executive of Linpac Group Ltd, a market-leading international food and consumer packaging company with manufacturing operations across five continents and sales of £1.1 billion, from 2005 to 2010. Prior to this he worked for Tibbett & Britten Group Plc, the £1.5 billion third party logistics group, from 1999 to 2005, joining the board in a senior commercial role before leading the transformation of the group as Chief Executive from 2001 to 2004 prior to its sale to Exel Plc. Mike served as a non-executive director of Enodis Plc from 2004 to 2008. Mike is a member of the Audit, Remuneration and Nominations Committees.

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7. ANDREW COTTON
COMPANY SECRETARY

Andrew joined Macfarlane Group in 1999 as Finance Director of the Labels business. He then moved to Macfarlane Group's head office in Glasgow in 2001 where he is now part of the Executive Team leading corporate development, acquisitions and disposals. Andrew was appointed Company Secretary on 3 August 2001.

REGISTRATION NUMBER
No. SC004221
Registered in Scotland

COMPANY SECRETARY
Andrew Cotton

REGISTERED OFFICE
21 Newton Place
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T: 0141 333 9666
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PRINCIPAL BANKERS
Lloyds Banking Group PLC
110 St. Vincent St.
Glasgow G2 5ER

SOLICITORS
Dundas & Wilson CS LLP
Saltire Court
20 Castle Terrace
Edinburgh EH12EG

Wright Johnston & Mackenzie LLP
302 St Vincent St.
Glasgow G2 5RZ

STOCKBROKERS
Oriel Securities Ltd
150 Cheapside
London EC2V 6ET

Speirs & Jeffrey Ltd
36 Renfield Street
Glasgow G2 1NA

INDEPENDENT AUDITOR
KPMG Audit Plc
191 West George Street
Glasgow G2 2LJ

REGISTRARS
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

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CORPORATE RESPONSIBILITY

Macfarlane Group has a responsibility to ensure that through its business operations it impacts positively on society. In order to achieve this we have a series of programmes focused on environmental care, improving the customer experience and increasing employee engagement.

Corporate Responsibility (CR) leadership comes from an internal committee consisting of members from a cross section of the Group led by the Chief Executive. The key objectives of the CR Committee are:

> To improve the awareness of CR across the Group;

> To develop and implement CR action plans that support the CR strategy;

> To ensure that CR becomes an integral part of daily operational activities; and

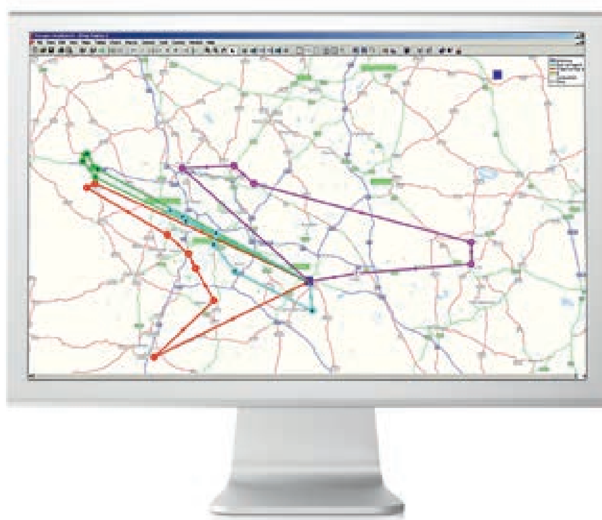
> To monitor and report on CR performance using agreed key performance indicators (KPI's).

THE ENVIRONMENT

CO_2 EMISSIONS

The Group aims to reduce its carbon footprint through a proactive approach, assessing and monitoring the impact across our range of business activities. Energy and fuel consumption is centrally managed, which enables the Group to target reductions in carbon emissions. However during 2012 for every £1,000 of product sold, the Group increased its CO_2 emissions by 5.7% compared to 2011, reflecting the impact of sales price deflation. Details are as set out in the table below:

CO_2 KG/£000 SALES	2012	2011	2010
DISTRIBUTION	38.6	37.4	39.4
MANUFACTURING	111.3	100.9	102.3
GROUP	52.5	49.6	53.3



We use Paragon Fleet Controller to calculate the most efficient and cost effective means of managing the delivery of products to customers.

ENERGY USAGE

The Group's total energy consumption per £1,000 of sales increased in 2012 by 3.0% as set out below:

ENERGY MWH/£000 SALES	2012	2011	2010
DISTRIBUTION	0.04	0.02	0.03
MANUFACTURING	0.18	0.19	0.21
GROUP	0.07	0.06	0.07

FUEL USAGE

The Packaging Distribution business uses Paragon Fleet Controller to calculate the most efficient and cost effective means of managing the delivery of products to its customers. In 2012 the Group fuel consumption was reduced by 4.1% per £1,000 of sales through better route planning and the introduction of more efficient vehicles as set out below:

LITRES/£000 SALES	2012	2011	2010
DISTRIBUTION	10.62	10.84	11.77
MANUFACTURING	12.08	12.17	11.60
GROUP	10.89	11.10	11.73

WASTE MANAGEMENT

In 2012 a comprehensive review of all our UK sites resulted in further waste reductions in overall tonnage and levels of landfill waste. Almost 90% of our waste streams are now recycled and we will continue to work to improve this level of performance. The focus in 2013 will be to increase the level of recycling in the Labels business, whose by-products have traditionally been more difficult to recycle.

ENVIRONMENTAL CARE

We are committed to reducing the impact of our activities on the environment and we work closely with our suppliers and partners to use sustainable materials and resources wherever practical. We support our customers in their efforts to reduce their environmental impact through their choice of packaging products. Our Environmental Product Matrix, developed in conjunction with our suppliers, enables customers to choose fit for purpose packaging solutions that embrace the 'Reduce, Reuse and Recycle' ethos.

All of our packaging sites are registered to BSI ISO 14001 Environmental Management Standard, an internationally recognised standard on environmental management. Registration involves a process of continual assessment providing instant market place recognition of our commitment to reducing the impact of the business on the environment.

CARBON REPORTING

In line with the forthcoming legislation on carbon reporting we are currently establishing the systems to collate and report the information in order to meet our obligations.

THE CUSTOMER EXPERIENCE

CUSTOMER FEEDBACK

We survey all our customers annually to evaluate our performance against a range of key metrics. The survey is also used to explore customers' thoughts and validate requirements for new and planned product and service initiatives.

In a difficult economic environment we were pleased that in 2012 81% of our Distribution customers have rated our service as Excellent or Good. The 2012 survey rating was slightly down versus the 2011 rating and reflects the increasingly high levels of service our customers require. We will be working closely with our customers in 2013 to make the required enhancements to our service in order to meet their increased expectations.

In 2012 we formally surveyed our customers in the Labels and Design and Manufacture businesses for the first time. We had an encouraging response to the surveys in both businesses and the Excellent/Good ratings were 84% in Labels and 86% in Design and Manufacture.

SALES ORDER MANAGEMENT

The use of Customer Connect and www.macfarlanepackaging.com encourages a paperless communication of orders and reduces the cost of transactions. In the Distribution business in 2012 the combined sales from Customer Connect and macfarlanepackaging.com resulted in 17.5% of orders being electronically transacted compared with 16.3% in 2011.

ELECTRONIC DOCUMENTS

To further reduce paper usage, the Group is encouraging customers to receive documentation electronically. In 2012 over half our invoices were delivered electronically.

MACFARLANE GROUP WEBSITES

Our web-based service, **macfarlanepackaging.com** enables existing and potential customers to research and evaluate our product, pricing and service offer and buy packaging over the internet. In 2012 new websites were launched to support our Design and Manufacture business (**macfarlanemanufacturing.com**) and our Labels business (**macfarlanelabels.com**). Existing and potential customers can now access our product and service range online.

THE EMPLOYEE EXPERIENCE

Macfarlane Group recognises the importance of ensuring the best people are recruited, developed and retained and to ensure a safe, diverse working environment that promotes good employee relations at all levels within the business.

TRAINING

The Group invests in training in order to equip individuals with the skills and knowledge required to best serve the customer and to ensure they fulfil their personal potential. On average in 2012 each employee was engaged in 12 hours of formal training. In addition there was an additional 3,500 hours of training linked to Project Enterprise – the upgrade of our ERP system. The Group also offers external training and coaching to develop career progression for key individuals. In 2012 we had 10 individuals on Company-sponsored Further Education and coaching programmes.

EMPLOYEE ENGAGEMENT

We conducted Employee Surveys across the business in 2012 with a good response rate and constructive feedback. In addition there are role-specific forums, regular more informal review meetings and business update sessions that provide the opportunity for an open two-way dialogue with all our employees.

HEALTH AND SAFETY

The health, safety and welfare of colleagues, customers and suppliers are key business objectives within the Group. The Group's approach to Health and Safety is based upon the best practice guidelines issued by the Health and Safety Executive (HSE). There is a dedicated Health and Safety manager in the business who works with local Health and Safety teams to ensure Health and Safety knowledge and standards are effectively applied on a consistent basis.

At each business Health and Safety is a main agenda item at all formal monthly review meetings and each month every operating site in the Group is internally assessed and graded on their Health and Safety performance. In addition there are regular meetings whereby meaningful communication and consultation with local Health and Safety representatives is undertaken to ensure both group and local Health and Safety objectives are achieved.

The Group Board also reviews a monthly report on Health and Safety at each meeting and monitors any actions flowing from them. The report covers reportable incidents, non-reportable incidents and near misses. The Accident Frequency Rate ("AFR") representing the number of reportable incidents per 100,000 man-hours worked is shown below:

ACCIDENT FREQUENCY RATE

	2012	2011	2010
DISTRIBUTION	0.00	0.64	0.78
MANUFACTURING	0.70	0.65	0.85
GROUP	0.24	0.64	0.81

The Group continues to make progress in its performance against the identified CR objectives. During 2013 we will maintain the focus on our three CR programmes and implement new initiatives in order to ensure our performance improvement can be sustained.

REPORT OF THE DIRECTORS

THE DIRECTORS PRESENT THEIR ANNUAL REPORT AND THE AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2012.

PRINCIPAL ACTIVITIES
There were no significant changes in the continuing activities of the Company and its subsidiaries during 2012, which continue to be the distribution of packaging materials and supply of storage services in the UK, the manufacture and supply of self-adhesive labels to a variety of FMCG customers in the UK and Europe, the manufacture and supply of resealable labels to a variety of customers in the UK, Europe and the USA and the design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK. Details of the principal subsidiary companies and their activities are set out on page 68.

REVIEW OF THE BUSINESS
A review of the business during and following the end of the financial year and comments on future developments in the Group are contained in the Chairman's Statement on page 1, Business Review on pages 6 to 13, Corporate Responsibility Report on pages 16 and 17, which form part of the Report of the Directors. The Directors in preparing this Business Review have complied with Section 417 of the Companies Act 2006.

CORPORATE GOVERNANCE
The information that fulfils the requirement of the Corporate Governance Statement can be found in the Corporate Governance Section on pages 24 to 29 (and is incorporated into this report by reference) with the exception of the information referred to in the Financial Services Authority Disclosure and Transparency Rules 7.2.6, which is located within this report.

CAUTIONARY STATEMENT
The Chairman's Statement on page 1 and the Business Review on pages 6 to 13 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.

RESULTS AND DIVIDENDS
The Group's profit before tax from continuing activities was £5,907,000 (2011 – £3,874,000). This results in a profit for the year of £4,190,000 (2011 – £3,419,000).

The Directors declared an interim dividend of 0.50p, which was paid on 11 October 2012 (2011 – 0.50p per share). The proposed final dividend of 1.05p per share (2011 – 1.05p per share) is subject to approval by shareholders at the Annual General Meeting in May 2013 and has not been included as a liability in these financial statements.

CAPITAL STRUCTURE
The Group funds its operations from a number of sources of cash, namely operating cash flow, bank borrowings, finance lease borrowings and shareholders' equity, comprising share capital, reserves and retained earnings, where appropriate. The Group's objective is to achieve a capital structure that results in an appropriate cost of capital whilst providing flexibility in immediate and medium-term funding so as to accommodate any material investment requirements.

Details of the authorised and issued share capital are shown in note 19 and there were no movements during 2011 or 2012. The Company has one class of ordinary share, which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company. There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of the Company's Employee Share Ownership Trust ("ESOT") are given in note 20. The ESOT has waived its right to receive dividends but exercises its right to vote. Details of the Company's All Employee Share Ownership Plan ("AESOP") are given in note 24. The AESOP receives dividends and exercises its right to vote.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

The Company is governed by its Articles of Association, the UK Corporate Governance Code and the Companies Act 2006 with regard to the appointment and replacement of directors. The Articles may be amended by special resolution of the shareholders. The powers of the Directors are detailed in the Corporate Governance report on pages 24 to 29.

At the last Annual General Meeting on 8 May 2012, the Directors were given authority to allot further ordinary shares beyond those committed to the share option schemes or long term incentive plans up to an aggregate amount of £1,437,738. That authority expires at the conclusion of the forthcoming Annual General Meeting. A special resolution will be put to shareholders to renew for a further year the authority over the existing unissued and uncommitted ordinary share capital. This authority is limited to a maximum nominal amount of £1,437,738. As in previous years, the Directors have no current intention of exercising that authority.

No authority will be sought at the 2013 Annual General Meeting to enable the Company to purchase its own shares.

SIGNIFICANT AGREEMENTS

No agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their likely impact on the business of the Group as a whole.

SUBSTANTIAL HOLDINGS OF SHARES IN THE COMPANY

The Company has received notification prior to 5 March 2013 in accordance with Chapter 5 of the Disclosure and Transparency Rules of the following voting rights as a shareholder of the Company.

SUBSTANTIAL HOLDINGS

	NUMBER OF SHARES HELD	%
FUNDS MANAGED OR ADVISED BY DISCRETIONARY UNIT FUND MANAGERS LIMITED	**20,659,184**	**17.96%**
FUNDS MANAGED OR ADVISED BY UNICORN ASSET MANAGEMENT	**7,685,086**	**6.68%**
FUNDS MANAGED OR ADVISED BY HENDERSON GLOBAL INVESTORS	**6,475,000**	**5.63%**
KPG INVESTMENT HOLDINGS LIMITED	**4,445,049**	**3.86%**
FUNDS MANAGED OR ADVISED BY CHELVERTON ASSET MANAGEMENT LIMITED	**4,200,000**	**3.65%**
LORD MACFARLANE OF BEARSDEN KT AND LADY MACFARLANE	**3,533,170**	**3.07%**

DIRECTORS

The names of the Directors in office at 31 December 2012, who served throughout the year together with short biographical details, are set out on page 15. Details are also included for Stuart Paterson, who was appointed a director on 1 January 2013. The Board considers all its non-executive directors to be independent.

Michael Arrowsmith and Stuart Paterson were appointed as directors of the Company on 26 September 2012 and 1 January 2013 respectively. In accordance with the Articles of Association, they shall offer themselves for election at the Annual General Meeting in 2013. Both Michael Arrowsmith and Stuart Paterson have letters of appointment with the Company dated 26 September 2012 with a notice period of three months. Bob McLellan was appointed as a director of the Company on 5 March 2013 and accordingly will also offer himself for election at the AGM in 2013.

Graeme Bissett retires by rotation at the Annual General Meeting in May 2013 and offers himself for re-election. Graeme has a letter of appointment with the Company dated 30 March 2012 with a notice period of six months.

Archie Hunter retired from the Board on 8 May 2012.

Kevin Mellor will step down from the Board at the Annual General Meeting in 2013, having served nine years as a non-executive director.

No Director, either during or at the end of the financial year, had an interest in any contract relating to the business of the Company or any of its subsidiaries. The statement of directors' interests in the ordinary share capital of Macfarlane Group PLC is contained in the Board Report on Directors' Remuneration on page 21.

There are no agreements between the Company and its directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has maintained directors' and officers' liability insurance cover throughout the financial year. The Company made qualifying third party indemnity provisions for the benefit of Directors in 2009, which remain in force.

These provisions have been extended to cover the recently appointed directors, Michael Arrowsmith, Stuart Paterson and Bob McLellan.

EMPLOYEE SHARE SCHEMES

During 2012, no options were exercised under the Group's share option schemes or long-term incentive plans. Options previously granted over 361,000 ordinary shares lapsed during 2012. Details relating to options granted to parent company directors are set out in the Report on Directors' Remuneration on page 21. All remaining options outstanding under the Company's share option schemes are set out in note 24 to the financial statements.

The Remuneration Committee supervises the grant of share incentives, which are only capable of being exercised if the performance condition to which they are subject has been satisfied. The Remuneration Committee will specify the performance condition at the time of the grant of the share incentive, having regard to the objectives of the Company and to market practice at the relevant time.

Further detail is given in the Report on Directors' Remuneration on page 23.

FIXED ASSETS

In the opinion of the Directors the current open market value of the group's interests in land and buildings does not differ materially from the book value. The movements in property, plant and equipment are set out in note 10 to the financial statements.

FINANCING POLICY AND FINANCIAL INSTRUMENTS

The Group's policies are set out in the Financial Review section of the Business Review on pages 12 and 13.

SUPPLIER PAYMENTS

The Group negotiates terms with suppliers and settles liabilities in accordance with these terms and normal business practice. All companies in the Group follow this policy and the staff who deal with payments to suppliers are made aware of it. Further details of the policy are made known to suppliers on request.

At 31 December 2012 the Group had an average of 73 days purchases outstanding in trade payables (2011 – 76 days).

EMPLOYEES

The Group policy is to encourage the employment of disabled persons where the disabilities do not hinder these persons in the performance of their duties. Where an employee becomes disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. Registered disabled persons, once employed, receive equal opportunities for training, career development and promotion.

The Group recognises the importance of meaningful communication and consultation in maintaining good employee relations. This is achieved through formal and informal meetings across all business units. There are specific events or briefings to communicate the performance of the previous year and to outline plans for the year ahead.

POLITICAL AND CHARITABLE CONTRIBUTIONS

Charitable donations of £7,000 were made during 2012 (2011 – £4,000) principally to charities in the communities in which the Group operates. No political donations were made in either year.

SPECIAL BUSINESS

A special resolution will be put to shareholders to renew for a further year the authority over the existing unissued and uncommitted ordinary share capital. This authority is limited to a maximum nominal amount of £1,437,738.

DISCLOSURE OF INFORMATION TO AUDITOR

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

INDEPENDENT AUDITOR

There will be a resolution proposing the re-appointment of KPMG Audit Plc as the Company's auditor at the forthcoming Annual General Meeting.

By Order of the Board

Andrew Cotton
Company Secretary
5 March 2013

REPORT ON DIRECTORS' REMUNERATION

INTRODUCTION

This report is prepared in accordance with Schedule 8 to the Accounting Regulations under the Companies Act 2006. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority. It describes how the Board has applied the principles relating to directors' remuneration in the UK Corporate Governance Code issued in June 2010. As required by the Act, a resolution to approve this report will be proposed at the Annual General Meeting on 7 May 2013 at which the financial statements will be proposed for adoption.

The Act requires the auditor to report to the Company's members on certain parts of the Report on Directors' Remuneration and to state whether, in their opinion, those parts of the Report have been properly prepared in accordance with the Accounting Regulations. This report has therefore been divided into separate sections in respect of audited and unaudited information.

AUDITED INFORMATION

The emoluments of the parent company directors are shown below:

(I) EMOLUMENTS

EMOLUMENTS

	FEES/ SALARIES £000	ANNUAL BONUS £000	PENSION ALLOWANCE £000	BENEFITS IN KIND £000	TOTAL 2012 £000	TOTAL 2011 £000
CHAIRMAN						
G. BISSETT (from 8 May 2012)	50	–	–	–	50	29
A.S. HUNTER (to 8 May 2012)	22	–	–	–	22	61
EXECUTIVE DIRECTORS						
P.D. ATKINSON	309	70	68	15	462	390
J. LOVE	144	24	–	4	172	157
NON-EXECUTIVE DIRECTORS						
K.D. MELLOR	29	–	–	–	29	29
M. ARROWSMITH (from 26 September 2012)	8	–	–	–	8	–
	562	94	68	19	743	666
PENSION CONTRIBUTIONS					14	33
					757	699

The emoluments of executive directors and the structure of bonus schemes are determined by the Remuneration Committee.

Bonuses are based on performance targets described on page 22 for the year to 31 December 2012.

Bonuses of £45,000 (2011 – £Nil) and £21,000 (2011 – £Nil) have been awarded to P.D. Atkinson and J. Love respectively for 2012 based on the achievement of financial objectives. Discretionary bonuses of £25,000 (2011 – £15,000) and £3,000 (2011 – £7,000) have also been awarded to P.D. Atkinson and J. Love respectively for 2012 based on the achievement of non-financial objectives.

(II) DIRECTORS' PENSION ENTITLEMENTS

J. Love, one of the executive directors, is a member of Macfarlane Group PLC Pension & Life Assurance Scheme (1974), the Group's defined benefit pension scheme. Details of benefits accruing under the scheme are shown below:

DIRECTORS' PENSION ENTITLEMENTS

	YEARS OF SERVICE	ACCRUED PENSION 31 DECEMBER 2012 £000 P.A.	INCREASE IN ACCRUED PENSION IN 2012 £000 P.A.	ACCRUED PENSION 31 DECEMBER 2011 £000 P.A.
J. LOVE	17	34	2	32

	TRANSFER VALUE 31 DECEMBER 2012 £000	CONTRIBUTIONS MADE BY THE DIRECTOR IN 2012 £000	INCREASE IN 2012 TRANSFER VALUE NET OF CONTRIBUTIONS £000	TRANSFER VALUE 31 DECEMBER 2011 £000
J. LOVE	508	8	57	443

The increase in accrued pension, net of inflation, is £2,000 per annum for J. Love. The related increase in transfer value, net of inflation and director's contributions, is £57,000.

The Company provided pension contributions for P.D. Atkinson during 2011 totalling £19,000, which were paid into a pension scheme. Contributions since that date of £68,000 in 2012 (2011 – £51,000) plus the related employer's national insurance contributions have been paid as a pension allowance.

(III) SHAREHOLDINGS

The Directors at 31 December 2012 and their interests in ordinary shares of Macfarlane Group PLC were as follows:

SHAREHOLDINGS

	2012 BENEFICIAL	2012 OPTION	2011 BENEFICIAL	2011 OPTION
G. BISSETT	343,750	–	293,500	–
P.D. ATKINSON	745,300	551,372	745,300	551,372
M. ARROWSMITH (appointed 26 September 2012)	100,000	–	–	–
J. LOVE	725,000	–	675,000	112,000
K.D. MELLOR	170,000	–	170,000	–

P.D. Atkinson's beneficial holding includes 90,500 shares held by his daughter, who is classified as a connected party (2011 – 90,500). Messrs G. Bissett, M. Arrowsmith and K.D. Mellor are non-executive directors and do not hold share options in the Company.

S. Paterson was appointed as a non-executive director of the Company on 1 January 2013. At that date he had a beneficial interest of 79,550 ordinary shares in the Company. As a non-executive director, S. Paterson does not hold any share options in the Company.

None of the directors has any non-beneficial holdings in the Company.

No changes occurred in the directors' holdings between 1 January 2013 and 5 March 2013.

(IV) DIRECTORS' SHARE OPTIONS

DIRECTORS' SHARE OPTIONS

	2011	LAPSED	2012	EXERCISE PRICE	NOTE BELOW	EXERCISE PERIOD
P.D. ATKINSON	551,372	–	551,372	26p	1	29 October 2007 – 28 October 2014
J. LOVE	112,000	(112,000)	–	88p	2	

1. The Macfarlane Group PLC Executive Share Option Scheme 2000.
   The performance condition relating to this option required Total Shareholder Return ("TSR") of between 10% and 15% per annum over three years from the date of grant for vesting between 40% and 100% of the value of the option respectively. No re-testing of the option was allowed. 551,372 of the maximum award of 961,538 shares vested on 29 October 2007. None of these options have been exercised at 5 March 2013.

2. The Macfarlane Group PLC Executive Share Option Scheme 2000.
   The performance condition relating to these options required earnings per share growth of 3% above RPI over a three-year period. This performance condition was not satisfied and the option lapsed on 4 April 2012.

(V) SHARE PRICE

The share price at 31 December 2012 was 28.00p, compared with 18.75p at 31 December 2011. The range of transaction prices for Macfarlane Group shares during 2012 was 16.00p to 28.50p for each ordinary share of 25p.

REPORT ON DIRECTORS' REMUNERATION

UNAUDITED INFORMATION

REMUNERATION COMMITTEE

The Company seeks to establish a Remuneration Committee, constituted in accordance with the recommendations of the UK Corporate Governance Code ("the Code"). There was a period from 8 May 2012 to 25 September 2012 as explained on page 24 when the provisions of the Code were not met.

None of the members of the Remuneration Committee during 2012 has any personal financial interests, other than as a shareholder, in the matters to be decided, conflicts of interests arising from cross-directorships or any day-to-day involvement in running the business.

The Remuneration Committee determines the individual remuneration packages of executive directors. The Committee makes recommendations to the Board on its proposals and has access to external professional advice. During 2012 the Committee used the services of Aon Hewitt to advise on certain aspects of directors' remuneration. Aon Hewitt also provides other actuarial and administration services to the Company and the Trustees of the Group's final salary pension scheme.

The Remuneration Committee meets routinely three times each year with other meetings convened as considered necessary. Individual attendance details can be found within the Corporate Governance Report. The Committee's terms of reference are available on the Group website (www.macfarlanegroup.com) and its responsibilities include:

(i) Setting, reviewing and recommending to the Board the Group's overall remuneration policy and strategy;

(ii) Setting, reviewing and approving individual remuneration packages for executive directors and the Chairman;

(iii) Considering the provisions of service agreements for executive directors, in particular the terms of any notice periods;

(iv) Reviewing the salary structure and terms, conditions and benefits of employment for the Chief Executive and his direct reports;

(v) Approving long-term incentive plan awards and the performance conditions on the grant of awards;

(vi) Reviewing the design of all long-term incentive plans for approval by shareholders; and

(vii) Ensuring that all provisions regarding disclosure of remuneration and pensions, as set out in the Act and the UK Corporate Governance Code are fulfilled.

REMUNERATION COMMITTEE MEMBERSHIP

1 JANUARY 2012 TO 8 MAY 2012	8 MAY 2012 TO 25 SEPTEMBER 2012	26 SEPTEMBER 2012 TO 31 DECEMBER 2012	1 JANUARY 2013 ONWARDS
Kevin Mellor (Chairman)	Kevin Mellor (Chairman)	Kevin Mellor (Chairman)	Kevin Mellor (Chairman)
Graeme Bissett	Graeme Bissett	Graeme Bissett	Graeme Bissett
Archie Hunter		Michael Arrowsmith	Michael Arrowsmith
			Stuart Paterson

The Remuneration Committee Chairman will be available to answer questions on any aspect of remuneration policy at the Annual General Meeting in May 2013.

REMUNERATION POLICY

The Group's objective is that it should attract and retain executives of high calibre and that these executives should be rewarded in a manner encouraging value creation for shareholders. The Committee is consulted on board appointments and measures the performance of the executive directors and key members of senior management in consultation with the Chairman and Chief Executive as a basis for determining their annual remuneration packages. The Remuneration Committee determines executive remuneration and bonus scheme targets together with performance conditions under which long-term incentive plans operate.

The Group's policy is that the main elements in both executive directors' remuneration packages are a basic annual salary (with benefits comprising a company car or company car allowance and private medical insurance), an annual performance-related bonus and long-term incentives and pension arrangements. A significant proportion of the packages are performance linked and designed to take account of the corporate strategy and risk profile. The Committee takes a balanced view of remuneration policy considering each element relative to the market. The position against the market was originally established by research and analysis against a comparator group of public companies of similar size and complexity to the Company. The intention is to ensure that the remuneration package is set at a competitive rate for comparable posts and that the achievement of clearly defined objectives will provide the opportunity to achieve attractive remuneration levels. The Remuneration Committee has concluded that the current policy remains appropriate.

Pay and employment conditions in the overall Group are taken into account when determining directors' remuneration. Directors' salary increases were consistent with those for the overall Group in 2012 and this will again be the case in 2013.

The Board of Directors, having regard to the time commitment required and the level of fees in similar companies, determines remuneration for non-executive directors.

No Director plays a part in any discussion about his own remuneration.

MAIN COMPONENTS OF EXECUTIVE DIRECTORS' REMUNERATION PACKAGES

(i) Basic salary and benefits

The Remuneration Committee reviews salaries annually, or where an individual has a change of responsibilities. When determining salary levels, individual performance, Group performance and pay practices elsewhere within the Group are taken into account. There was no pay increase in 2012 and there has been an increase of 2% in 2013 in line with other employees.

(ii) Performance related bonus

Executive directors can earn incentive payments based on Group performance targets and individual performance objectives. In setting the Group performance targets, the Committee takes account of the Board's expectation for the year and how these relate to external expectations. The maximum payment for 2012 was 50% of basic salary with 40% based on financial objectives and a further 10% based on non-financial objectives, which is only payable if a minimum level of financial objectives are met. Bonuses of £45,000 (2011 – £Nil) and £21,000 (2011 – £Nil) have been awarded to P.D. Atkinson and J. Love respectively for 2012 based on the achievement of financial objectives. Discretionary bonuses of £25,000 (2011 – £15,000) and £3,000 (2011 – £7,000) have also been awarded to P.D. Atkinson and J. Love respectively based on achievement of non-financial objectives. For 2013 the maximum payment will again be 50% of salary, 40% based on financial objectives and 10% based on non-financial objectives, with any bonus for achieving non-financial objectives only payable subject to achieving a minimum Group performance target.

(iii) Long-term incentives
The Remuneration Committee has responsibility for the share option schemes and long-term incentive plans in force.

A Performance Share Plan ("PSP") based on the following principles has operated from 1 January 2007 onwards:

> A normal maximum award equivalent to 100% of salary each year;

> A fixed 3 year performance period (with no re-testing); and

> An incentive to drive both returns to shareholders and earnings growth with a performance condition based on both total shareholder return ("TSR") and on earnings per share ("EPS").

The Remuneration Committee seeks third party confirmation of the extent to which PSP targets are satisfied. It is the Committee's intention that an annual award will be considered and those eligible for an award will be kept under review. The Committee decided to make no award in 2012 and retain a focus on performance related bonus.

(iv) Pension arrangements
The Group operates four types of pension scheme, one based on final pensionable salary, two based on defined contributions and a stakeholder pension plan. The final salary scheme was closed to new entrants during 2002. New employees of the Group are eligible to join one of the defined contribution schemes after a suitable qualifying period.

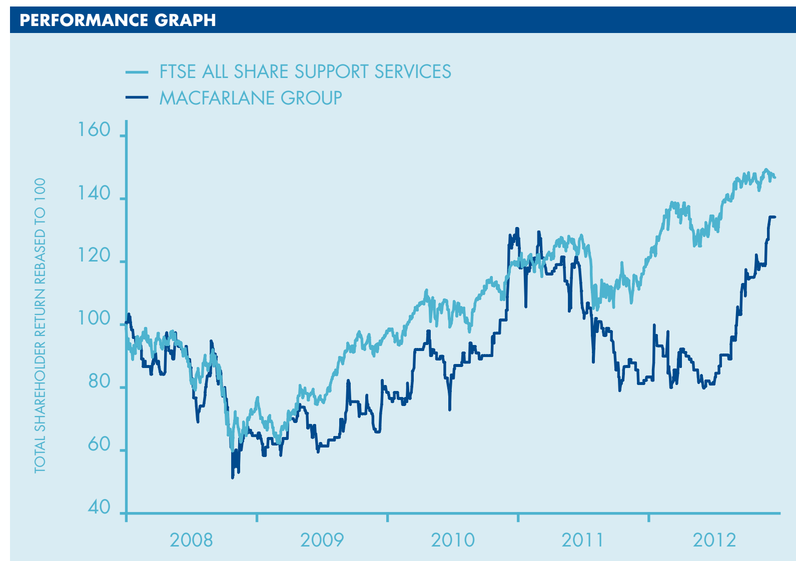
J. Love is an active member of the final salary scheme with retirement benefits based on pensionable earnings in the years prior to retirement, which is consistent with other members of the final salary pension scheme. Bonuses for Directors do not form part of pensionable earnings. Where the Group's pension schemes are restricted in respect of any executive director by reason of the scheme's specific cap, the Company may contribute to an alternative pension arrangement for the executive director and the Remuneration Committee keeps this under review.

In the period to 5 April 2011 contributions to self-standing pension arrangements were provided for P.D. Atkinson in accordance with the terms of his service contract. Thereafter a pension allowance of the equivalent value was paid.

There have been no changes to either of the executive directors' pension entitlements during 2012. There are no unfunded pension commitments or similar arrangements for current or previous executive directors.

PERFORMANCE GRAPH
The following graph shows the Company's performance, measured by Total Shareholder Return, compared with the performance of the FTSE All-Share Index for Support Services, also measured by Total Shareholder Return. The Index for Support Services has been selected because it includes a range of companies, which the Remuneration Committee consider to be the best available comparison for the Company for this purpose.

PERFORMANCE GRAPH



DIRECTORS' SERVICE CONTRACTS
P.D. Atkinson and J. Love have service contracts dated 6 October 2003 and 11 October 1999 respectively, each with a standard notice period of one year. Both service contracts terminate on the individual attaining the age of 65.

The Committee considers the length of the notice periods to be in the best interests of the Company in maintaining the services of its key directors. Nevertheless, the Remuneration Committee also supports the principle of mitigation and phased payments relative to any settlement on the departure of an executive director and the Committee is authorised to take legal advice in respect of any settlements to be proposed.

Executive directors are entitled to accept appointments outside the Company provided the Board's permission is obtained, thus ensuring that the commitment does not conflict with their duties to the Company. The Board may require the fees from such appointments to be accounted for to the Company. From January 2011 until July 2011, Peter Atkinson was a Director of Speedy Hire plc and he was allowed to retain the emoluments from this position, which was based on a time commitment of 19 days per annum.

Neither the Chairman nor the non-executive directors have a service contract; instead they hold letters of appointment for periods not exceeding three years, subject to review and re-election at Annual General Meeting. Letters of appointment for Messrs G. Bissett, K.D. Mellor, M. Arrowsmith, S. Paterson and R. McLellan are dated 30 March 2012, 5 May 2011, 26 September 2012, 26 September 2012 and 5 March 2013 respectively. G. Bissett, M. Arrowsmith, S. Paterson and R. McLellan are due to be proposed for re-appointment and appointment respectively, at the Annual General Meeting on 7 May 2013. These letters contain a notice period of three months for either party except in the case of the Chairman where six months notice is required.

Details of the Directors seeking appointment and re-appointment at the 2013 Annual General Meeting are set out in the Report of the Directors on page 19. All letters of appointment will be available for inspection prior to the Annual General Meeting on 7 May 2013.

APPROVAL
This report was approved by the Board of Directors on 5 March 2013 and signed on its behalf by

K.D. Mellor
Chairman of the Remuneration Committee

CORPORATE GOVERNANCE

INTRODUCTION
The Company is committed to the principles of corporate governance contained in the UK Corporate Governance Code issued in June 2010 ("the Code") by the Financial Reporting Council ("FRC"). The Company's compliance is set out in the narrative statement on pages 24 to 29 and for directors' remuneration in the Report on Directors' Remuneration on pages 20 to 23.

COMPLIANCE
The Company did not comply with all Code provisions during 2012. Following the appointment of an internal non-executive candidate as Chairman on 8 May 2012 a process was undertaken to recruit new non-executive directors. During this process from 8 May 2012 to 25 September 2012 the complement was limited to one non-executive director in addition to the Chairman. This meant that the following provisions were not met:

> B.1.2 as there was a period where there were fewer than two independent non-executive directors;

> C.3.1 as for a period the Audit Committee continued to be chaired by Graeme Bissett who became the new Company Chairman and comprised only one other non-executive director; and

> D.2.1 as for a period the Remuneration Committee comprised only one non-executive director and the Chairman.

The appointment of Mike Arrowsmith on 26 September 2012 brought the Company into compliance with provisions B.1.2 and D.2.1.

The appointment of Stuart Paterson on 1 January 2013 brought the Company into compliance with C.3.1 as he was also appointed as Chairman of the Audit Committee given his recent and relevant financial experience.

The Company's auditors, KPMG Audit Plc, are required to review whether the above statement reflects the Company's compliance with the nine provisions of the Code specified for its review by the Listing Rules and to report if it does not reflect such compliance.

THE BOARD
The Board currently comprises the Chairman, three independent non-executive directors and two executive directors. The names of the Directors, together with their biographical details, which illustrate their range of experience, are set out on page 15. Details of executive directors' service contracts are given in the Report on Directors' Remuneration and both service contracts have notice periods of one year.

The current Board structure is in compliance with the Code, which requires companies outside the FTSE 350 to have at least two independent non-executive directors. The Directors believe that the Board has an appropriate independent non-executive director complement with recent and relevant experience, which brings strong, independent judgement to the Board's deliberations.

Non-executive directors contribute towards strategy and challenge the Group strategy as well as scrutinising performance in meeting agreed objectives and monitoring the reporting of performance. They satisfy themselves as to the integrity of the financial information and that the financial controls and systems of risk management are robust and defensible. Non-executive directors are given access to independent professional advice at the Group's expense, subject to certain limits and procedures, when it is deemed necessary in order for them to carry out their responsibilities. No such advice was sought during the year.

The Company has maintained directors' and officers' liability insurance cover throughout the financial year. The Company made qualifying third party indemnity provisions for the benefit of directors in 2009, and these remained in force throughout 2012 and to the time of this report.

Details of the Chairman's other commitments are included in his biography on page 15. The Board is satisfied that these do not interfere with the performance of his duties for the Group, which is based on a commitment of approximately 45 days per annum.

The Board considers its non-executive directors, Kevin Mellor, Mike Arrowsmith and Stuart Paterson to be independent both in character and judgement. None of these Directors:

> Has been an employee of the Group within the last five years;

> Has, or has had within the last three years, a material business relationship with the Group;

> Receives remuneration other than a director's fee;

> Has close family ties with any of the Group's advisers, directors or senior employees;

> Holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;

> Represents a significant shareholder; or

> Has served on the Board for more than nine years from the date of their first election.

The balance of the Board's skills and experience will be kept under review.

THE ROLES OF THE CHAIRMAN AND CHIEF EXECUTIVE
The division of responsibilities between the Chairman and the Chief Executive is clearly defined and has been approved by the Board. The Chairman is responsible for the running of the Board, ensuring that all Directors receive sufficient and relevant information on financial, business and corporate issues prior to meetings to allow all Directors to bring independent judgement to bear on all issues.
The Chairman facilitates the effective contribution of non-executive directors and ensures effective communication with shareholders. As Chief Executive, Peter Atkinson's responsibilities focus on managing the business and the implementation of the Group's strategy.

SENIOR INDEPENDENT DIRECTOR
The Board appointed Kevin Mellor as Senior Independent Director on 11 May 2004. Kevin is the Director whom shareholders may contact if they feel their concerns are not being addressed and resolved through the existing mechanisms for investor communication. Following the Annual General Meeting in May 2013, Michael Arrowsmith will assume the role of Senior Independent Director.

RE-ELECTION OF DIRECTORS
All Directors submit themselves for re-election by shareholders at least once in every three-year period. The Company is not a member of the FTSE 350 index of companies and is therefore not required to comply with provision B.7.1 of the Code, which requires all directors of companies in that index to be subject to annual re-election. At the 2013 AGM, Graeme Bissett falls due to retire by rotation and, being eligible, offers himself for re-election. His letter of appointment will be available for shareholder review prior to the AGM on 7 May 2013.

Subject to the Company's Articles of Association, the Companies Acts and satisfactory performance evaluation, non-executive directors are appointed for an initial period of three years. Before the third and sixth anniversary of the non-executive directors' first appointment, the Chairman will discuss with the Director whether it is appropriate for a further three-year term to be served.

COMPANY SECRETARY

Andrew Cotton, the Company Secretary, is responsible for advising the Board through the Chairman on all matters relating to corporate governance. Under the direction of the Chairman, the Company Secretary's responsibilities include ensuring good information flows within the Board, its committees and between executive management and non-executive directors. The Company Secretary also facilitates induction and assists with professional development for the Board. All Directors have access to the advice and services of the Company Secretary. The Articles of Association and the schedule of matters reserved for the Board provide that the appointment and removal of the Company Secretary is a matter for the Board as a whole.

BOARD PROCEDURES

The Group is controlled through its Board of Directors. The Board's main roles are to set the Group's strategic objectives, guide and support management in achieving these objectives, create value and safeguard the interests of shareholders within the appropriate legal and regulatory framework. The Board meets at least nine times a year and individual attendance at those and the Board Committee meetings is set out in the adjacent table. In 2012, four Board meetings were held at operational locations to allow the Board to meet management teams and further develop their understanding of the Group. The Directors' Responsibilities Statement is set out on page 30.

The Board has a formal schedule of matters reserved for its approval. The specific matters reserved to the Board include setting the overall Group's strategy and approving an annual budget, reviewing management performance, approving acquisitions, divestments and major capital expenditure, monitoring returns on investment, reviewing the Group's systems of internal control and risk management and consideration of significant financing matters. The Board has delegated to the management responsibility for the development and recommendation of strategic plans for consideration by the Board, the implementation of the strategy and policies of the Group as determined by the Board, the delivery of the operating and financial plan, the approval of capital expenditure below Board authority levels and the development and implementation of risk management systems.

Regular reports and papers are circulated to the Directors in a timely manner in preparation for Board and Committee meetings. These papers are supplemented by information specifically requested by the Directors from time to time.

The directors receive monthly management accounts and a monthly report from the Chief Executive, which together with other papers enables them to scrutinise the Group and management performance against agreed objectives. At each meeting, the Board considers reports from the Chief Executive and the Finance Director.

BOARD AND COMMITTEE MEETINGS

The number of regular Board and Committee meetings attended by each member during 2012 was:

ATTENDANCE BY DIRECTORS AT BOARD AND COMMITTEE MEETINGS

	BOARD	AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATIONS COMMITTEE
GRAEME BISSETT – CHAIRMAN (from 8 May 2012)	9 (9)	3 (3)	3 (3)	3 (3)**
ARCHIE HUNTER – CHAIRMAN (to 8 May 2012)	4 (4)	1 (1)*	1 (1)	2 (2)
PETER ATKINSON – CHIEF EXECUTIVE	9 (9)	–	–	–
JOHN LOVE – FINANCE DIRECTOR	9 (9)	–	–	–
KEVIN MELLOR – SENIOR INDEPENDENT DIRECTOR	8 (9)	3 (3)	3 (3)	3 (3)
MICHAEL ARROWSMITH – NON-EXECUTIVE DIRECTOR (appointed 26 September 2012)	2 (3)	0 (1)	1 (2)	0 (0)**

Figures in brackets indicate the maximum number of meetings in the period in which the individual was a Board or Committee member.
* indicates that a non-executive Director is attending but is not a member of the relevant Committee; and
** indicates that the Director did not attend the part of the meeting relating to his appointment or re-appointment.

Where a Director cannot attend a Board or Committee meeting, his comments on the papers to be considered at that meeting are relayed in advance to the relevant Chairman.

PROFESSIONAL DEVELOPMENT

On appointment, Directors complete an induction programme designed to give them a thorough understanding of the Group and its activities. They receive information about the Group, the matters reserved for the Board, the terms of reference and membership of the Board Committees, and the latest financial information. This is supplemented with visits to key locations and meetings with and presentations from senior management.

CORPORATE GOVERNANCE

BOARD PERFORMANCE EVALUATION

The Board has established a formal process, led by the Chairman, for the annual performance evaluation of the Board, its Committees and individual Directors. All Directors are made aware on appointment that their performance will be subject to regular evaluation.

The Board has completed a self-assessment questionnaire developed to take account of the areas identified in the Financial Reporting Council Guidance on Board effectiveness. This includes specific reference to the strategic objectives and performance of the Board and the performance and processes for all Board Committees. The results have been collated by the Company Secretary and reviewed by the Board to identify any areas for improvement and to confirm objectives for the year ahead. The Chairman then holds individual meetings with each of the Directors to review performance and set individual objectives.

The Chairman meets periodically with the non-executive directors without the executive directors present. Led by the Senior Independent Director, the non-executive directors meet annually without the presence of the Chairman to conduct a performance evaluation of the Chairman.

RELATIONS WITH SHAREHOLDERS

The Group maintains a corporate website (www.macfarlanegroup.com) containing a wide range of information of interest to institutional and private investors. Detailed reviews of the performance and financial position are included in the Business Review on pages 6 to 13 of this report. The Board uses this together with the Chairman's Statement on page 1, the Corporate Responsibility Report on pages 16 and 17 and the remainder of the Report of the Directors on pages 18 and 19 to present its assessment of the Company's position and prospects.

The Chairman maintains a regular dialogue with shareholders and gives feedback to the Board on issues raised. The Group has frequent discussions with institutional shareholders, including meetings led by the Chief Executive and the Finance Director, following the announcement of the annual financial results in March and the announcement of interim results in August. In addition, the Group responds to individual requests for discussions from shareholders.

The Board receives feedback on meetings with shareholders including broker feedback on meetings scheduled at the time of the preliminary announcement and the interim results. The Senior Independent Director is available to meet with shareholders if they have concerns with contact through the normal channels of Chairman, Chief Executive or Finance Director.

All Directors attend the Annual General Meeting and shareholders are invited to ask questions during the meeting and to meet Directors after the formal proceedings have ended. All shareholders have an opportunity to raise questions with members of the Board on matters relating to the Group's operations and performance at the meeting. Details of the resolutions to be proposed at the Annual General Meeting can be found in the Notice of Meeting accompanying the Annual Report and Accounts. In line with the requirements of the Code, the results of proxy votes are disclosed at the Annual General Meeting and made available on the Group website and the Notice of Meeting is sent out more than 20 days in advance of the meeting.

NOMINATIONS COMMITTEE MEMBERSHIP

1 JANUARY 2012 TO 8 MAY 2012	8 MAY 2012 TO 25 SEPTEMBER 2012	26 SEPTEMBER 2012 TO 31 DECEMBER 2012	1 JANUARY 2013 ONWARDS
Archie Hunter (Chairman)	Graeme Bissett (Chairman)	Graeme Bissett (Chairman)	Graeme Bissett (Chairman)
Graeme Bissett	Kevin Mellor	Kevin Mellor	Kevin Mellor
Kevin Mellor		Michael Arrowsmith	Michael Arrowsmith
			Stuart Paterson

NOMINATIONS COMMITTEE

The Nominations Committee met three times during 2012 and its terms of reference are available on the Group website (www.macfarlanegroup.com).

The principal work undertaken by the Nominations Committee in 2012 was

(a) to address the succession of the previous Chairman through a rigorous process covering both internal and external candidates;

(b) to recruit non-executive directors with relevant experience, who would add value to the operation of the Board; and

(c) to consider and recommend that the Company propose for re-election any directors falling due for re-appointment at the Annual General Meeting.

The Nominations Committee undertook a programme in 2012 to address the succession of the Chairman and to recruit new non-executive directors. In both cases external search consultancies were used to identify suitable candidates for the roles. This process sought to identify candidates from a broad background recognising the need to consider diversity of Board membership.

The Senior Independent Director led the process to recruit a new Chairman and, given that he was an internal candidate, Graeme Bissett was excluded from the Committee.

Following his appointment, Graeme Bissett, the new Chairman led the process to appoint new non-executive directors to add experience and strength to the Board and also to ensure the relevant provisions of the UK Corporate Governance Code were met. This culminated in the appointment of Mike Arrowsmith and Stuart Paterson in 2012 and Bob McLellan in 2013. Following a handover period, Kevin Mellor will step down from the Board at the Annual General Meeting in 2013.

The Committee's responsibilities include reviewing the structure, size and composition of the Board and giving full consideration to succession planning for Directors and other senior executives. The Nominations Committee will continue to consider the mix of skills and experience that the Board requires and seek the appointment of Directors to meet its assessment of what is required to ensure that the Board is effective in discharging its responsibilities.

In addition the Committee met during 2012 to consider proposing Peter Atkinson and John Love for re-election at the Annual General Meeting on 8 May 2012. Both were recommended for re-election and this was approved by shareholders at the 2012 AGM.

Following a Nominations Committee held on 28 February 2013, the Committee proposed Graeme Bissett for re-election at the Annual General Meeting on 7 May 2013.

REMUNERATION COMMITTEE MEMBERSHIP

1 JANUARY 2012 TO 8 MAY 2012	8 MAY 2012 TO 25 SEPTEMBER 2012	26 SEPTEMBER 2012 TO 31 DECEMBER 2012	1 JANUARY 2013 ONWARDS
Kevin Mellor (Chairman)	Kevin Mellor (Chairman)	Kevin Mellor (Chairman)	Kevin Mellor (Chairman)
Graeme Bissett	Graeme Bissett	Graeme Bissett	Graeme Bissett
Archie Hunter		Michael Arrowsmith	Michael Arrowsmith
			Stuart Paterson

REMUNERATION COMMITTEE

The Remuneration Committee met three times during 2012 and its terms of reference are available on the Group website (www.macfarlanegroup.com).

The principal work undertaken by the Remuneration Committee in 2012 was

(a) to review performance against 2012 financial and personal objectives and to conclude on the appropriate performance related reward for senior executives including the executive directors;

(b) to approve the financial and personal objectives for 2013 in relation to the performance related bonus;

(c) to consider the use of share based incentives, either using the Long Term Incentive Plan or within a SAYE scheme. These were considered but not felt to be appropriate at this time; and

(d) to approve the Report on Directors' Remuneration.

The work carried out by the Remuneration Committee is described within the Report on Directors' Remuneration, which is set out on pages 20 to 23.

CORPORATE GOVERNANCE

AUDIT COMMITTEE MEMBERSHIP			
1 JANUARY 2012 TO 8 MAY 2012	8 MAY 2012 TO 25 SEPTEMBER 2012	26 SEPTEMBER 2012 TO 31 DECEMBER 2012	1 JANUARY 2013 ONWARDS
Graeme Bissett (Chairman) Kevin Mellor	Graeme Bissett (Chairman) Kevin Mellor	Graeme Bissett (Chairman) Kevin Mellor Michael Arrowsmith	Stuart Paterson (Chairman) Kevin Mellor Michael Arrowsmith

AUDIT COMMITTEE

The Audit Committee Chairman, Graeme Bissett, has recent and relevant financial experience being a chartered accountant, with substantial experience in the accountancy profession and senior financial roles in industry. He became Company Chairman on 8 May 2012 but the Board agreed to maintain his chairmanship of the Audit Committee until a successor was recruited. Stuart Paterson was appointed on 1 January 2013 and was also appointed as Chairman of the Audit Committee. Kevin Mellor and Michael Arrowsmith have a wide range of commercial experience, as evidenced in the biographical details on page 15. The Company Chairman will attend meetings to give the Committee the benefit of his relevant experience but he is no longer a member of that Committee with effect from 1 January 2013. The Audit Committee met three times during 2012 and its agenda is linked to events in the Group's financial calendar.

The Committee's terms of reference are displayed on the Group website, (www.macfarlanegroup.com) and its principal oversight responsibilities cover:

> Internal control and risk management;

> Internal audit;

> External audit (including auditor independence); and

> Financial reporting.

Under its terms of reference, the Audit Committee monitors the integrity of the Group's financial statements and any formal announcements relating to the Group's performance. The Committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, re-appointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the Group and the external auditor is maintained, including reviewing non-audit services and fees.

The Committee meets privately with the external and internal auditors and executive directors are invited to attend meetings as required.

The Committee reviews annually the Group's system of internal control and processes for evaluating and monitoring the risks facing the Group. The Committee reviews the effectiveness of the internal audit function and its terms of reference on an annual basis and recommends to the Board any changes required as a result of the review.

In 2012 the Audit Committee discharged its responsibilities by:

> Reviewing the Group's draft financial statements and interim results statement prior to Board approval and reviewing the external auditor's reports thereon;

> Monitoring compliance with International Financial Reporting Standards;

> Reviewing the output from the group-wide process used to identify, evaluate and mitigate risks;

> Reviewing the effectiveness of the group's internal controls and disclosures made in the annual report and financial statements on this matter;

> Agreeing a programme of work for the Company's Internal Audit function;

> Receiving reports from the Head of Internal Audit on the work undertaken by Internal Audit and management responses to proposals made in the audit reports issued by the function during the year;

> Reviewing the external auditor's plan for the audit of the Group accounts which included confirmations of auditor independence and approval of the engagement letter; and

> Reviewing and approving the audit fee and keeping the level of non-audit fees paid to the Group's auditor under review.

During 2011 the Committee undertook an audit tender process resulting in a recommendation to appoint KPMG Audit Plc as external auditor to the Company. This was approved by shareholders at the Annual General Meeting in 2012.

The Audit Committee is responsible for the development, implementation and monitoring of the Group's position on external audit. The Committee's terms of reference assign oversight responsibility for monitoring the independence, objectivity and compliance with ethical and regulatory requirements to the Audit Committee, and day–to-day responsibility to the Finance Director. The Audit Committee has ensured that the Board and external auditor have safeguards in place to prevent auditor's independence and objectivity being compromised. The external auditor also reports to the Committee on the actions that they have taken to comply with professional and regulatory requirements and current best practice in order to maintain independence.

The Committee has considered the likelihood of a withdrawal of the auditor from the market and noted that there are no contractual obligations to restrict the choice of external auditor. In accordance with best practice guidelines the audit partner from the firm of the external auditor is required to rotate off the audit engagement every five years.

The Audit Committee monitors regularly the non-audit services provided to the Group by its external auditor. It's policy is to keep all services provided by the external auditor under review so as to ensure the independence and objectivity of the external auditor, taking account of relevant professional and regulatory requirements. Details of the amounts paid to the external auditor during the year for audit and other services are set out in note 2 to the financial statements.

The Audit Committee also monitors the Group's arrangements by which staff may in confidence raise concerns about possible improprieties in matters of financial reporting and other areas including a whistle-blowing service to take calls from employees. Brief details are included on the Group website (www.macfarlanegroup.com). All concerns will continue to be investigated at the earliest opportunity and the employee's anonymity is preserved.

The Audit Committee Chairman will be available to answer questions on any aspect of the work of the Committee at the Annual General Meeting.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. It is the role of management to implement the Board's policies on risk and control through the design and operation of appropriate internal control systems. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against material mis-statement or loss.

The Board confirms that an ongoing process for identifying, evaluating and managing the significant risks faced by the Group was in place in compliance with the guidance of the Turnbull Review Group. The process has been in place throughout the year under review and has continued up to the date of approval of the annual report and financial statements.

The Board regularly reviews the Group's system of internal control. The Board's monitoring covers all controls including financial, operational and compliance controls and risk management.

The key elements of the internal control process are:

> Formal Board reporting on a monthly basis by the Chief Executive and the Finance Director;

> Formal Board approval of the annual budget;

> In 2009, the internal audit function was brought in-house and a Head of Internal Audit appointed. Certain parts of the internal audit plan may be outsourced when it is considered that specific expertise is required. The Audit Committee reviews the annual plan proposed by Group management, receives copies of all reports and an update from the internal auditors on a six-monthly basis;

> Monthly and annual financial control checklists submitted by each business unit;

> Review by the Audit Committee of the conclusions of the Group's external auditor in its annual audit and interim review; and

> A formal risk assessment process as set out below.

During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of the necessary actions has not been considered appropriate.

Each business has a risk register which is kept under review during regular review meetings within these businesses. The Board reviews the risk register every six months so that it can maintain an overview of risks facing the business and ensure management have identified and implemented appropriate controls to address these risks, which are acceptable to the Board. The risk register is taken into account in setting the internal audit programme each year.

The Directors have continued to review the effectiveness of the Group's system of financial and non-financial controls.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

> select suitable accounting policies and then apply them consistently;

> make judgements and estimates that are reasonable and prudent;

> for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;

> for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and

> prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENT
We confirm that to the best of our knowledge:

> the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

> the Business Review, which is incorporated into the Directors' 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 that they face.

By order of the Board

Peter D. Atkinson
Chief Executive
5 March 2013

John Love
Finance Director
5 March 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MACFARLANE GROUP PLC

We have audited the financial statements of Macfarlane Group PLC for the year ended 31 December 2012 set out on pages 32 to 68. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 30, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

> the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's profit for the year then ended;

> the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;

> the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and

> the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

> the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

> the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

> adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

> the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

> certain disclosures of directors' remuneration specified by law are not made; or

> we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

> the directors' statement, set out on page 36, in relation to going concern;

> the part of the Corporate Governance Statement on pages 24 to 29 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and

> certain elements of the report to shareholders by the Board on directors' remuneration.

Craig Anderson
(Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc,
Statutory Auditor
Chartered Accountants
191 West George Street
Glasgow G2 2LJ

5 March 2013

Note: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTE	RESULTS BEFORE EXCEPTIONAL ITEMS £000	EXCEPTIONAL ITEMS £000 SEE NOTE 1(C)	2012 £000	2011 £000
CONTINUING OPERATIONS					
Revenue	1	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	1, 2	5,834	993	6,827	4,689
Finance income		2,716	–	2,716	2,958
Finance expense		(3,636)	–	(3,636)	(3,773)
NET FINANCE COSTS	4	(920)	–	(920)	(815)
PROFIT BEFORE TAX		4,914	993	5,907	3,874
Tax	5	(1,327)	(390)	(1,717)	(455)
PROFIT FOR THE YEAR	6, 20	3,587	603	4,190	3,419
EARNINGS PER SHARE	8				
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.

The accompanying notes are an integral part of this consolidated income statement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(EXPENSE)

FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTE	2012 £000	2011 £000
Foreign currency translation differences – foreign operations	20	(63)	(70)
Actuarial loss on defined benefit pension scheme	25	(2,205)	(6,432)
Tax on items taken directly to equity			
Actuarial loss for the year	18	507	1,608
Deferred tax on pension related items	18	(365)	(313)
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX		(2,126)	(5,207)
Profit for the year		4,190	3,419
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		2,064	(1,788)

The accompanying notes are an integral part of this consolidated statement of comprehensive income/(expense).

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	7	–	–	–	–	(1,761)	(1,761)
Foreign currency translation differences – foreign operations	20	–	–	–	(70)	–	(70)
Actuarial loss on defined benefit pension scheme	25	–	–	–	–	(6,432)	(6,432)
Tax taken direct to equity							
Actuarial loss for the year	18	–	–	–	–	1,608	1,608
Deferred tax on pension related items	18	–	–	–	–	(313)	(313)
Transfer of own shares to pension scheme	20	–	–	45	–	(24)	21
Credit in respect of share-based payments	24	–	–	–	–	8	8
AT 31 DECEMBER 2011		28,755	70	(810)	246	(4,546)	23,715
Profit for the year		–	–	–	–	4,190	4,190
Dividends	7	–	–	–	–	(1,761)	(1,761)
Foreign currency translation differences – foreign operations	20	–	–	–	(63)	–	(63)
Actuarial loss on defined benefit pension scheme	25	–	–	–	–	(2,205)	(2,205)
Tax taken direct to equity							
Actuarial loss for the year	18	–	–	–	–	507	507
Deferred tax on pension related items	18	–	–	–	–	(365)	(365)
AT 31 DECEMBER 2012		28,755	70	(810)	183	(4,180)	24,018

The accompanying notes are an integral part of this consolidated statement of changes in equity.

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2012

	NOTE	2012 £000	2011 £000
ASSETS			
NON-CURRENT ASSETS			
Goodwill and other intangible assets	9	25,710	26,016
Property, plant and equipment	10	7,718	8,414
Trade and other receivables	13	1,783	1,916
Deferred tax asset	18	4,906	5,744
TOTAL NON-CURRENT ASSETS		40,117	42,090
CURRENT ASSETS			
Inventories	12	8,120	8,637
Trade and other receivables	13	34,515	36,609
Cash and cash equivalents	14	289	199
TOTAL CURRENT ASSETS		42,924	45,445
TOTAL ASSETS		83,041	87,535
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	31,705	34,006
Current tax liabilities		256	350
Provisions	16	332	332
Finance lease liabilities	17	126	233
Bank borrowings	14	6,954	7,434
TOTAL CURRENT LIABILITIES		39,373	42,355
NET CURRENT ASSETS		3,551	3,090
NON-CURRENT LIABILITIES			
Retirement benefit obligations	25	18,898	20,484
Deferred tax liabilities	18	381	467
Provisions	16	250	250
Trade and other payables	15	88	105
Finance lease liabilities	17	33	159
TOTAL NON-CURRENT LIABILITIES		19,650	21,465
TOTAL LIABILITIES		59,023	63,820
NET ASSETS		24,018	23,715
EQUITY			
Share capital	19	28,755	28,755
Revaluation reserve	20	70	70
Own shares	20	(810)	(810)
Translation reserve	20	183	246
Retained earnings	20	(4,180)	(4,546)
TOTAL EQUITY		24,018	23,715

The accompanying notes are an integral part of this consolidated balance sheet.

The financial statements of Macfarlane Group PLC, company registration number SC004221, were approved by the Board of Directors on 5 March 2013 and signed on its behalf by

Peter D. Atkinson
Chief Executive

John Love
Finance Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTE	2012 £000	2011 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	22	3,358	2,232
INVESTING ACTIVITIES			
Interest received		31	11
Disposal of subsidiary undertaking	21	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	7	(1,761)	(1,761)
Repayments of finance lease liabilities		(233)	(288)
Increase in bank loans	22	–	1,000
NET CASH USED IN FINANCING ACTIVITIES		(1,994)	(1,049)
NET INCREASE IN CASH AND CASH EQUIVALENTS		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	22	(665)	(1,235)

The accompanying notes are an integral part of this consolidated cash flow statement.

ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 DECEMBER 2012

SUMMARY OF ACCOUNTING POLICIES

The following accounting policies have been applied consistently for items which are considered to be material in relation to the financial statements.

(a) Basis of accounting
The financial statements for the year ended 31 December 2012 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The following adopted IFRSs have been issued but have not been applied by the Group in these financial statements:

> IFRS 7 (amended)	Disclosures – Transfers of Financial Assets
> IFRS 9	Financial Instruments
> IFRS 10	Consolidated Financial Statements
> IFRS 11	Joint Arrangements
> IFRS 12	Disclosure of Interests in Other Entities
> IFRS 13	Fair Value Measurement
> IAS 1 (amended)	Presentation of Items of Other Comprehensive Income
> IAS 19 (revised)	Employee Benefits

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:

1. IFRS 13 will impact measurement of fair value for certain assets and liabilities and the associated disclosures;
2. IAS 19 (revised) will impact the measurement of the various components representing movements in the defined benefit pension obligation and associated disclosures, but not the group's total obligation. It is likely that following the replacement of expected returns on plan assets with a net finance cost in the income statement, the profit for the period will be reduced and accordingly other comprehensive income increased. This change is required to be applied retrospectively. Had the standard applied to the 2012 results, the currently quantifiable effect is that the profit for the year would have been approximately £0.4 million lower, with a corresponding credit in other comprehensive income.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

The financial statements have been prepared on the historical cost basis. The revaluation reserve relates to a period before transition to IFRS.

Going concern
The Directors, in their consideration of going concern, have reviewed the Group's future cash flow forecasts and profit 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 Business Review on pages 6 to 13.

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 these 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.

(b) Basis of consolidation
The consolidated income statement and the consolidated balance sheet include the financial statements of the parent company and its subsidiaries (all of which are wholly-owned) made up to the end of the financial year. Transactions between group companies are eliminated on consolidation.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the effective date of acquisition (the date control is acquired). Any excess of the cost of acquisition over the fair values of the identifiable net assets is recognised as goodwill.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal. The consolidated gain or loss on disposal of a subsidiary is the difference between the net proceeds of sale and the Group's share of the subsidiary's net assets together with the carrying value of any related goodwill at the effective date of disposal.

(c) Goodwill and other intangible assets
Goodwill arising in a business combination is recognised as an asset and represents the excess of the cost of acquisition over the net fair values of the identifiable assets and liabilities of the acquired subsidiary at the effective date of acquisition.

Goodwill is allocated to cash generating units (CGUs) expected to benefit from the synergies of the combination, for the purpose of impairment testing. The carrying value of goodwill for each CGU is considered annually and also reviewed where management has reason to believe that a change in circumstances may give rise to any impairment.

Other intangible assets comprise separately identifiable intangible assets recognised on the acquisitions of subsidiary companies. They are recorded at fair value on acquisition less any subsequent impairment. These are primarily brand values, which are calculated on the Relief From Royalty method, and customer relationship values, which are calculated on the excess earnings method based on the net anticipated earnings stream. Brand values are amortised on a straight-line basis over five years and customer relationships are amortised on a straight-line basis over ten years.

SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided to third parties in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue from the sale of goods and services is recognised when the Group has transferred the significant risks and rewards of ownership of the goods and services to the customer, the amount of revenue and the costs related thereto can be measured reliably and it is probable that the economic benefits of the transaction will flow to the Group.

Investment income is recognised where it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(e) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as tangible assets of the Group at their fair value as determined at the inception of the lease. Depreciation is provided in accordance with the Group's accounting policy for the class of tangible asset concerned. Interest costs are charged over the lease term and future obligations, comprising the corresponding liability to the lessor, are included in the balance sheet as finance lease liabilities.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Incentives to enter into an operating lease are initially recorded as a liability and then treated as a reduction in the rental expense on a straight-line basis over the lease term.

(f) Foreign currencies

The financial statements of each subsidiary are presented in the currency of the primary economic environment in which the business operates (its functional currency). For the purposes of preparing the Group financial statements, the results and the financial position of each business are expressed in Sterling, being the Company's functional currency. Exchange differences arising on the settlement and retranslation of monetary items on an ongoing basis are included in the profit or loss in the income statement for the period.

Assets and liabilities denominated in foreign currencies and financial statements of foreign subsidiaries are translated into Sterling at the rates of exchange prevailing on the balance sheet date. Exchange differences arising in the consolidated accounts on the retranslation at closing rates of the Group's net investments in foreign subsidiary companies are recorded as movements on the Group's translation reserve and reported in the statement of comprehensive income/(expense). Such translation differences are recognised as part of the profit or loss in the period in which the foreign business is disposed of.

(g) Retirement benefit costs

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out triennially and updated at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur in the statement of comprehensive income/(expense). Past service cost is recognised immediately to the extent that benefits are already vested and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

Settlement gains represent the excess of the current value of the retirement obligation extinguished over the transfer value paid to extinguish the liability. Curtailment gains, which are recognised in the consolidated income statement, represent the reduction in value of the retirement obligations achieved following a change in benefits put forward by the Company but only after trustee approval to any necessary rule changes has been effected.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of the scheme assets. The obligations are measured on an actuarial basis and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme's liabilities.

Payments made to defined contribution schemes are charged as an expense in the income statement as they fall due.

(h) Taxation

The tax expense represents the sum of the current tax payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from Profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The current tax liability is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax balances represent the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also recorded in the statement of comprehensive income/(expense).

Deferred tax assets and liabilities are not discounted.

ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 DECEMBER 2012

SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(i) Property, plant and equipment
Property, plant and equipment are stated at cost. Assets revalued before the date of transition to IFRS have been recorded at deemed cost.

No depreciation is provided on land. Depreciation is recognised so as to write off the cost of the assets, less their estimated residual values, by equal annual instalments over their estimated useful lives. The rates of depreciation use the straight-line method and vary between 2% – 5% per annum on buildings and 7% – 33% per annum on plant and equipment. Rates of depreciation are reviewed annually to ensure they remain relevant and residual values are reviewed once in each calendar year.

The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying value of the asset and is recognised in the consolidated income statement.

(j) Inventories
Inventories are consistently stated at the lower of cost and net realisable value.

Cost represents average cost and is stated less any provisions required for obsolescence. In the case of work in progress and finished goods, cost comprises direct materials, direct labour costs and attributable overheads that have been incurred in bringing the inventories to their present location and condition.

Net realisable value is based on the estimated selling price, less any further costs expected to be incurred to completion and disposal.

(k) Financial instruments
Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets
Financial assets, categorised as investments, are recognised and derecognised on the effective date where the purchase or sale of an investment is under a contract whose terms require the delivery of the investment within the timeframe established and are initially measured at fair value, net of transactions costs except for those financial assets classified at fair value through the income statement which are initially measured at fair value.

Other financial assets comprise trade and other receivables that have fixed or determinable recoveries and are classified as trade and other receivables. The classification takes account of the nature and purpose of the financial assets and is determined on initial recognition. Trade and other receivables are measured at amortised cost less impairment.

Impairment of financial assets
Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted. For trade receivables the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying value of the allowance account are recognised in the consolidated income statement.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and on demand deposits, readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

Financial liabilities and equity
Financial liabilities and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

Financial liabilities
Financial liabilities comprise solely other financial liabilities under the terms of IFRS 7. Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost, with interest expense measured on an effective yield basis.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments
During both the current and prior year, the Group did not enter into any derivative financial instruments.

(l) Provisions
The Group has a number of surplus properties, held under operating leases, where it seeks to obtain rental income from a sub-lease to cover its ongoing liabilities under the head lease. In the event that a property held under one of these leases becomes vacant due to the expiry of a sub-lease or the default of a tenant, every effort is made to attract a new tenant. The Company reassesses the provision made for residual lease commitments together with other outgoings for dilapidations, after taking into account existing sub-tenant arrangements and assumptions relating to later periods of vacancy and if there is likely to be a rental void for a period of time, then a provision is made at each balance sheet date to cover management's best estimate of the future cost of the likely void period.

(m) Share-based payments
The Group issues equity-settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value of the equity instruments at the date of the grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed as an employee benefits expense on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The fair value is determined by the use of a binomial model with the expected life adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 24.

SUMMARY OF CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

FOR THE YEAR ENDED 31 DECEMBER 2012

In preparing the Group financial statements in conformity with IFRSs, the Directors are required to make judgements, estimates and assumptions that impact the carrying amounts of revenues, expenses, assets and liabilities, that are not readily apparent from other sources. The judgements, estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Certain accounting policies have been identified as requiring critical accounting judgements or involving particularly complex or subjective estimates or assumptions, which in turn have the most significant effect on the amounts recognised in the financial statements. These are discussed below and should be read in conjunction with the summary of accounting policies.

Pension scheme deficit

A liability is recorded at each reporting date equivalent to the deficit on the Group's defined benefit pension scheme. This liability is determined in conjunction with advice from the Pension Scheme actuary and the Group's actuarial advisers and can fluctuate significantly based on a number of assumptions, some of which are linked to market-related factors outwith the control of management. The main actuarial assumptions that can impact the valuation are:

(i) the discount rate used to discount liabilities, which is determined based on the yields on high-quality, fixed income investments of a similar duration to the scheme's liabilities. The discount rate used in 2012 is 4.40% (2011 – 4.80%). Pension liabilities increase as the discount rate reduces and a movement of 0.10% in this rate will impact liabilities by £1.1 million;

(ii) long-term assumptions for inflation;

(iii) actual returns on investments experienced compared to expected rates used in the previous valuation; and

(iv) the mortality rates used to value liabilities.

Details of the assumptions used to determine the pension scheme liability at 31 December 2012 are set out in note 25.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. No impairment charge was recognised in the current year on the goodwill balance of £24.1 million in the Group financial statements. Further details are set out in note 9.

Treatment of surplus properties and rental voids

The Company reassesses the provision made for residual lease commitments together with other outgoings for dilapidations, taking into account existing sub-tenant arrangements and assumptions relating to later periods of vacancy and if there is likely to be a rental void for a period of time, then a provision is made at each balance sheet date to cover management's best estimate of the future cost of the likely void period. Amounts totalling £582,000 (2011 – £582,000) have been provided at the balance sheet date as set out in note 16.

Valuation of trade receivables

Trade receivables recorded in the Group's balance sheet comprise a large number of individual balances. The Group reviews all trade receivables and provides against potentially irrecoverable items throughout the year. The Group's senior executive management then reviews local judgements. Whilst every attempt is made to ensure that the allowance for doubtful trade receivables are as accurate as possible, there remains a risk that the allowance may not match the level of debt, which ultimately prove uncollectible. At 31 December 2012, the Group retained a bad debt provision of £365,000, compared to £518,000 in 2011. Further details are set out in note 13.

Valuation of inventories

Inventories recorded in the Group's balance sheet comprise large numbers of comparatively small balances. The Group reviews inventory levels, older and obsolete inventories and provides against any exposures throughout the year. The Group's senior executive management then reviews local judgements. Whilst every attempt is made to ensure that provisions made against inventories are as accurate as possible, there remains a risk that the provisions may not match the level of inventory, which is ultimately not recoverable at its carrying value. During 2012, the Group wrote off £227,000 of inventories through cost of sales compared to £295,000 in 2011. At 31 December 2012, the Group retained provisions against slow-moving and obsolete inventories of £682,000, compared to £512,000 in 2011.

1. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business Segments

The Group adopted IFRS 8 "Operating Segments" with effect from 1 January 2009.

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 the revenue and income of Group operations. As permitted by IFRS 8, the Group has elected to combine the remaining operations for the manufacture and supply of self-adhesive labels to a variety of FMCG customers in the UK and Europe, the manufacture and supply of resealable labels to a variety of FMCG customers in the UK, Europe and the USA and the design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK into one segment headed Manufacturing Operations. None of the individual business segments within Manufacturing Operations represent more than 10% of Group revenue and income.

EXTERNAL REVENUES FROM MAJOR PRODUCTS AND SERVICES	2012 £000	2011 £000
Packaging Distribution	114,807	116,674
Manufacture and supply of self-adhesive labels	11,653	12,509
Manufacture and supply of resealable labels	5,728	5,250
Design, manufacture and assembly of timber, corrugated and foam-based packaging materials	9,635	10,124
EXTERNAL REVENUES FROM CONTINUING OPERATIONS	141,823	144,557

(b) Segmental information 2012

	TOTAL REVENUE £000	INTER-SEGMENT REVENUE £000	EXTERNAL REVENUE £000	SEGMENT RESULT £000
GROUP SEGMENT				
Packaging Distribution	114,807	–	114,807	5,643
Manufacturing Operations	31,475	4,459	27,016	1,184
Continuing activities	146,282	4,459	141,823	
OPERATING PROFIT				6,827
Net finance costs				(920)
PROFIT BEFORE TAX				5,907
Tax				(1,717)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS				4,190

Inter-segment revenues are charged at prevailing market prices.

	CAPITAL ADDITIONS £000	DEPRECIATION/ AMORTISATION £000	SEGMENT ASSETS £000	SEGMENT LIABILITIES £000	NET ASSETS £000
GROUP SEGMENT					
Packaging Distribution	699	784	69,054	50,868	18,186
Manufacturing Operations	126	542	13,987	8,155	5,832
Continuing Operations	825	1,326	83,041	59,023	24,018

1. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

(c) Exceptional items 2012

	PACKAGING DISTRIBUTION £000	MANUFACTURING OPERATIONS £000	2012 TOTAL £000
PENSION SCHEME			
Pension Increase Exchange exercise (see note 25)	872	983	1,855
Related professional costs	(96)	(109)	(205)
	776	874	1,650
PROVISIONS FOR CLOSURE COSTS OF DUBLIN MANUFACTURING SITE	–	(657)	(657)
NET EXCEPTIONAL CREDIT 2012	776	217	993

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 County 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 a non-cash item as set out in note 10.

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.

(d) Segmental information 2011

	TOTAL REVENUE £000	INTER-SEGMENT REVENUE £000	EXTERNAL REVENUE £000	SEGMENT RESULT £000
GROUP SEGMENT				
Packaging Distribution	116,674	–	116,674	4,562
Manufacturing Operations	32,566	(4,683)	27,883	127
Continuing Operations	149,240	(4,683)	144,557	
OPERATING PROFIT				4,689
Net finance costs				(815)
PROFIT BEFORE TAX				3,874
Tax				(455)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS				3,419

	CAPITAL ADDITIONS £000	DEPRECIATION/ AMORTISATION £000	SEGMENT ASSETS £000	SEGMENT LIABILITIES £000	NET ASSETS £000
GROUP SEGMENT					
Packaging Distribution	870	817	71,838	54,801	17,037
Manufacturing Operations	358	571	15,697	9,019	6,678
Continuing Operations	1,228	1,388	87,535	63,820	23,715

1. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

(e) Geographical segments

The Group's operations are primarily located in the UK and Europe. Packaging Distribution's activities are primarily in the UK. Within the Manufacturing Operations, the Labels businesses operate in the UK and Europe and the Packaging Manufacturing business operates primarily in the UK.

	CONTINUING OPERATIONS UK £000	CONTINUING OPERATIONS EUROPE £000	2012 TOTAL £000	CONTINUING OPERATIONS UK £000	CONTINUING OPERATIONS EUROPE £000	2011 TOTAL £000
REVENUE						
Total revenue	138,966	2,857	141,823	140,877	3,680	144,557
RESULT						
Segment operating result	7,295	(468)	6,827	4,568	121	4,689
NON-CURRENT ASSETS	38,191	1,926	40,117	39,637	2,453	42,090
CAPITAL ADDITIONS	814	11	825	1,214	14	1,228

(f) Information about major customers

No single customer accounts for more than 5% of the Group's external revenues.

2. OPERATING PROFIT

OPERATING PROFIT HAS BEEN ARRIVED AT AFTER CHARGING:	2012 £000	2011 £000
Depreciation of property, plant and equipment (see note 10)	1,020	998
Amortisation of intangible assets (see note 9b)	306	390
Staff costs (see note 3)	22,893	22,105
Impairment loss recognised on trade receivables	271	417
Cost of inventories recognised as an expense	93,417	97,368
Write-down of inventories recognised as an expense	227	295
Auditor's remuneration		
Audit services	93	136
Non-audit services	78	51

AUDITOR'S REMUNERATION:

A detailed analysis of auditor's remuneration is provided below:	2012 £000	2011 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	30	50
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries	63	86
TOTAL AUDIT FEES	93	136
Audit related assurance services for review of half-year statements	15	18
Taxation advisory services	9	29
All other assurance services		
Fees payable in respect of the Macfarlane Group PLC pension schemes	5	4
All other non-audit services		
Fees for advice in relation to exercises for final salary pension scheme (included in £205k costs for Pension Increase Exchange exercise (see note 1c)	49	–
TOTAL NON-AUDIT FEES	78	51
TOTAL AUDITOR'S REMUNERATION	171	187

3. STAFF COSTS

The average monthly number of employees was:

	2012 NO.	2011 NO.
Production	181	182
Sales and distribution	374	372
Administration	176	165
	731	719

The costs incurred in respect of these employees were:

	2012 £000	2011 £000
Wages and salaries	20,131	19,389
Social security costs	1,860	1,926
Other pension costs	902	790
	22,893	22,105

4. NET FINANCE COSTS

	2012 £000	2011 £000
Interest on bank 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 COSTS	(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)
CURRENT TAX CHARGE	(823)	(393)
DEFERRED TAX		
Current year charge	(894)	(513)
Adjustment in respect of prior years	–	451
DEFERRED TAXATION CHARGE (see note 18)	(894)	(62)
TOTAL TAX CHARGE	(1,717)	(455)

5. TAX (CONTINUED)

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 TAX	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)

The impact of future changes in taxation rates is disclosed in note 18.

6. PROFIT FOR THE YEAR

The Company has taken advantage of Section 408 of the Companies Act 2006 and consequently a separate profit and loss account for the parent company is not presented as part of these financial statements. The Company's profit for the year is disclosed in note 34 to these financial statements.

7. DIVIDENDS

	2012 £000	2011 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for 2011 of 1.05p per share (2010 – 1.05p per share)	1,193	1,193
Interim dividend for 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 Ownership Trust detailed in note 20.

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 on 7 May 2013. This has not been included as a liability in these financial statements.

8. EARNINGS PER SHARE

From continuing and discontinued operations	2012 £000	2011 £000
EARNINGS PER SHARE	3.69p	3.01p
EARNINGS 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 NUMBER OF SHARES '000	2011 NUMBER OF SHARES '000
Weighted average number of ordinary shares in issue	115,019	115,019
Weighted average number of Own Shares in Employee Share Ownership Trust	(1,436)	(1,463)
WEIGHTED AVERAGE NUMBER OF SHARES IN ISSUE FOR THE PURPOSES OF CALCULATING 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 CALCULATING DILUTED EARNINGS PER SHARE	113,583	113,556

9. GOODWILL AND OTHER INTANGIBLE ASSETS

	PACKAGING DISTRIBUTION £000	MANUFACTURING OPERATIONS £000	2012 TOTAL £000	2011 TOTAL £000
Goodwill	22,790	1,359	24,149	24,149
Other intangible assets	1,561	–	1,561	1,867
Goodwill and other intangible assets	24,351	1,359	25,710	26,016

(a) Goodwill

	PACKAGING DISTRIBUTION £000	MANUFACTURING OPERATIONS £000	2012 TOTAL £000
COST			
At 1 January 2012 and 31 December 2012	22,790	1,359	24,149
CARRYING AMOUNT			
At 31 December 2012 and 31 December 2011	22,790	1,359	24,149

The recoverable amount of each CGU is determined using 'value in use' calculations with key assumptions relating to discount rates, growth rates and projected gross margin and overhead costs. A post tax discount rate of 10.2% (2011– 8.1%) is used for all CGU's as this reflects the Group's weighted average cost of capital, which is considered to be the most definitive basis for arriving at a discount rate and the Group believes the risk profiles across the markets in which it operates are not significantly different. This equates to a pre-tax discount rate of 11.2%, 14.0% and 14.3% for each CGU due to the variation in local tax rates. Growth rates and changes in gross margin and overhead costs are based on our expectation of future performance in the markets in which we operate. These are consistent with the Group's budget for 2013 and strategic plans for future years, and extrapolate cash flows for five years after which a terminal value is calculated using growth rates of up to 2%.

The Directors believe the assumptions used are appropriate, but in addition have conducted sensitivity analysis to determine the changes in assumptions that would result. Based on this analysis the Directors believe that overall any possible change in the key assumptions maintains a recoverable amount for each CGU, which exceeds its carrying value. Therefore at 31 December 2012 no impairment charge is required against the carrying value of goodwill.

(b) Other Intangible Assets

	BRAND VALUES £000	CUSTOMER RELATIONSHIPS £000	TOTAL £000
COST AT FAIR VALUE ON ACQUISITION			
At 1 January 2011, 1 January 2012 and 31 December 2012	130	2,843	2,973
AMORTISATION			
At 1 January 2011	67	649	716
Charge for year	26	364	390
At 1 January 2012	93	1,013	1,106
Charge for year	26	280	306
AT 31 DECEMBER 2012	119	1,293	1,412
CARRYING AMOUNT			
AT 31 DECEMBER 2012	11	1,550	1,561
At 31 December 2011	37	1,830	1,867

Other intangible assets comprise separately identifiable intangible assets recognised on acquisitions in Packaging Distribution in previous years. These are brand values, which are calculated on acquisition on the Relief From Royalty method and a valuation of customer relationships, which are calculated on acquisition on the excess earnings method, based on the net anticipated earnings stream. Brand values are calculated on royalty rates of 0.25%, consistent with an assessment of what would be charged in a typical franchise agreement. The valuation of customer relationships is calculated using our best estimates of customer attrition rates, and returns, based on assessments of performance levels in the markets in which we operate. Brand values and customer relationships are amortised on a straight-line basis over five years and ten years respectively.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

10. PROPERTY, PLANT & EQUIPMENT

	LAND & BUILDINGS £000	PLANT & EQUIPMENT £000	TOTAL £000
COST			
At 1 January 2011	7,062	27,819	34,881
Additions	18	1,210	1,228
Exchange movements	(40)	(82)	(122)
Disposals	(4)	(724)	(728)
At 1 January 2012	7,036	28,223	35,259
Additions	46	779	825
Exchange movements	(37)	(69)	(106)
Impairment charge (see note 1c)	(653)	–	(653)
Disposals	(409)	(7,203)	(7,612)
AT 31 DECEMBER 2012	5,983	21,730	27,713
ACCUMULATED DEPRECIATION			
At 1 January 2011	2,781	23,820	26,601
Charge for year	165	833	998
Exchange movements	(6)	(76)	(82)
Disposals	(4)	(668)	(672)
At 1 January 2012	2,936	23,909	26,845
Charge for year	153	867	1,020
Exchange movements	(16)	(65)	(81)
Impairment charge (see note 1c)	(189)	–	(189)
Disposals	(409)	(7,191)	(7,600)
AT 31 DECEMBER 2012	2,475	17,520	19,995
CARRYING AMOUNT			
AT 31 DECEMBER 2012	3,508	4,210	7,718
At 31 December 2011	4,100	4,314	8,414

The carrying value of £7,718,000 (2011 – £8,414,000) includes £462,000 (2011 – £958,000) of assets held under finance leases. Depreciation charged in respect of these assets is £58,000 (2011 – £104,000). Cost and accumulated depreciation within disposals of plant and equipment in 2012 includes £5,553,000 in respect of the Group's principal IT system, originally installed in 2001, following the upgrade made to the system in 2012.

LAND & BUILDINGS AT NET BOOK VALUE COMPRISE:

	2012 £000	2011 £000
Freeholds	1,679	1,717
Long leaseholds	1,825	2,377
Short leaseholds	4	6
	3,508	4,100

11. SUBSIDIARY COMPANIES

A list of principal operating subsidiaries, including names and countries of incorporation is given on page 68.

12. INVENTORIES

	2012 £000	2011 £000
Raw materials and consumables	502	618
Work in progress	190	208
Finished goods and goods for resale	7,428	7,811
	8,120	8,637

Allowances for obsolescence are estimated by the Group's management based on prior experience and their assessment of the current economic environment as set out in Critical Accounting Judgements on page 39.

13. TRADE AND OTHER RECEIVABLES

	2012 £000	2011 £000
DUE WITHIN ONE YEAR		
Trade receivables for the sale of goods and services	29,877	31,955
Allowance for doubtful receivables	(365)	(518)
	29,512	31,437
Other receivables	2,854	2,437
Prepayments and accrued income	2,149	2,735
	34,515	36,609
DUE AFTER MORE THAN ONE YEAR		
Other receivables	927	1,061
Prepayments and accrued income	856	855
	1,783	1,916

Trade receivables are measured at amortised cost. The Group's credit risk is primarily attributable to its trade receivables. The average credit period taken on sales of goods is 61 days (2011 – 61 days). No interest is charged on overdue receivables.

The Group uses external credit scoring systems to assess new customers' credit quality and uses this to help define credit limits by customer. Limits and scoring are attributed to major customers, with receivables over £50,000 reviewed twice per year. Of the trade receivables balance at 31 December 2012 and 31 December 2011, there are no customers with a balance in excess of 5% of the total balance.

Included in the Group's trade receivable balance are debtors with a carrying amount of £13,621,000, (2011 – £11,110,000) which are past due at the reporting date. The Group has not provided for these amounts as there has not been a significant change in the customers' credit quality and the Group believes that the amounts are still recoverable. The Group does not hold any collateral over these balances. The weighted average overdue age of these trade receivables is 27 days (2011 – 21 days).

AGEING OF PAST DUE BUT NOT IMPAIRED RECEIVABLES	2012 £000	2011 £000
30 – 60 days	7,390	5,945
60 – 90 days	4,302	3,559
Over 90 days	1,929	1,606
	13,621	11,110

Amounts presented in the balance sheet are net of allowances for doubtful trade receivables of £365,000 (2011 – £518,000), estimated by the Group's management based on prior experience and their assessment of the current economic environment.

MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL RECEIVABLES	2012 £000	2011 £000
At 1 January	518	259
Impairment losses recognised in the income statement	271	417
Amounts written off as uncollectible	(424)	(158)
AT 31 DECEMBER	365	518

In determining the recoverability of trade receivables, the Group's management considers any change in the credit quality of the trade receivables from the date credit was originally granted up to the reporting date.

Included in the allowance for doubtful receivables in 2011 were individually impaired trade receivables with a value of £215,000 due from companies in administration.

The Directors consider that the carrying amount of the trade and other receivables approximate to their fair value.

14. FINANCIAL INSTRUMENTS

The Group funds its operations from a number of sources of cash, namely operating cash flow, bank borrowings, finance lease borrowings and shareholders' equity, comprising share capital, reserves and retained earnings, where appropriate. The Group's objective is to achieve a capital structure that results in an appropriate cost of capital whilst providing flexibility in immediate and medium-term funding so as to accommodate any material investment requirements.

The Group's principal financial instruments comprise borrowings, cash and short-term deposits, and other items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments is undertaken for speculative purposes.

There has been no significant change to the Group's exposure to market risks during 2012. The principal risks arising are liquidity risk and credit risk, with the secondary risks being interest rate risk and currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of 2013.

Liquidity risk

The Group's policy with regard to liquidity remains one of ensuring adequate access to funds by maintaining appropriate levels of committed short-term overdraft facilities, which are then reviewed on a regular basis. The principal Group borrowing facility of £11,000,000 is in place for the period to 28 February 2014. The maturity profile of debt outstanding at 31 December 2012 is set out in note 17 and in this note to the financial statements.

Credit risk

The Group's exposure to credit risk is managed by dealing only with banks and financial institutions with good credit ratings and by applying considerable rigour in managing trade receivables. The Group's principal credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

Interest rate risk

The Group finances its business through a mixture of reserves and bank borrowings. The Group borrows in the desired currencies at floating rates of interest. Interest rate exposures are reviewed regularly and financial instruments considered. At present it is not deemed necessary to cover interest rate exposures by the use of financial instruments.

The Group is exposed to interest rate risk, as entities in the Group borrow funds at floating interest rates. The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. At the reporting date if the interest rates had been 50 basis points higher and all other variables held constant the Group's profit before tax would have decreased by £45,000 (2011– £51,000).

Currency risk

The Group has two overseas subsidiaries, one operating in Ireland and the other operating in Sweden. Revenues and expenses are denominated exclusively in Euros and Swedish Krone respectively. As a result, movements in the Euro and Swedish Krone to sterling exchange rates could affect the Group's sterling balance sheet. The Group's policy during 2012 has been to review the need to hedge exposures on a regular basis and it was not deemed necessary to cover any currency exposures by the use of financial instruments. The Group's policy continues to be to review the need to hedge exposures on a regular basis.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	ASSETS 2012 £000	ASSETS 2011 £000	LIABILITIES 2012 £000	LIABILITIES 2011 £000
Euros	1,651	2,012	397	223
Swedish Krone	490	472	222	222
	2,141	2,484	619	445

The sterling value of the Group's foreign currency denominated profits/(losses) before tax are as follows:

	2012 £000	2011 £000
Euros	(500)	38
Swedish Krone	32	94
	(468)	132

Accordingly the following table details the Group's sensitivity to a 5% change in Sterling against the respective foreign currencies. The sensitivity of the Group's exposure to foreign currency risk is determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period.

	RESULT 2012 £000	RESULT 2011 £000	OTHER EQUITY 2012 £000	OTHER EQUITY 2011 £000
Euros	(23)	2	63	89
Swedish Krone	2	5	13	13
	(21)	7	76	102

The numerical disclosures in this note deal with financial assets and financial liabilities.

14. FINANCIAL INSTRUMENTS (CONTINUED)

CASH AND CASH EQUIVALENTS	2012 £000	2011 £000
CURRENCY		
Sterling	14	32
Euros	246	134
Swedish Krone	29	33
CASH AND CASH EQUIVALENTS	289	199
BANK OVERDRAFTS AND LOANS		
Bank overdraft – Sterling	954	1,434
Bank loan – Sterling	6,000	6,000
BANK BORROWINGS	6,954	7,434
NET BANK INDEBTEDNESS	6,665	7,235

Cash and cash equivalents as set out above comprise cash at bank and other short-term highly liquid investments with maturity of three months or less.

All bank overdrafts shown above are repayable on demand.

Bank loans are taken out for three-month periods with the loan at 31 December 2012 rolled over for a further three month period on 28 February 2013.

The Company and certain UK subsidiaries have given inter-company guarantees to secure their respective overdrafts. The overall credit lines for all borrowing facilities total £11,000,000 (2011 – £11,500,000).

Interest rates
All Group deposits and borrowings are held at floating rates of interest. The average effective interest rate on bank loans and overdrafts approximates to 4.86% (2011 – 4.49%) per annum.

Fair value of financial instruments
Current assets and liabilities are all held at floating rates. The fair values of cash and cash equivalents and bank loans and overdrafts at 31 December 2012 all materially equate to book values.

Borrowing facilities
The Group has various committed undrawn overdraft facilities. The facilities available at 31 December 2012 in respect of which all conditions precedent had been met and which expire within one year were as follows:

	2012 £000	2011 £000
Drawn down	6,954	7,434
Undrawn	4,546	4,566
	11,500	12,000

The Group's borrowing profile is as follows:	2012 £000	2011 £000
Unsecured – at amortised cost current bank overdrafts	954	1,434
Unsecured – at amortised cost current bank loan	6,000	6,000
Secured – at amortised cost current finance lease liabilities	126	233
CURRENT BORROWINGS	7,080	7,667
Secured – at amortised cost non-current finance lease liabilities	33	159
TOTAL BORROWINGS	7,113	7,826

The principal Group borrowing facility of £11,000,000 is in place for the period to 28 February 2014. The Group is currently in compliance with all conditions in relation to these borrowing facilities.

GEARING RATIO	2012 £000	2011 £000
The gearing ratio at the year end is as follows:		
Total borrowings (as defined above)	7,113	7,826
Equity	24,018	23,715
NET DEBT TO EQUITY RATIO	30%	33%

15. TRADE AND OTHER PAYABLES

	2012 £000	2011 £000
DUE WITHIN ONE YEAR		
Trade payables	25,202	26,467
Other taxation and social security	2,128	2,140
Other creditors	88	167
Accruals and deferred income	4,287	5,232
	31,705	34,006
DUE AFTER MORE THAN ONE YEAR		
Other creditors	88	105

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs.

No interest is charged on trade payables.

The Directors consider that the carrying amounts for trade and other payables approximate to their fair value.

16. PROVISIONS

	2012 £000	2011 £000
At 1 January and 31 December	582	582
Due within one year – current liabilities	332	332
Due between two and five years – non-current liabilities	250	250
	582	582

The Group has a number of vacant and partly sub-let leasehold properties, with the majority of the head leases expiring before 2020. The Company reassesses the provision made for residual lease commitments together with other outgoings for dilapidations, after taking into account existing sub-tenant arrangements and assumptions relating to potential later periods of vacancy. As a result of this reassessment, the level of provision remained unchanged at 31 December 2012.

Further information on lease commitments is set out in note 23.

17. FINANCE LEASE LIABILITIES

	2012 £000	2011 £000
AMOUNTS PAYABLE UNDER FINANCE LEASES		
Due within one year	126	233
Due in the second to fifth years inclusive	33	159
PRESENT VALUE OF FINANCE LEASE LIABILITIES	159	392
Due for settlement within 12 months (shown within current liabilities)	(126)	(233)
Due for settlement after more than 12 months (shown as non-current liabilities)	33	159

The average lease term is five years and the average effective borrowing rate is 4.08% (2011– 4.85%). Interest rates are fixed at the contract date. All liabilities are on a fixed repayment basis. Finance lease liabilities are denominated in Sterling.

The Directors consider that the carrying amounts for finance lease liabilities approximate to their fair value.

The finance lease liabilities are secured over the assets to which the leases relate as disclosed in note 10.

18. DEFERRED TAX

	TAX LOSSES £000	HELD OVER GAINS £000	OTHER INTANGIBLE ASSETS £000	RETIREMENT BENEFIT OBLIGATIONS £000	TOTAL £000
At 1 January 2011	1,753	(1,327)	(628)	4,246	4,044
(Charged)/credited in income statement	(644)	841	161	(420)	(62)
(Charged)/credited in other comprehensive income					
Deferred tax on actuarial loss	–	–	–	1,608	1,608
Long-term corporation tax rate change	–	–	–	(313)	(313)
At 1 January 2012	1,109	(486)	(467)	5,121	5,277
(Charged)/credited in income statement	(381)	318	86	(917)	(894)
(Charged)/credited in other comprehensive income					
Deferred tax on actuarial loss	–	–	–	507	507
Deferred tax on pension related items	–	–	–	(365)	(365)
AT 31 DECEMBER 2012	728	(168)	(381)	4,346	4,525
2012					
DEFERRED TAX ASSET					
Due outwith one year	728	(168)	–	4,346	4,906
DEFERRED TAX LIABILITIES					
Due outwith one year	–	–	(381)	–	(381)
	728	(168)	(381)	4,346	4,525
2011					
DEFERRED TAX ASSET					
Due outwith one year	1,109	(486)	–	5,121	5,744
DEFERRED TAX LIABILITIES					
Due outwith one year	–	–	(467)	–	(467)
	1,109	(486)	(467)	5,121	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.

The changes to 22% and then to 21% 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.

Deferred tax has not been provided on revaluations of fixed assets. This tax will only become payable if the assets are sold and rollover relief is not obtained. The estimated tax that would become payable in these circumstances is £16,000 (2011– £18,000).

19. SHARE CAPITAL

	NUMBER OF 25P SHARES	2012 £000	2011 £000
Authorised	200,000,000	50,000	50,000
Allotted, issued and fully paid:			
AT 1 JANUARY AND 31 DECEMBER	115,019,000	28,755	28,755

There have been no movements in share capital during the year.

The Company has one class of ordinary shares, which carry no right to fixed income. Each ordinary share carries one vote in any General Meeting of the Company.

20. RESERVES

	REVALUATION RESERVE £000	OWN SHARES £000	TRANSLATION RESERVE £000	RETAINED EARNINGS £000	TOTAL £000
Balance at 1 January 2011	70	(855)	316	(1,051)	(1,520)
Disposal of own shares	–	45	–	(24)	21
Foreign currency translation differences – foreign operations	–	–	(70)	–	(70)
Profit for the year	–	–	–	3,419	3,419
Dividends paid (see note 7)	–	–	–	(1,761)	(1,761)
Actuarial loss in pension scheme taken direct to equity	–	–	–	(6,432)	(6,432)
Deferred tax taken direct to equity					
Tax on actuarial loss	–	–	–	1,608	1,608
Corporation tax rate change	–	–	–	(313)	(313)
Credit for share-based payments (see note 24)	–	–	–	8	8
Balance at 1 January 2012	70	(810)	246	(4,546)	(5,040)
Foreign currency translation differences – foreign operations	–	–	(63)	–	(63)
Profit for the year	–	–	–	4,190	4,190
Dividends paid (see note 7)	–	–	–	(1,761)	(1,761)
Actuarial loss in pension scheme taken direct to equity	–	–	–	(2,205)	(2,205)
Deferred tax taken direct to equity					
Tax on actuarial loss	–	–	–	507	507
Deferred tax on pension related items	–	–	–	(365)	(365)
BALANCE AT 31 DECEMBER 2012	70	(810)	183	(4,180)	(4,737)

At the year-end, the Company's Employee Share Ownership Trust ("ESOT") held 1,436,372 (2011 – 1,436,372) ordinary shares in Macfarlane Group PLC with a market value of £402,000 (2011 – £269,000) in respect of the future exercise of share options. The ESOT has waived its right to receive dividends on these shares.

Exchange differences arising in the consolidated accounts on the retranslation at closing rates of the Group's net investments in foreign subsidiary companies are recorded as movements on the Group's translation reserve. The translation reserve at 31 December 2012 relates wholly to continuing operations.

21. DISPOSAL OF SUBSIDIARY UNDERTAKINGS

The final 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.

22. 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
Pension scheme contributions	(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

22. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

	2012 £000	2011 £000
MOVEMENT IN NET DEBT		
Increase in cash and cash equivalents in the year	90	61
Decrease/(increase) in bank overdrafts	480	(26)
Cash and cash equivalents in statement of cash flows	570	35
Increase in bank loans	–	(1,000)
Cash flows from payment of finance lease liabilities	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	(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)
Finance lease liabilities		
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, overdrafts are included within cash and cash equivalents.

23. FINANCIAL COMMITMENTS

During the year the Group made minimum lease payments under non-cancellable operating leases as follows:

	LAND & BUILDINGS 2012 £000	OTHER 2012 £000	LAND & BUILDINGS 2011 £000	OTHER 2011 £000
Charge for the year	4,595	1,884	4,626	2,137
Recoveries against property leases	(831)	–	(876)	–
Net charge for the year	3,764	1,884	3,750	2,137

At the balance sheet date the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due for payment by the Group as follows:

	LAND & BUILDINGS 2012 £000	OTHER 2012 £000	LAND & BUILDINGS 2011 £000	OTHER 2011 £000
Within one year	4,484	1,884	4,538	1,271
Within two to five years	16,015	4,382	16,504	1,636
After more than five years	10,868	388	13,463	–
	31,367	6,654	34,505	2,907

23. FINANCIAL COMMITMENTS (CONTINUED)

The majority of the 27 (2011 – 27) leases of land and buildings summarised above are subject to rent reviews. 8 (2011 – 8) of these leases are subject to sub-let arrangements or assignations with third parties to reduce the property cost to Macfarlane Group albeit three of these properties are vacant. At the balance sheet date there were outstanding commitments for future annual minimum lease payments receivable under non-cancellable operating leases which fall due for payment to the Group as follows:

	LAND & BUILDINGS 2012 £000	LAND & BUILDINGS 2011 £000
Within one year	487	876
Within two to five years	1,894	2,299
After more than five years	1,179	1,680
	3,560	4,855

In the event of tenants defaulting on future payments under non-cancellable operating leases for land and buildings, this would lead to increased property costs to the Group until the leases were subsequently sub-let.

The tenant of our leased property in County Wicklow, Ireland exercised a break clause, with the property reverting to Macfarlane Group's use in January 2013. As a result the Group will take the opportunity to use this higher quality and better-located site as the base from which to accelerate the development of our resealable labels business and expand our current activities in Ireland. The impact of this change is that the current smaller Manufacturing site in Dublin will be closed and activities relocated to Wicklow in 2013. The Dublin property will be marketed for sale when vacated by the labels business.

Following the assignment of a property head lease at Coventry in October 2011, the Group entered into sub-leases for approximately 40% of that site to accommodate existing operations. As part of this arrangement, the Group provided guarantees for the rentals under the head lease in the event of a default by the assignee. The assignee is the UK subsidiary of a multinational business listed on the New York Stock Exchange. As a result of the assignation, there is a contingent liability of £3.6 million, (2011 – £4.0 million) the difference between the head lease and sub-lease payments from 1 January 2013 until the conclusion of the head lease in November 2020.

Contractual commitments for capital expenditure for which no provision has been made in the accounts amounted to £Nil (2011 – £Nil).

24. SHARE-BASED PAYMENTS

Equity-settled share option schemes

The Group share option plans provide for a grant price which equates to the closing quoted market price of the Group shares on the day before the date of grant. The vesting period is generally three years and options are forfeited if the employee leaves the Group before the options vest. If the options remain unexercised after a period of ten years from the date of grant, the options expire.

SHARE OPTIONS

The movements on share options during the year is as follows:	NUMBER OF SHARES 2012	NUMBER OF SHARES 2011
Outstanding at 1 January	1,797,372	2,404,580
Lapsed during the year	(361,000)	(607,208)
OUTSTANDING AT 31 DECEMBER	1,436,372	1,797,372
EXERCISABLE AT 31 DECEMBER	1,436,372	1,436,372

The options in existence being valued have an average exercise price of 27.5p (2011 – 30.7p).

The share options granted to employees, including executive directors, and outstanding at 31 December under existing share option schemes together with exercise prices and dates of exercise are as set out below:-

	EXERCISE PRICE PER SHARE	EXERCISE DATE	NUMBER OF SHARES 2012	NUMBER OF SHARES 2011
The Macfarlane Group Company Share Option Plan 2000	88.0p	April 2005 – April 2012	–	76,698
The Macfarlane Group PLC Executive Share Option Scheme 2000	88.0p	April 2005 – April 2012	–	284,302
The Macfarlane Group Company Share Option Plan 2000	28.5p	April 2006 – April 2013	393,490	393,490
The Macfarlane Group PLC Executive Share Option Scheme 2000	28.5p	April 2006 – April 2013	491,510	491,510
The Macfarlane Group PLC Executive Share Option Scheme 2000	26.0p	October 2007 – October 2014	551,372	551,372
TOTAL SHARE OPTIONS OUTSTANDING AT 31 DECEMBER			1,436,372	1,797,372

Equity-settled long-term incentive plans

The Group provided long-term incentive plans which provide for a base level share price for Total Shareholder Return ("TSR") equating to the closing quoted market price of the Group shares on the day before the date of award. The vesting period is three years and incentive plans are forfeited if the employee leaves the Group before they vest. No long-term incentive plan awards were made in 2011 or 2012. All awards have now lapsed.

The Group recognised a charge of £Nil (2011 – £8,000) relating to equity-settled share-based payment transactions and long-term incentive plans.

Macfarlane Group All Employee Share Ownership Plan

Shares held by the trustees of the All Employee Share Ownership Plan vest unconditionally in the employees on the normal maturity date and dividends on the shares are paid to employees. At 31 December 2012 the Scheme held 35,186 ordinary shares of 25p each (2011 – 35,186), which had a market value of £10,000 (2011 – £7,000) on behalf of employees. No awards were made in either 2011 or 2012.

25. PENSIONS

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. For the most recent triennial valuation 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 relevant 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.

During 2010, Macfarlane Group PLC made the decision to amend benefits for active members in the scheme by freezing pensionable salaries at the levels current at 30 April 2009. Following a consultation process with the active members affected, the change took effect on 30 April 2010. As a result no further salary inflation applies for active members who elected to remain in the scheme.

During the second half of 2010 the Government announced its intention that statutory minimum increases should be based on the increase in the CPI measure of inflation rather than the RPI measure of inflation. As the Macfarlane Group final salary pension scheme rules define revaluation in deferment to be statutory, this change was effected in 2010 with a resultant reduction in liabilities.

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 1c 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.

Following the completion of the 2011 actuarial valuation, the Board has agreed to make additional payments to the scheme, which increase the scheme assets and therefore reduce the net pension deficit. The Group expects to contribute approximately £2.5 million (2012 – £2.6 million) to its defined benefit scheme in 2013.

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

The Group will consider a number of further actions to reduce the deficit in 2013.

IAS 19 (revised) will be adopted with effect from 1 January 2013.

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.

Balance sheet disclosures

ASSET CLASS	FAIR VALUE 2012 £000	LONG-TERM EXPECTED RATE OF RETURN	FAIR VALUE 2011 £000	LONG-TERM EXPECTED RATE OF RETURN	FAIR VALUE 2010 £000	LONG-TERM EXPECTED RATE OF RETURN
Equities	14,474	7.40%	12,782	7.50%	26,577	7.75%
Bonds	23,544	3.40%	21,806	3.70%	18,436	4.90%
Multi-asset diversified funds	13,026	7.40%	12,206	7.50%	–	–
Other (cash)	305	1.00%	174	1.00%	280	1.00%
Fair value of assets	51,349	5.53%	46,968	5.71%	45,293	6.54%
Present value of scheme liabilities	(70,247)		(67,452)		(61,018)	
DEFICIT IN THE SCHEME	(18,898)		(20,484)		(15,725)	
Related deferred tax asset (note 18)	4,346		5,121		4,246	
NET PENSION SCHEME LIABILITY	(14,552)		(15,363)		(11,479)	

25. PENSIONS (CONTINUED)

The investment in equities of £14,474,000 (2011– £12,782,000) includes a holding of 1,145,918 ordinary shares in Macfarlane Group PLC (2011– 1,145,918) held at a value of £321,000 (2011– £215,000).

During 2011 the Company transferred 80,000 ordinary shares held as own shares, at market value, to the Macfarlane Group PLC Pension & Life Assurance Scheme (1974).

The long-term expected rate of return is based on equity returns, bond yields and cash balance returns. The overall expected rate of return on the scheme assets is a blended rate of the individual investment categories.

The scheme's liabilities at 31 December 2012 were calculated on the following bases as required under IAS19:

ASSUMPTIONS

	2012	2011	2010
Discount rate	4.40%	4.80%	5.50%
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. 2.10% post 5 April 2006	3% or 5% for fixed increases or 2.90% for LPI. 2.10% post 5 April 2006	3% or 5% for fixed increases or 2.72% for LPI. 2.02% post 5 April 2006
Spouse's pension assumption*			
Pensioner/deferred and active members	70%/80%	90%/90%	90%/90%
Inflation assumption (RPI)	3.00%	3.00%	3.50%
Inflation assumption (CPI)	2.30%	2.20%	2.70%
Life expectancy beyond normal retirement age of 65			
Male	22.4	22.3	21.5
Female	24.6	24.6	24.0

* The actuarial assumption was changed following the PIE exercise, giving an actuarial gain of £1.6 million.

MOVEMENT IN THE SCHEME DEFICIT IN THE YEAR

	2012 £000	2011 £000
At 1 January	(20,484)	(15,725)
Normal service costs	(146)	(150)
Settlement loss	–	(13)
Pension Increase Exchange gain (see note 1c)	1,855	–
Contributions	2,583	2,169
Net finance cost	(501)	(333)
Actuarial loss in the year	(2,205)	(6,432)
AT 31 DECEMBER	(18,898)	(20,484)

ANALYSIS OF AMOUNTS CREDITED/(CHARGED) TO PROFIT BEFORE TAX

	2012 £000	2011 £000
Normal service costs	(146)	(150)
Settlement losses	–	(13)
Pension Increase Exchange gain	1,855	–
Expected return on pension scheme assets	2,685	2,947
Interest cost of pension scheme liabilities	(3,186)	(3,280)
AMOUNTS CREDITED/(CHARGED) TO PROFIT BEFORE TAX	1,208	(496)

25. PENSIONS (CONTINUED)

ANALYSIS OF THE ACTUARIAL LOSS AS INCLUDED IN THE STATEMENT OF COMPREHENSIVE INCOME/(EXPENSE)

	2012 £000	2011 £000
Actual return less expected return on scheme assets	1,622	(517)
Changes in assumptions underlying the present value of scheme liabilities	(3,827)	(5,915)
ACTUARIAL LOSS	(2,205)	(6,432)

MOVEMENT IN THE FAIR VALUE OF SCHEME ASSETS

	2012 £000	2011 £000
At 1 January	46,968	45,293
Expected return on scheme assets	2,685	2,947
Actual return less expected return on scheme assets	1,622	(517)
Contributions from sponsoring companies	2,583	2,169
Contribution from scheme members	80	84
Benefits paid	(2,589)	(3,008)
AT 31 DECEMBER	51,349	46,968

MOVEMENT IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

	2012 £000	2011 £000
At 1 January	(67,452)	(61,018)
Normal service costs	(146)	(150)
Settlement losses	–	(13)
Pension Increase Exchange gain	1,855	–
Interest cost	(3,186)	(3,280)
Contribution from scheme members	(80)	(84)
Changes in assumptions underlying the defined benefit obligations	(3,827)	(5,915)
Benefits paid	2,589	3,008
AT 31 DECEMBER	(70,247)	(67,452)

The cumulative amount of actuarial losses recognised in other comprehensive income since the date of transition to IAS 19 on 1 January 2004 is £14,647,000 (2011 – £12,442,000).

The five-year history of experience adjustments and actual returns on scheme assets and scheme liabilities is as follows:

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Present value of defined benefit obligations	(70,247)	(67,452)	(61,018)	(60,988)	(53,420)
Fair value of scheme assets	51,349	46,968	45,293	40,622	35,943
DEFICIT IN THE SCHEME	(18,898)	(20,484)	(15,725)	(20,366)	(17,477)
ACTUAL RETURN ON SCHEME ASSETS					
Amount	4,307	2,430	4,788	5,630	(8,281)
Percentage of scheme assets	8.4%	5.3%	10.6%	13.9%	(23.0%)
EXPERIENCE ADJUSTMENT ON SCHEME LIABILITIES					
Amount	(3,827)	(5,915)	(554)	(7,587)	7,189
Percentage of scheme liabilities	(5.4%)	(8.8%)	(0.9%)	(12.4%)	13.5%
EXPERIENCE ADJUSTMENT ON SCHEME ASSETS					
Amount	1,622	(517)	2,094	3,305	(11,356)
Percentage of scheme assets	(3.2%)	(1.1%)	4.6%	8.1%	(31.6%)

Defined contribution schemes
The Group also operates a number of defined contribution pension schemes, set up as Group Personal Pension Plans. The assets of these plans are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions paid by the Group to these plans and amounted to £756,000 (2011 – £627,000). Contributions from the company and employees amounting to £53,000 (2011 – £48,000) were payable to the schemes and are included in creditors at the balance sheet date.

Macfarlane Group has a stakeholder pension arrangement for those employees not eligible for membership of any of the Group's contributory pension schemes.

26. RELATED PARTY TRANSACTIONS

The Group has a related party relationship with its subsidiaries (see page 68), with its Directors who comprise the Group Board and with Macfarlane Group PLC sponsored pension schemes.

Transactions between the Company and its subsidiaries are eliminated on consolidation and are not disclosed.

Key management personnel comprise the Group Board. Their remuneration is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures".

	2012 £000	2011 £000
Directors' Remuneration	743	699
Employer's national insurance contributions	100	92
Cost charged in respect of share-based payments	–	6
	843	797

Further details of Directors' individual and collective remuneration are set out in the Report on Directors' Remuneration on page 20. Details of Directors' shareholdings in the Company are also shown on page 21. Total dividends of £31,000 were paid in respect of these shareholdings in 2012 (2011 £32,000).

Details of the disposal of own shares to the pension scheme in 2011 are set out in note 25. Disclosures in relation to the pension schemes are set out in note 25.

The Directors have considered the implications of IAS24 "Related Party Disclosures" and are satisfied that there are no other related party transactions occurring during the year, which require disclosure other than those already disclosed in these financial statements.

COMPANY BALANCE SHEET
AT 31 DECEMBER 2012

	NOTE	2012 £000	2011 £000
FIXED ASSETS			
Tangible fixed assets	28	41	42
Investments	29	24,225	24,225
		24,266	24,267
CURRENT ASSETS			
Debtors – due within one year	30	3,893	7,130
– due after more than one year	30	18,290	15,511
TOTAL CURRENT ASSETS		22,183	22,641
Creditors – amounts falling due within one year	31	(9,810)	(10,308)
NET CURRENT ASSETS		12,373	12,333
TOTAL ASSETS LESS CURRENT LIABILITIES		36,639	36,600
Creditors – amounts falling due after more than one year	32	(601)	(280)
NET ASSETS EXCLUDING NET PENSION LIABILITY		36,038	36,320
Net pension liability	38	(5,966)	(6,298)
NET ASSETS INCLUDING NET PENSION LIABILITY		30,072	30,022
CAPITAL AND RESERVES			
Share capital	33	28,755	28,755
Own shares	34	(810)	(810)
Profit and loss account	34	2,127	2,077
SHAREHOLDERS' FUNDS	36	30,072	30,022

The accompanying notes are an integral part of this company balance sheet.

The financial statements of Macfarlane Group PLC, Company registration number SC004221, were approved by the Board of Directors on 5 March 2013 and signed on its behalf by

Peter D. Atkinson
Chief Executive

John Love
Finance Director

27. SIGNIFICANT ACCOUNTING POLICIES

The Company financial statements have been prepared on the historical cost basis and in accordance with United Kingdom Accounting Standards.

The Directors, in their consideration of going concern, have reviewed the Company and Group's future cash forecasts and revenue projections, which they believe are based on prudent market data and past experience. Additional details are set out on page 36. After making enquiries, the Directors have a reasonable expectation that the Company has 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.

The principal accounting policies adopted are as noted below:

Investments

Investments held as fixed assets are stated in note 29 at cost less provision for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost. No depreciation is provided on land. Depreciation is calculated at fixed rates on a straight-line basis to write off the cost of the assets over the period of their expected useful lives. The rates of depreciation vary between 2% – 5% per annum on buildings and 0% – 33% per annum on plant and equipment.

Pension schemes

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out triennially and updated at each balance sheet date. Actuarial gains and losses are recognised in full, in the period in which they occur, directly in reserves.

Past service cost is recognised immediately to the extent that benefits are already vested and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

Settlement gains represent the excess of the current value of the retirement obligation extinguished over the transfer value paid to extinguish the liability. Curtailment gains, which are recognised in the profit and loss account, represent the reduction in value of the retirement obligations achieved following a change in benefits put forward by the Company but only after trustee approval to any necessary rule changes has been effected.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of the scheme assets. The obligations are measured on an actuarial basis and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme's liabilities.

Payments made to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Financial instruments

(i) Other receivables do not carry interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

(ii) Interest-bearing bank overdrafts and loans are recorded at the proceeds received, net of direct issue costs.

(iii) Trade creditors are not interest bearing and are stated at their nominal value.

Current Taxation

Provision is made for corporation tax on all profits and realised gains up to the balance sheet date, calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

The deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more than likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis.

27. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash flow statement

The Company has not presented a company only cash flow statement. It has taken advantage of the exemption contained in FRS1 (revised 1996) "Cash Flow Statements" as Macfarlane Group PLC has included a consolidated cash flow statement within its group accounts.

Share-based payments

The Company has adopted FRS 20 "Share-based payments". The Company issues equity-settled share-based payments to certain employees, which are measured at fair value at the date of grant. The fair value, determined at the grant date, of the share-based payments issued to employees of this Company are expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. The expense relating to employees of subsidiary companies is fully recharged to those companies with the cost increasing the investment in subsidiaries and a corresponding credit to reserves.

The fair value is determined by the use of a binomial model. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

28. TANGIBLE FIXED ASSETS

	LAND & BUILDINGS £000	PLANT, & EQUIPMENT £000	TOTAL £000
COST			
At 1 January 2012 and 31 December 2012	15	305	320
DEPRECIATION			
At 1 January 2012	11	267	278
Charge for year	–	1	1
At 31 December 2012	11	268	279
NET BOOK VALUE			
At 31 December 2012	4	37	41
At 31 December 2011	4	38	42

The parent company had no assets held under finance leases in 2012 or in 2011.

29. INVESTMENTS

	2012 £000	2011 £000
INVESTMENT IN SUBSIDIARIES AT COST		
At 1 January	24,225	25,810
Group transfers	–	(1,585)
AT 31 DECEMBER	24,225	24,225

Details of the principal operating subsidiaries are set out on page 68.

Of the investment value shown above £114,000 (2011– £114,000) relates to charges to investments in subsidiary companies in respect of equity-settled share-based payments, which will be settled by the parent company.

Group transfers in 2011 represent the transfer of the investments in Macfarlane Packaging Limited and Mitchell Packaging Limited to a subsidiary company, Macfarlane Group UK Limited.

30. DEBTORS

	2012 £000	2011 £000
DUE WITHIN ONE YEAR		
Amounts owed by subsidiaries	2,250	5,500
Other receivables	581	669
Prepayments and accrued income	432	434
Deferred tax asset (see below)	630	527
	3,893	7,130

	2012 £000	2011 £000
DEFERRED TAX ASSET		
Corporation tax losses		
At 1 January	527	100
Credited through profit and loss account	103	427
AT 31 DECEMBER	630	527

Recovery of the deferred tax asset for corporation tax losses is anticipated against future profits from trading.

	2012 £000	2011 £000
DUE AFTER MORE THAN ONE YEAR		
Amounts owed by subsidiaries	18,290	15,511

31. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012 £000	2011 £000
Bank overdrafts and loans	8,856	8,987
Trade creditors	384	365
Amounts owed to group companies	265	600
Other taxation and social security	36	32
Accruals and deferred income	269	324
	9,810	10,308

All bank overdrafts and loans are unsecured and are repayable on demand.

The Company and certain subsidiaries have given inter-company guarantees to secure their respective overdrafts and loans. The overall credit lines for these borrowing facilities total £11,000,000 (2011 – £11,500,000) and are in place for the period to 28 February 2014.

32. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2012 £000	2011 £000
Amounts owed to group companies	601	280

33. SHARE CAPITAL

	NUMBER OF 25P SHARES	2012 £000	2011 £000
Authorised	200,000,000	50,000	50,000
Allotted, issued and fully paid:			
At 1 January and 31 December	115,019,000	28,755	28,755

There have been no movements in share capital during the year.

The Company has one class of ordinary shares, which carry no right to fixed income. Each ordinary share carries one vote in any General Meeting of the Company.

34. RESERVES

	OWN SHARES £000	PROFIT AND LOSS ACCOUNT £000	TOTAL £000
Balance at 1 January 2011	(855)	2,574	1,719
Disposal of own shares	45	(24)	21
Profit for the year	–	1,977	1,977
Dividends paid (see note 7)	–	(1,761)	(1,761)
Post tax actuarial loss in pension scheme taken direct to reserves	–	(697)	(697)
Credit for share-based payments (see note 37)	–	8	8
Balance at 1 January 2012	(810)	2,077	1,267
Profit for the year	–	2,166	2,166
Dividends paid (see note 7)	–	(1,761)	(1,761)
Post tax actuarial loss in pension scheme taken direct to reserves	–	(355)	(355)
BALANCE AT 31 DECEMBER 2012	(810)	2,127	1,317

At 31 December 2012, the Company's Employee Share Ownership Trust ("ESOT") held 1,436,372 (2011 – 1,436,372) ordinary shares in Macfarlane Group PLC with a market value of £402,000 (2011 – £269,000) against the future exercise of share options. The ESOT has waived its right to receive dividends on these shares.

During 2011 the Company transferred 80,000 ordinary shares, previously held as own shares to its defined benefit pension scheme.

35. OPERATING PROFIT

	2012 £000	2011 £000
OPERATING PROFIT FOR THE PARENT COMPANY HAS BEEN ARRIVED AT AFTER CHARGING:		
Auditor's remuneration		
Audit services	16	17
Non-audit services	78	35

	2012 NO.	2011 NO.
STAFF COSTS		
THE AVERAGE MONTHLY NUMBER OF EMPLOYEES WAS:		
Administration	11	11

THE COSTS INCURRED IN RESPECT OF THESE EMPLOYEES WERE:	2012 £000	2011 £000
Wages and salaries	1,011	798
Social security costs	116	94
Other pension costs	25	90
	1,152	982

36. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2012 £000	2011 £000
Profit for the year	2,166	1,977
Dividends to equity holders in the year	(1,761)	(1,761)
Post tax actuarial loss in pension scheme taken direct to equity	(355)	(697)
Transfer of own shares to pension scheme	–	21
Credit for share-based payments (see note 37)	–	8
MOVEMENTS IN SHAREHOLDERS' FUNDS IN THE YEAR	50	(452)
Opening shareholders' funds	30,022	30,474
CLOSING SHAREHOLDERS' FUNDS	30,072	30,022

37. SHARE-BASED PAYMENTS

Equity-settled share option plans

Share option plans of the parent company, Macfarlane Group PLC provide for a grant price, which approximates to the average quoted market price of the Group shares on the date of grant. The vesting period is generally three years and options are forfeited if the employee leaves the Group before the options vest. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The fair value at 31 December 2012 was £112,000 (2011– £112,000).

	NUMBER OF SHARES 2012	NUMBER OF SHARES 2011
A summary of the movements on share options during the year is as follows:		
Outstanding at 1 January	803,372	975,930
Lapsed during the year	(172,000)	(172,558)
OUTSTANDING AT 31 DECEMBER	631,372	803,372
EXERCISABLE AT 31 DECEMBER	631,372	631,372

Options outstanding as follows:	EXERCISE PRICE PER SHARE	NUMBER OF SHARES 2012	NUMBER OF SHARES 2011
Grant date			
5 April 2002	88.0p	–	172,000
16 April 2003	28.5p	80,000	80,000
29 October 2004	26.0p	551,372	551,372
		631,372	803,372

EQUITY-SETTLED SHARE OPTION PLANS

Inputs to the binomial model giving rise to a charge are as follows:	2012	2011
Weighted average share price	42p	42p
Weighted average exercise price	42p	42p
Expected volatility	40%	40%
Expected life	6.5 years	6.5 years
Risk free rate	4.4%	4.4%
Expected annual dividend yield	0.0%	0.0%

The options in existence, being valued, have an average exercise price of 27.5p (2011– 30.0p).

Equity-settled long-term incentive plans

The Group provided long-term incentive plans which provide for a base level share price for Total Shareholder Return ("TSR") equating to the closing quoted market price of the Group shares on the day before the date of award. The vesting period is three years and incentive plans are forfeited if the employee leaves the Group before they vest. No long-term incentive plan awards were made in 2011 or 2012. All awards have now lapsed.

The Company recognised a charge of £Nil (2011– £8,000) relating to equity-settled share-based payment transactions and long-term incentive plans.

Macfarlane Group All Employee Share Ownership Plan

Shares held by the trustees of the All Employee Share Ownership Plan vest unconditionally in the employees on the normal maturity date and dividends on the shares are paid to employees. At 31 December 2012 the Scheme held 35,186 ordinary shares of 25p each (2011– 35,186), which had a market value of £10,000 (2011– £7,000) on behalf of employees. No awards were made in either 2011 or 2012.

38. PENSIONS

The Company 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 Company 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. For the most recent triennial valuation 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 relevant 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.

During 2010, Macfarlane Group PLC made the decision to amend benefits for active members in the scheme by freezing pensionable salaries at the levels current at 30 April 2009. Following a consultation process with the active members affected, the change took effect on 30 April 2010. As a result no further salary inflation applies for active members who elected to remain in the scheme.

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 offer to pensioner members at 1 May 2012 and providing a PIE option for deferred and active members after 1 May 2012. As a result of both of these actions, a gain of £677,000 was recorded by the Company in the first half of 2012 after charging attributable professional expenses of £84,000.

Following the completion of the 2011 actuarial valuation, the Board has agreed to make additional payments to the scheme, which increase the scheme assets and therefore reduce the net pension deficit. The employer contribution rate is now 11.6% of pensionable salary, and the employee contribution rate is 7% of pensionable salary from 1 May 2012 following actuarial advice.

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.

Balance sheet disclosures

ASSET CLASS	FAIR VALUE 2012 £000	LONG-TERM EXPECTED RATE OF RETURN	FAIR VALUE 2011 £000	LONG-TERM EXPECTED RATE OF RETURN	FAIR VALUE 2010 £000	LONG-TERM EXPECTED RATE OF RETURN
Equities	5,934	7.40%	5,241	7.50%	12,950	7.75%
Bonds	9,653	3.40%	8,940	3.70%	8,983	4.90%
Multi-asset diversified funds	5,341	7.40%	5,004	7.50%	–	–
Other (cash)	125	1.00%	71	1.00%	136	1.00%
Fair value of assets	21,053		19,256		22,069	
Present value of scheme liabilities	(28,801)		(27,654)		(29,731)	
DEFICIT IN THE SCHEME	(7,748)		(8,398)		(7,662)	
Related deferred tax asset	1,782		2,100		2,069	
NET PENSION SCHEME LIABILITY	(5,966)		(6,298)		(5,593)	

The investment in equities of £5,934,000 (2011 – £5,241,000) includes a holding of 1,145,918 ordinary shares in Macfarlane Group PLC (2011 – 1,145,918) held at a value of £321,000 (2011 – £215,000).

RELATED DEFERRED TAX ASSET	2012 £000	2011 £000	2010 £000
At 1 January	2,100	2,069	2,593
(Charge)/credit to reserves	(105)	28	(11)
(Charge)/credit to profit and loss account	(213)	3	(513)
AT 31 DECEMBER	1,782	2,100	2,069

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

38. PENSIONS (CONTINUED)

The scheme's liabilities at 31 December 2012 were calculated on the following bases as required under FRS17:

Assumptions	2012	2011	2010
Discount rate	4.40%	4.80%	5.50%
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. 2.10% post 5 April 2006	3% or 5% for fixed increases or 2.90% for LPI. 2.10% post 5 April 2006	3% or 5% for fixed increases or 2.72% for LPI. 2.02% post 5 April 2006
Spouse's pension assumption			
Pensioner/deferred and active members	70%/80%	90%/90%	90%/90%
Inflation assumption (RPI)	3.00%	3.00%	3.50%
Inflation assumption (CPI)	2.30%	2.20%	2.70%
Life expectancy beyond normal retirement age of 65			
Male	22.4	22.3	21.5
Female	24.6	24.6	24.0

MOVEMENT IN THE SCHEME DEFICIT IN THE YEAR	2012 £000	2011 £000
At 1 January	(8,398)	(7,662)
Normal service cost	(21)	(11)
Pension Increase Exchange gain	761	–
Contributions	365	137
Net finance cost	(205)	(137)
Actuarial loss in the year	(250)	(725)
AT 31 DECEMBER	(7,748)	(8,398)

ANALYSIS OF AMOUNTS CREDITED/(CHARGED) TO OPERATING PROFIT		
Normal service cost	(21)	(11)
Pension Increase Exchange gain	761	–
AMOUNTS CREDITED/(CHARGED) TO OPERATING PROFIT	740	(11)

ANALYSIS OF AMOUNTS CHARGED TO NET FINANCE COSTS		
Expected return on pension scheme assets	1,101	1,208
Interest cost of pension scheme liabilities	(1,306)	(1,345)
NET FINANCE COSTS	(205)	(137)

ANALYSIS OF THE ACTUARIAL LOSS INCLUDED IN THE STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES		
Actual return less expected return on scheme assets	1,380	(2,930)
Changes in assumptions underlying present value of scheme liabilities	(1,630)	2,205
ACTUARIAL LOSS	(250)	(725)

38. PENSIONS (CONTINUED)

	2012 £000	2011 £000
MOVEMENT IN THE FAIR VALUE OF SCHEME ASSETS		
At 1 January	19,256	22,069
Expected return on scheme assets	1,101	1,208
Actual return less expected return on scheme assets	1,380	(2,930)
Contributions from sponsoring companies	365	137
Contribution from scheme members	11	6
Benefits paid	(1,060)	(1,234)
AT 31 DECEMBER	21,053	19,256

	2012 £000	2011 £000
MOVEMENT IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS		
At 1 January	(27,654)	(29,731)
Current service cost	(21)	(11)
Interest cost	(1,306)	(1,345)
Pension Increase Exchange gain	761	–
Contribution from scheme members	(11)	(6)
Actuarial (loss)/gain	(1,630)	2,205
Benefits paid	1,060	1,234
AT 31 DECEMBER	(28,801)	(27,654)

The cumulative actuarial gains on the pension scheme applied against reserves since the transition to FRS 17 on 1 January 2004 is £2,130,000 (2011 – £2,380,000).

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Present value of defined benefit obligations	(28,801)	(27,654)	(29,731)	(27,726)	(24,732)
Fair value of scheme assets	21,053	19,256	22,069	18,466	16,640
DEFICIT IN THE SCHEME	(7,748)	(8,398)	(7,662)	(9,260)	(8,092)
RETURN ON SCHEME ASSETS	2,481	(1,722)	4,832	3,197	(8,746)
Percentage of scheme assets	11.8%	(8.9%)	21.9%	17.3%	(52.6%)
EXPERIENCE ADJUSTMENT ON SCHEME ASSETS	1,380	(2,930)	3,519	2,140	(10,170)
Percentage of scheme assets	6.6%	(15.2%)	15.9%	11.6%	(61.1%)
EXPERIENCE GAINS AND LOSSES ON SCHEME LIABILITIES	(1,630)	2,205	(1,962)	(3,114)	10,575
Percentage of scheme's liabilities	(5.7%)	8.0%	(6.6%)	(11.2%)	42.8%

Defined contribution schemes

The Company also participated in a defined contribution scheme, the Macfarlane Group Personal Pension Plan. Contributions to the plan for the year were £4,000 (2011 – £79,000). There were no contributions from the company and employees payable to the schemes included in creditors at the balance sheet date.

39. RELATED PARTY TRANSACTIONS

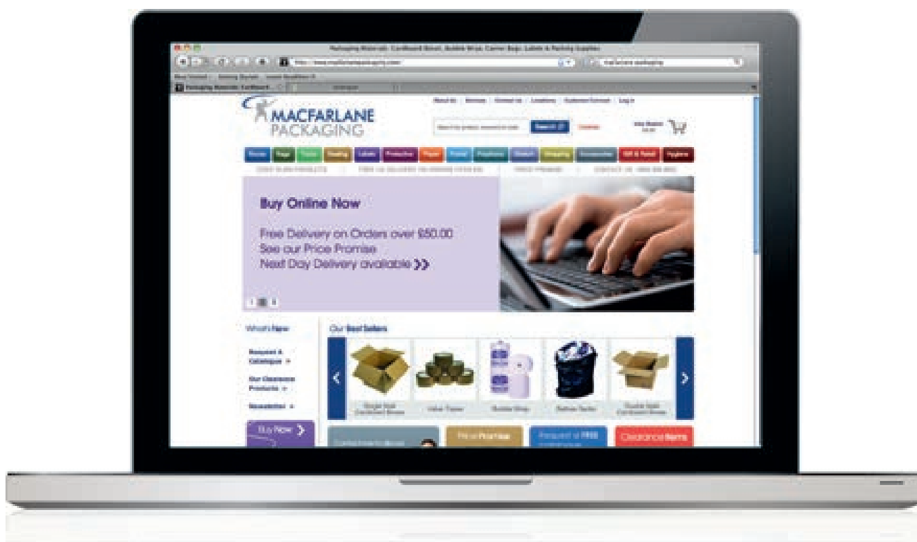
Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed. The Directors have considered the implications of FRS 8 "Related Party Transactions" and are satisfied that there are no other related party transactions occurring during the year, which require disclosure, other than those already disclosed in these financial statements.

PRINCIPAL OPERATING SUBSIDIARIES

COMPANY NAME		PRINCIPAL ACTIVITIES	COUNTRY OF REGISTRATION
MACFARLANE GROUP UK LIMITED			England
Coventry	Tel: 02476 511511	Supply and distribution of all forms of packaging materials and equipment.	
Grantham	Tel: 01476 574747	Design and manufacture of specialist packaging.	
Westbury	Tel: 01373 858555		
MACFARLANE LABELS LIMITED		Manufacture of high quality printed self-adhesive labels and resealable labelling solutions.	Scotland
Kilmarnock	Tel: 01563 525151		
MACFARLANE LABELS (IRELAND) LIMITED		Manufacture of high quality printed self-adhesive labels and resealable labelling solutions.	Ireland
Wicklow	Tel: 00 353 1281 0234		
MACFARLANE GROUP SWEDEN AB		Manufacture of high quality printed self-adhesive labels and resealable labelling solutions.	Sweden
Helsingborg	Tel: 00 46 42 13 75 55		

All the above subsidiaries are wholly owned either by Macfarlane Group PLC or one of its subsidiary companies and operate within their country of registration. A full list of trading and non-trading subsidiaries is available from the registered office, 21 Newton Place, Glasgow G3 7PY.

Our new 2013 Product Catalogue is now available.



Our trading website **www.macfarlanepackaging.com** enables customers to place orders at their convenience 24 hours each day.

MACFARLANE GROUP PLC

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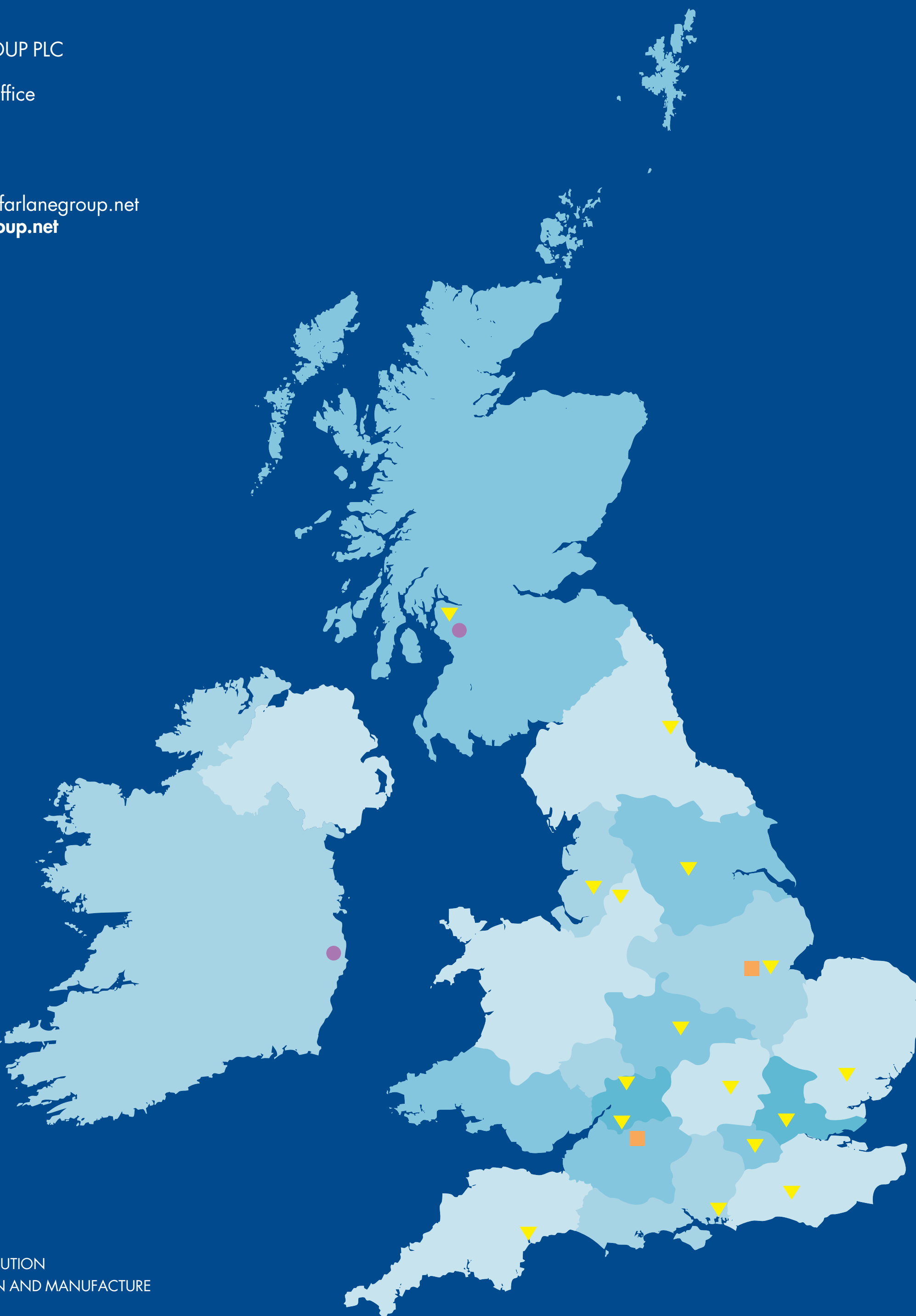

▼ PACKAGING DISTRIBUTION
■ PACKAGING DESIGN AND MANUFACTURE
● LABELS

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