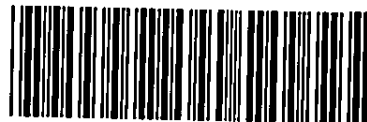


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COMPANIES HOUSE

HEADQUARTERED IN GLASGOW,
MACFARLANE GROUP PLC EMPLOYS 700 PEOPLE
AT 22 SITES ACROSS THE UK AND IRELAND AND
SERVICES MORE THAN 20,000 CUSTOMERS IN
A WIDE RANGE OF SECTORS.

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IN WHAT CONTINUES TO BE A DIFFICULT AND UNCERTAIN TRADING ENVIRONMENT, I AM PLEASED TO REPORT THAT MACFARLANE GROUP INCREASED BOTH PROFITS AND TURNOVER IN 2011.

CHAIRMAN'S STATEMENT

The strategic actions we have taken in recent years to target specific market segments in which Macfarlane can add value contributed to a 16% increase in pre-tax profit before exceptional items to £3.9m (2010: £3.4m) on turnover up 7% to £144.6m (2010: £135.5m) for the year to 31 December 2011.

TRADING

Recurring sales levels in our Packaging Distribution business have felt the inevitable impact of subdued markets but the strategic actions that the Group has taken in recent years to develop specific lines of new business have more than compensated and our Packaging Distribution business grew profit before exceptional items by 3% to £4.6m on a turnover increase of 7% – a combination of 2% volume growth and 5% price recovery. As in the previous year, 2011 saw a considerable increase in supplier prices for corrugate and plastics, before easing in impact towards the end of the year. Wherever possible, we strive to pass on material price increases to customers but there is an inevitable lag and we have not yet fully recovered the supplier price increases experienced in 2011. As a result, gross margin is slightly below that of last year.

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MACFARLANE GROUP'S PERFORMANCE IN THE EARLY MONTHS OF 2012 HAS BEEN ENCOURAGING AND THE BOARD PROJECTS FURTHER SIGNIFICANT PROGRESS IN TRADING IN 2012.

Our Manufacturing Operations have also shown resilience to market pressures with profit before exceptional items improving modestly on a turnover which increased by 6% to £27.9m. However, within our self-adhesive labels business pricing issues were most keenly felt and here profits were down. This result masks a very encouraging performance from our Reseal-it business, in which we have successfully increased both profits and turnover. The opportunity for this product and our trading partnerships hold promise for future returns.

PENSION DEFICIT

The Group's pension scheme deficit is proving a difficult legacy issue to tackle – principally due to issues beyond the control of the Group. Corporate bond yields are at unprecedentedly low levels and, as they are a critical feature in measuring pension scheme liabilities, the Macfarlane Group pension deficit, like many others, remains stubbornly high at £20.5m, an increase of £4.8m from the 2010 level. This is despite the payment by the company of £2.2m during 2011 in respect of the deficit. The decline in bond yields in the last quarter of 2011 alone, added £3.0m to our gross pension deficit.

I have described in the past the measures we have taken to control the pension deficit and, while Macfarlane Group is in the position of being able to fund the scheme with annual payments from cash flow we shall undertake a further series of actions to reduce the deficit. My board colleagues and I believe that, in time, the business will successfully reduce the liability to an acceptable level but in the meantime the Group's pension deficit remains subject to the current extremes in bond markets and any further volatility.

NET DEBT

In accordance with our normal cash cycle we had strong cash generation in the second half of 2011 and the Group's bank debt at 31 December was £7.2m compared with £6.3m a year earlier. We continue to operate within our bank facility.

DIVIDENDS

The Directors recognise the importance of dividends to our shareholders and 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 2012, this will be paid on 8 June 2012.

The adverse movement in our pension fund deficit in 2011 has reduced distributable reserves from which dividends are paid. At 31 December 2011 these reserves were £1.3m and will be reduced in 2012 by £1.2m, being the cost of the proposed final dividend. Nevertheless the Company's trading and cash position support the level of dividend being declared.

DIVIDENDS (continued)

Profitable trading will clearly add to distributable reserves in 2012 and the Company continues to take steps to deal with the pension deficit and will also evaluate a number of other actions to benefit reserves. However some of these actions will not have an impact until the second half of 2012. The Board's intention is that a full dividend will continue to be paid for 2012, however the quantum and timing of the interim dividend in 2012 will be subject both to progress on the actions indicated and to further movements in the pension scheme deficit caused by factors outwith the Company's control. The Company will update shareholders in due course. It is anticipated that this will be less of an issue beyond 2012.

CORPORATE GOVERNANCE

On pages 26 to 29 we set out how we operate at both Board and Committee levels. We have tried to give an insight into the areas of the business and decisions taken at each of these bodies over the year to demonstrate the way in which the Board ensures that it operates to a high standard. I believe that good governance helps to improve our business and reduce risk to our shareholders.

We have complied with the UK Corporate Governance Code issued in June 2010.

BOARD COMPOSITION

The Macfarlane Group Board of Directors has remained substantially unchanged for a number of years and a great deal has been achieved. There is yet more to be done and I believe that now is the time for a new Chairman to take the Company to its next stage of development.

As a consequence, I plan to step down from my position as Chairman following the Company's Annual General Meeting in May. A rigorous process to recruit my successor, considering both internal and external candidates, is at an advanced stage and the Board expects to be in a position to make an announcement in this regard shortly.

FUTURE PROSPECTS

Macfarlane Group's performance in the early months of 2012 has been encouraging and the Board projects further significant progress in trading in 2012 as we continue both to develop our existing business and to roll out our strategic initiatives.

Throughout my time as Chairman I have enjoyed the support of the Macfarlane Group Board, staff and shareholders. I would like to thank them all most sincerely. It has been directly due to the efforts and enthusiasm of our people right across the Group that our recovery has been engineered and a strong platform established. They have created a business that displays great promise and on behalf of the Board and our shareholders, I wish them every success.



Archie S. Hunter
Chairman
6 March 2012

OUR BUSINESS

MACFARLANE GROUP IS FOCUSED ON PACKAGING-RELATED ACTIVITIES INCLUDING THE DISTRIBUTION OF A WIDE RANGE OF PACKAGING CONSUMABLES THROUGHOUT THE UK AND THE MANUFACTURE OF BESPOKE PROTECTIVE PACKAGING AND SELF-ADHESIVE AND RESEALABLE LABELS.

KEY ACTIVITIES

PACKAGING DISTRIBUTION

The Packaging Distribution Division is the leading UK distributor of a comprehensive range of packaging consumable products from a national network of Regional Distribution Centres (RDCs) supplying customers on a local, regional and national basis.

PACKAGING MANUFACTURING

The Packaging Manufacturing business designs, manufactures and assembles custom-designed packaging solutions for customers looking for cost-effective methods of protecting higher-value products in storage and transit from two manufacturing sites, in Grantham and Westbury.

LABELS

Labels produces 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 from two 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 BUSINESS

Macfarlane Packaging Distribution is the leading UK distributor of a comprehensive range of packaging consumable products. In a highly fragmented market, Macfarlane is the market leader with a market share of approximately 20%. The business operates through a UK network of Regional Distribution Centres (RDCs) supplying customers on a local, regional and national basis.

On a national basis Macfarlane has focus, expertise and a breadth of product and service that enables it to compete effectively against non-specialist packaging distributors. We benefit our customers by enabling them to ensure their products are cost-effectively protected in transit and storage by providing a comprehensive product range, single source supply, Just In Time delivery, tailored stock management programmes and independent advice on both packaging materials and packing processes.

MARKET CONDITIONS

The Packaging Distribution Division grew sales by 7% in 2011 as we worked closely with our customers to manage the impact of raw material inflation. Despite an effectively managed price recovery programme, the inflationary cost increases were not fully recovered and as a result we experienced a 0.4% gross margin reduction versus 2010. Demand from existing customers weakened in the second half of 2011 but this was offset by our sales teams achieving a number of significant new customer wins resulting in good new business growth.

FUTURE OPPORTUNITIES

We expect demand in 2012 will be subdued and that the pricing environment will remain volatile. Our plan for 2012 is to focus management actions on enhancing existing customer relationships as well as increasing new business growth through the RDC sales teams and the dedicated National Account sales teams in specific industry sectors which benefit from Macfarlane's national coverage. We also have a range of strategic initiatives, which focus on developing new products and services in the business.

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THE STRATEGIC ACTIONS WE HAVE TAKEN IN RECENT YEARS HAVE EXPANDED OUR FOCUS IN SPECIFIC INDUSTRY SECTORS WHICH BENEFIT FROM MACFARLANE'S NATIONAL COVERAGE AND IN WHICH MACFARLANE CAN ADD VALUE, WITH A PARTICULAR EMPHASIS ON THE THIRD PARTY LOGISTICS SECTOR (3PL) AND PRESENTATIONAL AND RETAIL PACKAGING (PRP).

OUR 2011 CUSTOMER
SATISFACTION SURVEY
SHOWED 85% OF CUSTOMERS
RATING OUR SERVICE ABOVE
AVERAGE WITH 41% RATING
OUR SERVICE AS EXCELLENT.

MACFARLANE COMPETES
EFFECTIVELY THROUGH ITS
STRONG FOCUS AND REGULAR
MONITORING OF CUSTOMER
SERVICE, ITS BREADTH AND
DEPTH OF PRODUCT OFFER
AND THE RETENTION OF
STAFF WITH GOOD LOCAL
MARKET KNOWLEDGE.

THE BUSINESS

The Packaging Manufacturing business designs, manufactures and assembles custom-designed packaging solutions for customers looking for cost-effective methods of protecting higher-value products in storage and transit. The primary raw materials are corrugate, timber and foam. The business operates from two manufacturing sites, in Grantham and Westbury, supplying both directly to customers and also using 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 and industry accreditations.

MARKET CONDITIONS

2011 sales were 6% above 2010 despite demand in a number of the key sectors of UK industry being weak. During the year, we achieved some significant new customer wins, the partnership with the Packaging Distribution business continued to be effective and good progress was made with our directly serviced customers particularly in the aerospace and electronics sectors. The impact of all these factors resulted in Packaging Manufacturing achieving a level of profitability similar to that achieved in 2010.

FUTURE OPPORTUNITIES

The priorities for 2011 are to improve sales penetration of our target market sectors both directly and through the relationship with Macfarlane Packaging Distribution and maintain gross margins through effective recovery of any further cost price changes.

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

“

NEARLY 25% OF PACKAGING
MANUFACTURING SALES ARE CHANNELLED
THROUGH THE MACFARLANE PACKAGING
DISTRIBUTION RDC NETWORK AND THE
COMBINATION OF IN-HOUSE MANUFACTURING
AND ACCESS TO DISTRIBUTION ENABLES
THE BUSINESS TO DIFFERENTIATE ITS
OFFERING IN THE MARKET.

THE BUSINESS OPERATES FROM TWO HIGH-QUALITY MANUFACTURING FACILITIES IN KILMARNOCK AND DUBLIN, AND REFLECTS REGULAR INVESTMENT IN LATEST GENERATION PRINTING TECHNOLOGY.

THE BUSINESS

Labels 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 from two 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. We work closely with key customers to ensure high levels of service and introduce product and service development initiatives to create competitive differentiation.

MARKET CONDITIONS

2011 was a disappointing year where despite sales growth of 4% profits were below those achieved in 2010, caused by lower gross margin in the self-adhesive label sector where price competition has been particularly intense. Actions were initiated in the first half of 2011 including cost reduction, operational efficiency improvements and the management of customer profitability, contributing to an improved profit performance in the second half of 2011.

There was good progress in the development of our resealable range of labels and systems. Reseal-it sales grew by 41% on 2010 with increased momentum in the USA through our partnership with Printpack and some new penetration in the UK market through major retailers.

FUTURE OPPORTUNITIES

The priorities for Labels in 2012 are to rebuild margins in the self-adhesive label sector, further develop Reseal-it in the US market, build on the 2011 success with the Reseal-it concept in the UK and launch additional resealable label ranges to broaden the appeal of the product to new market sectors.

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OVERSEAS ACTIVITY IN RESEAL-IT APPLICATIONS IN A NUMBER OF MARKETS CONTINUES TO GROW SIGNIFICANTLY AND REFLECTS OUR STRONG PARTNERSHIP WITH PRINTPACK INC, WHO DISTRIBUTE OUR PRODUCTS IN NORTH AMERICA.

BUSINESS REVIEW

2011 HAS BEEN ANOTHER
YEAR OF POSITIVE PROGRESS
FOR MACFARLANE GROUP.
SALES AT £144.6 MILLION HAVE
GROWN BY 6.7% VERSUS 2010.

The Group increased its profit before tax before exceptional items by 16% from £3.4 million to £3.9 million.

This performance has been achieved despite continuing increases in the cost of raw materials, weakening UK demand and some higher than expected bad debt experience in the UK retail sector at the end of the year.

The Packaging Distribution Division grew sales by 7% versus 2010 of which 5% was price growth as we worked closely with our customers to manage the impact of raw material inflation. Despite an effectively managed price recovery programme, the inflationary cost increases were not fully recovered and as a result we experienced a 0.4% gross margin reduction versus 2010. Demand from existing customers weakened in the second half of 2011 but this was offset by our sales teams achieving a number of significant new customer wins resulting in good new business growth. The Packaging Distribution Division grew its operating profit before exceptional items in 2011 by 3% versus 2010.

The Manufacturing Operations experienced a challenging year in 2011. The Packaging Manufacturing business increased sales levels by 6% over 2010 and maintained profitability in line with 2010. Sales in the Labels businesses grew by 4% versus 2010 as a result of improving penetration of our resealable range of machines and labels. However increased price competition in the self-adhesive label business caused a reduction in gross margin, which resulted in the overall profitability of the Labels businesses to be below the 2010 level. In overall terms the Manufacturing

businesses continued to be profitable in 2011 with the actions taken in response to the challenging market conditions enabling an improvement in the second half of the year compared to the first.

The weakening demand experienced in the UK in the 2H 2011 and the difficult macroeconomic environment creates an uncertain demand outlook for 2012 and although raw material prices softened in Q4 2011 the overall pricing environment remains volatile. However, we remain confident that the plans we have in place in all businesses will enable Macfarlane Group to achieve another year of progress in 2012.

“

SALES IN THE LABELS
BUSINESSES GREW BY 4%
VERSUS 2010 AS A RESULT
OF IMPROVING PENETRATION
OF OUR RESEALABLE RANGE
OF MACHINES AND LABELS.

SEGMENT PERFORMANCE

SEGMENT	REVENUE 2011 £000	*PROFIT BEFORE TAX 2011 £000	REVENUE 2010 £000	PROFIT BEFORE EXCEPTIONAL ITEMS 2010 £000	EXCEPTIONAL ITEMS (Note 1(d)) 2010 £000	PROFIT BEFORE TAX 2010 £000
PACKAGING DISTRIBUTION	116,674	4,562	109,093	4,424	180	4,604
MANUFACTURING OPERATIONS	27,883	127	26,357	94	666	760
REVENUE FROM CONTINUING OPERATIONS	144,557		135,450			
OPERATING PROFIT		4,689		4,518	846	5,364
NET FINANCE COSTS		(815)		(1,167)	-	(1,167)
PROFIT BEFORE TAX - CONTINUING OPERATIONS		3,874		3,351	846	4,197

*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	RISK
BUSINESS MODEL The Packaging Distribution business model reflects a decentralised approach 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.	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 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.
RAW MATERIAL PRICES All parts of the Group 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 from 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 re-engineer packs and reduce packing cost to mitigate the impact of cost increases.	The risks set out in the table 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.
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 the mortality assumptions for the members of the scheme. The IAS 19 valuation of the Group's defined benefit pension scheme as at 31 December 2011 estimated the scheme deficit to be £20.5 million. While the scheme is closed to new members, changes in these assumptions could mean that the deficit increases further.	In addition to closing the scheme to new members, benefits for active members have been amended by freezing pensionable salaries at the levels current at 30 April 2009. The revaluation of deferred benefits will reflect the change to using the Consumer Prices Index measure of inflation. Further actions in relation to scheme liabilities are being evaluated.	
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 6 are sublet with 2 currently vacant. 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.	
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 and the Group does not have any longer term facilities in place. These facilities include requirements to comply with specified covenants relating to the level of debt and interest cover with a breach potentially resulting in Group borrowings becoming repayable immediately.	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 cashflows 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.	
WORKING CAPITAL The Group has a significant investment in working capital in the form of trade receivables and stock. There is a risk that this investment is not fully recovered.	Credit risk is controlled by applying rigour to the management of trade receivables from 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. Risks arising from holding bespoke stocks are managed by obtaining order cover from customers for such stock.	

BUSINESS REVIEW

PACKAGING DISTRIBUTION

The Macfarlane Packaging Distribution Division is the leading UK distributor of a comprehensive range of packaging consumable products. The business operates through 17 Regional Distribution Centres (RDCs) supplying customers on a local, regional and national basis. Competition in the distribution market is from local companies with good local connections and capability and national companies who distribute a range of products including packaging materials. Macfarlane competes effectively on a local basis through its strong focus and regular monitoring of customer service, its breadth and depth of product offer and 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 that enables it to compete effectively against non-specialist packaging distributors. We benefit our customers by enabling them to ensure their products are cost-effectively protected in transit and storage by providing a comprehensive product range, single source supply, Just In Time delivery, tailored stock management programmes and independent advice on both packaging materials and packing processes.

“

WE BENEFIT OUR CUSTOMERS BY ENABLING THEM TO ENSURE THEIR PRODUCTS ARE COST-EFFECTIVELY PROTECTED IN TRANSIT AND STORAGE.

2011 PERFORMANCE

In 2011 Packaging Distribution operating profit was £4.6 million (2010 - £4.6 million). The comparable amounts before exceptional items (see note 1d to the accounts) showed an increase in operating profit from £4.4 million to £4.6 million in 2011. A number of factors contributed to these results:

- > Sales revenue increased by 7% reflecting price inflation as well as a modest increase in volumes across a number of the key customer sectors we supply;
- > There was another good year on new business with a number of high profile new customer wins resulting in new business sales at almost £9m;
- > Our web-based packaging revenues, an increasingly important channel, increased by 11% versus 2010;

- > Momentum continues to build in our penetration of the third party logistics sector ("3PL"), with sales rising by 24% in 2011 and the sector now representing 9% of turnover;
- > There have been some encouraging early successes in the launch of our Presentational & Retail Packaging business ("PRP"), which enables us to broaden supply into customers through our existing national footprint;
- > Our 2011 customer satisfaction survey showed 85% of customers rating our service above average (2010 - 84%) with 41% rating our service as excellent (2010 - 38%);
- > In 2011 our On-Time-In-Full ("OTIF") deliveries averaged 84% (2010 - 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;
- > Supplier price inflation continued to be an issue in 2011 and, due to the normal time lag in passing through these price increases, our gross margin reduced to 29.2% compared with 29.6% in 2010. We expect gross margin to recover gradually in the first half of 2012;
- > The business sustained higher than expected bad debt charges particularly in retail-related sectors in the final quarter of 2011;
- > We have maintained a strong focus on cost control and sales per employee increased as we improved productivity levels within the business;
- > Net overheads reduced from 25.6% of sales in 2010 to 25.3% in 2011, evidence of our cost control focus;
- > The three units in West London, comprising 44,000 sq. ft., from the acquisition of Allpoint Packaging Limited in 2008, were closed in the middle of 2011 and the business transferred to a new Hayes RDC of 23,000 sq. ft; and
- > We assigned the lease on our Coventry site in October 2011 and as part of the transaction, entered into sub-leases to accommodate the existing Midlands RDC and the Packaging Distribution Head Office functions. The National Distribution Centre activities, which operated from this site until 31 July 2011, were absorbed into our existing Wakefield and Enfield RDCs with the whole transaction generating property savings for future years.

IN A HIGHLY FRAGMENTED MARKET, MACFARLANE IS THE MARKET LEADER WITH A MARKET SHARE OF APPROXIMATELY 20%.

PERFORMANCE POTENTIAL

The RDCs in our network are treated as profit centres, albeit with proportionate allocations of central costs. In 2011 we had 11 RDCs performing at or above the target return on sales level. The remaining RDCs, which with two exceptions are profitable, continue to demonstrate improvements that indicate their ability to achieve the target return on sales level.

ACQUISITIONS

One component of the Packaging Distribution strategy is the acquisition of quality businesses offering the opportunity to increase geographic penetration and to more effectively utilise our current RDC infrastructure. During 2011 we evaluated a number of opportunities but none were pursued as they failed to meet our return criteria.

FUTURE PLANS

We expect demand in 2012 will be subdued and that the pricing environment will remain volatile. In this context, our plan for 2012 is to focus our management actions in the following areas:

- > Enhance customer engagement to improve customer retention levels and increase product penetration;
- > Ensure the effective management of supplier price changes;
- > Increase new business growth and win market share both through the RDC sales teams and the dedicated 3PL and National Account sales teams;
- > Expand our focus in specific industry sectors which benefit from Macfarlane's national coverage;
- > Accelerate the development of the PRP business to existing and new customers;
- > Strengthen our web-based presence through macfarlanepackaging.com to improve online visibility and access to our products and services;
- > Absorb the Basingstoke RDC into our Fareham RDC on expiry of the Basingstoke lease in Q1 2012;
- > Ensure all RDCs are operating to their full profit potential within the Macfarlane network; and
- > Maintain 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 Manufacturing business.

In 2011 Macfarlane's Manufacturing Operations recorded an operating profit of £0.1 million (2010 - £0.8 million). Before exceptional items the profit performance increased modestly. The key features of the Manufacturing Operations performance in 2011 were:

- > Sales increased by 6% versus 2010 driven by increased demand from major customers in key sectors particularly aerospace and general industrial;
- > Gross margins reduced from 36.5% to 34.3% reflecting significant customer pressure on sales prices in the self-adhesive Labels business and an unfavourable customer mix; and
- > Net overheads as a percentage of sales reduced from 36.2% in 2010 to 33.9% in 2011, evidence of our cost control focus.

LABELS BUSINESSES

Macfarlane Labels businesses 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 two 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 work closely with these key customers to ensure high levels of service and introduce product and service development initiatives to create competitive differentiation.

BUSINESS PERFORMANCE

2011 was a disappointing year for the Labels businesses where despite sales growth of 4%, profits were below the level achieved in 2010. The reduction in profits was mainly caused by lower gross margin in the self-adhesive label sector where price competition has been particularly intense. In order to offset this issue actions were initiated in 1H 2011 including cost reduction, operational efficiency improvements and the management of customer profitability. The impact of these actions contributed to an improved profit performance in 2H 2011.

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TOTAL SALES FOR RESEAL-IT GREW BY 41% VERSUS 2010.

There was good progress in the development of our resealable range of labels and systems. Total sales for Reseal-it grew by 41% versus 2010 with increased momentum in the USA through our partnership with Printpack and some new penetration in the UK market through major retailers.

FUTURE PLANS

The priorities for the Labels businesses in 2012 are to:

- > Identify opportunities to rebuild margins in the self-adhesive label sector;
- > Improve operational efficiencies to counterbalance market price pressure;
- > Further develop the Reseal-it product in the US market through the Printpack partnership;
- > Build on the early 2011 success with the Reseal-it concept in the UK; and
- > Launch additional resealable label ranges to broaden the appeal of the product to new market sectors.

BUSINESS REVIEW

WE DIFFERENTIATE OURSELVES THROUGH OUR TECHNICAL EXPERTISE, DESIGN CAPABILITY, INDUSTRY ACCREDITATIONS AND THE COMBINATION OF OUR IN-HOUSE MANUFACTURING AND RDC DISTRIBUTION NETWORK.

PACKAGING MANUFACTURING

The principal activity of the Packaging Manufacturing business is the design, manufacture and assembly of custom-designed packaging solutions for customers looking for cost-effective methods of protecting higher-value products in storage and transit. The primary raw materials are corrugate, timber and foam. The business operates from two manufacturing sites, in Grantham and Westbury, supplying both directly to customers and also using the RDC network of the Packaging Distribution business.

“

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

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 the combination of our in-house manufacturing and RDC distribution network.

BUSINESS PERFORMANCE

2011 sales were 6% above those achieved in 2010 despite demand in a number of the key sectors of UK industry being weak. During the year, we achieved some significant new customer wins, the partnership with the Packaging Distribution business continued to be effective and good progress was made with our directly serviced customers particularly in the aerospace and electronics sectors. The impact of all these factors resulted in Packaging Manufacturing achieving an acceptable overall level of profitability in 2011 which was similar to that achieved in 2010.

FUTURE PLANS

The priorities for 2012 are to:

- > Improve sales penetration of our target market sectors both directly and through the relationship with Macfarlane Packaging Distribution;
- > Continually review and flex the cost base of the business to ensure it is at a level consistent with the demand outlook;
- > Maintain gross margins through effective recovery of any further cost price changes;
- > At Grantham the primary focus will be to grow sales both directly and through the partnership with Packaging Distribution; and
- > Our Westbury location is focused on improving the customer mix and enhancing productivity and customer service levels.

2012 OUTLOOK

There continues to be much uncertainty in the markets we serve and we expect demand in 2012 to remain weak and price inflation to be volatile. However, Macfarlane Group has demonstrated an ability to effectively manage these challenges and expects to do so again in 2012.

Macfarlane Group has a clear strategic plan incorporating a range of actions which based on current progress is enabling the business to continue to achieve profitable growth. The effective implementation of these actions remains our priority.

We expect 2012 to be another year of positive progress for the Group.


Peter D. Atkinson
Chief Executive
6 March 2012

FINANCIAL REVIEW

	TOTAL 2011 £000	PROFIT BEFORE EXCEPTIONAL ITEMS 2010 £000	EXCEPTIONAL ITEMS 2010 £000	TOTAL 2010 £000
REVENUE	144,557	135,450	–	135,450
COST OF SALES	(100,903)	(93,510)	–	(93,510)
GROSS PROFIT	43,654	41,940	–	41,940
NET OPERATING EXPENSES	(38,965)	(37,422)	846	(36,576)
OPERATING PROFIT	4,689	4,518	846	5,364
NET FINANCE COSTS	(815)	(1,167)	–	(1,167)
PROFIT BEFORE TAX	3,874	3,351	846	4,197
TAX	(455)	(972)	(239)	(1,211)
PROFIT AFTER TAX	3,419	2,379	607	2,986
EARNINGS PER SHARE	3.01p	2.10p	0.53p	2.63p

*There were no exceptional items in 2011

GROUP TURNOVER IN 2011 INCREASED TO £144.6 MILLION FROM £135.5 MILLION, A £9.1 MILLION INCREASE.

TRADING PERFORMANCE

Sales increased by 7% in Packaging Distribution, mainly due to recovery of purchase price increases and our Manufacturing Operations saw an increase in sales of 5%.

Gross margins reduced by 0.8% from 31.0% to 30.2% reflecting delays in recovering successive raw material and purchase price increases across all the Group's activities particularly in the first nine months of 2011, however the contribution from gross margin increased by £1.7 million, reflecting stronger new business performance and partial price recovery in the final quarter of the year.

Net operating expenses before exceptional items increased by £1.5 million primarily due to increased variable costs flexing with the higher sales levels but also due to investments in the teams involved in our strategic initiatives.

Net finance costs reduced by £0.3 million due to lower funding costs for the pension scheme deficit.

Therefore Group profit before exceptional items and tax increased by £0.5 million from £3.4 million in 2010 to £3.9 million in 2011.

During 2010, the Group amended future pension benefits for active members of the final salary pension scheme by freezing pensionable salaries, with an exceptional gain of £1.1 million after costs recorded as a result of the change. This was offset by provisions made against vacant properties totalling £0.3 million, giving net exceptional items of £0.8 million in 2010. There were no equivalent exceptional items in 2011.

As a result the profit before tax from continuing operations was £3.9 million compared to £4.2 million in 2010 (after net exceptional credits of £0.8 million).

The tax charge for the year from continuing operations was £0.5 million on the profit before tax of £3.9 million. This compared with a tax charge of £1.2 million on the profit before tax of £4.2 million in the previous year. The current year tax charge benefited from the use of previously unrecognised losses of £0.5 million.

As a result the profit after tax from continuing operations was £3.4 million compared to £3.0 million in 2010 (after net exceptional credits of £0.6 million).

EARNINGS PER SHARE AND DIVIDENDS

Basic earnings per share from all activities totalled 3.01p per share in 2011 compared to 2.63p in 2010.

A dividend of 0.50p was paid on 13 October 2011. A further dividend of 1.05p per share is subject to approval by shareholders at the Annual General Meeting in May 2012 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 £21.6 million, compared with £35.1 million last year. The share price at 31 December 2011 was 18.75p, compared with 30.50p at 31 December 2010. The range of transaction prices for Macfarlane Group shares during 2011 was 17.50p to 31.50p for each ordinary share of 25p.

BUSINESS REVIEW

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BANK FACILITIES ARE IN PLACE FOR THE PERIOD TO 28 FEBRUARY 2013 TO MEET THE GROUP'S ANTICIPATED FINANCING REQUIREMENTS.

CASH FLOW AND NET DEBT

Cash inflow from operating activities was £2.2 million (2010 - £2.4 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 are in place for the period to 28 February 2013 to meet the Group's anticipated financing requirements.

The Group spent £1.2 million on property, plant and equipment in 2011 (2010 - £0.4 million) and will continue to invest where there are needs or opportunities to meet future growth plans. Capital expenditure in 2012 is expected to be below the annual depreciation charge, reflecting the well-invested nature of our businesses.

The Group had net debt of £7.6 million at 31 December 2011, an increase of £0.6 million from the previous year, primarily due to the need to finance higher levels of trade receivables. The Group will strive to ensure that in 2012, 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 borrowings, cash and 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 raise 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 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 £11.5 million is in place for the period to 28 February 2013. The maturity profile of debt outstanding at 31 December 2011 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. At present 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's policy during 2011 has been to review the need to hedge exposures on a monthly basis and it was not deemed necessary to cover any currency exposures during the year by the use of financial instruments. This will remain the Group's policy.

Details of any specific Market risk and Price risk are set out in the relevant sections in the Business Review.

PENSION SCHEME DEFICIT AND ASSOCIATED RISKS

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

The Trustees reviewed the investment profile of the pension scheme in 2011, involving the company in this review. As a consequence more emphasis has been given to investments in multi-asset diversified funds in an effort to protect investment values in periods of market turbulence and thereby reduce balance sheet volatility. Nevertheless the return on scheme investments in 2011 only amounted to 5.30%, less than the expected rate of return.

The present value of scheme liabilities increased significantly in 2011 as a direct consequence of corporate bond yields reducing from 5.50% to 4.80%. This caused liabilities in 2011 to increase by just over £7.0 million.

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

The Group continues to pay deficit reduction contributions of £2.0 million per annum and the level of these contributions will be subject to negotiation with the trustees of the scheme in 2012 following the conclusion of the most recent triennial actuarial valuation.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

As detailed in the 2010 Annual Report, the new International Financial Reporting Standards adopted during 2011 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.

PENSION SCHEME DEFICIT MOVEMENTS

	2011 £000	2010 £000
FAIR VALUE OF SCHEME INVESTMENTS	46,968	45,293
PRESENT VALUE OF SCHEME LIABILITIES	(67,452)	(61,018)
PENSION SCHEME DEFICIT	(20,484)	(15,725)
RELATED DEFERRED TAX ASSET	5,121	4,246
NET PENSION DEFICIT AT 31 DECEMBER	(15,363)	(11,479)

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 8 to 15.

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 £11.5 million have been renewed until 28 February 2013 when a further renewal of facilities is expected and the Directors are of the opinion that the Group's cash forecasts and revenue projections, taking account of reasonably possible changes in trading performance given current market and economic conditions, show that the Group should be able to operate within its current facilities and comply with its banking covenants.

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

John Love

John Love
Finance Director
6 March 2012

FIVE YEAR RECORD

FIVE YEAR RECORD

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
TURNOVER – ALL OPERATIONS	144,557	135,450	123,596	138,549	138,049
PROFIT BEFORE INTEREST, DISCONTINUED OPERATIONS, EXCEPTIONAL ITEMS AND TAX	4,689	4,518	4,406	4,708	3,051
NET INTEREST PAYABLE	(815)	(1,167)	(1,223)	(1,006)	(598)
EXCEPTIONAL ITEMS	–	846	(699)	–	14
CONTRIBUTION FROM DISCONTINUED ACTIVITIES	–	–	–	271	182
PROFIT/(LOSS) ON DISPOSAL OF OPERATIONS	–	–	351	(1,378)	(1,800)
PROFIT BEFORE TAX	3,874	4,197	2,835	2,595	849
TAXATION	(455)	(1,211)	(514)	(800)	981
PROFIT FOR THE FINANCIAL YEAR	3,419	2,986	2,321	1,795	1,830
EARNINGS PER ORDINARY SHARE	3.01p	2.63p	2.06p	1.60p	1.63p
DIVIDENDS	(1,761)	(1,700)	(1,688)	(2,252)	(2,252)
DIVIDENDS PER ORDINARY SHARE	1.55p	1.50p	1.50p	2.00p	2.00p
DIVIDEND COVER	1.9	1.8	1.4	0.8	0.8

This table reflects the five-year record for continuing and discontinued operations as classified at 31 December 2011.

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 30 MARCH 2012
ANNUAL GENERAL MEETING: HELD IN GLASGOW ON 8 MAY 2012

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.net 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. ARCHIE HUNTER CHAIRMAN

Appointed as a non-executive director on 1 October 1998, becoming Chairman on 1 November 2003. He is Chairman of the Nominations Committee and a member of the Remuneration Committee. Archie was formerly the senior partner of KPMG in Scotland and a member of KPMG's UK Governing Body. He is a past President of The Institute of Chartered Accountants of Scotland. Archie is currently a director of a number of companies both listed and private.

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 sixteen 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.

5. GRAEME BISSETT NON-EXECUTIVE DIRECTOR

Graeme Bissett joined the Board on 11 May 2004 as a non-executive director. Graeme has considerable financial experience, having previously been the finance director of international groups and a partner with Arthur Andersen. Graeme 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. Having been recruited due to his relevant financial experience, Graeme assumed the chair of the Audit Committee during 2004 and is also a member of the Nominations Committee and the Remuneration Committee.

6. ANDREW COTTON COMPANY SECRETARY

Andrew joined Macfarlane Group in 1999 as Finance Director of the Labels business. He then moved to Macfarlane Group's 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
Glasgow G3 7PY
T: 0141 333 9666
F: 0141 333 1988

PRINCIPAL BANKERS

Lloyds Banking
Group PLC
110 St. Vincent St.
Glasgow G2 5ER

SOLICITORS

Dundas & Wilson
CS LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EC

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

Deloitte LLP
Edinburgh
United Kingdom

REGISTRARS

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

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 CO₂ EMISSIONS

The Group aims to reduce its carbon footprint through a proactive approach to all aspects of the business. Energy and fuel consumption is centrally managed, which enables the Group to target reductions in carbon emissions. During 2011 for every £1,000 of product sold, the Group reduced its CO₂ emissions by 7% compared to 2010. The detailed analysis is provided in the table below:

CO ₂ KG/£000 SALES			
	2011	2010	2009
DISTRIBUTION	37.4	39.4	41.8
MANUFACTURING	100.9	102.3	105.2
GROUP	49.6	53.3	55.8

ENERGY USAGE

The Group total energy consumption per £1,000 of sales reduced in 2011 by 14% compared to 2010 as set out below:

ENERGY MWH/£000 SALES			
	2011	2010	2009
DISTRIBUTION	0.02	0.03	0.03
MANUFACTURING	0.19	0.21	0.23
GROUP	0.06	0.07	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 2011 the Group fuel consumption was reduced by 5% per £1,000 of sales, the detail of which is included in the table below.

LITRES/£000 SALES			
	2011	2010	2009
DISTRIBUTION	10.84	11.77	12.44
MANUFACTURING	12.17	11.60	11.67
GROUP	11.10	11.73	12.27

WASTE MANAGEMENT

In 2007 we appointed Cory Environmental to support our programme to recycle waste and reduce the amount being sent to landfill. As landfill costs continue to rise, revenue from some waste products, such as corrugated products are already being realised and other initiatives are being introduced to further reduce the amount of waste items going to landfill. At our Manufacturing site in Grantham, we backload corrugate waste from certain RDCs allowing it to be baled and sent for recycling, which creates extra revenue for the Group.

ENVIRONMENTAL CARE

We work closely with our customers and provide them with expertise and independent advice in order that they are able to use packaging products with the minimum environmental impact. We provide an Environmental Product Matrix, produced in conjunction with our suppliers, which is consistent with the underlying need to ensure products are effectively protected in storage and transit and enables customers to choose fit for purpose packaging solutions that embrace the Reduce, Reuse and Recycle ethos.

REGISTRATION TO ISO 14001

16 of our 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.

THE CUSTOMER EXPERIENCE CUSTOMER FEEDBACK

On an annual basis we survey all Distribution business customers to evaluate our performance against a range of key metrics. In addition, the survey is used to explore customers' thoughts and validate requirements for new and planned product and service initiatives. The 2011 survey results improved our overall customer service rating to 85% (2010 - 84%) and showed an increasing need from customers for enhanced internet-based services and improved guidance on product choice.

SALES ORDER MANAGEMENT

Customer Connect provides our customers with online access to current and historical purchase orders, invoices, statements, packaging spend reports and analyses, waste packaging reports and more. The use of Customer Connect encourages paperless communication regarding orders, where customers can log on to their accounts for instant updates. In 2011, £10.8 million (2010 - £10.2 million) worth of sales were transacted electronically using Customer Connect.

ELECTRONIC DOCUMENTS

To further reduce paper usage, the Group is encouraging customers to receive documentation electronically. Over 1 in 10 Invoices/Statements were delivered electronically during 2011, following the transfer of a number of our customers to the macfarlanepackaging.com trading platform.

MACFARLANEPACKAGING.COM

Through our web-based, service macfarlanepackaging.com we enable existing and potential customers to research and evaluate our product, pricing and service offer and buy packaging over the Internet.

THE EMPLOYEE EXPERIENCE

Macfarlane Group recognises the importance of recruiting, developing and retaining the best people and is committed to ensuring 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. During 2011 the importance of training was vital in dealing with the challenges posed by changing customer requirements, fluctuating supplier prices and unpredictable levels of demand. On average in 2011 each employee was engaged in 8 hours of formal training.

The Group is also engaged in external training and coaching to develop career progression for key individuals. In 2011 we had seven individuals on Company-sponsored Further Education and coaching programmes.

EMPLOYEE ENGAGEMENT

Employee engagement is an ongoing feature of our business both formally through Performance Appraisals, the Bi-annual Employee Survey and the Annual Conference. In addition there are regular more informal review and business update sessions that provide the opportunity for 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 as defined 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 two-way communication and consultation with local Health and Safety representatives is undertaken to ensure both group and local Health and Safety objectives are achieved.

In addition to the divisional reporting structure, the Board 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 in respect of reportable incidents is shown below:

ACCIDENT FREQUENCY RATE*			
	2011	2010	2009
DISTRIBUTION	0.64	0.78	0.38
MANUFACTURING	0.65	0.85	1.13
GROUP	0.64	0.81	0.65

* Number of reportable incidents/100,000 man-hours worked.

The Group continues to make progress in improving its performance against the identified CR objectives. During 2012 we will maintain the focus on our three CR programmes and look to maintain the progress achieved in 2011.

REPORT OF THE DIRECTORS

THE DIRECTORS PRESENT THEIR ANNUAL REPORT AND THE AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2011.

PRINCIPAL ACTIVITIES

There were no significant changes in the continuing activities of the Company and its subsidiaries during 2011, 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 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 pages 1 and 2, the Business Review on pages 8 to 15 and in the Corporate Responsibility Report on pages 18 and 19, 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 26 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 pages 1 and 2, the Business Review on pages 8 to 15 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 £3,874,000 (2010 – £4,197,000). This results in a profit for the year of £3,419,000 (2010 – £2,986,000).

The Directors declared an interim dividend of 0.50p, which was paid on 13 October 2011 (2010 – 0.50p per share). The proposed final dividend of 1.05p per share (2010 – 1.05p per share) is subject to approval by shareholders at the Annual General Meeting in May 2012 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 2010 or 2011. 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 all 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 26 to 29.

At the last Annual General Meeting on 10 May 2011, 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 2012 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 to 5 March 2012 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%
KPG INVESTMENT HOLDINGS LIMITED	9,699,131	8.43%
FUNDS MANAGED OR ADVISED BY HENDERSON GLOBAL INVESTORS	7,300,000	6.35%
FUNDS MANAGED OR ADVISED BY UNICORN ASSET MANAGEMENT	7,183,695	6.25%
FUNDS MANAGED OR ADVISED BY CHELVERTON ASSET MANAGEMENT LIMITED	4,200,000	3.65%
FUNDS MANAGED OR ADVISED BY PRUDENTIAL/M&G INVESTMENT MANAGEMENT	3,962,538	3.45%
LORD MACFARLANE OF BEARSDEN KT AND LADY MACFARLANE	3,533,170	3.07%

DIRECTORS

The names of the Directors in office at 31 December 2011, who served throughout the year together with short biographical details, are set out on page 17.

J. Love and P.D. Atkinson retire by rotation at the Annual General Meeting in May 2012 and offer themselves for re-election. J. Love and P.D. Atkinson have service contracts with the Company dated 11 October 1999 and 6 October 2003 respectively with a standard notice period of twelve months.

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 23.

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.

EMPLOYEE SHARE SCHEMES

During the year no ordinary shares were issued on the exercise of options under the Group's share option schemes or long-term incentive plans. Options previously granted over 607,208 ordinary shares in the Company's share option schemes and long-term incentive plan awards over 1,218,391 ordinary shares both lapsed during 2011.

Details relating to options and long-term incentive plan awards granted to parent company directors are set out in the Report on Directors' Remuneration on page 23. All remaining options and awards outstanding under the Company's share option schemes and long-term incentive plans 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 pages 23 and 24.

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 13 to 15.

TRADE PAYABLES

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 2011 the Group had an average of 76 days purchases outstanding in trade payables (2010 – 74 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 £4,000 were made during 2011 (2010 – £5,000) 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 AUDITORS

Each of the persons who is a Director at the date of approval of this report confirms that:

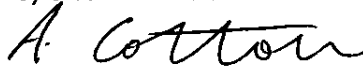
- > as far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- > the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

INDEPENDENT AUDITOR

The Board will be recommending the appointment of KPMG Audit PLC as the Company's auditor at the forthcoming Annual General Meeting. The recommendation follows a formal audit tender process initiated to ensure the Company continues to comply with best practice in corporate governance.

By Order of the Board



Andrew Cotton
Company Secretary
6 March 2012

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 8 May 2012 at which the financial statements will be adopted.

The Act requires the auditors 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 2011 £000	TOTAL 2010 £000
CHAIRMAN						
A.S. HUNTER	61	—	—	—	61	61
EXECUTIVE DIRECTORS						
P.D. ATKINSON	309	15	51	15	390	333
J. LOVE	144	7	—	6	157	156
NON-EXECUTIVE DIRECTORS						
K.D. MELLOR	29	—	—	—	29	28
G. BISSETT	29	—	—	—	29	28
	572	22	51	21	666	606
PENSION CONTRIBUTIONS					33	89
					699	695

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 24 for the year to 31 December 2011. Discretionary bonuses of £15,000 (2010 - £15,000) and £7,000 (2010 - £7,000) have been awarded to P.D. Atkinson and J. Love respectively for 2011 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), a defined benefit pension scheme. Details of benefits accruing under the scheme are shown below:

DIRECTORS' PENSION ENTITLEMENTS

	YEARS OF SERVICE	ACCRUED PENSION 31 DECEMBER 2011 £000 P.A.	INCREASE IN ACCRUED PENSION IN 2011 £000 P.A.	ACCRUED PENSION 31 DECEMBER 2010 £000 P.A.
J. LOVE	16	32	3	29
	TRANSFER VALUE 31 DECEMBER 2011 £000	CONTRIBUTIONS MADE BY THE DIRECTOR IN 2011 £000	INCREASE IN 2011 TRANSFER VALUE NET OF CONTRIBUTIONS £000	TRANSFER VALUE 31 DECEMBER 2010 £000
J. LOVE	443	8	95	340

The increase in accrued pension, net of inflation, is £3,000 per annum for J. Love. The related increase in transfer values net of inflation and director's contributions is £95,000.

The Company provided pension contributions for P.D. Atkinson during 2011 totalling £76,000 (2010 - £75,000). Contributions provided to 5 April 2011 were paid into an Employer Funded Retirement Benefit Scheme. Contributions accrued since 6 April 2011 of £51,000 plus employer's national insurance have been paid as a pension allowance.

(III) SHAREHOLDINGS

The Directors at 31 December 2011 and their interests in ordinary shares of Macfarlane Group PLC were as follows:

SHAREHOLDINGS

	2011 BENEFICIAL	2011 OPTION	2010 BENEFICIAL	2010 OPTION	PERFORMANCE SHARE PLAN AWARDS
A.S. HUNTER	335,500	–	285,500	–	–
P.D. ATKINSON	745,300	551,372	692,000	551,372	581,706
G. BISSETT	293,500	–	293,500	–	–
J. LOVE	675,000	112,000	633,199	252,000	270,275
K.D. MELLOR	170,000	–	120,000	–	–

P.D. Atkinson's beneficial holding includes 90,500 shares held by his daughter, who is classified as a connected party (2010 – 90,500). Messrs A.S. Hunter, G. Bissett and K.D. Mellor are non-executive directors and do not hold share options or Performance Share Plan awards in the Company. The Performance Share Plan awards in existence at 31 December 2010 lapsed during the year.

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

No changes occurred in the directors' holdings between 1 January 2012 and 5 March 2012.

(IV) DIRECTORS' SHARE OPTIONS

DIRECTORS' SHARE OPTIONS

	2010	LAPSED	2011	EXERCISE PRICE	NOTE BELOW	EXERCISE PERIOD
P.D. ATKINSON	551,372	–	551,372	26.0p	1	29 October 2007 – 28 October 2014
	551,372	–	551,372			
J. LOVE	140,000	(140,000)	–	68.5p	2	15 March 2004 – 14 March 2011
	112,000	–	112,000	88.0p	3	5 April 2005 – 4 April 2012
	252,000	(140,000)	112,000			

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 2012.

2. Macfarlane Group PLC Company Share Option Plan 2000 and The Macfarlane Group PLC Executive Share Option Scheme 2000. The performance condition relating to these options required earnings per share growth of between 3% and 8% above RPI over a three-year period. This performance condition was not satisfied and the options lapsed on 14 March 2011.

3. 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 therefore none of the options vested.

(V) PERFORMANCE SHARE PLAN AWARDS

PERFORMANCE SHARE PLAN AWARDS

	NUMBER OF SHARES 31 DECEMBER 2010	LAPSED	NUMBER OF SHARES 31 DECEMBER 2011
P.D. ATKINSON	581,706	(581,706)	–
J. LOVE	270,275	(270,275)	–

The Performance Share Plan Awards in existence at 31 December 2010 lapsed on 30 June 2011. No further awards have been made.

(VI) SHARE PRICE

The share price at 31 December 2011 was 18.75p, compared with 30.50p at 31 December 2010. The range of transaction prices for Macfarlane Group shares during 2011 was 17.50p to 31.50p for each ordinary share of 25p.

REPORT ON DIRECTORS' REMUNERATION

UNAUDITED INFORMATION REMUNERATION COMMITTEE

The Company has established a Remuneration Committee, constituted in accordance with the recommendations of the UK Corporate Governance Code. The Remuneration Committee comprised two independent non-executive directors, Kevin Mellor (Chairman), Graeme Bissett and the Company Chairman, Archie Hunter, throughout 2011. None of the members of the Remuneration Committee during 2011 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 2011 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 final salary 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 web site (www.maccarlange.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 the 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.

The Remuneration Committee Chairman will be available to answer questions on any aspect of remuneration policy at the Annual General Meeting in May 2012.

REMUNERATION POLICY

It is a Group objective that it should attract and retain executives of high calibre and that the executives should be rewarded in a manner, which encourages 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 Company'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 under the Performance Share Plan ("PSP") 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 of the overall Group are taken into account when determining directors' remuneration. Any salary increase is expected to be consistent with that for the overall Group, which was the case in 2011 and will be the case in 2012.

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 responsibility. When determining salary levels, individual performance, Group performance and pay practices elsewhere within the Group are taken into account.

Pay increases for executive directors amounted to an increase of 2.0% for 2012. Consistent with all employees in the Group the payment of this increase has been deferred until 31 March 2012 and provided Group performance is in line with expectation this increase will be backdated to 1 January 2012. If performance is not in line with expectation at 31 March 2012 then no increase will be paid at that date.

(ii) Performance related bonus

Executive directors can earn incentive payments based on Group performance targets and individual performance targets. 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 2011 was 50% of basic salary with 40% based on financial objectives and 10% based on non-financial objectives which is only payable if a minimum level of financial objectives are met. Discretionary bonuses of £15,000 (2010 - £15,000) and £7,000 (2010 - £7,000) have been awarded to P.D. Atkinson and J. Love respectively based on achievement of non-financial objectives. For 2012 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 will seek 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. In each year the extent of awards is determined by availability of headroom available to make such awards. No awards were made in 2010 or 2011.

(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 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 2011, except as stated above. There are no unfunded pension commitments or similar arrangements for current or previous executive directors.

PERFORMANCE GRAPH

The graph below 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.

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, P.D. Atkinson was a Director of Speedy Hire plc. 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 two 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 the Annual General Meeting. Letters of appointment for Messrs A.S. Hunter, G. Bissett and K.D. Mellor are dated 1 May 2010, 5 May 2010 and 5 May 2011 respectively. G. Bissett and K.D. Mellor are due to be proposed for re-election, at the Annual General Meetings in 2013 and 2014 respectively. 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 John Love and Peter D. Atkinson, the Directors retiring by rotation at the forthcoming Annual General Meeting are set out in the Report of the Directors on page 21 and their service contracts will be available for inspection prior to the AGM on 8 May 2012.

APPROVAL

This report was approved by the Board of Directors on 6 March 2012 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") issued by the Financial Reporting Council ("FRC"). The Company's compliance is set out in the narrative statement on pages 26 to 29 and for directors' remuneration in the Report on Directors' Remuneration on pages 22 to 25.

COMPLIANCE

Throughout the year ended 31 December 2011, the Company has been in compliance with the Code provisions.

The Company's auditors, Deloitte LLP, 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, two 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 17. Details of executive directors' service contracts are given in the Board Report on Directors' Remuneration and all notice periods are for one year.

The 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 scrutinise performance in meeting agreed objectives and monitor 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 2011 and to the time of this report.

Details of the Chairman's other commitments are included in his biography on page 17. 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 50 days per annum.

The Board considers both its non-executive directors, Graeme Bissett and Kevin Mellor, to be independent both in character and judgement. Neither non-executive director:

- > 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 eight years.

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.

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 2012 AGM, John Love and Peter D. Atkinson fall due to retire by rotation and, being eligible, offer themselves for re-election. Both directors' service contracts and all other directors' letters of appointment will be available for shareholder review prior to the AGM on 8 May 2012.

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 table below. In 2011, 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 meetings and Committee meetings attended by each director during 2011 was:

ATTENDANCE BY DIRECTORS AT BOARD AND COMMITTEE MEETINGS

	BOARD	AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATIONS COMMITTEE
ARCHIE HUNTER (CHAIRMAN)	9 (9)	3 (3)*	4 (4)	2 (2)
PETER ATKINSON (CHIEF EXECUTIVE)	9 (9)	n/a	n/a	2 (2)*
GRAEME BISSETT (NON-EXECUTIVE DIRECTOR)	9 (9)	3 (3)	4 (4)	2 (2)
JOHN LOVE (FINANCE DIRECTOR)	9 (9)	n/a	n/a	1 (2)*
KEVIN MELLOR (SENIOR INDEPENDENT DIRECTOR)	9 (9)	3 (3)	4 (4)	1 (2)**

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 Director is attending but is not a member of the relevant Committee.

** indicates that the Director did not attend the meeting relating to his 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.

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 based on the "Higgs" guidance contained within the UK Corporate Governance Code. 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 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.

CORPORATE GOVERNANCE

RELATIONS WITH SHAREHOLDERS

The Group maintains a corporate website (www.macfarlanegroup.net) 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 8 to 15 of this report. The Board uses this together with the Chairman's Statement on pages 1 and 2, the Corporate Responsibility Report on pages 18 and 19 and the remainder of the Report of the Directors on pages 20 and 21 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

The Nominations Committee currently comprises Archie Hunter (Chairman), Kevin Mellor, and Graeme Bissett. The Chief Executive, Peter Atkinson, attends meetings by invitation. The Nominations Committee's terms of reference can be found on the Group website (www.macfarlanegroup.net).

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.

The Committee met during 2011 to consider proposing Kevin Mellor for re-election at the 2011 Annual General Meeting. Kevin was recommended for re-election and this was approved by shareholders at the 2011 AGM.

Following a Nominations Committee held on 28 February 2012, John Love and Peter D. Atkinson will present themselves for re-election at the AGM on 8 May 2012.

As highlighted in the Chairman's statement, Archie Hunter has now decided to retire at the conclusion of the AGM in May 2012. The Nominations Committee is engaged in a process to identify a successor and the Company expects to announce the conclusion of this prior to the Annual General Meeting. The Nominations Committee has engaged a leading executive search firm to identify suitable candidates and assist with this process.

REMUNERATION COMMITTEE

The Remuneration Committee comprises Kevin Mellor (Chairman) and Graeme Bissett, both independent non-executive directors and Archie Hunter, the Company Chairman. The Remuneration Committee met four times during 2011 and its terms of reference are available on the Group website (www.macfarlanegroup.net). The work carried out by the Remuneration Committee is described within the Report on Directors' Remuneration, which is set out on pages 22 to 25.

AUDIT COMMITTEE

The Audit Committee comprises Graeme Bissett (Chairman) and Kevin Mellor, both of whom are independent non-executive directors. 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. Kevin Mellor has a wide range of commercial experience, as evidenced in the biographical details on page 17. The Company Chairman is not a member of the Committee but is asked by the Committee Chairman to join meetings to give the Committee the benefit of his relevant experience. The Audit Committee met three times during 2011 and its agenda is linked to events in the Group's financial calendar.

The Committee meets privately with the external and internal auditors and executive directors are invited to attend meetings as required. The Committee's terms of reference are displayed on the Group website (www.macfarlanegroup.net) 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 auditors. It is responsible for ensuring that an appropriate relationship between the Group and the external auditors is maintained, including reviewing non-audit services and fees.

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.

AUDIT COMMITTEE

In 2011 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 Audit Committee initiated an external audit tender process in line with corporate governance best practice. A sub-committee including the Finance Director and Company Secretary was appointed to conduct a formal and competitive tender process. Following a report from the Sub-Committee, the Audit Committee recommended the appointment of KPMG Audit PLC and the Board accepted this recommendation. A resolution to this effect will be included in the Notice of Meeting.

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. Its 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. In 2011 the existing policies were strengthened with the introduction of a whistle blowing service to take calls from employees rather than only providing advice. Brief details are included on the Group website (www.macfarlanegroup.net). 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 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 quarterly 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 financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- > select suitable accounting policies and then apply them consistently;
- > make judgements and accounting estimates that are reasonable and prudent;
- > state whether applicable UK Accounting Standards have been followed; and
- > prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that Directors:

- > properly select and apply accounting policies;
- > present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- > provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- > make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

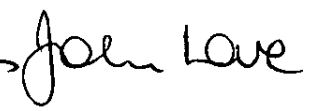
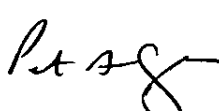
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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
6 March 2012

John Love
Finance Director
6 March 2012

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 2011 which comprise the consolidated income statement, the consolidated statement of comprehensive (expense)/income, the consolidated statement of changes in equity, the consolidated and parent company balance sheets, the consolidated cash flow statement, the accounting policies, the summary of critical accounting judgements and key sources of estimation uncertainty and the related notes 1 to 39 together with the details of the principal operating subsidiaries on page 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 European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom 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, 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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 European Union;
- > the parent company financial statements have been properly prepared in accordance with United Kingdom 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.

SEPARATE OPINION IN RELATION TO IFRSS AS ISSUED BY THE IASB

As explained in the summary of accounting policies, the group, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

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.

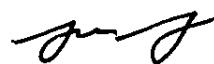
MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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, contained within the business review, in relation to going concern;
- > the part of the Corporate Governance Statement 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.



James Boyle CA
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory
Auditors, Edinburgh, United Kingdom
6 March 2012

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTE	2011 £000	2010 BEFORE EXCEPTIONAL ITEMS £000	2010 EXCEPTIONAL ITEMS £000 SEE NOTE 1 (D)	2010 £000
CONTINUING OPERATIONS					
Revenue	1	144,557	135,450	–	135,450
Cost of sales		(100,903)	(93,510)	–	(93,510)
GROSS PROFIT		43,654	41,940	–	41,940
Distribution costs		(6,976)	(6,458)	–	(6,458)
Administrative expenses		(31,989)	(30,964)	846	(30,118)
OPERATING PROFIT	1, 2	4,689	4,518	846	5,364
Finance income	4	2,958	2,741	–	2,741
Finance expense	4	(3,773)	(3,908)	–	(3,908)
PROFIT BEFORE TAX		3,874	3,351	846	4,197
Tax	5	(455)	(972)	(239)	(1,211)
PROFIT FOR THE YEAR	6,20	3,419	2,379	607	2,986
EARNINGS PER SHARE	8				
FROM CONTINUING OPERATIONS					
Basic and diluted *		3.01p	2.10p	0.53p	2.63p

There were no exceptional items in 2011.

*There is no dilution of earnings per share in either 2010 or 2011.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE (EXPENSE)/INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTE	2011 £000	2010 £000
Exchange differences on translation of foreign operations	20	(70)	(20)
Actuarial (loss)/gain on defined benefit pension schemes	25	(6,432)	1,540
Tax on items taken directly to equity			
Actuarial loss/(gain) for the year	18	1,608	(420)
Long-term corporation tax rate change on pension deficit	18	(313)	(174)
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR		(5,207)	926
Profit for the year		3,419	2,986
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR		(1,788)	3,912

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTE	SHARE CAPITAL £000	REVALUATION RESERVE £000	OWN SHARES £000	TRANSLATION RESERVE £000	RETAINED EARNINGS £000	TOTAL £000
At 1 January 2010		28,755	70	(943)	336	(3,257)	24,961
Profit for the year		-	-	-	-	2,986	2,986
Dividends	7	-	-	-	-	(1,700)	(1,700)
Exchange differences on translation of foreign operations	20	-	-	-	(20)	-	(20)
Actuarial gain on defined benefit pension schemes	25	-	-	-	-	1,540	1,540
Tax on actuarial gain for the year	18	-	-	-	-	(594)	(594)
Transfer of own shares to pension scheme	20	-	-	88	-	(52)	36
Credit in respect of share-based payments	24	-	-	-	-	26	26
AT 31 DECEMBER 2010		28,755	70	(855)	316	(1,051)	27,235
Profit for the year		-	-	-	-	3,419	3,419
Dividends	7	-	-	-	-	(1,761)	(1,761)
Exchange differences on translation of foreign operations	20	-	-	-	(70)	-	(70)
Actuarial loss on defined benefit pension schemes	25	-	-	-	-	(6,432)	(6,432)
Tax on actuarial loss for the year	18	-	-	-	-	1,295	1,295
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

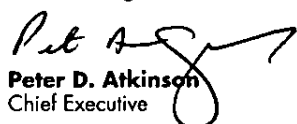
The accompanying notes are an integral part of this consolidated statement of changes in equity.

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2011

	NOTE	2011 £000	2010 £000
NON-CURRENT ASSETS			
Goodwill	9 (a)	24,149	24,149
Other intangible assets	9 (b)	1,867	2,257
Property, plant and equipment	10	8,414	8,280
Other receivables	13	1,916	856
Deferred tax assets	18	5,744	4,672
TOTAL NON-CURRENT ASSETS		42,090	40,214
CURRENT ASSETS			
Inventories	12	8,637	9,080
Trade and other receivables	13	36,609	34,514
Cash and cash equivalents	14	199	138
TOTAL CURRENT ASSETS		45,445	43,732
TOTAL ASSETS		87,535	83,946
CURRENT LIABILITIES			
Trade and other payables	15	34,006	32,568
Current tax liabilities		350	-
Provisions	16	332	291
Obligations under finance leases	17	233	296
Bank borrowings	14	7,434	6,408
TOTAL CURRENT LIABILITIES		42,355	39,563
NET CURRENT ASSETS		3,090	4,169
NON-CURRENT LIABILITIES			
Retirement benefit obligations	25	20,484	15,725
Deferred tax liabilities	18	467	628
Provisions	16	250	291
Other creditors		105	120
Obligations under finance leases	17	159	384
TOTAL NON-CURRENT LIABILITIES		21,465	17,148
TOTAL LIABILITIES		63,820	56,711
NET ASSETS		23,715	27,235
EQUITY			
Share capital	19	28,755	28,755
Revaluation reserve	20	70	70
Own shares	20	(810)	(855)
Translation reserve	20	246	316
Retained earnings	20	(4,546)	(1,051)
TOTAL EQUITY		23,715	27,235

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 6 March 2012 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 2011

	NOTE	2011 £000	2010 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	22	2,232	2,407
INVESTING ACTIVITIES			
Interest received		11	47
Disposal of subsidiary undertaking	21	24	32
Proceeds on disposal of property, plant and equipment		45	-
Purchases of property, plant and equipment		(1,228)	(406)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(1,148)	(327)
FINANCING ACTIVITIES			
Dividends paid	7	(1,761)	(1,700)
Repayments of obligations under finance leases		(288)	(278)
Increase/(decrease) in bank overdrafts	22	1,026	(500)
NET CASH USED IN FINANCING ACTIVITIES		(1,023)	(2,478)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	22	61	(398)
Cash and cash equivalents at beginning of year		138	536
CASH AND CASH EQUIVALENTS AT END OF YEAR	14	199	138

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

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 2011 have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs as adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

> IFRS 1 (amended)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
> 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 12 (amended)	Deferred Tax: Recovery of Underlying Assets
> IAS 19 (revised)	Employee Benefits
> IAS 27 (revised)	Separate Financial Statements
> IAS 28 (revised)	Investments in Associates and Joint Ventures
> IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

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.

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.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The Directors, in their consideration of going concern, have reviewed the Group's future cash forecasts and revenue projections, which they believe are based on prudent market data and past experience, with further details set out in the Business Review on page 15. 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 all 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. 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, as appropriate. The consolidated profit 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 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 date that control is acquired (the 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 have reason to believe that a change in circumstances may have given 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 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.

Royalty revenue is recognised on an accruals basis in accordance with the substance of the relevant agreement provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

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. Investment income is accrued on a time basis, by reference to the principal outstanding and at the effective rate of interest applicable.

(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 obligations.

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 and on foreign currency borrowings to the extent that they hedge the Group's investment in such operations are recorded as movements on the Group's translation reserve and reported in the statement of comprehensive (expense)/income. Such translation differences are recognised in the profit or loss in the period in which the foreign business is disposed.

(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 (expense)/income. 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 retirement benefit schemes are charged as an expense in the income statement as they fall due.

(h) Taxation

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

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit 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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is 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. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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 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 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 other comprehensive income.

Deferred tax assets and liabilities are not discounted.

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, vehicles and fittings. 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 amount 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. Such cost is determined by 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 a trade 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 payments 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.

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.

FINANCIAL LIABILITIES

Financial liabilities comprise solely other financial liabilities under the terms of IFRS 7. Other 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.

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 2011

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 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 of the Group's 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 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 2011 is 4.80% (2010 - 5.50%). Pension liabilities reduce as the discount rate is increased and a movement of 0.1% 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 2011 are set out in note 25.

Treatment of surplus properties and rental voids

The Group has a number of surplus properties 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, 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, 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 (2010 - £582,000) have been provided as set out in note 16.

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.

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 older items on an ongoing basis throughout the year. The Group's senior executive management then reviews local judgements. Whilst every attempt is made to ensure that bad debt provisions for potential impairment are as accurate as possible, there remains a risk that the provisions may not match the level of debts, which ultimately prove uncollectible. At 31 December 2011, the Group retained a bad debt provision of £518,000, compared to £259,000 in 2010. 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 stock levels and older stock balances and provides against older items on an ongoing basis 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 stock, which is ultimately unsaleable at full value. During 2011, the Group wrote off £295,000 of inventories through cost of sales compared to £582,000 in 2010. At 31 December 2011, the Group retained provisions against slow-moving and obsolete stocks of £512,000, compared to £521,000 in 2010.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 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 turnover and profit 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 and resealable labels to a variety of FMCG customers in the UK & Europe and the design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK into one segment headed Manufacturing Operations. None of the individual business segments within Manufacturing Operations represent more than 10% of Group turnover and profit.

EXTERNAL REVENUES FROM MAJOR PRODUCTS AND SERVICES

	2011 £000	2010 £000
Packaging Distribution	116,674	109,093
Manufacture and supply of self-adhesive labels	12,509	13,202
Manufacture and supply of resealable labels	5,250	3,718
Design, manufacture and assembly of timber, corrugated and foam-based packaging materials	10,124	9,437
EXTERNAL REVENUES FROM CONTINUING OPERATIONS	144,557	135,450

(b) Segmental information 2011

GROUP SEGMENT

	TOTAL REVENUE £000	INTER-SEGMENT REVENUE £000	EXTERNAL REVENUE £000	SEGMENT RESULT £000
Packaging Distribution	116,674	—	116,674	4,562
Manufacturing Operations	32,566	(4,683)	27,883	127
Continuing activities	149,240	(4,683)	144,557	

OPERATING PROFIT

Net finance costs	4,689
	(815)

PROFIT BEFORE TAX

Tax	3,874
	(455)

PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

3,419

Inter-segment revenues are charged at prevailing market prices.

GROUP SEGMENT

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

1. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

(c) Segmental information 2010

GROUP SEGMENT

Packaging Distribution
Manufacturing Operations

Continuing activities

TOTAL REVENUE £000	INTER-SEGMENT REVENUE £000	EXTERNAL REVENUE £000	SEGMENT RESULT £000
109,253	(160)	109,093	4,604
31,020	(4,663)	26,357	760
140,273	(4,823)	135,450	

OPERATING PROFIT

Net finance costs

5,364

(1,167)

PROFIT BEFORE TAX

Tax

4,197

(1,211)

PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

2,986

Inter-segment revenues are charged at prevailing market prices.

GROUP SEGMENT

Packaging Distribution
Manufacturing Operations

Continuing activities

CAPITAL ADDITIONS £000	DEPRECIATION/ AMORTISATION £000	SEGMENT ASSETS £000	SEGMENT LIABILITIES £000	NET ASSETS £000
280	707	67,361	47,687	19,674
126	601	16,585	9,024	7,561
406	1,308	83,946	56,711	27,235

(d) Exceptional items 2010

Freezing pensionable salaries of active members of pension scheme
Professional cost of the above exercise

Provisions against rental voids and vacant properties

Net exceptional credit 2010

PACKAGING DISTRIBUTION £000	MANUFACTURING OPERATIONS £000	2010 TOTAL £000
498	702	1,200
(27)	(36)	(63)
471	666	1,137
(291)	—	(291)
180	666	846

During 2010, Macfarlane Group PLC made the decision to amend benefits for active members in its final salary pension scheme by freezing pensionable salaries with the change taking effect on 30 April 2010. As a result no further salary inflation applies for active members who elected to remain in the scheme and a curtailment gain of £1,200,000 was recorded as a result of this change.

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 re-assessed 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 as a result an additional provision of £291,000 was made during 2010.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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 operates in the UK and Europe and the Packaging Manufacturing business operates primarily in the UK.

	CONTINUING OPERATIONS		2011	CONTINUING OPERATIONS		2010
	UK £000	EUROPE £000	TOTAL £000	UK £000	EUROPE £000	TOTAL £000
REVENUE						
Total revenue	140,877	3,680	144,557	132,513	2,937	135,450
RESULT						
Segment operating result	4,568	121	4,689	5,439	(75)	5,364
NON-CURRENT ASSETS	39,637	2,453	42,090	37,665	2,549	40,214
CAPITAL ADDITIONS	1,214	14	1,228	396	10	406

(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:

	2011 £000	2010 £000
Depreciation of property, plant and equipment (see note 10)	998	1,004
Amortisation of intangible assets (see note 9b)	390	304
Staff costs (see note 3)	22,105	21,681
Impairment loss recognised on trade receivables	417	188
Cost of inventories recognised as an expense	97,368	89,942
Write-down of inventories recognised as an expense	295	582
Net foreign exchange losses	19	3
Auditor's remuneration		
Audit services	136	134
Non-audit services	51	39

AUDITOR'S REMUNERATION:

A detailed analysis of auditor's remuneration is provided below:

	2011 £000	2010 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	50	50
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries	86	84
TOTAL AUDIT FEES	136	134
Audit related assurance services for review of half-year statements	18	17
Tax compliance services	29	18
Fees payable in respect of the Macfarlane Group PLC pension schemes	4	4
TOTAL NON-AUDIT FEES	51	39
TOTAL AUDITOR'S REMUNERATION	187	173

3. STAFF COSTS

The average monthly number of employees was:

	2011 NO.	2010 NO.
Production	182	184
Sales and distribution	372	367
Administration	165	153

719 704

The costs incurred in respect of these employees were:

	2011 £000	2010 £000
Wages and salaries	19,389	19,244
Social security costs	1,926	1,824
Other pension costs	790	613

22,105 21,681

4. NET FINANCE EXPENSE

	2011 £000	2010 £000
Interest on bank overdrafts	(460)	(415)
Interest on obligations under finance leases	(33)	(64)
Interest cost of pension scheme liabilities	(3,280)	(3,429)

TOTAL FINANCE EXPENSE

(3,773) (3,908)

Expected return on pension scheme assets
Investment income

2,947 2,694
11 47

TOTAL FINANCE INCOME

2,958 2,741

NET FINANCE EXPENSE

(815) (1,167)

5. TAX

CURRENT TAX

United Kingdom corporation tax at 26.5% (2010: 28.0%)
Foreign tax

(381) 2
(12) (6)

CURRENT TAX CHARGE

(393) (4)

DEFERRED TAX

Current year charge
Adjustment in respect of prior years

(513) (1,207)
451 -

DEFERRED TAXATION CHARGE (see note 18)

(62) (1,207)

TOTAL TAX CHARGE

(455) (1,211)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

5. TAX (CONTINUED)

The standard rate of tax based on the UK average rate of corporation tax, is 26.5% (2010 – 28.0%). 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 26.5% (2010 – 28.0%) of the results as set out in the income statement for the reasons set out in the following reconciliation:

	2011 £000	2010 £000
PROFIT BEFORE TAX	3,874	4,197
TAX ON PROFIT AT 26.5% (2010 – 28%)	(1,027)	(1,175)
FACTORS AFFECTING TAX CHARGE FOR THE YEAR:		
Other timing differences	67	(36)
Adjustment in respect of prior years	451	–
Utilisation of tax losses not previously recognised	54	–
TAX CHARGE FOR THE YEAR	(455)	(1,211)

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

	2011 £000	2010 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2010 of 1.05p per share (2009 – 1.00p per share)	1,192	1,133
Interim dividend for the year ended 31 December 2011 of 0.50p per share (2010 – 0.50p per share)	569	567
	1,761	1,700

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 8 June 2012 to those shareholders on the register at 11 May 2012 and is subject to approval by shareholders at the Annual General Meeting on 8 May 2012. This has not been included as a liability in these financial statements.

8. EARNINGS PER SHARE

From continuing and discontinued operations

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

	2011 £000	2010 £000
EARNINGS		
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	3,419	2,986
NUMBER OF SHARES IN ISSUE FOR THE PURPOSES OF CALCULATING BASIC AND DILUTED EARNINGS PER SHARE		
	2011 NUMBER OF SHARES '000	2010 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	(1,463)	(1,646)
WEIGHTED AVERAGE NUMBER OF SHARES IN ISSUE FOR THE PURPOSES OF CALCULATING BASIC EARNINGS PER SHARE	113,556	113,373
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	113,556	113,373

9. GOODWILL AND OTHER INTANGIBLE ASSETS

(a) Goodwill

COST

At 1 January 2010

2010 adjustments to prior year acquisition of subsidiaries

AT 1 JANUARY 2011 AND 31 DECEMBER 2011

CARRYING AMOUNT

AT 31 DECEMBER 2011

At 31 December 2010

PACKAGING DISTRIBUTION £000	MANUFACTURING OPERATIONS £000	TOTAL £000
22,840	1,359	24,199
(50)	–	(50)
22,790	1,359	24,149
22,790	1,359	24,149
22,790	1,359	24,149

Goodwill on acquisition is allocated to the CGUs expected to benefit from the business combination. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. Packaging Distribution is treated as one CGU for the purposes of impairment testing. There are two separate CGUs within Manufacturing Operations.

The recoverable amount of each CGU is determined using "value in use" calculations with key assumptions relating to discount rates, growth rates and expected changes to selling prices and costs during the period. The discount rate of 8.1% is used which reflects current market assessments of the time value of money and the risks specific to the businesses in question. Growth rates and changes in selling prices and costs are based on our expectations of future performance in the markets in which we operate. These are consistent with the Group's plans and forecasts for 2012 and extrapolate cash flows for the following nine years, reflecting the long-term nature of the businesses, based on an estimated growth rates of 0 - 2.5% per annum and a terminal value. The Group has conducted sensitivity analyses on the impairment calculations and the long-term growth rate would have to reduce by 2.0% and the discount rate would also have to increase by 2.0% before there was any impairment of the goodwill values shown.

(b) Other Intangible Assets

COST AT FAIR VALUE ON ACQUISITION

At 1 January 2010, 1 January 2011 and 31 December 2011

AMORTISATION

At 1 January 2010

Charge for year

At 1 January 2011

Charge for year

AT 31 DECEMBER 2011

CARRYING AMOUNT

AT 31 DECEMBER 2011

At 31 December 2010

BRAND VALUES £000	CUSTOMER RELATIONSHIPS £000	TOTAL £000
130	2,843	2,973
41	371	412
26	278	304
67	649	716
26	364	390
93	1,013	1,106
37	1,830	1,867
63	2,194	2,257

Other intangible assets comprise separately identifiable intangible assets recognised on the acquisitions in the Packaging Distribution segment 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. The 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 rate, 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 2011

10. PROPERTY, PLANT & EQUIPMENT

COST

	LAND & BUILDINGS £000	PLANT, VEHICLES & FITTINGS £000	TOTAL £000
At 1 January 2010	7,088	27,430	34,518
Additions	8	398	406
Exchange movements	(34)	29	(5)
Disposals	-	(38)	(38)
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 31 DECEMBER 2011	7,036	28,223	35,259

ACCUMULATED DEPRECIATION

At 1 January 2010	2,602	23,012	25,614
Charge for year	184	820	1,004
Exchange movements	(5)	26	21
Disposals	-	(38)	(38)
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 31 DECEMBER 2011	2,936	23,909	26,845

CARRYING AMOUNT

AT 31 DECEMBER 2011	4,100	4,314	8,414
At 31 December 2010	4,281	3,999	8,280

The carrying value of £8,414,000 (2010 - £8,280,000) includes £958,000 (2010 - £1,062,000) of assets held under finance leases. The depreciation charge in respect of these assets is £104,000 (2010 - £101,000).

LAND & BUILDINGS AT NET BOOK VALUE COMPRISE:

	2011 £000	2010 £000
Freeholds	1,717	1,751
Long leaseholds	2,377	2,519
Short leaseholds	6	11
	4,100	4,281

11. SUBSIDIARY COMPANIES

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

12. INVENTORIES

	2011 £000	2010 £000
Raw materials and consumables	618	593
Work in progress	208	157
Finished goods and goods for resale	7,811	8,330
	8,637	9,080

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

DUE WITHIN ONE YEAR

Trade receivables for the sale of goods and services
Allowance for doubtful receivables

Other receivables
Prepayments and accrued income

DUE AFTER MORE THAN ONE YEAR

Other receivables
Prepayments and accrued income

	2011 £000	2010 £000
	31,955	30,305
	(518)	(259)
	31,437	30,046
	2,437	1,912
	2,735	2,556
	36,609	34,514
	1,061	-
	855	856
	1,916	856

Trade receivables

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 (2010 – 61 days). No interest is charged on overdue receivables. The Group has provided for trade and other receivables based on estimated irrecoverable amounts, based on prior default experience and an assessment of the current economic environment.

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 2011 and 31 December 2010, 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 £11,110,000, (2010 - £11,165,000) 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 based on post year-end receipts. The Group does not hold any collateral over these balances. The weighted average overdue age of these trade receivables is 21 days (2010 – 23 days).

AGEING OF PAST DUE BUT NOT IMPAIRED RECEIVABLES

30-60 days
60-90 days
Over 90 days

	2011 £000	2010 £000
	5,945	6,388
	3,559	3,498
	1,606	1,279
	11,110	11,165

Amounts presented in the balance sheet are net of allowances for doubtful receivables of £518,000 (2010 - £259,000), 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

At 1 January
Impairment losses recognised in the income statement
Amounts written off as uncollectible

AT 31 DECEMBER

	2011 £000	2010 £000
	259	348
	417	188
	(158)	(277)
	518	259

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 are 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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 raise 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 2011. 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 2012.

Liquidity risk

The Group's policy with regard to liquidity remains 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 £11,500,000 is in place for the period to 28 February 2013. The maturity profile of debt outstanding at 31 December 2011 is set out in note 17 and 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 £51,000 (2010 - £49,000).

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 2011 has been to review the need to hedge exposures on a monthly 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 monthly basis.

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

	ASSETS 2011 £000	ASSETS 2010 £000	LIABILITIES 2011 £000	LIABILITIES 2010 £000
Euros	2,012	2,078	223	262
Swedish Krone	472	383	222	135
	<u>2,484</u>	<u>2,461</u>	<u>445</u>	<u>397</u>

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

	2011 £000	2010 £000
Euros	38	52
Swedish Krone	94	(111)
	<u>132</u>	<u>(59)</u>

14. FINANCIAL INSTRUMENTS (CONTINUED)

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 2011 £000	RESULT 2010 £000	OTHER EQUITY 2011 £000	OTHER EQUITY 2010 £000
Euros	2	3	89	91
Swedish Krone	5	(6)	13	12
	<u>7</u>	<u>(3)</u>	<u>102</u>	<u>103</u>

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

CASH AND CASH EQUIVALENTS

CURRENCY

	2011 £000	2010 £000
Sterling	32	19
Euros	134	106
Swedish Krone	33	13

CASH AND CASH EQUIVALENTS

BANK OVERDRAFTS

Sterling	7,434	6,408
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BANK OVERDRAFTS

NET BANK INDEBTEDNESS

	7,235	6,270
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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. The Group had no bank loans in either 2011 or 2010. 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 £11,500,000 (2010 - £12,000,000).

Interest rates

All Group deposits and borrowings are held at floating rates of interest. The average effective interest rate on bank overdrafts approximates to 4.49 per cent (2010 - 4.21 per cent) 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 overdrafts at 31 December 2011 all materially equate to book values.

Borrowing facilities

The Group has various committed undrawn overdraft facilities. The facilities available at 31 December 2011 in respect of which all conditions precedent had been met and which expire within one year were as follows:

	2011 £000	2010 £000
Drawn down	7,434	6,408
Undrawn	4,566	6,092
	<u>12,000</u>	<u>12,500</u>

The Group's borrowing profile is as follows:

UNSECURED - AT AMORTISED COST

Current bank overdrafts	7,434	6,408
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SECURED - AT AMORTISED COST

Current finance lease liabilities	233	296
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CURRENT BORROWINGS

	7,667	6,704
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SECURED - AT AMORTISED COST

Non-current finance lease liabilities	159	384
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TOTAL BORROWINGS

	<u>7,826</u>	<u>7,088</u>
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The principal Group borrowing facility of £11,500,000 is in place for the period to 28 February 2013. The Group is currently in compliance with all conditions in relation to these borrowing facilities.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

14. FINANCIAL INSTRUMENTS (CONTINUED)

GEARING RATIO

The gearing ratio at the year end is as follows:

	2011 £000	2010 £000
Total borrowings (as defined above)	7,826	7,088
Equity	23,715	27,235
NET DEBT TO EQUITY RATIO	33%	26%

15. TRADE AND OTHER PAYABLES

DUE WITHIN ONE YEAR

	2011 £000	2010 £000
Trade payables	26,467	26,296
Other taxation and social security	2,140	1,822
Other creditors	167	128
Accruals and deferred income	5,232	4,322
	34,006	32,568

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

	2011 £000	2010 £000
At 1 January	582	—
Reclassified from accrued charges	—	291
Provided in the year	—	291
At 31 December	582	582
Due within one year – current liabilities	332	291
Due between two and five years – non-current liabilities	250	291
	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. In 2010, the Company reclassified amounts previously held as short-term accruals into provisions. The Company also reassessed 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 as a result an additional provision of £291,000 was made during 2010. These assumptions and the level of provision remain consistent at 31 December 2011.

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

17. OBLIGATIONS UNDER FINANCE LEASES

AMOUNTS PAYABLE UNDER FINANCE LEASES

	2011 £000	2010 £000
Due within one year	233	296
Due in the second to fifth years inclusive	159	384
PRESENT VALUE OF FINANCE LEASE OBLIGATIONS	392	680
Due for settlement within 12 months (shown within current liabilities)	(233)	(296)
Due for settlement after more than 12 months (shown as non-current liabilities)	159	384

The average lease term is five years and the average effective borrowing rate is 4.85 per cent (2010 – 6.54 per cent). Interest rates are fixed at the contract date. All lease obligations are on a fixed repayment basis. Lease obligations are denominated in Sterling.

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

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

18. DEFERRED TAX ASSET

	TAX LOSSES £000	HELD OVER GAINS £000	OTHER INTANGIBLE ASSETS £000	RETIREMENT BENEFIT OBLIGATIONS £000	TOTAL £000
At 1 January 2010	2,222	(1,369)	(712)	5,702	5,843
(Charged)/credited in income statement	(469)	40	84	(862)	(1,207)
Charged in other comprehensive income	-	-	-	-	-
Deferred tax on actuarial gain	-	-	-	(420)	(420)
Long-term corporation tax rate change	-	-	-	(174)	(174)
Exchange differences	-	2	-	-	2
At 1 January 2011	1,753	(1,327)	(628)	4,246	4,044
(Charged)/credited in income statement	(644)	841	161	(420)	(62)
Credited/(charged) in other comprehensive income	-	-	-	-	-
Deferred tax on actuarial gain	-	-	-	1,608	1,608
Long-term corporation tax rate change	-	-	-	(313)	(313)
AT 31 DECEMBER 2011	1,109	(486)	(467)	5,121	5,277
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
2010					
Deferred tax asset					
Due outwith one year	1,753	(1,327)	-	4,246	4,672
Deferred tax liabilities					
Due outwith one year	-	-	(628)	-	(628)
	1,753	(1,327)	(628)	4,246	4,044

The Finance Act 2011, which provides for a reduction in the main rate of corporation tax from 27% to 25% effective from 1 April 2012, was substantively enacted in July 2011. As it was substantively enacted at the balance sheet date, the rate reduction is reflected within the financial statements. The impact of the 2% rate reduction, which can be seen in the table above, is a reduction in the UK deferred tax asset for the year ended 31 December 2011 of £313,000. The Government has also indicated that it intends to enact future reductions in the main tax rate of 1% each year down to 23% by 1 April 2014. Future 1% main tax rate reductions are expected to have an impact of £210,000 on our financial statements as outlined above, 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 £18,000 (2010 - £19,000).

19. SHARE CAPITAL

	NUMBER OF 25P SHARES	2011 £000	2010 £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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

20. RESERVES

	REVALUATION RESERVE £000	OWN SHARES £000	TRANSLATION RESERVE £000	RETAINED EARNINGS £000	TOTAL £000
Balance at 1 January 2010	70	(943)	336	(3,257)	(3,794)
Disposal of own shares	-	88	-	(52)	36
Exchange difference on retranslation of overseas operations at year end	-	-	(20)	-	(20)
Profit for the year	-	-	-	2,986	2,986
Dividends paid (see note 7)	-	-	-	(1,700)	(1,700)
Actuarial gain in pension scheme taken direct to equity	-	-	-	1,540	1,540
Deferred tax on actuarial gain	-	-	-	(594)	(594)
Credit for share-based payments (see note 24)	-	-	-	26	26
Balance at 1 January 2011	70	(855)	316	(1,051)	(1,520)
Disposal of own shares	-	45	-	(24)	21
Exchange difference on retranslation of overseas operations at year end	-	-	(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 on actuarial loss	-	-	-	1,295	1,295
Credit for share-based payments (see note 24)	-	-	-	8	8
BALANCE AT 31 DECEMBER 2011	70	(810)	246	(4,546)	(5,040)

At 31 December 2011, the Company's Employee Share Ownership Trust ("ESOT") held 1,436,372 (2010 - 1,516,372) ordinary shares in Macfarlane Group PLC with a market value of £269,000 (2010 - £462,000) in respect of the future exercise of share options. The ESOT has waived its right to receive dividends on these shares.

During the year the Company transferred 80,000 (2010 - 155,000) ordinary shares held as own shares, at market value, to the Macfarlane Group PLC Pension & Life Assurance Scheme (1974). Details of the shares held by the pension scheme are set out in note 25.

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 2011 relates to continuing operations.

21. DISPOSAL OF SUBSIDIARY UNDERTAKINGS

Retention monies of £24,000 relating to previous years' disposals were received in 2011 (2010 - £32,000). These represent the only cash flows in 2011 and 2010 from discontinued operations.

22. NOTES TO THE CASH FLOW STATEMENT

	2011 £000	2010 £000
OPERATING PROFIT	4,689	5,364
Adjustments for:		
Amortisation of intangible assets	390	304
Depreciation of property, plant and equipment	998	1,004
Loss on disposal of property, plant and equipment	11	-
Exceptional credit relating to pension scheme	-	(1,200)
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	6,088	5,472
Decrease/(increase) in inventories	443	(198)
Increase in receivables	(3,155)	(4,449)
Increase in payables	1,557	4,711
Pension scheme payments	(2,169)	(2,636)
CASH GENERATED BY OPERATIONS	2,764	2,900
Income taxes (paid)/received	(39)	5
Interest paid	(493)	(498)
NET CASH INFLOW FROM OPERATING ACTIVITIES	2,232	2,407

22. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

	2011 £000	2010 £000
Increase/(decrease) in cash and cash equivalents in the year	61	(398)
(Increase)/decrease in bank overdrafts	(1,026)	500
Repayment of obligations under finance leases	288	278
Movement in net debt in the year	(677)	380
Opening net debt	(6,950)	(7,330)
Closing net debt	(7,627)	(6,950)
Net debt comprises:		
Cash and cash equivalents	199	138
Bank overdrafts and loans	(7,434)	(6,408)
Net bank debt	(7,235)	(6,270)
Obligations under finance leases		
Due within one year	(233)	(296)
Due outwith one year	(159)	(384)
	(7,627)	(6,950)

Cash and cash equivalents, which are presented as a single class of assets 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.

23. FINANCIAL COMMITMENTS

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

	LAND & BUILDINGS 2011 £000	OTHER 2011 £000	LAND & BUILDINGS 2010 £000	OTHER 2010 £000
Charge for the year	4,626	2,137	4,602	2,131
Recoveries against property leases	(876)	–	(881)	–
Net charge for the year	3,750	2,137	3,721	2,131

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 2011 £000	OTHER 2011 £000	LAND & BUILDINGS 2010 £000	OTHER 2010 £000
Within one year	4,538	1,271	5,085	1,333
Within two to five years	16,504	1,636	18,411	1,189
After more than five years	13,463	–	19,730	–
	34,505	2,907	43,226	2,522

The majority of the 27 (2010 – 32) leases of land and buildings summarised above are subject to rent reviews. 8 (2010 – 10) of these leases are subject to sub-let arrangements or assignments with third parties to reduce the property cost to Macfarlane Group albeit two of these properties are currently 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 2011 £000	LAND & BUILDINGS 2010 £000
Within one year	876	875
Within two to five years	2,299	2,627
After more than five years	1,680	2,153
	4,855	5,655

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

23. FINANCIAL COMMITMENTS (CONTINUED)

In the event of tenants defaulting on the future annual minimum lease payments under non-cancellable operating leases for land and buildings as shown on the previous page, this would lead to increased property costs to the Group until the leases were subsequently sublet. Included in the future minimum lease payments are amounts of approximately £5.0 million relating to a former trading property of the Group now sublet to a third party. The Group's head lease runs until 2025 and the property is currently sublet at approximately £350,000, matching the passing rental. This sub-lease expires in January 2014 with an earlier break option in favour of the tenant. Depending on the intentions of the current tenant and prevailing market conditions, there may be a shortfall between the Group's committed rental charges and the related sub-letting income earned over the period of the head lease. In view of this the Directors have highlighted this matter as a contingent liability as it is not considered at this stage to represent an onerous lease.

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 assignment, a contingent liability of £4.0 million is disclosed, representing the difference between the head lease and sub-lease payments from 1 January 2012 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 (2010 - £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. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest.

SHARE OPTIONS

The movements on share options during the year is as follows:

	NUMBER OF SHARES 2011	NUMBER OF SHARES 2010
Outstanding at 1 January	2,404,580	3,022,883
Forfeited during the year	(607,208)	(618,303)
OUTSTANDING AT 31 DECEMBER	1,797,372	2,404,580
EXERCISABLE AT 31 DECEMBER	1,436,372	1,516,372

INPUTS TO THE BINOMIAL MODEL FOR GIVING RISE TO A CHARGE ARE AS FOLLOWS:

	2011	2010
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 30.7p (2010 - 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 2011	NUMBER OF SHARES 2010
The Macfarlane Group Company Share Option Plan 2000	68.5p	March 2004-March 2011	-	205,803
The Macfarlane Group PLC Executive Share Option Scheme 2000	68.5p	March 2004-March 2011	-	136,405
The Macfarlane Group Company Share Option Plan 2000	78.5p	September 2004-September 2011	-	121,432
The Macfarlane Group PLC Executive Share Option Scheme 2000	78.5p	September 2004-September 2011	-	13,568
The Macfarlane Group Company Share Option Plan 2000	88.0p	April 2005-April 2012	76,698	78,024
The Macfarlane Group PLC Executive Share Option Scheme 2000	88.0p	April 2005-April 2012	284,302	332,976
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	571,510
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			1,797,372	2,404,580

24. SHARE-BASED PAYMENTS (CONTINUED)

Equity-settled long-term incentive plans

The Group provides long-term incentive plans which provide for a base level share price for Total Shareholder Return ("TSR"), which equates to the closing quoted market price of the Group shares on the day before the date of award. The vesting period is three years. Furthermore, incentive plans are forfeited if the employee leaves the Group before they vest. The movements on long-term incentive plans during the year are as follows:

	NUMBER OF SHARES 2011	NUMBER OF SHARES 2010
Outstanding at 1 January	1,218,391	2,168,431
Lapsed during the year	(1,218,391)	(950,040)
OUTSTANDING AT 31 DECEMBER	-	1,218,391
EXERCISABLE AT 31 DECEMBER	-	-

No long-term incentive plan awards were made in either 2010 or 2011 and all awards have now lapsed.

The Group recognised a charge of £8,000 (2010 - £26,000) relating to equity-settled share-based payment transactions and long-term incentive plans. The accumulated fair value at 31 December 2011 of share-based payment awards and long-term incentive plan awards was £342,000 (2010 - £334,000).

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 2011 the Scheme held 35,186 ordinary shares of 25p each (2010 - 35,186), which had a market value of £7,000 (2010 - £11,000) on behalf of employees. No awards were made in either 2010 or 2011.

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. The most recent triennial valuation at 1 May 2011 is still in progress. 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 provisional 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.

Following the 2008 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 minimum employer contribution to the pension scheme in 2012, including these additional deficit payments, is £2.2 million.

The employer contribution rate is now 11.3% of pensionable salary, and the employee contribution rate is 7% of pensionable salary from 1 July 2009 following actuarial advice.

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 and a curtailment gain of £1.2 million was recorded in 2010 as a result of this change.

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 of £2.3 million.

Balance sheet disclosures

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

25. PENSIONS (CONTINUED)

Balance sheet disclosures

ASSET CLASS	FAIR VALUE 2011 £000	LONG-TERM EXPECTED RATE OF RETURN	FAIR VALUE 2010 £000	LONG-TERM EXPECTED RATE OF RETURN	FAIR VALUE 2009 £000	LONG-TERM EXPECTED RATE OF RETURN
Equities	12,782	7.50%	26,577	7.75%	23,315	7.75%
Bonds	21,806	3.70%	18,436	4.90%	17,277	5.15%
Multi-asset diversified funds	12,206	7.50%	—	—	—	—
Other (cash)	174	1.00%	280	1.00%	30	5.15%
Fair value of assets	46,968	5.71%	45,293	6.54%	40,622	6.64%
Present value of scheme liabilities	(67,452)		(61,018)		(60,988)	
DEFICIT IN THE SCHEME	(20,484)		(15,725)		(20,366)	
Related deferred tax asset (note 18)	5,121		4,246		5,702	
NET PENSION SCHEME LIABILITY	(15,363)		(11,479)		(14,664)	

The Trustees reviewed the investment profile of the pension scheme in 2011, involving the Company in this review. As a consequence more emphasis has been given to investments in multi-asset diversified funds in an effort to protect investment values in periods of market turbulence and thereby reduce balance sheet volatility.

The investment in equities of £12,782,000 (2010 - £26,577,000) includes a holding of 1,145,918 ordinary shares in Macfarlane Group PLC (2010 - 1,065,918) held at a value of £215,000 (2010 - £320,000).

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 2011 were calculated on the following bases as required under IAS19:

ASSUMPTIONS	2011	2010	2009
Discount rate	4.80%	5.50%	5.75%
Rate of increase in salaries	0.00%	0.00%	3.50%
Rate of increase in pensions in payment	3% or 5% for fixed increases or 2.90% for LPI.	3% or 5% for fixed increases or 2.72% for LPI.	3% or 5% for fixed increases or 3.36% for LPI.
Inflation assumption	2.10% post 5 April 2006	2.02% post 5 April 2006	2.26% post 5 April 2006
Life expectancy beyond normal retirement age of 65	3.00%	3.50%	3.50%
Male	22.3	21.5	21.3
Female	24.6	24.0	24.0

MOVEMENT IN THE SCHEME DEFICIT IN THE YEAR

	2011 £000	2010 £000
At 1 January	(15,725)	(20,366)
Normal service costs	(150)	(119)
Settlement (losses)/gains	(13)	50
Curtailment gain	—	1,200
Contributions	2,169	2,705
Net finance cost	(333)	(735)
Actuarial (loss)/gain in the year	(6,432)	1,540
AT 31 DECEMBER	(20,484)	(15,725)

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

Normal service costs	(150)	(119)
Settlement (losses)/gains	(13)	50
Curtailment gain	—	1,200
Expected return on pension scheme assets	2,947	2,694
Interest cost of pension scheme liabilities	(3,280)	(3,429)
AMOUNTS (CHARGED)/CREDITED TO PROFIT BEFORE TAX	(496)	396

25. PENSIONS (CONTINUED)

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

	2011 £000	2010 £000
Actual return less expected return on scheme assets	(517)	2,094
Changes in assumptions underlying the present value of scheme liabilities	(5,915)	(554)
ACTUARIAL (LOSS)/GAIN	(6,432)	1,540

MOVEMENT IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

At 1 January	(61,018)	(60,988)
Service costs	(150)	(119)
Settlement (losses)/gains	(13)	50
Curtailment gain	—	1,200
Interest cost	(3,280)	(3,429)
Contribution from scheme members	(84)	(134)
Changes in assumptions underlying the defined benefit obligations	(5,915)	(554)
Benefits paid	3,008	2,956
AT 31 DECEMBER	(67,452)	(61,018)

MOVEMENT IN THE FAIR VALUE OF SCHEME ASSETS

At 1 January	45,293	40,622
Expected return on scheme assets	2,947	2,694
Actual return less expected return on scheme assets	(517)	2,094
Contributions from sponsoring companies	2,169	2,705
Contribution from scheme members	84	134
Benefits paid	(3,008)	(2,956)
AT 31 DECEMBER	46,968	45,293

The cumulative amount of actuarial losses recognised in other comprehensive income since the date of transition to IAS 19 on 1 January 2004 is £12,442,000 (2010 - £6,010,000).

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

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Present value of defined benefit obligations	(67,452)	(61,018)	(60,988)	(53,420)	(59,304)
Fair value of scheme assets	46,968	45,293	40,622	35,943	45,032
DEFICIT IN THE SCHEME	(20,484)	(15,725)	(20,366)	(17,477)	(14,272)
ACTUAL RETURN ON SCHEME ASSETS					
Amount	2,430	4,788	5,630	(8,281)	1,958
Percentage of scheme assets	5.3%	10.6%	13.9%	(23.0%)	4.4%
EXPERIENCE ADJUSTMENT ON SCHEME LIABILITIES					
Amount	(5,915)	(554)	(7,587)	7,189	1,335
Percentage of scheme liabilities	(8.8%)	(0.9%)	(12.4%)	13.5%	2.3%
EXPERIENCE ADJUSTMENT ON SCHEME ASSETS					
Amount	(517)	2,094	3,305	(11,356)	(942)
Percentage of scheme assets	(1.1%)	4.6%	8.1%	(31.6%)	(2.1%)

Defined contribution schemes

The Group also operates a number of defined contribution pension schemes. The assets of these schemes are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions paid by the Group to the funds and amounted to £627,000 (2010 - £544,000).

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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".

	2011 £000	2010 £000
Directors' Remuneration	699	695
Employer's national insurance contributions	92	75
Cost charged in respect of share-based payments	6	18
	<u>797</u>	<u>788</u>

Further details of Directors' individual and collective remuneration are set out in the Board Report on Directors' Remuneration on pages 22. Details of Directors' shareholdings in the Company are also shown on page 23. Total dividends of £32,000 were paid in respect of these shareholdings in 2011 (2010 £30,000).

Details of the disposal of own shares to the pension scheme are set out in note 20.

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 2011

	NOTE	2011 £000	2010 £000
FIXED ASSETS			
Tangible fixed assets	28	42	43
Investments	29	24,225	25,810
		<u>24,267</u>	<u>25,853</u>
CURRENT ASSETS			
Debtors – due within one year	30	7,130	5,956
– due after more than one year	30	15,511	15,883
		<u>22,641</u>	<u>21,839</u>
TOTAL CURRENT ASSETS			
		22,641	21,839
Creditors – amounts falling due within one year	31	(10,308)	(9,426)
		<u>12,333</u>	<u>12,413</u>
NET CURRENT ASSETS			
		12,333	12,413
TOTAL ASSETS LESS CURRENT LIABILITIES			
		36,600	38,266
Creditors – amounts falling due after more than one year	32	(280)	(2,199)
		<u>36,320</u>	<u>36,067</u>
NET ASSETS EXCLUDING NET PENSION LIABILITY			
Net pension liability	38	(6,298)	(5,593)
		<u>30,022</u>	<u>30,474</u>
NET ASSETS INCLUDING NET PENSION LIABILITY			
		30,022	30,474
CAPITAL AND RESERVES			
Share capital	33	28,755	28,755
Own shares	34	(810)	(855)
Profit and loss account	34	2,077	2,574
		<u>30,022</u>	<u>30,474</u>
SHAREHOLDERS' FUNDS	36	30,022	30,474

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 6 March 2012 and signed on its behalf by


Peter D. Atkinson
Chief Executive


John Love
Finance Director

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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 15. 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, vehicles and fittings.

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 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.

A net 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 are 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, VEHICLES & FITTINGS £000	TOTAL £000
COST			
At 1 January 2011 and 31 December 2011	15	305	320
DEPRECIATION			
At 1 January 2011	11	266	277
Charge for year	—	1	1
At 31 December 2011	11	267	278
NET BOOK VALUE			
At 31 December 2011	4	38	42
At 31 December 2010	4	39	43

The parent company had no assets held under finance leases in 2011 or in 2010.

29. INVESTMENTS

	2011 £000	2010 £000
INVESTMENT IN SUBSIDIARIES AT COST		
At 1 January	25,810	29,923
Additions during the year	—	4
2010 adjustments to prior year acquisition of subsidiaries	—	(50)
Group transfers	(1,585)	(4,067)
AT 31 DECEMBER	24,225	25,810

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

Of the investment value shown above £114,000 (2010 - £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. The group transfer in 2010 represents the transfer of the investment in Allpoint Packaging Limited to Macfarlane Group UK Limited.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

30. DEBTORS

	2011 £000	2010 £000
DUE WITHIN ONE YEAR		
Amounts owed by subsidiaries	5,500	5,000
Other receivables	669	459
Prepayments and accrued income	434	397
Deferred tax asset (see below)	527	100
	<u>7,130</u>	<u>5,956</u>

DEFERRED TAX ASSET

Corporation tax losses		
At 1 January	100	-
Credited through profit and loss account	427	100
AT 31 DECEMBER	<u>527</u>	<u>100</u>

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

DUE AFTER MORE THAN ONE YEAR

Amounts owed by subsidiaries	<u>15,511</u>	<u>15,883</u>
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31. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £000	2010 £000
Bank overdrafts	8,987	7,726
Trade creditors	365	316
Amounts owed to group companies	600	633
Other taxation and social security	32	32
Accruals and deferred income	324	719
	<u>10,308</u>	<u>9,426</u>

All bank overdrafts are unsecured and are repayable on demand. The Company had no bank loans in either 2011 or 2010.

The Company and certain subsidiaries have given inter-company guarantees to secure their respective overdrafts. The overall credit lines for these borrowing facilities total £11,500,000 (2010 - £12,000,000) and are in place for the period to 28 February 2013.

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

	2011 £000	2010 £000
Amounts owed to group companies	<u>280</u>	<u>2,199</u>

33. SHARE CAPITAL

	NUMBER OF 25P SHARES	2011 £000	2010 £000
Authorised	200,000,000	50,000	50,000
Alotted, issued and fully paid:			
At 1 January and 31 December	<u>115,019,000</u>	<u>28,755</u>	<u>28,755</u>

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 2010	(943)	2,810	1,867
Disposal of own shares	88	(52)	36
Profit for the year	-	446	446
Dividends paid (see note 7)	-	(1,700)	(1,700)
Post tax actuarial gain in pension scheme taken direct to reserves	-	1,044	1,044
Credit for share-based payments (see note 37)	-	26	26
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 31 DECEMBER 2011	(810)	2,077	1,267

At 31 December 2011, the Company's Employee Share Ownership Trust ("ESOT") held 1,436,372 (2010 - 1,516,372) ordinary shares in Macfarlane Group PLC with a market value of £269,000 (2010 - £462,000) 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 (2010 - 155,000) ordinary shares, previously held as own shares to Macfarlane Group PLC Pension & Life Assurance Scheme (1974). Details of the shares held by the pension scheme are shown in note 38.

35. OPERATING PROFIT

OPERATING PROFIT FOR THE PARENT COMPANY HAS BEEN ARRIVED AT AFTER CHARGING:

	2011 £000	2010 £000
Auditors' remuneration	17	17
Audit services	35	35
Non-audit services	982	1,004
Staff costs		

STAFF COSTS

THE AVERAGE MONTHLY NUMBER OF EMPLOYEES WAS:

	2011 NO.	2010 NO.
Administration	11	11

THE COSTS INCURRED IN RESPECT OF THESE EMPLOYEES WERE:

	2011 £000	2010 £000
Wages and salaries	798	834
Social security costs	94	95
Other pension costs	90	75
	982	1,004

36. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2011 £000	2010 £000
Profit for the year	1,977	446
Dividends to equity holders in the year	(1,761)	(1,700)
Post tax actuarial (loss)/gain in pension scheme taken direct to equity	(697)	1,044
Transfer of own shares to pension scheme	21	36
Credit for share-based payments (see note 37)	8	26
MOVEMENTS IN SHAREHOLDERS' FUNDS IN THE YEAR	(452)	(148)
Opening shareholders' funds	30,474	30,622
CLOSING SHAREHOLDERS' FUNDS	30,022	30,474

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

37. SHARE-BASED PAYMENTS

Equity-settled share option plans

Share option plans of the ultimate parent company, Macfarlane Group PLC ("the Group") 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. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore options are forfeited if the employee leaves the Group before the options vest. The fair value at 31 December 2011 was £112,000 (2010 - £112,000).

A summary of the movements on share options during the year is as follows:

	NUMBER OF SHARES 2011	NUMBER OF SHARES 2010
Outstanding at 1 January	975,930	1,355,251
Lapsed during the year	(172,558)	(379,321)

OUTSTANDING AT 31 DECEMBER

803,372 975,930

EXERCISABLE AT 31 DECEMBER

631,372 631,372

Options outstanding as follows:

Grant date	EXERCISE PRICE	NUMBER OF SHARES 2011	NUMBER OF SHARES 2010
15 March 2001	68.5p	–	172,558
5 April 2002	88.0p	172,000	172,000
16 April 2003	28.5p	80,000	80,000
29 October 2004	26.0p	551,372	551,372
		803,372	975,930

EQUITY-SETTLED SHARE OPTION PLANS

Inputs to the binomial model giving rise to a charge are as follows:

	2011	2010
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 30p (2010 - 30p).

Equity-settled long-term incentive plans

The Company provides long-term incentive plans which provide for a base level share price for Total Shareholder Return ("TSR"), which approximates to the average quoted market price of the Group shares on the date of award. The vesting period is generally three years. If the incentive plans remain unexercised after a period of ten years from the date of award, then they expire. Furthermore, incentive plans are forfeited if the employee leaves the Group before they vest. The fair value at 31 December 2011 was £108,000 (2010 - £108,000).

The movements on the Macfarlane Group Long Term Incentive Plan are as follows:

	NUMBER OF SHARES 2011	NUMBER OF SHARES 2010
Outstanding at 1 January	1,027,940	1,829,476
Lapsed during the year	(1,027,940)	(801,536)

OUTSTANDING AT 31 DECEMBER

– 1,027,940

EXERCISABLE AT 31 DECEMBER

– –

No long-term incentive plan awards were made in either 2010 or 2011 and all awards have now lapsed.

The Company recognised a charge of £8,000 (2010 - £26,000) relating to equity-settled share-based payment transactions and long-term incentive plans. The accumulated fair value at 31 December 2011 of share-based payment awards and long-term incentive plan awards was £342,000 (2010 - £334,000).

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. The most recent triennial valuation at 1 May 2011 is still in progress. 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.

Following the 2008 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 minimum employer contribution to the pension scheme in 2012, including these additional deficit payments, is £2.2 million.

The employer contribution rate is now 11.3% of pensionable salary, and the employee contribution rate is 7% of pensionable salary from 1 July 2009 following actuarial advice.

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 and a curtailment gain of £0.2 million was recorded in 2010 as a result of this change.

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 of £1.2 million.

Balance sheet disclosures

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

The scheme's liabilities at 31 December 2011 were calculated on the following bases as required under FRS17:

Assumptions	2011	2010	2009
Discount rate	4.80%	5.50%	5.75%
Rate of increase in salaries	0.00%	0.00%	3.50%
Rate of increase in pensions in payment	3% or 5% for fixed increases or 2.90% for LPI.	3% or 5% for fixed increases or 2.72% for LPI.	3% or 5% for fixed increases or 3.36% for LPI.
	2.10% post 5 April 2006	2.02% post 5 April 2006	2.26% post 5 April 2006
Inflation assumption	3.00%	3.50%	3.50%
Life expectancy beyond normal retirement age of 65			
Male	22.3	21.5	21.3
Female	24.6	24.0	24.0

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

38. PENSIONS (CONTINUED)

Balance sheet disclosures

ASSET CLASS	FAIR VALUE 2011 £000	LONG-TERM EXPECTED RATE OF RETURN	FAIR VALUE 2010 £000	LONG-TERM EXPECTED RATE OF RETURN	FAIR VALUE 2009 £000	LONG-TERM EXPECTED RATE OF RETURN
Equities	5,241	7.50%	12,950	7.75%	10,599	7.75%
Bonds	8,940	3.70%	8,983	4.90%	7,854	5.15%
Multi-asset diversified funds	5,004	7.50%	—	—	—	—
Other (cash)	71	1.00%	136	1.00%	13	5.15%
Fair value of assets	19,256		22,069		18,466	
Present value of scheme liabilities	(27,654)		(29,731)		(27,726)	
DEFICIT IN THE SCHEME	(8,398)		(7,662)		(9,260)	
Related deferred tax asset	2,100		2,069		2,593	
NET PENSION SCHEME LIABILITY	(6,298)		(5,593)		(6,667)	

The investment in equities of £5,241,000 (2010 - £12,950,000) includes a holding of 1,145,918 ordinary shares in Macfarlane Group PLC (2010 - 1,065,918) held at a value of £215,000 (2010 - £320,000).

RELATED DEFERRED TAX ASSET

	2011 £000	2010 £000	2009 £000
At 1 January	2,069	2,593	2,266
Credit/(charge) to reserves	28	(11)	273
Credit/(charge) to profit and loss account	3	(513)	54
AT 31 DECEMBER	2,100	2,069	2,593

ANALYSIS OF AMOUNTS (CHARGED)/CREDITED TO OPERATING PROFIT

	2011 £000	2010 £000
Normal service cost	(11)	(8)
Settlement gains	—	11
Curtailment gain	—	196
AMOUNTS (CHARGED)/CREDITED TO OPERATING PROFIT	(11)	199

ANALYSIS OF AMOUNTS CHARGED TO NET FINANCE COSTS

	2011 £000	2010 £000
Expected return on pension scheme assets	1,208	1,313
Interest cost of pension scheme liabilities	(1,345)	(1,671)
NET FINANCE COSTS	(137)	(358)

ANALYSIS OF THE ACTUARIAL (LOSS)/GAIN INCLUDED IN THE STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2011 £000	2010 £000
Actual return less expected return on scheme assets	(2,930)	3,519
Changes in assumptions underlying present value of scheme liabilities	2,205	(1,962)
ACTUARIAL (LOSS)/GAIN	(725)	1,557

MOVEMENT IN SCHEME DEFICIT IN THE YEAR

	2011 £000	2010 £000
At 1 January	(7,662)	(9,260)
Current service (cost)/credit	(11)	199
Contributions	137	200
Net finance cost	(137)	(358)
Actuarial (loss)/gain in the year	(725)	1,557
AT 31 DECEMBER	(8,398)	(7,662)

38. PENSIONS (CONTINUED)

MOVEMENT IN THE FAIR VALUE OF SCHEME ASSETS

	2011 £000	2010 £000
At 1 January	22,069	18,466
Expected return on scheme assets	1,208	1,313
Actual return less expected return on scheme assets	(2,930)	3,519
Contributions from sponsoring companies	137	200
Contribution from scheme members	6	11
Benefits paid	(1,234)	(1,440)
AT 31 DECEMBER	19,256	22,069

MOVEMENT IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

	2011 £000	2010 £000
At 1 January	(29,731)	(27,726)
Current service (cost)/credit	(11)	199
Interest cost	(1,345)	(1,671)
Contribution from scheme members	(6)	(11)
Actuarial gain/(loss)	2,205	(1,962)
Benefits paid	1,234	1,440
AT 31 DECEMBER	(27,654)	(29,731)

The cumulative actuarial gains on the pension scheme applied against reserves since the transition to FRS 17 on 1 January 2004 is £2,380,000 (2010 - £3,105,000).

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Present value of defined benefit obligations	(27,654)	(29,731)	(27,726)	(24,732)	(34,846)
Fair value of scheme assets	19,256	22,069	18,466	16,640	26,459
DEFICIT IN THE SCHEME	(8,398)	(7,662)	(9,260)	(8,092)	(8,387)
RETURN ON ASSETS	(1,722)	4,832	3,197	(8,746)	1,981
Percentage of scheme assets	(8.9%)	21.9%	17.3%	(52.6%)	7.5%
EXPERIENCE ADJUSTMENT ON SCHEME ASSETS	(2,930)	3,519	2,140	(10,170)	308
Percentage of scheme assets	(15.2%)	15.9%	11.6%	(61.1%)	1.2%
EXPERIENCE GAINS AND LOSSES ON SCHEME LIABILITIES	2,205	(1,962)	(3,114)	10,575	421
Percentage of the present value of the scheme's liabilities	8.0%	(6.6%)	(11.2%)	42.8%	1.2%

Defined contribution schemes

The Company also participated in a defined contribution scheme, the Macfarlane Group Personal Pension Scheme. Contributions to the schemes for the year were £79,000 (2010 - £78,000).

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		
ALLPOINT PACKAGING LIMITED	Supply and distribution of all forms of packaging materials and equipment.	England
Hayes Tel: 020 8813 5322		
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
Dublin Tel: 00 353 1832 0220		
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		

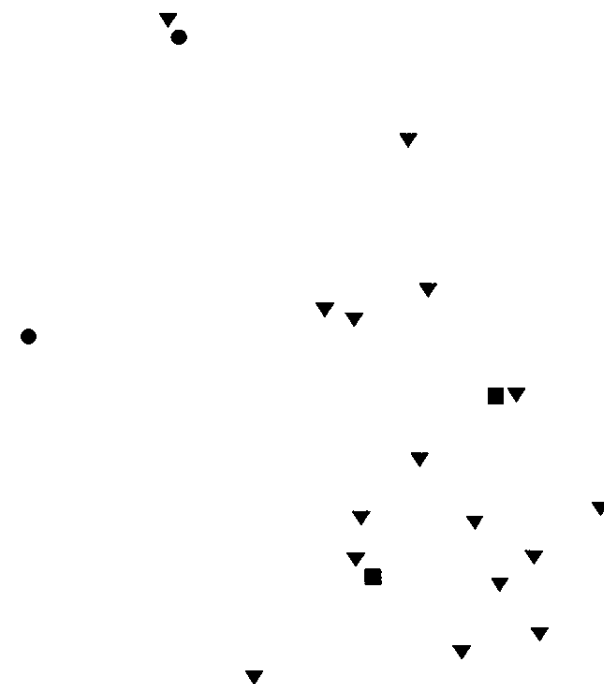
All the above subsidiaries are wholly owned either by Macfarlane Group PLC or one of its subsidiary companies and operate within their country of registration. A full list of trading and non-trading subsidiaries is available from the registered office, 21 Newton Place, Glasgow G3 7PY.

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

Our new 2012 Product Catalogue
is now available.

MACFARLANE GROUP PLC

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- PACKAGING MANUFACTURING
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LOCAL DIRECTORY

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