

**MACFARLANE GROUP ANNOUNCES RESULTS FOR THE YEAR TO 31 DECEMBER 2006**

Profit for the year, after tax and gains on discontinued operations, totals £2.05m

Net bank borrowings reduced to £5.55m

Dividend intentions for 2007 reconfirmed

Profit before tax from continuing operations of £1.52m

Sales growth and margin recovery continues to date in 2007

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Archie Hunter, Chairman of Macfarlane Group PLC today said:-

“I have to report to shareholders that the Group has produced profit before tax from continuing operations for 2006 of £1.52m, that dividend payment intentions for 2007 are as previously expressed and that our key businesses continue to strengthen.

**Trading**

Profit for the year, after tax and including gains from discontinued operations, was £2.1 million compared with £3.4 million for 2005. Earnings per share were 1.82p in 2006 compared to 3.01p in 2005. The 2006 result was achieved despite trading disappointments in the middle of 2006.

Having returned to profit in 2005, the priority for the Group in 2006 was sales growth. This has been achieved with increases in turnover in Distribution of 8% and UK Packaging Manufacture of 12%, offsetting reductions of 12% in both the Labels and US/Mexico Packaging businesses so that overall sales increased by 2% to £130.1 million.

During 2006 there were significant industry-wide supplier-driven cost increases. It proved difficult to pass these on to our customers in a timely fashion and the impact was a reduction in our gross margin from 33.1% to 32.0% in the year. Actions were taken immediately in the second half of the year to tighten margin controls and these actions have seen a recovery in margins in the final quarter of the year.

Despite these margin pressures, we continued our programme of investment in the second half of the year with a number of revenue investments in Distribution’s e-commerce capability, new business development and strengthening of the management team. The costs of these actions were more than covered by planned asset disposal gains and non-recurring credits as set out in the operating review of our manufacturing operations. We also commenced our acquisition programme in Distribution with the purchase of Bloomfield Supplies Limited, which generated a contribution of £0.1m in the final quarter.

We have maintained our market leading position in Distribution, being three times larger than our nearest competitor, and our market share of just over 10% demonstrates the potential for further growth.

More detailed comments on trading are set out in the operating review, following my statement.

## Cash and Dividends

Bank borrowings net of cash balances reduced to £5.6 million at 31 December 2006 and further improvements are expected in 2007. On top of this stock market and assumed bond yield movements together with increased payments made during 2006 have seen a reduction in our recorded pension deficit, net of deferred taxation, from £16.1 million to £11.1 million.

The Board recognises the importance which shareholders attach to the dividend stream. A year ago I said that, subject to continued satisfactory trading, the intention of the board was to establish in each year, the payment of an interim dividend in October and a final dividend in June, following the Annual General Meeting. Having already paid an interim dividend for 2006 of 1p per share it is the intention of the Board to declare a final dividend for 2006 of 1p payable in June 2007, subject to shareholder approval at the AGM in May this year. The Board expects to pay a dividend of 2p per share for 2007 of which 1p will be paid as an interim dividend in 2007.

## Future Prospects

The Board believes that that the Group has gained from the experiences of 2006 and its response to them. It is confident that the key businesses on which we will concentrate in 2007 have been strengthened. Further acquisitions will be pursued.

A major element of the investment programme undertaken in 2006 related to building the management team in terms of both numbers and competency. The objective is to ensure that we have the necessary management strength to take advantage of the business opportunities which we have identified. On behalf of the Board I wish them every success.

We have recorded continued growth in sales and recovery in margins in 2007 to date with a resultant increase in profitability compared to 2006.

We plan further profitable growth in 2007 and beyond.”

<b>Further information:</b>	<b>Archie S. Hunter</b>	<b>Chairman</b>	<b>0141 333 9666</b>
	<b>Peter D. Atkinson</b>	<b>Chief Executive</b>	<b>0141 333 9666</b>
	<b>John Love</b>	<b>Finance Director</b>	<b>0141 333 9666</b>

## Operating review

	<b>Revenue</b>	Revenue	<b>Result</b>	Result
	<b>2006</b>	2005	<b>2006</b>	2005
<b>Group Segment</b>	<b>£000</b>	£000	<b>£000</b>	£000
Packaging Distribution	<b>80,853</b>	73,915	<b>590</b>	409
Manufacturing Operations	<b>49,214</b>	53,332	<b>1,656</b>	2,267
Continuing activities	<b>130,067</b>	127,247	<b>2,246</b>	2,676
<b>Net finance costs</b>			<b>(731)</b>	(1,086)
<b>Profit from continuing trading operations</b>			<b>1,515</b>	1,590
Gain on disposal of properties			-	1,300
Discontinued activities (Manufacturing Operations)			<b>849</b>	782
<b>Profit before taxation</b>			<b>2,364</b>	3,672
Tax			<b>(313)</b>	(161)
Continuing activities				
Discontinued activities			-	(126)
<b>Profit for the year</b>			<b>2,051</b>	3,385

The results for 2006 show the Group recording profits from continuing trading operations of £1.5 million, a performance broadly in line with 2005.

All businesses within the Group, with the exception of our business in US/Mexico, were profitable in 2006. Profitability was achieved despite unfavourable market conditions during 2006 in the majority of the markets in which we operate due to consistent and considerable cost pressures on raw materials, fuel and energy.

Group debt continued to reduce during 2006.

We have demonstrated in 2006 an ability to sustain profitability and create a solid foundation. The focus of our plans for 2007 and beyond is to build on this base and grow the business both organically and through acquisition.

### Packaging Distribution

Macfarlane's Packaging Distribution business 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 10% market share. The business operates through 16 Regional Distribution Centres (RDCs) supplying customers on a local, regional and national basis. The business enables customers to package their products cost effectively by providing them with a comprehensive product range, single source supply, just in time delivery and tailored stock management programmes.

In 2006 Packaging Distribution recorded a profit of £0.6m, compared to £0.4m the previous year. There were a number of factors that contributed to these results:

- Sales revenue increased by 7% on an organic basis, partly driven by price increases and partly through volume growth.
- The first half of 2006 was a significant period for supplier price increases due to inflation in raw materials, energy and oil related costs. This difficult pricing environment caused delays in passing through fully supplier increases to customers, resulting in the gross margin being 1% lower than for the same period in 2005;
- In 2006 our On-Time-In-Full ("OTIF") deliveries averaged 92% compared with 91% in 2005 and 85% in 2004;
- In 2006 we increased product range penetration in our existing customer base to an average 8.6 lines per customer compared with 8.2 in 2005 and 8.0 in 2004;
- During 2006 we opened 2,505 new customer accounts;

## Operating review

### Packaging Distribution

- We commenced in 2006 a programme to rationalise our supplier base to source products more cost-effectively. Our current supplier base consists of 646 companies, a reduction of 46 vs. 2005;
- Our headcount in 2006 stabilised at just over 400 and our overhead to sales ratio reduced by 1.2% from 2005, although overheads increased by £1.1 million partly due to investments in e-commerce capability, new business development and strengthening of management;
- In 2006, 80 major customers commenced trading with us electronically using our new Customer Connect service;
- Our 2006 customer satisfaction survey showed 86% of customers rating our service above average (2005 – 79%) and of these, 33% rated our service as excellent (2005– 27%);
- Packaging2U our new web based packaging service had a successful start up year and has enabled us to access a number of market segments where traditionally Macfarlane has not had a presence. We expect Packaging2U to become profitable in 2007;
- During 2006 we invested in a dedicated new business team to accelerate sales growth and we will see the benefits from this investment in 2007; and
- In the final quarter of 2006, we made the first acquisition in the distribution business for five years. Bloomfield Supplies Limited (“Bloomfield”) has performed well since acquisition, contributing £0.1m in the final quarter of the year and this gives us encouragement to pursue further similar acquisitions in 2007.

Within our current network of 16 RDCs, based on our 2006 results we had 6 RDCs performing at acceptable levels, 7 RDCs demonstrating improvements that indicate their ability to achieve acceptable performance levels and 3 RDCs where performance is not at the acceptable level. During the final quarter of 2006 we have made investments to strengthen our RDC management team and this should help drive significant performance benefits in 2007.

The plan for 2007 is to focus our management actions in the following areas:

- Recover the gross margin erosion experienced in 2006 through more effective management and recovery of supplier price changes;
- Accelerate sales growth through effective deployment of the new business development team;
- Improve the returns from the 3 underperforming RDCs;
- Ensure the Packaging2U business builds on a successful start up year and contributes positively to 2007 profitability;
- Deliver the benefits from the full year contribution of the Bloomfield acquisition; and
- Following the successful acquisition of Bloomfield in 2006 we will look to accelerate market penetration through additional acquisitions in 2007.

### Manufacturing Operations

Macfarlane operates a range of manufacturing businesses, producing self adhesive and re-sealable labels, plastic injection moulded closures and dispensers, bespoke composite transit packaging and foam based packaging and protective components.

In 2006 Macfarlane Group’s Manufacturing Operations recorded a profit of £1.7 million, a reduction of £0.6 million on the previous year.

The key features of the Manufacturing Operations performance in 2006 were:

- Sales were 4% down versus 2005 primarily due to sales reductions at Labels as we transitioned away from low margin own brand food business and weaker trading conditions in the US;
- Gross margin was 0.7% down versus 2005 with the major reductions at Labels due to customer price pressure and Plastics where raw material price increases could not be fully passed onto customers; and
- The overhead to sales ratio was 0.4% ahead of last year reflecting the nature of the fixed cost base of the manufacturing businesses. However total overheads reduced by over £1.0 million benefiting from reduced depreciation in Labels of £0.2 million following changes in estimates of residual values of machinery and gains on disposal of machinery of £0.2 million primarily in the Labels business.

## **Operating review**

### **Manufacturing Operations**

#### Labels

The principal activity of the Labels business is the production of self-adhesive and re-sealable labels for major FMCG customers primarily in European markets. The business operates 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 re-sealable labels business - Reseal-it™.

During 2006 the Macfarlane Labels business continued to experience the price and margin pressure that has been a consistent feature over recent years. In response the business has been transitioning itself away from the volatile lower margin own brand food related business to more secure margin high-quality branded products. This led to a 13% reduction in sales of which 10% was a reduction in volume from 2005 and a consequential reduction in profit. This transition programme will continue during the first half of 2007 and it is expected that volumes will begin to recover in the second half of 2007.

In response to the market place pressures further production efficiencies have been sought to mitigate the impact of margin reduction. Production capacity has been reduced with three low efficiency machines being sold and a number of redundancies made in both the Dublin and Kilmarnock plants.

Reseal-it™ continues to progress well. The first machine sale in North America is expected in the first half of 2007 and other applications for the Reseal-it™ technology are being explored.

The priorities in 2007 are to:-

- Accelerate organic growth plans particularly in the branded products sector;
- Improve operational efficiencies to counterbalance retail price pressure;
- Introduce Reseal-it™ to the US market; and
- Broaden the re-sealable label product range.

#### Plastics

The principal activity of the company is the manufacture of injection moulded plastic packaging and dispensing components particularly lids and scoops for the baby food market.

Business performance improved in 2006 compared to 2005 with a small increase in volume leading to sales growth of over 4%. This was achieved in difficult market conditions with raw material prices increasing by over 20% during the course of the year. Relationships with key customers in Europe and Asia continue to be strong.

The overall result was a move from an operating loss in 2005 to a profit in 2006, with the business continuing to be highly cash generative. Further improvements in infrastructure and hygiene procedures are planned for 2007 with the objective of securing ISO22000 accreditation.

During 2007 the management team will focus on:-

- Building on the operational improvements achieved in 2006 in order to maintain profitability;
- Upgrading the manufacturing facility in response to customer expectations; and
- Establishing new lower cost raw material sources.

#### Packaging Manufacture

The principal activity of the business is the design and manufacture/assembly of bespoke composite packaging for use in protecting goods in transit. The primary components are corrugate, timber and foam. The business operates from two manufacturing sites in Grantham and Westbury. The business supplies goods directly to customers and via the Group's Distribution business focusing on such sectors as aerospace, medical equipment, electronics and automotive.

## **Operating review**

### **Manufacturing Operations**

#### Packaging Manufacture

The business had a very successful year in 2006 building on the operational improvements achieved during the last two years. Strong sales momentum was achieved with one significant customer win and good growth via the Macfarlane Distribution channel. The sales momentum achieved in 2006 was effectively translated into good year on year profit growth. Total sales grew by 12% with above average growth in sales through the distribution channel. This channel now comprises approximately 25% of total sales and this is expected to grow still further in future years. Margins were broadly flat despite volatility in raw material prices.

The Group currently believes the retention of an in-house manufacturing capability allows it to differentiate its offering from other distributors and to be able to offer comprehensive design and manufacturing services for bespoke packaging solutions. During 2006 we strengthened the management in the business and this strengthening will continue in 2007.

The priorities for 2007 are to:

- Improve the overall returns from the business;
- At Grantham the focus will be on growing sales partly through the Distribution network;
- Our Westbury location is focused on maintaining sales momentum while at the same time introducing productivity improvement initiatives that were effective at Grantham in 2006; and
- We will continue to strengthen the management team.

#### US/Mexico

Macfarlane has packaging manufacturing and assembly operations in California and Mexico. There are two plants in Mexico and two in California. The business is focussed on foam based packaging components supplying the electronics, healthcare and food and drink sectors of the market.

Following the return of the business to profitability in 2005, the performance in 2006 was disappointing:-

- Sales in 2006 were below 2005 partly due to slower demand and there was some sales impact from west-coast based customers re-locating their manufacturing facilities to the east coast; and
- Margin erosion was experienced as there were difficulties in fully recovering supplier price increases, resulting in a small loss for the year.

The new operation in Tijuana was successfully established and returned a profit in the year as customers in Southern California were supplied from this new lower cost facility and new customers were gained in Northern Mexico.

Our priorities in 2007 are to:

- Fully utilise the lower cost benefits of the new manufacturing facility in Tijuana;
- Strengthen our relationships with the key US brokers/distributors;
- Create more direct customer relationships particularly in the medical and food and drink segments;
- Work more effectively with our supplier base to control and manage changes to raw material pricing; and
- Develop added value foam applications where there is less vulnerability to competitive pricing.

#### **Future Outlook**

Following the return to profitability of the Macfarlane Group in 2005, 2006 was a difficult year particularly due to the pressure on raw material prices. It is pleasing therefore that we have demonstrated our ability to maintain Group profitable trading in these testing market conditions.

In human resource terms the Group is now stronger. All of the businesses are demonstrating improving levels of customer service and beginning to demonstrate the ability to grow market share organically and through targeted acquisition.

Over the coming years we will build on the strong foundation that has been created. Our priority is to continue the process of giving greater focus to the Group's activities. This will enable us to concentrate management resources on accelerating growth and financial returns from the key businesses.

**Macfarlane Group PLC**  
**Consolidated income statement**  
**For the year ended 31 December 2006**

	Note	2006 £000	2005 £000
<b>Continuing operations</b>			
Revenue	2	<b>130,067</b>	127,247
Cost of sales		<b>(88,500)</b>	(85,122)
		<hr/>	<hr/>
<b>Gross profit</b>		<b>41,567</b>	42,125
Distribution costs		<b>(6,519)</b>	(6,521)
Administrative expenses		<b>(32,802)</b>	(32,928)
		<hr/>	<hr/>
Operating profit before property transactions	3	<b>2,246</b>	2,676
Gain on disposal of properties	4	-	1,300
		<hr/>	<hr/>
<b>Operating profit</b>		<b>2,246</b>	3,976
Finance income	5	<b>2,762</b>	2,383
Finance expense	5	<b>(3,493)</b>	(3,469)
		<hr/>	<hr/>
<b>Profit before tax</b>		<b>1,515</b>	2,890
Tax	6	<b>(313)</b>	(161)
		<hr/>	<hr/>
<b>Profit for the year from continuing operations</b>		<b>1,202</b>	2,729
<b>Discontinued operations</b>			
Profit for the year from discontinued operations		<b>849</b>	656
		<hr/>	<hr/>
<b>Profit for the year</b>		<b>2,051</b>	3,385
		<hr/> <hr/>	<hr/> <hr/>
<b>Earnings per share</b>	8		
<b>From continuing operations</b>			
Basic		<b>1.07p</b>	2.43p
		<hr/>	<hr/>
Diluted		<b>1.06p</b>	2.41p
		<hr/>	<hr/>
<b>From continuing and discontinued operations</b>			
Basic		<b>1.82p</b>	3.01p
		<hr/>	<hr/>
Diluted		<b>1.81p</b>	2.99p
		<hr/> <hr/>	<hr/> <hr/>

**Macfarlane Group PLC**  
**Consolidated statement of recognised income and expense**  
**For the year ended 31 December 2006**

	<b>2006</b>	2005
	<b>£000</b>	£000
Exchange difference on translation of foreign operations	<b>(764)</b>	144
Actuarial gains/(losses) on defined benefit pension schemes	<b>5,835</b>	(5,553)
Tax on items taken directly to equity	<b>(1,751)</b>	1,666
	<hr/>	<hr/>
<b>Net income/(expense) recognised directly in equity</b>	<b>3,320</b>	(3,743)
Profit for the year	<b>2,051</b>	3,385
	<hr/>	<hr/>
<b>Total recognised income and expense for the year</b>	<b>5,371</b>	(358)
	<hr/> <hr/>	<hr/> <hr/>

**Macfarlane Group PLC**  
**Consolidated reconciliation of movements in shareholders' equity**  
**For the year ended 31 December 2006**

	<b>Note</b>	<b>2006</b>	2005
		<b>£000</b>	£000
Profit for the year		<b>2,051</b>	3,385
Dividends to equity holders in the year	7	<b>(1,125)</b>	(844)
Net income/(expense) recognised directly in equity		<b>3,320</b>	(3,743)
Credit in respect of share based payments		<b>140</b>	-
		<hr/>	<hr/>
<b>Movements in equity in the year</b>		<b>4,386</b>	(1,202)
Opening equity		<b>25,439</b>	26,641
		<hr/>	<hr/>
<b>Closing equity</b>		<b>29,825</b>	25,439
		<hr/> <hr/>	<hr/> <hr/>

**Macfarlane Group PLC**  
**Consolidated balance sheet at 31 December 2006**

	Note	2006 £000	2005 £000
<b>Non-current assets</b>			
Goodwill		18,973	17,182
Property, plant and equipment		13,112	14,608
Investment property		1,701	1,701
Other receivables		1,057	863
Deferred tax asset		4,560	6,651
<b>Total non-current assets</b>		<b>39,403</b>	41,005
<b>Current assets</b>			
Inventories		9,811	8,803
Trade and other receivables		29,508	29,639
Cash and cash equivalents		2,195	1,203
<b>Total current assets</b>		<b>41,514</b>	39,645
Non-current assets classified as held for sale	9	-	1,925
		<b>41,514</b>	41,570
<b>Total assets</b>		<b>80,917</b>	82,575
<b>Current liabilities</b>			
Trade and other payables		26,710	24,681
Current tax liabilities		663	796
Obligations under finance leases		44	272
Bank overdrafts and loans		7,747	7,830
Liabilities directly associated with assets classified as held for sale	9	-	485
<b>Total current liabilities</b>		<b>35,164</b>	34,064
<b>Net current assets</b>		<b>6,350</b>	5,581
<b>Non-current liabilities</b>			
Retirement benefit obligations	11	15,873	22,977
Obligations under finance leases		55	95
<b>Total non-current liabilities</b>		<b>15,928</b>	23,072
<b>Total liabilities</b>		<b>51,092</b>	57,136
<b>Net assets</b>		<b>29,825</b>	25,439
<b>Equity</b>			
Share capital		28,755	28,755
Revaluation reserves		167	167
Own shares		(1,406)	(1,406)
Translation reserves		(800)	(36)
Retained earnings		3,109	(2,041)
<b>Total equity</b>		<b>29,825</b>	25,439

**Macfarlane Group PLC**  
**Consolidated cash flow statement**  
**For the year ended 31 December 2006**

	Note	2006 £000	2005 £000
<b>Net cash from operating activities</b>	10	<b>160</b>	1,990
<b>Investing activities</b>			
Interest received		9	119
Disposal of subsidiary undertaking		2,102	-
Acquisition of subsidiary undertaking		(1,262)	
Proceeds on disposal of property, plant and equipment		1,472	6,255
Purchases of property, plant and equipment		(604)	(869)
<b>Net cash from investing activities</b>		<b>1,717</b>	5,505
<b>Financing activities</b>			
Dividends paid	7	(1,125)	(844)
Repayments of obligations under finance leases		(268)	(479)
Decrease in bank overdrafts		(83)	(6,396)
<b>Net cash used in financing activities</b>		<b>(1,476)</b>	(7,719)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>401</b>	(224)
<b>Cash and cash equivalents at beginning of year</b>		<b>1,794</b>	2,018
<b>Cash and cash equivalents at end of year</b>		<b>2,195</b>	1,794

# Macfarlane Group PLC

## Notes to the financial information

### For the year ended 31 December 2006

#### 1. General information

The financial information set out in this preliminary announcement does not constitute the Group's statutory financial statements as defined in Section 240 of the Companies Act 1985 and has been extracted from the full statutory accounts for the years ended 31 December 2006 and 31 December 2005 respectively. The information for the year ended 31 December 2005 does not constitute the Group's statutory financial statements as defined in Section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified pursuant to Section 235 of the Companies Act 1985 and did not contain a statement under sub-section 237 (2) or (3) of that Act.

The auditors' report on the statutory financial statements for the year ended 31 December 2006 was unqualified pursuant to Section 235 of the Companies Act 1985 and did not contain a statement under sub-section 237 (2) or (3) of that Act.

#### 2. Split between continuing and discontinued activities

	2006			2005		
	Continuing £000	Discontinued £000	Total £000	Continuing £000	Discontinued £000	Total £000
<b>Revenue</b>	<b>130,067</b>	-	<b>130,067</b>	127,247	3,618	130,865
Cost of sales	(88,500)	-	(88,500)	(85,122)	(2,082)	(87,204)
<b>Gross profit</b>	<b>41,567</b>	-	<b>41,567</b>	42,125	1,536	43,661
Distribution costs	(6,519)	-	(6,519)	(6,521)	(104)	(6,625)
Administration costs	(32,802)	-	(32,802)	(32,928)	(682)	(33,610)
<b>Operating profit before property transactions</b>	<b>2,246</b>	-	<b>2,246</b>	2,676	750	3,426
Gain on property disposals	-	-	-	1,300	-	1,300
<b>Operating profit</b>	<b>2,246</b>	-	<b>2,246</b>	3,976	750	4,726
Net finance costs	(731)	-	(731)	(1,086)	32	(1,054)
<b>Profit before tax</b>	<b>1,515</b>	-	<b>1,515</b>	2,890	782	3,672
Tax	(313)	-	(313)	(161)	(126)	(287)
<b>Profit after tax</b>	<b>1,202</b>	-	<b>1,202</b>	2,729	656	3,385
<b>Disposal of operations</b>	-	<b>849</b>	<b>849</b>	-	-	-
<b>Profit for the year</b>	<b>1,202</b>	<b>849</b>	<b>2,051</b>	2,729	656	3,385

# Macfarlane Group PLC

## Notes to the financial information

For the year ended 31 December 2006

### 3. Segmental information

The Group's activities are centred around two principal activities, with those manufacturing operations discontinued in the current and prior years disclosed separately.

(i) **Packaging Distribution**

The distribution of packaging materials from a network of 15 Regional Distribution Centres in the UK. The acquired activities of Bloomfield Packaging Supplies Limited in Gloucester.

(ii) **Manufacturing Operations**

The manufacture and supply of self-adhesive and re-sealable labels and plastic-injection moulded products to a variety of FMCG customers in the UK and Europe and the manufacture, assembly and supply of timber, corrugated and foam based packaging materials in the UK and US/Mexico.

(iii) **Discontinued Operations**

The operations in Hungary were sold at the start of 2006 and are classified as discontinued in the financial statements for 2005.

<b>Group Segment</b>	<b>2006 Revenue £000</b>	<b>2005 Revenue £000</b>	<b>2006 Result £000</b>	<b>2005 Result £000</b>
Packaging Distribution	<b>80,853</b>	73,915	<b>590</b>	409
Manufacturing Operations	<b>49,214</b>	53,332	<b>1,656</b>	2,267
Continuing activities	<b>130,067</b>	127,247	<b>2,246</b>	2,676
Discontinued operations	-	3,618	-	750
	<b>130,067</b>	130,865	<b>2,246</b>	3,426
Profit from discontinued operations			-	(750)
<b>Operating profit before property transactions</b>			<b>2,246</b>	2,676
Gain on disposal of properties			-	1,300
<b>Operating profit</b>			<b>2,246</b>	3,976
Net finance costs			(731)	(1,086)
<b>Profit before tax</b>			<b>1,515</b>	2,890
Tax			(313)	(161)
<b>Profit from continuing operations</b>			<b>1,202</b>	2,729
Profit from discontinued operations after tax			<b>849</b>	656
<b>Profit after tax and discontinued operations</b>			<b>2,051</b>	3,385

### 4. Gain on disposal of properties

Two properties were sold during 2005 for a combined consideration of £4,880,000 and a gain of £1,300,000.

# Macfarlane Group PLC

## Notes to the financial information

For the year ended 31 December 2006

<b>5. Net finance expense</b>	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Interest on bank loans and overdrafts	(489)	(698)
Interest on obligations under finance leases	(12)	(43)
Interest cost of pension scheme liabilities	(2,992)	(2,728)
<b>Total finance expense</b>	<b>(3,493)</b>	<b>(3,469)</b>
Expected return on pension scheme assets	2,631	2,280
Investment income	131	103
<b>Total finance income</b>	<b>2,762</b>	<b>2,383</b>
<b>Net finance expense</b>	<b>(731)</b>	<b>(1,086)</b>
<b>6. Tax</b>	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
<b>Current tax</b>		
United Kingdom corporation tax at 30% (2005: 30%)	(57)	(40)
Foreign tax	(97)	(121)
Adjustments in respect of prior periods	193	-
<b>Current tax charge/(credit)</b>	<b>39</b>	<b>(161)</b>
<b>Deferred taxation</b>	<b>(352)</b>	<b>-</b>
<b>Total</b>	<b>(313)</b>	<b>(161)</b>

The standard rate of tax for the year, based on the UK rate of corporation tax is 30% (2005 - 30%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The deferred tax charge of £352,000 includes a charge of £380,000 in relation to the reversal of the deferred tax asset on the pension deficit. This was a consequence of the payments made during 2006 to reduce the deficit.

The actual tax charge for the current and previous year is less than 30% of the results as set out in the income statement for the reasons set out in the following reconciliation:

	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
<b>Profit before taxation</b>	<b>1,515</b>	<b>2,890</b>
<b>Tax on profit at 30%</b>	<b>(455)</b>	<b>(867)</b>
Factors affecting tax charge for the year:-		
Depreciation in excess of capital allowances	(216)	107
Tax charge on contributions to defined benefit pension scheme	(380)	-
Non taxable gain	-	390
Other differences	(333)	(1,000)
Tax losses utilised	836	1,281
Difference on overseas tax rates	42	(72)
Adjustments in respect of prior periods	193	-
<b>Tax charge for the year</b>	<b>(313)</b>	<b>(161)</b>

# Macfarlane Group PLC

## Notes to the financial information

### For the year ended 31 December 2006

<b>7. Dividends</b>	<b>2006</b>	2005
	<b>£000</b>	£000
Amounts recognised as distributions to equity holders in the year:		
Interim dividend for the year ended 31 December 2006 of 1.00p per share (2005 – Special interim dividend of 0.75p per share)	<b>1,125</b>	844
	<u>          </u>	<u>          </u>
Dividends are not payable on own shares held in the employee share trust.		
The proposed final dividend of 1.00p per share is subject to approval by shareholders at the Annual General Meeting in 2007 and has not been included as a liability in these financial statements.		
<b>8. Earnings per share</b>		
<b>From continuing and discontinued operations</b>		
The calculation of the basic and diluted earnings per share is based on the following data:		
	<b>2006</b>	2005
	<b>£000</b>	£000
<b>Earnings from continuing and discontinued operations for the purposes of earnings per share being profit for the year</b>	<b>2,051</b>	3,385
Less Profit for the year from discontinued operations	<b>(849)</b>	(656)
	<u>          </u>	<u>          </u>
<b>Earnings from continuing operations for the purposes of earnings per share being profit for the year from continuing operations</b>	<b>1,202</b>	2,729
	<u>          </u>	<u>          </u>
<b>Number of shares in issue for the purposes of calculating basic and diluted earnings per share</b>	<b>2006</b>	2005
	<b>No. of</b>	No. of
	<b>shares</b>	shares
	<b>'000</b>	'000
Weighted average number of ordinary shares in issue	<b>115,019</b>	115,019
Own shares in Employee Share Ownership Trusts	<b>(2,491)</b>	(2,491)
	<u>          </u>	<u>          </u>
<b>Weighted average number of shares in issue for the purposes of basic earnings per share</b>	<b>112,528</b>	112,528
Effect of dilutive potential ordinary shares due to share options	<b>601</b>	602
	<u>          </u>	<u>          </u>
<b>Weighted average number of shares in issue for the purposes of diluted earnings per share</b>	<b>113,129</b>	113,130
	<u>          </u>	<u>          </u>

# Macfarlane Group PLC

## Notes to the financial information

### For the year ended 31 December 2006

#### 9. Non-current assets and current liabilities classified as held for sale

In January 2006, the Group's Hungarian subsidiary was sold. As the decision to sell the business was taken before 31 December 2005, consequently the results of the subsidiary for 2005 are classified as discontinued operations in the consolidated income statement. The component parts of the balance sheet sold in January 2006 are classified as non-current assets and current liabilities held for sale at 31 December 2005.

<b>10. Notes to the cash flow statement</b>		<b>2006</b>	2005
		<b>£000</b>	£000
Operating profit	Continuing operations	<b>2,246</b>	3,976
	Discontinued operations	-	750
<b>Operating profit</b>		<b>2,246</b>	4,726
Adjustments for:			
	Depreciation of property, plant and equipment	<b>2,136</b>	3,349
	Gain on disposal of property, plant and equipment	<b>(191)</b>	(1,075)
<b>Operating cash flows before movements in working capital</b>		<b>4,191</b>	7,000
	Increase in inventories	<b>(681)</b>	(379)
	Decrease/(increase) in receivables	<b>58</b>	(1,981)
	Decrease in payables	<b>(999)</b>	(1,233)
	Adjustment for pension scheme funding	<b>(1,630)</b>	(448)
<b>Cash generated by operations</b>		<b>939</b>	2,959
	Income taxes paid	<b>(195)</b>	(212)
	Interest paid	<b>(584)</b>	(757)
<b>Net cash from operating activities</b>		<b>160</b>	1,990
		<b>2006</b>	2005
		<b>£000</b>	£000
	Increase/(decrease) in cash and cash equivalents in the year	<b>401</b>	(224)
	Decrease in bank overdrafts	<b>83</b>	6,396
	Cash flows from debt and lease financing	<b>268</b>	479
<b>Movement in net debt in the year</b>		<b>752</b>	6,651
	Opening net debt	<b>(6,403)</b>	(13,054)
<b>Closing net debt</b>		<b>(5,651)</b>	(6,403)
<b>Net debt comprises:</b>			
	Cash and cash equivalents	<b>2,195</b>	1,203
	Cash and cash equivalents in business held for resale	-	591
	Bank overdrafts and loans	<b>(7,747)</b>	(7,830)
	Obligations under finance leases	<b>(99)</b>	(367)
<b>Closing net debt</b>		<b>(5,651)</b>	(6,403)

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with maturity of three months or less. Cash inflows in respect of the discontinued operations for operating activities amounted to £Nil for 2006, (2005 Inflow of £531,000) cash inflows in respect of investing activities totalled £2,102,000 (2005 - £32,000) and cash inflows (2005 – outflows) from financing activities amounted to £Nil (2005 £268,000).

# Macfarlane Group PLC

## Notes to the financial information

### For the year ended 31 December 2006

#### 11. Pension scheme

The Group operates a pension scheme based on final pensionable salary for its UK operations. 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 contributions are determined by the scheme's qualified actuary on the basis of triennial valuations using the projected unit method. The most recent triennial valuation was as at 1 May 2005. The principal assumptions adopted were that investment returns would average 7.75% per annum and that salary increases would average 3.5% per annum. The valuation showed that the market value of the relevant assets of the scheme was £35,259,000 and the actuarial value of these assets represented 76% of the value of benefits that had accrued to members.

#### Balance sheet disclosures

The figures below have been based on the triennial actuarial valuation as at 1 May 2005, updated to the current year-end. The assets in the scheme, the net liability position for the scheme at 31 December 2006 and the expected rates of return were:

<b>Asset class</b>	<b>Fair value 2006 £000</b>	Fair value 2005 £000	Fair value 2004 £000
Equities	<b>26,785</b>	24,077	19,911
Bonds	<b>16,661</b>	16,678	15,173
Other (cash)	<b>184</b>	21	37
Fair value of assets	<b>43,630</b>	40,776	35,121
Present value of scheme liabilities	<b>(59,503)</b>	(63,753)	(52,545)
Deficit in the scheme	<b>(15,873)</b>	(22,977)	(17,424)
Related deferred tax asset	<b>4,762</b>	6,893	5,227
Net pension liability	<b>(11,111)</b>	(16,084)	(12,197)

During 2006, the Group made additional payments of £1.3 million to commence a meaningful reduction in the pension scheme deficit. These payments, combined with an improvement in equity returns and an increase from 4.75% to 5.25% in the bond yields assumed in the valuation of the pension scheme liabilities had a very positive impact on the deficit recorded in our balance sheet.

#### 12. Posting to shareholders and Annual General Meeting

The Annual Report and Accounts will be sent to shareholders on Thursday 12 April 2007. The Annual General Meeting will take place at the Thistle Hotel, Cambridge Street Glasgow at 12 noon on Tuesday 15 May 2007. The Annual Report and Accounts will be available to members of the public at the Company's Registered Office, 21 Newton Place, Glasgow G3 7PY from 16 April 2007.