

MACFARLANE GROUP ANNUAL RESULTS FOR THE YEAR TO 31 DECEMBER 2008

Profit before tax from continuing operations up 50% to £3.7 million

Turnover from continuing operations up 10% to £131.4 million

Net operating margins in 2008 increase to 3.6% from 2.6% in 2007

Re-shaping the Group gives a sharper focus on core activities

Net debt of £7.2 million compared to £3.1 million in 2007

Further dividend of 1p per share confirmed, giving total of 2p

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

2008 was a year of further significant progress for Macfarlane Group as we continued to re-shape the business and sharpen our focus on core activities, substantially increasing profits from our continuing operations in the process.

The benefits of the strategy that we set out three years ago are evident now and we have shown that we can grow the business significantly, through both organic growth and the acquisitions of Online Packaging Limited (“Online”) in January 2008 and Allpoint Packaging Limited (“Allpoint”) in October 2008.

The shape and structure of Macfarlane Group is now established for the medium-term and, while the current economic climate is unwelcome, we have identified opportunities to continue to grow the business further in time and we see the potential for more progress.

Trading

Pre-tax profits from continuing operations increased to £3.7 million (2007: £2.5 million).

In our Packaging Distribution business, turnover increased by 12% from £92.7 million to £103.7 million with operating profits increasing from £1.3 million in 2007 to £2.9 million in 2008. The acquisitions of Online for £5.0 million in January 2008 and Allpoint for £4.3 million in October 2008, inclusive of deferred consideration, have demonstrated what targeted acquisitions can achieve and we are seeing increasing benefit from our growing scale and market presence

Our Manufacturing Operations’ turnover grew by 3%, with operating profits increasing from £1.7 million to £1.8 million. The link between our Packaging Distribution and Packaging Manufacturing businesses in the UK is becoming more important and valuable each year. We believe there is significant opportunity for these two businesses to work even more closely in the future. Our Labels business, benefiting from efficiency improvements and strong Euro-dominated sales had a better year in 2008, with turnover up 6%.

Our Plastics business, which is treated as discontinued, saw turnover increase to £7.1 million (2007: £6.2 million) aided by a strong Euro, with operating profits of £0.3 million (2007: £0.2 million).

The net loss on discontinued operations in 2008 amounted to £1.1m.

Group earnings per share from continuing operations were 2.56p per share (2007: 3.06p per share).

Cash and Dividends

During 2008 our borrowings increased due to our planned acquisition activity costing £7.9 million. Cash and debt control was effective however and at the year-end our net debt was £7.2 million. We received the proceeds from the disposal of our Plastics business realising £1.4 million, after attributable expenses, at the start of 2009.

The Board continues to recognise the importance to shareholders of a regular and reliable dividend stream. I am pleased to report that, in addition to the dividend of 1p per share paid in October, it is the intention of the Board to declare a further dividend of 1p per share, payable in June 2009.

Future Prospects

Trading in early 2009 is in line with our expectations and continues to display the benefits of the restructuring Macfarlane Group has undertaken over the last three years. Trading predictions in the current climate are very difficult but the Board expects that the broad range of industries we serve and our continued focus on improving operational performance will enable the business to withstand the difficult economic conditions. Indeed we believe that the Group's stability, reliability and strong market position will be viewed by our 20,000 customers as compelling strengths as they seek to ensure continuity of supply for their packaging and labelling needs, through this period of economic uncertainty.

A lot has been achieved in recent times but we are very conscious that there is more to be done as we continue to generate better returns principally through aligning our businesses with the developing needs of our customers. Recent acquisitions have increased our geographic spread and have added considerably to our customer offering and to our talent pool. Also, the disposal of our businesses outside the UK has freed up the time of senior executives to concentrate on internal efficiencies, business innovation and expansion.

The development of Macfarlane Group into an increasingly robust and progressive business has demanded substantial effort and considerable personal commitment from management and staff alike. The Board very much appreciates the energy and enthusiasm shown so clearly by our people and would like to take this opportunity to thank them all for their contribution to our progress.

Further enquiries:

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Notes to Editors:

Macfarlane Group PLC is a UK-based group of companies focused on packaging related activities. The Packaging Distribution business is the leading UK distributor of a comprehensive range of packaging consumable products. The Manufacturing Operations comprise two businesses, the manufacture of transit packaging and the manufacture of self-adhesive and re-sealable labels.

Headquartered in Glasgow, Scotland, Macfarlane Group employs 750 people at 22 sites, principally in the UK and Ireland, servicing 20,000+ customers, in a wide range of sectors including: consumer goods; logistics; electronics; food manufacturing and retailing; internet and home retailing.

Operations Review

Trading performance	Revenue	Revenue	Profit	Profit
	2008	2007	2008	2007
Group Segment	£000	£000	£000	£000
Packaging Distribution	103,655	92,654	2,902	1,338
Manufacturing Operations	27,755	27,083	1,806	1,727
Revenue from continuing operations	131,410	119,737		
Operating profit			4,708	3,065
Net finance costs			(1,006)	(598)
Profit before tax from continuing operations			3,702	2,467

2008 has been a year of major change for Macfarlane Group. Despite continuing cost pressures on raw materials, fuel, energy and a clear slowing down of demand due to the weakening of the UK economy, the businesses within Macfarlane Group have demonstrated good progress in 2008 in terms of the financial results, operational performance and strategic development.

The uncertainty in the UK economy will present many challenges in 2009 but as a more focused business we have greater capability to address the challenges and are also well positioned to benefit from the opportunities, which will arise.

Packaging Distribution

The Business

The Macfarlane Packaging Distribution business is the leading UK distributor of packaging consumable products. In a highly fragmented market, Macfarlane is the market leader with a market share in the UK in excess of 15%. The business operates through 18 Regional Distribution Centres (RDCs) supplying customers on a local, regional and national basis. The business enables customers to ensure their products are cost-effectively protected in transit and storage by providing them with a comprehensive product range, single source supply, just-in-time delivery and tailored stock management programmes.

2008 Performance

In 2008 Packaging Distribution recorded an operating profit of £2.9 million, more than double that achieved in 2007. There were a number of factors contributing to these results:

- Sales revenue increased by 12% through a mixture of both organic and acquisition driven growth;
- In 2008 both the dedicated new business and national accounts teams continued to demonstrate their potential with a series of major new customer wins;
- Visitors to Packaging2U our web-based packaging service increased by 25% in 2008 and revenue from this sales channel increased by 21% versus 2007;
- Our 2008 customer satisfaction survey showed 83% of customers rating our service above average (2007 – 81%) and of these, 33% rated our service as excellent. (2007 – 29%);
- In 2008 our On-Time-In-Full (“OTIF”) deliveries averaged 92%, above our benchmark of 90%, demonstrating the progress we are making in improving the service to customers;
- Supplier price increases remained a significant feature in 2008 due to inflation in raw materials, energy and oil-related costs. However we were successful in managing price increases with our customers and this allowed us to maintain gross margins at just over 30%;
- The acquisition of Online in January 2008 and Allpoint in October 2008, contributed positively both in financial and strategic terms with combined turnover of £9.7 million and profits of £0.4 million in 2008;
- During 2008 we installed vehicle loading and routing software at 15 RDC locations and this has enabled us to increase the sales delivered per litre of fuel used by 14%; and
- We have maintained a strong focus on cost control and sales per employee has increased by 4% as we improved productivity levels within the business.

Operations Review (continued)

Packaging Distribution

Performance Potential

Each of the sites within our current network of 18 RDCs is a profit centre and based on our 2008 results we had eight RDCs performing at levels comparable with the best industry standards. An additional eight RDCs are operating profitably and continuing to demonstrate improvements that indicate their ability to achieve best industry standard performance levels. There are currently two RDCs where performance is not at the acceptable level and appropriate actions are being implemented.

Acquisitions

A key component of our Packaging Distribution strategy is the acquisition of quality businesses in order to increase geographic penetration and to more effectively utilise our current RDC infrastructure. During 2008 we evaluated a number of acquisition opportunities and completed the acquisition of Online Packaging in January 2008 and Allpoint Packaging in October 2008.

Online Packaging is a well-established successful regional packaging distributor based in Gloucester with additional sites in Wakefield and Hinckley. Since the acquisition we have improved utilisation of our RDC network through the integration of Hinckley into Macfarlane's Coventry RDC and Wakefield has been re-located to the Macfarlane Wakefield site. The Online Gloucester RDC has improved our market presence in the West and Midlands. The business performance is in line with our plans.

Allpoint Packaging is also a well-established successful regional packaging distributor based in Hayes with an additional location in Basingstoke. The acquisition of Allpoint improves our market presence in West London and gives us new penetration into the M3/M4 corridor. In addition Allpoint has created a supplier network in the Far East, which offers the potential to bring additional benefits to the existing Macfarlane Group customer base. In the early months since acquisition the business has performed well.

Business Risks

The key risks associated with the Packaging Distribution business are detailed below:

As a distributor in a market where products are vulnerable to commodity-based raw material prices and manufacturer energy costs, profitability is sensitive to supplier price changes. Macfarlane 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 transferring supplier price changes to our customer base;

Competition in the distribution market is primarily from local companies with good local connections and capability. 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; and

Macfarlane Group's Packaging Distribution business is decentralised with a high dependency on effective local decision-making. In order to ensure management control of local decision-making, there is a comprehensive management information system with all key sales, margin and working capital measures monitored consistently and regularly.

Operations Review (continued)

Packaging Distribution

Future Plans

The weakness of the UK economy will undoubtedly continue to have an effect on slowing down demand levels in 2009. In this context, our plan for 2009 is to focus our management actions in the following areas:

- Enhance existing customer relationships to ensure we improve customer retention levels and increase product penetration;
- Increase new business activity to accelerate new business growth and win market share both through the RDC sales teams and the dedicated new business and national account sales teams;
- Maintain gross margin through effective management and recovery of likely further supplier price changes;
- Build our web-based presence to improve the online visibility and access to our products and services;
- Increase the efficiency of the logistics infrastructure by completing the rollout of fleet management software;
- Continue the implementation of our productivity improvement initiatives to ensure all RDCs are operating to their full profit potential;
- Deliver all planned benefits from the 2008 acquisitions of Online and Allpoint;
- Improve our ability to respond to the increasing demands from our customers regarding environmentally friendly packaging solutions; and
- Increase the focus on working capital management to reduce debt.

Manufacturing Operations

Macfarlane operates two manufacturing businesses; **Labels** producing self-adhesive and resealable labels, and **Packaging Manufacturing** producing bespoke composite transit packaging and protective components.

In 2008 Macfarlane Group's Manufacturing Operations recorded a profit of £1.8 million, slightly ahead of the performance achieved in 2007. Key features of the Manufacturing Operations performance in 2008 were:

- Sales increased by 3% versus 2007 driven by growth in the Labels business;
- Gross margin was maintained at 2007 levels despite upward pressure on raw material prices; and
- The overhead to sales ratio increased by 1.8% reflecting the nature of the fixed cost base of the manufacturing businesses, with total overheads increasing by £0.7 million reflecting investments in capacity and in management.

Operations Review (continued)

Manufacturing Operations

Labels

The principal activity of the Labels business is the production of self-adhesive and resealable labels for major fast moving consumer goods (“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 resealable labels business - Reseal-it™.

Business Performance

During 2008 the Macfarlane Labels business continued to experience the price and margin pressure that has been a consistent feature over recent years as the competition in the retail FMCG market intensifies. In response Macfarlane Labels has focused on improving productivity and working closely with its customer base to manage the impact of supplier-led price changes.

2008 sales at Labels showed a 6% increase versus 2007 partly driven through volume growth, partly through price and there was also a benefit from sales to Euro-denominated customers. The growth in revenues combined with productivity improvements enabled Labels to deliver an improved return on sales more in line with both historic and industry performance levels. There was an encouraging improvement in new business particularly during the second half of 2008 and it is expected that this will continue in 2009.

Reseal-it™ continued to progress well in 2008. Although we are experiencing some slowdown in interest in Europe for this product range there is a growing level of interest from North American customers, which is being managed in partnership with our US distributor Printpack.

Business Risks

The specific risks facing the business are:

There is 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;

In order to offset the margin pressure driven by the intensity of competition in the retail FMCG sector our sales team is focused on working closely with customers to manage price increases and ensuring a mix of customers where the added value of the Macfarlane Labels’ offering is clear;

Raw material price increases have been less volatile than in other parts of the manufacturing segment but increased prices have impacted margins and further increases are a risk. Where possible increases are mitigated through price negotiations and production efficiencies but some margin erosion is likely if material prices increase. There is a level of dependence on a small number of suppliers, therefore alternative sources of material are being investigated in conjunction with major customers, consistent with maintaining quality and service; and

Currency – some Labels’ customers reside in the Euro-zone and this means there is some currency risk. This is considered within the context of Macfarlane Group’s overall currency management framework.

Future Plans

The priorities for the Labels business in 2009 are to: -

- Accelerate organic growth plans particularly in those customer sectors where the added value of the Macfarlane Labels’ offering is apparent;
- Identify opportunities to minimise the impact of impending supplier-driven raw material price increases;
- Improve operational efficiencies to counterbalance retail price pressure; and
- Develop the Reseal-it™ product in the US market and explore additional geographic opportunities for Reseal-it™.

Operations Review (continued)

Manufacturing Operations

Packaging Manufacturing

The principal activity of the business is the design, manufacture and assembly of bespoke composite packaging for use in protecting goods 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 through established channels both directly to customers and also via the Group's Distribution business. Key customer sectors serviced are aerospace, medical equipment, electronics and automotive.

23% of Packaging Manufacturing sales are channelled through the Macfarlane Packaging Distribution business and the combination of in-house manufacturing and distribution allows Macfarlane to differentiate its offering in the market.

Business Performance

The 2008 sales performance was at a similar level to last year. Sales growth via the Macfarlane Packaging Distribution channel was 5% ahead of 2007. Margins were broadly flat despite volatility in raw material prices. During the final quarter of 2008 the weakness in the UK economy particularly in the automotive and electronics sectors began to impact the business and this resulted in 2008 profits being lower than 2007.

Business Risks

The specific risks facing the business are:

Raw material prices – the primary material components are corrugate, timber and foam. Both corrugate and timber have seen significant price increases in the last 12 months. The business works extensively with suppliers to minimise increases and re-engineers products for customers in order to mitigate the increase but maintain margins; and

Market risk – the main customer sectors are UK-based manufacturers and industrial companies who need to protect their products in transit. Certain industries such as aerospace are large users of this type of packaging solution. To the extent that there is any significant decline in the UK industrial and manufacturing sector then this would be expected to have an impact on the Packaging Manufacturing business. This can be mitigated to some extent by accessing new customers using the extensive customer base in our Packaging Distribution business.

Future Plans

The priorities for 2009 are to:

- Re-organise the business to ensure the cost base is at a level consistent with the demand outlook;
- Maintain gross margin through effective recovery of further cost increases;
- Identify additional ways we can create benefits through the strengthening of relationships with Macfarlane Packaging Distribution;
- At Grantham the primary focus will be to grow sales through the in-house Distribution network; and
- Our Westbury location is focused on maintaining sales momentum while at the same time introducing productivity improvement initiatives.

Discontinued Manufacturing Operations

The principal activity of the business treated as discontinued was the manufacture of injection-moulded plastic packaging and dispensing components particularly lids and scoops for the baby food market.

Following a strategic review in the first half of 2007, the Board decided that it was appropriate to exit our Plastics business in Ireland. This operation had not made any significant return in recent years and consumed executive management time. Accordingly the Board decided to consider offers for the business although recognising that current market conditions were likely to result in a loss on disposal.

On 8 January 2009, the Group completed the final and formal arrangements for the sale of its Ireland-based plastics business, Macfarlane Plastics Limited to Procap Holdings SA. The agreement had been substantively completed on 31 December 2008. Accordingly for accounting purposes 31 December 2008 has been treated as the effective date of disposal and the date on which control passed. The net loss from discontinued operations in 2008 was £1.1 million as set out in note 9.

Operations Review (continued)

2008 Summary

Our objectives in 2008 were to continue progress in improving Group profitability, bring a greater focus to the activities of the Group and build both organically and through acquisition our UK market-leading position in Packaging Distribution.

In overall terms we are pleased with what has been achieved in 2008:

- Packaging Distribution has demonstrated good sales momentum and returns are improving;
- We completed two further earnings-enhancing acquisitions in Packaging Distribution;
- The Labels business showed stability in the UK and good growth potential for ReSeal-it™ in North America;
- The added value of our UK Packaging Manufacture and Distribution businesses working more closely together offers potential; and
- We successfully managed the sale of our Plastics business in Ireland.

2009 Outlook

The outlook for the UK economy in 2009 is one showing lower levels of demand and it is clear that trading conditions will be extremely challenging. However the actions taken over recent years to restructure and refocus Macfarlane Group means that today we have significantly greater capability and confidence to address the future market challenges.

Macfarlane Group continues to have a number of operational improvement opportunities available in order to deliver to its full potential. The implementation of these will be of the highest priority in 2009.

In these uncertain times customers will look for suppliers who can demonstrate consistency, certainty and upon whom they can rely. The fragmented nature of our markets means that Macfarlane Group is extremely well positioned with the borrowing facilities in place that it requires until 28 February 2010 and has a good opportunity to benefit from customers who are looking for a supply partner they can trust.

Through a mixture of continuing operational improvement and positioning ourselves as a supply partner upon whom customers can depend, Macfarlane Group is focused on 2009 being another year of positive progress.

Going Concern

The Directors, in their consideration of going concern, have reviewed the Group's future cash flow forecasts and revenue projections, which they believe are based on prudent market data and past experience.

The Group's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the Operations Review.

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

The Group's principal banking facilities of £12.5 million have been renewed until 28 February 2010 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.

Responsibility Statement Of The Directors

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

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

Peter Atkinson
Chief Executive

John Love
Finance Director

Macfarlane Group PLC
Consolidated income statement
For the year ended 31 December 2008

	Note	2008 £000	2007 £000
Continuing operations			
Revenue	2	131,410	119,737
Cost of sales		(89,272)	(81,442)
Gross profit		42,138	38,295
Distribution costs		(6,421)	(5,791)
Administrative expenses		(31,009)	(29,453)
Non-recurring net property gains	4	-	14
Operating profit		4,708	3,065
Finance income	5	3,124	2,947
Finance expense	5	(4,130)	(3,545)
Profit before tax		3,702	2,467
Tax	6	(824)	979
Profit for the year from continuing operations		2,878	3,446
Discontinued operations			
Loss for the year from discontinued operations	2 / 9	(1,083)	(1,616)
Profit for the year		1,795	1,830
Earnings per share			
	8		
From continuing operations			
Basic		2.56p	3.06p
Diluted		2.56p	3.06p
From continuing and discontinued operations			
Basic		1.60p	1.63p
Diluted		1.60p	1.62p

Macfarlane Group PLC
Consolidated statement of recognised income and expense
For the year ended 31 December 2008

	2008	2007
	£000	£000
Exchange differences on translation of overseas operations	1,291	78
Exchange differences realised on disposal of subsidiary companies	(733)	670
	<hr/>	<hr/>
Exchange difference on translation of foreign operations	558	748
Actuarial (losses)/gains on defined benefit pension schemes	(4,167)	393
Tax on items taken directly to equity	1,167	(111)
actuarial loss/(gain)		
long-term rate change	-	(270)
	<hr/>	<hr/>
Net (expense)/income recognised directly in equity	(2,442)	760
Profit for the year	1,795	1,830
	<hr/>	<hr/>
Total recognised income and expense for the year	(647)	2,590
	<hr/> <hr/>	<hr/> <hr/>

Macfarlane Group PLC
Consolidated reconciliation of movements in shareholders' equity
For the year ended 31 December 2008

	Note	2008	2007
		£000	£000
Profit for the year		1,795	1,830
Dividends to equity holders in the year	7	(2,252)	(2,252)
Net (expense)/income recognised directly in equity (as above)		(2,442)	760
Credit in respect of share based payments		52	82
		<hr/>	<hr/>
Movements in equity in the year		(2,847)	420
Opening equity		30,245	29,825
		<hr/>	<hr/>
Closing equity		27,398	30,245
		<hr/> <hr/>	<hr/> <hr/>

Macfarlane Group PLC
Consolidated balance sheet at 31 December 2008

	Note	2008 £000	2007 £000
Non-current assets			
Goodwill		24,399	18,646
Other intangible assets		2,871	-
Property, plant and equipment		9,771	9,637
Other receivables		869	872
Deferred tax asset		4,810	3,917
Total non-current assets		42,720	33,072
Current assets			
Inventories		8,464	8,095
Trade and other receivables		31,178	31,108
Deferred tax asset		1,225	1,665
Cash and cash equivalents		777	348
Total current assets		41,644	41,216
Non-current assets classified as held for sale	9	-	4,238
		41,644	45,454
Total assets		84,364	78,526
Current liabilities			
Trade and other payables		30,056	28,087
Current tax liabilities		464	407
Obligations under finance leases		208	182
Bank overdrafts and loans		7,254	3,252
Liabilities directly associated with assets classified as held for sale	9	-	1,409
Total current liabilities		37,982	33,337
Net current assets		3,662	12,117
Non-current liabilities			
Retirement benefit obligations	12	17,477	14,272
Deferred tax liabilities		832	-
Other creditors		153	169
Obligations under finance leases		522	503
Total non-current liabilities		18,984	14,944
Total liabilities		56,966	48,281
Net assets		27,398	30,245
Equity			
Share capital		28,755	28,755
Revaluation reserves		70	70
Own shares		(1,406)	(1,406)
Translation reserves		506	(52)
Retained earnings		(527)	2,878
Total equity		27,398	30,245

Macfarlane Group PLC
Consolidated cash flow statement
For the year ended 31 December 2008

	Note	2008 £000	2007 £000
Net cash from operating activities	11	4,160	4,025
Investing activities			
Interest received		67	46
Disposal of subsidiary undertaking		(595)	3,088
Acquisition of subsidiary undertakings	10	(7,410)	(800)
Proceeds on disposal of property, plant and equipment		2,428	44
Purchases of property, plant and equipment		(466)	(988)
Net cash (outflow)/inflow from investing activities		(5,976)	1,390
Financing activities			
Dividends paid	7	(2,252)	(2,252)
Repayments of obligations under finance leases		14	(34)
Increase/(decrease) in bank overdrafts		4,002	(4,495)
Net cash generated from/(used in) financing activities		1,764	(6,781)
Net decrease in cash and cash equivalents		(52)	(1,366)
Cash and cash equivalents at beginning of year		829	2,195
Cash and cash equivalents at end of year		777	829

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2008

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 2008 and 31 December 2007 respectively. The information for the year ended 31 December 2007 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 2008 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

	2008			2007		
	Continuing £000	Discontinued £000	Total £000	Continuing £000	Discontinued £000	Total £000
Revenue	131,410	7,139	138,549	119,737	18,312	138,049
Cost of sales	(89,272)	(4,284)	(93,556)	(81,442)	(12,082)	(93,524)
Gross profit	42,138	2,855	44,993	38,295	6,230	44,525
Distribution costs	(6,421)	(571)	(6,992)	(5,791)	(881)	(6,672)
Administration costs	(31,009)	(2,018)	(33,027)	(29,453)	(5,027)	(34,480)
Net property gains	-	-	-	14	-	14
Operating profit	4,708	266	4,974	3,065	322	3,387
Net finance costs	(1,006)	5	(1,001)	(598)	(140)	(738)
Profit before tax	3,702	271	3,973	2,467	182	2,649
Tax	(824)	24	(800)	979	2	981
Profit after tax	2,878	295	3,173	3,446	184	3,630
Loss on discontinued operations	-	(1,378)	(1,378)	-	(1,800)	(1,800)
Profit for the year	2,878	(1,083)	1,795	3,446	(1,616)	1,830

3. Segmental information

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

(i) Packaging Distribution

The Distribution of packaging materials and supply of storage and warehousing services in the UK.

(ii) Manufacturing Operations

The manufacture and supply of self-adhesive and re-sealable labels 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.

Discontinued Operations

On 8 January 2009, the Group completed the final and formal arrangements for the sale of its plastics business, to Procap Holdings SA. The agreement had been substantively completed on 31 December 2008. Accordingly for accounting purposes, 31 December 2008 has been treated as the effective date of disposal and the date on which control passed. The results of this operation for were classified as discontinued operations in the consolidated income statement. Details of the loss on discontinued activities are set out in note 9. The Manufacturing Operations in US/Mexico were classified as discontinued in the 2007 figures in the consolidated income statement.

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2008

3. Segmental information (continued)

Packaging Distribution	2008	2007
	£000	£000
Revenue	103,654	92,654
Cost of sales	<u>(72,511)</u>	<u>(64,565)</u>
Gross profit	31,143	28,089
Net operating expenses	<u>(28,241)</u>	<u>(26,751)</u>
Operating profit	<u>2,902</u>	<u>1,338</u>
Manufacturing Operations		
Revenue	27,755	27,083
Cost of sales	<u>(16,760)</u>	<u>(16,877)</u>
Gross profit	10,995	10,206
Net operating expenses	<u>(9,189)</u>	<u>(8,479)</u>
Operating profit	<u>1,806</u>	<u>1,727</u>
	2008	2007
	£000	£000
Packaging Distribution	2,902	1,338
Manufacturing Operations	<u>1,806</u>	<u>1,727</u>
Operating profit	4,708	3,065
Net finance costs	<u>(1,006)</u>	<u>(598)</u>
Profit before tax	3,702	2,467
Tax	<u>(824)</u>	<u>979</u>
Profit from continuing operations	2,878	3,446
Loss from discontinued operations after tax	<u>(1,083)</u>	<u>(1,616)</u>
Profit after tax and discontinued operations	<u>1,795</u>	<u>1,830</u>
	2008	2007
	£000	£000
Group segment		
Packaging Distribution	18,528	16,510
Manufacturing Operations	<u>7,245</u>	<u>10,906</u>
Continuing operations	25,773	27,416
Discontinued operations	<u>1,625</u>	<u>2,829</u>
Net assets	<u>27,398</u>	<u>30,245</u>

4. Non-recurring net property gains

An investment property was sold during 2007 for a consideration of £2,386,000 realising a gain of £539,000 which was offset by amounts totalling £525,000 due under certain of the Group's vacant properties.

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2008

5. Net finance expense	2008	2007
	£000	£000
Interest on bank loans and overdrafts	(559)	(446)
Interest on obligations under finance leases	(51)	(24)
Interest cost of pension scheme liabilities	(3,520)	(3,075)
	<hr/>	<hr/>
Total finance expense	(4,130)	(3,545)
	<hr/>	<hr/>
Expected return on pension scheme assets	3,075	2,900
Investment income	49	47
	<hr/>	<hr/>
Total finance income	3,124	2,947
	<hr/>	<hr/>
Net finance expense	(1,006)	(598)
	<hr/> <hr/>	<hr/> <hr/>
6. Tax	2008	2007
	£000	£000
Current tax		
United Kingdom corporation tax at 28.5% (2007: 30%)	(57)	-
Foreign tax	(83)	(66)
Adjustments in respect of prior periods	-	(228)
	<hr/>	<hr/>
Current tax charge	(140)	(294)
Deferred taxation (charge)/credit	(684)	1,273
	<hr/>	<hr/>
Total tax (charge)/credit	(824)	979
	<hr/> <hr/>	<hr/> <hr/>

The standard rate of tax for the year, based on the UK average rate of corporation tax is 28.5% (2007 - 30%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The major feature of the 2007 tax credit related to the recognition of a deferred tax asset for the Group's corporation tax losses. A value of £1,665,000 was recognised in 2007 for the first time as it was regarded as more likely than not that these losses would be recovered within the short term.

The actual tax charge for the current and previous year is less than 28.5% (2007 - 30%) of the results as set out in the income statement for the reasons set out in the following reconciliation:

	2008	2007
	£000	£000
Profit before taxation	3,702	2,467
	<hr/>	<hr/>
Tax on profit at 28.5% (2007 - 30%)	(1,055)	(740)
Factors affecting tax charge for the year:-		
Depreciation in excess of capital allowances	49	8
Tax charge on contributions to defined benefit pension scheme	269	(385)
Non taxable gain	-	162
Other differences	(116)	171
Tax losses utilised	-	299
Tax losses recognised as a deferred tax asset	-	1,665
Difference on overseas tax rates	29	27
Adjustments in respect of prior periods	-	(228)
	<hr/>	<hr/>
Tax credit/(charge) for the year	(824)	979
	<hr/> <hr/>	<hr/> <hr/>

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2008

7. Dividends	2008	2007
	£000	£000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2007 of 1.00p per share (2007 – 1.00p per share)	1,126	1,126
Dividend for the year ended 31 December 2008 of 1.00p per share (2007 – 1.00p per share)	1,126	1,126
	<u>2,252</u>	<u>2,252</u>

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

The proposed dividend of 1.00p per share will be paid on 11 June 2009 to those shareholders on the register at 8 May 2009 and is subject to approval by shareholders at the Annual General Meeting in 2008 and 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:

	2008	2007
	£000	£000
Earnings from continuing and discontinued operations for the purposes of earnings per share being profit for the year	1,795	1,830
Add Loss for the year from discontinued operations	1,083	1,616
	<u>2,878</u>	<u>3,446</u>
Earnings from continuing operations for the purposes of earnings per share being profit for the year from continuing operations	2,878	3,446
Number of shares in issue for the purposes of calculating basic and diluted earnings per share	2008	2007
	No. of	No. of
	shares	shares
	'000	'000
Weighted average number of ordinary shares in issue	115,019	115,019
Own shares in Employee Share Ownership Trusts	(2,491)	(2,491)
	<u>112,528</u>	<u>112,528</u>
Weighted average number of shares in issue for the purposes of basic earnings per share	112,528	112,528
Effect of dilutive potential ordinary shares due to share options	-	166
	<u>112,528</u>	<u>112,694</u>
Weighted average number of shares in issue for the purposes of diluted earnings per share	112,528	112,694

9. Discontinued operations, non-current assets and current liabilities classified as held for sale

On 8 January 2009, the Group completed the final and formal arrangements for the sale of its plastics business, to Procap Holdings SA. The agreement had been substantively completed by 31 December 2008. Accordingly for accounting purposes, 31 December 2008 has been treated as the effective date of disposal and the date on which control passed. The results of this operation for 2007 and 2008 were classified as discontinued operations in the consolidated income statement. Details of the loss on discontinued activities are set out on the following page. The Manufacturing Operations in US/Mexico sold in 2007 were classified as discontinued in the comparative figures in the consolidated income statement.

Notes to the financial information

For the year ended 31 December 2008

9. Discontinued operations, non-current assets and current liabilities classified as held for sale		
	2008	2007
	£000	£000
Manufacturing Operations		
Revenue	7,139	18,312
Cost of sales	(4,284)	(12,082)
	<hr/>	<hr/>
Gross profit	2,855	6,230
Net operating expenses	(2,589)	(5,908)
	<hr/>	<hr/>
Operating profit	266	322
Net interest paid	5	(140)
Loss on disposal of subsidiary undertaking	(1,378)	(1,800)
	<hr/>	<hr/>
Loss before tax	(1,107)	(1,618)
Tax	24	2
	<hr/>	<hr/>
Post-tax loss from discontinued operations	(1,083)	(1,616)
	<hr/> <hr/>	<hr/> <hr/>
Loss on disposal of subsidiary undertaking		
Goodwill	-	327
Property, plant and equipment	1,932	1,107
Inventories	430	723
Trade receivables	1,121	4,022
Trade payables	(1,075)	(1,109)
	<hr/>	<hr/>
Net assets disposed of	2,408	5,070
	<hr/>	<hr/>
Accumulated foreign exchange loss on disposal	733	(670)
Loss on disposal of subsidiary undertaking	(2,111)	(1,130)
	<hr/>	<hr/>
Total loss on disposal	(1,378)	(1,800)
	<hr/>	<hr/>
Total consideration	1,030	3,270
	<hr/> <hr/>	<hr/> <hr/>
Cash	(595)	3,088
Deferred consideration	1,625	182
	<hr/>	<hr/>
Total consideration	1,030	3,270
	<hr/> <hr/>	<hr/> <hr/>
Non-current assets held for sale	2008	2007
	£000	£000
Property, plant and equipment	-	2,064
Inventories	-	455
Trade receivables	-	1,238
Cash and cash equivalents	-	481
	<hr/>	<hr/>
Total assets classified as held for sale	-	4,238
Trade and other payables	-	(1,290)
Deferred tax liabilities	-	(119)
	<hr/>	<hr/>
Total net assets classified as held for sale	-	2,829
	<hr/> <hr/>	<hr/> <hr/>

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2008

10. Acquisition of subsidiary

On 7 January 2008, the Group acquired 100% of the issued share capital of Online Packaging, for a consideration of £5.0 million. £4.5 million of the consideration has been paid, with the deferred consideration becoming payable in the first quarter of 2009, based on certain trading targets met in 2008. The business is a Packaging Distributor and is accounted for in the Packaging Distribution segment.

On 3 October 2008, the Group acquired 100% of the issued share capital of Allpoint Packaging, for a consideration of approximately £4.3 million. £3.3 million of the consideration has been paid, with the deferred consideration becoming payable in the final quarter of 2009, subject to certain trading targets being met in the twelve months to 30 September 2009. The business is a Packaging Distributor and is accounted for in the Packaging Distribution segment.

The fair values assigned to the assets acquired and the consideration paid and payable are set out below:-

Fair values of net assets acquired	Online £000	Allpoint £000	2008 £000
Other intangible assets	1,266	1,707	2,973
Property, plant and equipment	221	146	367
Inventories	429	627	1,056
Trade and other receivables	1,610	1,820	3,430
Cash and cash equivalents	906	1	907
Bank overdrafts	-	(463)	(463)
Trade and other payables	(1,758)	(1,546)	(3,304)
Current tax liabilities	(198)	(314)	(512)
Finance lease liabilities	-	(31)	(31)
Deferred tax liabilities	(394)	(478)	(872)
Total assets	2,082	1,469	3,551
Goodwill arising on acquisition	2,904	2,849	5,753
Total consideration	4,986	4,318	9,304
Satisfied by:			
Cash	(4,536)	(3,318)	(7,854)
Deferred consideration	(450)	(1,000)	(1,450)
Total consideration	(4,986)	(4,318)	(9,304)
Net cash outflow arising on acquisition			
Cash consideration	(4,536)	(3,318)	(7,854)
Cash and cash equivalents acquired	906	1	907
Bank overdrafts acquired	-	(463)	(463)
	(3,630)	(3,780)	(7,410)

The other intangible assets arising on consolidation represent the best estimate of the values attaching to brand names and customer relationships acquired on acquisition. Goodwill arising on the acquisitions of Online Packaging and Allpoint Packaging is attributable to the anticipated future profitability of the distribution of the Group's product ranges in additional geographical markets in the UK and anticipated operating synergies from future combination of activities within our Packaging Distribution network.

Online Packaging contributed £7.3 million revenue and £0.2m to the Group's profit before tax for the period between the date of acquisition and 31 December 2008. Allpoint Packaging contributed £2.4 million revenue and £0.2m to the Group's profit before tax for the period between the date of acquisition and 31 December 2008. If both acquisitions had been completed on the first day of the financial year then revenues would have been £15.3 million and profit before tax £0.6 million. This would have increased Group sales from continuing operations for 2008 to £137.0 million and the related profit before tax from continuing operations to £3.9 million.

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2008

11. Notes to the cash flow statement	2008	2007
	£000	£000
Operating profit	4,708	3,065
Continuing operations		
Discontinued operations	266	322
Operating profit	4,974	3,387
Adjustments for:		
Amortisation of intangible assets	102	-
Depreciation of property, plant and equipment	1,575	2,094
Gain on disposal of property, plant and equipment	(9)	(539)
Operating cash flows before movements in working capital	6,642	4,942
Decrease in inventories	712	538
Decrease/(increase) in receivables	2,701	(4,379)
(Decrease)/increase in payables	(3,233)	5,433
Adjustment for pension scheme funding	(1,407)	(1,383)
Cash generated by operations	5,415	5,151
Income taxes paid	(647)	(554)
Interest paid	(608)	(572)
Net cash from operating activities	4,160	4,025
	2008	2007
	£000	£000
Decrease in cash and cash equivalents in the year	(52)	(1,366)
(Increase)/decrease in bank overdrafts	(4,002)	4,495
Cash flows from debt and lease financing	(45)	(586)
Movement in net debt in the year	(4,099)	2,543
Opening net debt	(3,108)	(5,651)
Closing net debt	(7,207)	(3,108)
Net debt comprises:		
Cash and cash equivalents	777	348
Cash and cash equivalents in business held for resale	-	481
Bank overdrafts and loans	(7,254)	(3,252)
Net bank debt	(6,477)	(2,423)
Obligations under finance leases		
Due within one year	(208)	(182)
Due outwith one year	(522)	(503)
Closing net debt	(7,207)	(3,108)

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 £385,000 for 2008, (2007 - £821,000) cash outflows in respect of investing activities totalled £808,000 (2007 – inflows £2,930,000) and cash outflows from financing activities amounted to Nil (2007 £268,000).

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2008

12. 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 at 1 May 2008 is still in progress. The principal assumptions adopted were that investment returns would average 7.25% per annum and that salary increases would average 4.75% per annum. The provisional results of the valuation showed that the market value of the relevant assets of the scheme was £43,645,000 and the actuarial value of these assets represented 72% of the value of benefits that had accrued to members.

Balance sheet disclosures

The figures below have been based on the provisional results of the triennial actuarial valuation as at 1 May 2008, updated to the current year-end. The assets in the scheme, the net liability position for the scheme at 31 December 2008 and the expected rates of return were:

	Fair value 2008	Fair value 2007	Fair value 2006	Fair value 2005	Fair value 2004
Asset class	£000	£000	£000	£000	£000
Equities	18,332	28,162	26,785	24,077	19,911
Bonds	17,506	16,859	16,661	16,678	15,173
Other (cash)	105	11	184	21	37
Fair value of assets	35,943	45,032	43,630	40,776	35,121
Present value of scheme liabilities	(53,420)	(59,304)	(59,503)	(63,753)	(52,545)
Deficit in the scheme	(17,477)	(14,272)	(15,873)	(22,977)	(17,424)
Related deferred tax asset	4,894	3,996	4,762	6,893	5,227
Net pension liability	(12,583)	(10,276)	(11,111)	(16,084)	(12,197)

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

Assumptions	2008	2007	2006	2005	2004
Discount rate	6.25%	5.80%	5.25%	4.75%	5.25%
Rate of increase in salaries	2.75%	3.25%	2.75%	2.75%	2.75%
Inflation assumption	2.75%	3.25%	2.75%	2.75%	2.75%
Life expectancy beyond normal retirement date of 65					
Male	21.3 years	21.3 years	19.5 years	19.5 years	17.2 years
Female	24.0 years	24.0 years	22.4 years	22.4 years	21.0 years
Movement in scheme deficit	£000	£000	£000	£000	£000
At 1 January	(14,272)	(15,873)	(22,977)	(17,424)	(17,312)
Current service cost	(237)	(272)	(353)	(298)	(438)
Employer contributions	1,558	1,571	1,925	746	621
Curtailment gains	86	84	58	-	-
Net finance costs	(445)	(175)	(361)	(448)	(517)
Actuarial gain in the period	(4,167)	393	5,835	(5,553)	222
At 31 December	(17,477)	(14,272)	(15,873)	(22,977)	(17,424)

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Notes to the financial information

For the year ended 31 December 2008

12. Pension scheme (continued)

Our UK defined benefit pension scheme has assets at current market value of £35.9 million (2007 - £45.0 million) and liabilities discounted using specified bond yields of £53.4 million (2007 - £59.3 million). On this valuation basis at 31 December 2008, there is a deficit of £17.5 million (2007 - £14.3 million), which is partially offset by a deferred tax asset of £4.9 million (2007 - £4.0 million) giving a net deficit of £12.6 million (2007 - £10.3 million).

During 2008, the pension scheme's investments in equities suffered a reduction in value of 35%, with the actual return on scheme assets £11.4m below the expected returns estimated at the end of 2007. This reduction was offset by an increase from 5.80% to 6.25% in the assumed bond yields to discount pension scheme liabilities and other actuarial assumptions, which had a positive impact of around £7.2 million on the liabilities recorded in our balance sheet. The net result was an actuarial loss of £4.2 million in 2008.

Assumptions in relation to mortality are consistent with 2007.

13. 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 are satisfied that there are no other related party transactions occurring during the year which require disclosure.

14. Posting to shareholders and Annual General Meeting

The Annual Report and Accounts will be sent to shareholders on Wednesday 25 March 2009 and will be available to members of the public at the Company's Registered Office, 21 Newton Place, Glasgow G3 7PY from 27 March 2009. The Annual General Meeting will take place at the Thistle Hotel, Cambridge Street Glasgow at 12 noon on Tuesday 5 May 2009.

Cautionary Statement

This announcement has been prepared solely to provide additional information to shareholders to assess the Group's strategy and the potential for the strategy to succeed. It should not be relied on by any other party or for any other purpose.

The announcement contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report. 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.