

MACFARLANE GROUP ANNUAL RESULTS FOR THE YEAR TO 31 DECEMBER 2009

- Profit before tax from continuing operations and before exceptional costs of £3.2 million
 - Exceptional restructuring costs of £0.7 million incurred in the year
 - Profit before tax from continuing operations of £2.5 million
 - Turnover from continuing operations of £123.6 million
 - Net operating margins in Distribution of 4.0%
 - Proposed final dividend of 1p per share confirmed, giving total of 1.5p
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Archie Hunter, Chairman of Macfarlane Group PLC today said: -

2009 was an important year for Macfarlane Group PLC. The Group demonstrated its resilience in the face of recession and has updated its strategy to show just what it can aspire to from the platform that has been created.

Macfarlane Group serves a broad range of UK based industry sectors and consequently the economic recession has presented a significant challenge to our business. As reported in August 2009, the prompt actions of management in reducing costs, focusing the business on retaining existing accounts and seeking out new business opportunities mitigated the worst effects of the recession. I am pleased to report that the Group responded well, with a performance for the year in line with market expectations.

Trading

It was inevitable that the recession would impact demand levels from our customer base, however we restricted the impact on like-for-like sales to 11% (6% after the benefit of 2008 acquisitions). After restructuring costs of £0.7 million, which benefited the later part of the year, pre-tax profits from continuing operations were £2.5 million (2008: £3.7 million).

In Packaging Distribution, operating profits grew to £3.9m (2008: £2.9 million) with the business coping well in challenging conditions and also increasing the return on sales to 4.0% (2008: 2.8%), with the 2008 acquisition of Allpoint contributing to the increase. This is an important step towards our initial target of a 5% return on sales for the business as a whole. In 2009, the new business won was 53% higher than in 2008 and this trend has continued with further significant wins in 2010 to date.

In our Manufacturing Operations, our Labels business suffered higher raw material costs, impacting operating margins significantly and the Packaging Manufacturing business saw a steep decline in demand particularly in the first half of 2009, with several major customers down spending. Both management teams acted to restructure in line with changing conditions, but there was an inevitable delay in obtaining the benefits of the reduction in the cost bases. As a result the Manufacturing Operations sustained a loss in the year of £0.2 million after restructuring costs (2008: profit of £1.8 million) although profitability was restored in the second half of the year.

In August 2009, we stated that we expected the Group's traditional cycle for stronger earnings and cash generation in the second-half to be maintained. I am pleased to confirm that this has been the case.

Net Debt

The Group's cash flow, particularly in the second six months, enabled us to fund payments during the year in excess of £5.0 million in respect of dividends, pension scheme contributions and retentions on previous year's acquisitions, while holding net bank borrowings at 31 December 2009 at £6.4 million, marginally lower than those at the end of 2008.

Pension Deficit and Dividend Policy

There are two matters on which shareholders should have further clarity at this point on our intentions, namely the pension deficit and dividend policy.

Like many companies, Macfarlane Group has a significant pension deficit, largely as a consequence of lower stock values and bond yields and longer life expectancy. At 31 December 2009 the gross pension deficit was £20.4 million (2008: £17.5 million). We have initiated a series of actions addressing future benefits, transfer enhancements and investment options, all of which will reduce the scheme deficit. It is the Board's intention that the balance of the deficit should be eliminated by a combination of these actions and affordable cash contributions over a seven-year period.

Relative to dividend, the Board recognises the importance to shareholders of a regular and reliable dividend stream. In addition to the dividend of 0.5p per share paid in October 2009, it is the intention of the Board to pay a dividend of 1.0p per share payable in June 2010, subject to shareholder approval at the Annual General Meeting in May 2010. Given that profits grow as expected, it is our intention to rebuild reserves and cash cover as well as build dividend payments.

Future Prospects

Trading overall in the early part of 2010 has been encouraging. Whilst our Manufacturing Operations continue to face customer and sector challenges, Packaging Distribution has seen a slight increase in demand levels. The resilience of 2009 is being maintained, the costs of the restructuring programme in 2009 have been incurred and the full benefit of that programme will be seen in 2010. Accordingly we are cautiously optimistic about trading prospects for 2010.

Macfarlane Group now has a solid platform on which to build for the future. Management has developed a strategic plan that demonstrates the business's ability to develop from within, building on the skills, market positions and strengths already evident in the Group, and that focuses on new business generation, product development and customer relationship management. Whilst we will continue to review acquisition opportunities, this plan is not reliant on acquisitions nor on an upturn in the economy although Macfarlane Group would clearly benefit from any sustained economic improvement.

These encouraging prospects are only within reach because we have a stable and determined team of people focused on the task in hand. The Board appreciates the determination, energy and enthusiasm shown by all our people and I wish to thank them for their considerable efforts.

Further enquiries:

Macfarlane Group	Tel: 0141 333 9666
Archie Hunter Chairman	
Peter Atkinson Chief Executive	
John Love Finance Director	
Spreng & Co	Tel: 0141 229 0482
Callum Spreng	Mob: 07803 970103

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 700 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.

Business Review

Trading performance

Group Segment	Revenue	Revenue	Profit	Exceptional	Profit	Profit
	2009	2008	before	items	2009	2008
	£000	£000	exceptional	items	£000	£000
Packaging Distribution	98,989	103,655	4,256	(325)	3,931	2,902
Manufacturing Operations	24,607	27,755	150	(374)	(224)	1,806
Revenue - continuing operations	123,596	131,410				
Operating profit			4,406	(699)	3,707	4,708
Net finance costs					(1,223)	(1,006)
PBT- continuing operations					2,484	3,702

The dramatic slow down in the UK economy in 2009 resulted in difficult trading conditions as demand in a number of the sectors we supply reduced significantly. We responded to the conditions by reducing our cost base in line with the new levels of demand and accelerated our new business generation programmes to gain market share.

The Packaging Distribution business demonstrated the strength of its market position and the robustness of its operating model and despite the lower level of sales compared to 2008 showed profit growth through effective management of overheads and gross margin.

The Manufacturing businesses with their higher fixed costs and dependency on key suppliers had more difficulty in protecting profitability as demand weakened and the full year result was disappointing. However the Labels business was profitable during the year and following the restructuring of the cost base, the Packaging Manufacturing business was restored to profitability in the second half of 2009.

Considering the difficult trading conditions we experienced, the overall performance demonstrated a strong level of resilience and the actions we have taken on restructuring the cost base and building our new business capability will have a major positive impact as demand levels return. Although we experienced some recovery in demand in Q4 2009 we remain cautious and expect demand levels in the UK economy to continue to be weak in 2010. Our focus in 2010 will be maintained on the development of sustainable new business opportunities and effective cost management.

Packaging Distribution

The Macfarlane **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 market share approaching 20%. The business operates through 17 Regional Distribution Centres (RDCs) supplying customers on a local, regional and national basis. We benefit customers by enabling them to ensure their products are cost-effectively protected in transit and storage by providing them with a comprehensive product range, single source supply, just in time delivery and tailored stock management programmes.

2009 Performance

In 2009 Packaging Distribution recorded an operating profit of £3.9 million, compared with £2.9 million in 2008. There were a number of factors contributing to these results:

- Sales revenue reduced by 5% (like-for-like sales reduction 11%) as the weakness in the UK economy was reflected in lower demand across a number of the key customer sectors we supply;
- In 2009 new business revenue was 53% ahead of 2008, as an increased focus from both the dedicated new business and national accounts teams and the uncertain economic environment motivated a range of customers to switch their business to Macfarlane to benefit from the added value we can bring and to ensure security of supply;
- The acquisition of Allpoint Packaging Limited (“Allpoint”) in October 2008, contributed positively both in financial and strategic terms, with incremental turnover of £5.9 million and profits of £0.3 million in 2009;
- Visitors to macfarlanepackaging.com, our rebranded web-based packaging service, increased by 17% in 2009 and revenue increased by 16% versus 2008;
- Our 2009 customer satisfaction survey showed 87% of customers rating our service above average (2008 – 83%) and of these, 41% rated our service as excellent. (2008 – 33%);
- In 2009 our On-Time-In-Full (“OTIF”) deliveries averaged 90% (2008 - 92%) against our benchmark of 90%. The method we use to measure OTIF is applied as an internal logistics efficiency monitor;
- We implemented a series of actions in both our pricing strategy and our supplier base which enabled us to improve gross margin to 31.3% compared with 30.0% in 2008;
- In the final quarter of 2009, the lease on our Telford premises expired and we closed the site, transferring the business to our Manchester and Coventry RDCs;
- We have maintained a strong focus on cost control and sales per employee has remained constant as we improved productivity levels within the business; and
- Net overheads in the business show a £1.2 million reduction from 2008, evidence of our cost control focus, and we incurred £0.3 million of restructuring costs.

Performance Potential

Each of the sites within our current network of 17 RDCs is a profit centre and based on our 2009 results we had nine RDCs performing at or above an acceptable return on sales level. An additional five RDCs are operating profitably and continuing to demonstrate improvements that indicate their ability to achieve an acceptable return on sales level. There are currently three RDCs where performance is not at the acceptable level and appropriate actions are being implemented to deliver improvements.

Acquisitions

A key component of the 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 2009, Online Packaging Limited (“Online”), acquired in January 2008, was integrated into the Macfarlane RDC network with Gloucester transferred onto our IT system and established to improve geographic penetration. We consolidated the Online Wakefield site into the Macfarlane Wakefield site at the start of 2009. Allpoint, acquired in October 2008, made an important first full year contribution to the results in 2009 and we relocated the company’s Basingstoke site to a new RDC in Basingstoke to better enable the business to take advantage of sales growth opportunities in the area.

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

The Macfarlane 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.

Future Plans

The weakness of the UK economy will undoubtedly continue to have an effect on demand levels in 2010. In this context, our plan for 2010 is to focus our management actions in the following areas:

- Enhance existing customer relationships to ensure we maintain high 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;
- Expand our focus in specific industry sectors which would benefit from Macfarlane's national coverage;
- Accelerate the development of the presentational packaging business inherited through the Allpoint acquisition;
- Maintain gross margin through effective management and recovery of supplier price changes;
- Strengthen our web-based presence through macfarlanepackaging.com to improve the online visibility and access to our products and services;
- Continue the implementation of our productivity improvement initiatives to ensure all RDCs are operating to their full profit potential;
- Deliver the planned benefits from the closure of the Telford RDC in Q4 2009;
- Deliver the benefits from integrating Allpoint business fully into the Macfarlane network; and
- Maintain the focus on working capital management to reduce debt.

Manufacturing Operations

Macfarlane operates two manufacturing businesses, **Labels**, and **Packaging Manufacturing**.

In 2009 Macfarlane's Manufacturing Operations recorded a loss of £0.2 million, well below the profit performance achieved in 2008. Key features of the Manufacturing Operations performance in 2009 were:

- Sales reduced by 11% versus 2008 driven by reduced demand from major customers in key sectors particularly automotive and general industrial;
- Gross margins reduced from 39.6% to 37.0% reflecting significant upward pressure on raw material prices in the Labels business and a change in customer mix towards own label FMCG suppliers; and
- The overhead to sales ratio increased by 4.5% reflecting the nature of the fixed cost base of the manufacturing businesses, with total overheads increasing by £0.1 million, mainly due to restructuring charges of £0.4 million.

Labels

The principal activity of the Labels business is the production of self-adhesive and re-sealable labels for major fast moving consumer goods ("FMCG") customers in Europe and USA. 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™.

Business Performance

During 2009 Macfarlane Labels experienced significant raw material price increases as a result of unfavourable exchange rates and it proved difficult to recover these cost increases from the customer base. As a result gross margins reduced and this situation was exacerbated by consumer preferences for using own brand products, which caused an unfavourable customer mix. In response Macfarlane Labels has focused on improving productivity, investing in sales campaigns to improve presence in the FMCG branded sector and working closely with its customer base to manage the impact of supplier-led price changes.

2009 sales at Labels showed a 12% reduction versus 2009 primarily as a result of lower pricing levels. However despite the sales value reduction the Labels business was profitable and managed to deliver a reduced but acceptable return on sales.

Reseal-it™ continued to progress well in 2009. Although we have experienced some slowdown in Europe for this product range, as consumers look to reduce costs, there is a growing level of interest from North American customers, which is being managed in partnership with our US distributor Printpack Inc.

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 Macfarlane Labels' offering is clear;

Raw material price increases 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 – there is some currency risk as a number of Labels' customers reside in the Euro-zone. This is considered within the context of Macfarlane Group's overall currency management framework.

Future Plans

The priorities for the Labels business in 2010 are to: -

- Introduce new sales leadership into the business in 2010;
- Accelerate organic growth plans particularly in those customer sectors where the added value of Macfarlane Labels' offering is apparent;
- Identify opportunities to rebuild margins;
- Improve operational efficiencies to counterbalance retail price pressure; and
- Further develop the Reseal-it™ product in the US market and explore additional geographic opportunities for Reseal-it™.

Packaging Manufacturing

The principal activity of the 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 via the Group's Distribution business. Key customer sectors serviced are aerospace, medical equipment, electronics and automotive.

Over 25% 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

2009 sales were 11% below those achieved in 2008 as demand in a number of the key sectors of UK industry we serve reduced dramatically. This impacted both the sales to our Packaging Distribution business and our directly serviced customers particularly in the automotive and electronics sectors. In the light of these difficult demand conditions we implemented a major restructuring of our Packaging Manufacturing operations, commencing in the first half of 2009 in order to reduce the cost base more in line with the anticipated demand outlook. The impact of these actions contributed to Packaging Manufacturing recording a loss for 2009. However, following the implementation of the re-structuring actions it was encouraging that the business returned to profit in the second half of the year.

Business Risks

The specific risks facing the business are:

Raw material prices – the primary material components are corrugate, timber and foam. Both timber and foam raw materials have seen 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 high-value products in storage and 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 2010 are to:

- Continually review the cost base of the business to ensure it is at a level consistent with the demand outlook;
- Improve gross margins through effective recovery of any further cost changes;
- Identify additional sales growth opportunities both directly and through the relationship with Macfarlane Packaging Distribution;
- At Grantham the primary focus will be to grow sales through the Distribution network; and
- Our Westbury location is focused on accelerating sales momentum, while at the same time, introducing a programme of productivity and service improvement initiatives.

Discontinued Manufacturing Operations

During 2009, the Group finalised agreements relating to previous years' acquisitions giving rise to a profit of £0.4m from discontinued operations in 2009.

On 8 January 2009, the Group completed the final and formal agreement for the sale of its Ireland-based plastics business, Macfarlane Plastics Limited, to Procap Holdings SA. As the agreement had been substantively completed on 31 December 2008 for accounting purposes 31 December 2008 was 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.

2010 Outlook

The outlook for the UK economy in 2010 reflects a continuing period of weak demand and it is clear that trading conditions will remain 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.

Despite the progress we have made, Macfarlane Group continues to have a number of strategic improvement opportunities in each of its businesses in order to deliver to its full potential. The implementation of these will be of the highest priority in 2010.

In these uncertain times, customers will look for suppliers who can demonstrate consistency, certainty and upon whom they can rely. The success of the Group in managing through the extreme difficulties in 2009 and with bank borrowing facilities in place until 28 February 2011 means the Group is well positioned to support and service customers who will continue to look for a supply partner they can trust and who will deliver added value.

Through a mixture of continuing operational improvement, development of the full potential of our existing customers, the winning of new customers and the introduction of new products and services, Macfarlane Group is focused on 2010 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 Business Review on pages 2 to 9.

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 2011 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

The Directors of Macfarlane Group PLC are

A.S. Hunter	Chairman
P.D. Atkinson	Chief Executive
J. Love	Finance Director
K.D. Mellor	Non-Executive Director and Senior Independent Director
G. Bissett	Non-Executive Director

To the best of the knowledge of the Directors (whose names and functions are set out above), 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 2009

	Note	2009 Before exceptional items £000	2009 Exceptional items £000	2009 £000	2008 £000
Continuing operations					
Revenue	3	123,596	-	123,596	131,410
Cost of sales		(83,473)	-	(83,473)	(89,272)
Gross profit		40,123	-	40,123	42,138
Distribution costs		(5,890)	-	(5,890)	(6,421)
Administrative expenses		(29,827)	(699)	(30,526)	(31,009)
Operating profit	3	4,406	(699)	3,707	4,708
Finance income	4	2,331	-	2,331	3,124
Finance expense	4	(3,554)	-	(3,554)	(4,130)
Profit before tax		3,183	(699)	2,484	3,702
Tax	5	(691)	177	(514)	(824)
Profit for the year from continuing operations		2,492	(522)	1,970	2,878
Discontinued operations					
Profit/(loss) for the year from discontinued operations after tax	8	351	-	351	(1,083)
Profit for the year	7	2,843	(522)	2,321	1,795
Earnings per share					
From continuing operations					
Basic and diluted		2.20p	(0.46p)	1.74p	2.56p
From continuing and discontinued operations					
Basic and diluted		2.51p	(0.46p)	2.05p	1.60p

Macfarlane Group PLC
Consolidated statement of comprehensive income
For the year ended 31 December 2009

	Note	2009 £000	2008 £000
Exchange differences on translation of overseas operations		(170)	1,291
Exchange differences realised on disposal of subsidiary companies		-	670
Exchange difference on translation of foreign operations		(170)	558
Actuarial loss on defined benefit pension schemes	11	(4,282)	(4,167)
Tax on items taken directly to equity actuarial loss		1,199	1,167
Other comprehensive expense for the year		(3,253)	(2,442)
Profit for the year		2,321	1,795
Total comprehensive expense for the year		(932)	(647)

Macfarlane Group PLC
Consolidated reconciliation of movements in shareholders' equity
For the year ended 31 December 2009

	Note	2009 £000	2008 £000
Profit for the year		2,321	1,795
Dividends to equity holders in the year	6	(1,688)	(2,252)
Other comprehensive expense for the year		(3,253)	(2,442)
Transfer of own shares to pension scheme		149	-
Credit in respect of share based payments		34	52
Movements in equity in the year		(2,437)	(2,847)
Opening equity		27,398	30,245
Closing equity		24,961	27,398

Macfarlane Group PLC
Consolidated balance sheet at 31 December 2009

	Note	2009 £000	2008 £000
Non-current assets			
Goodwill		24,199	24,399
Other intangible assets		2,561	2,871
Property, plant and equipment		8,904	9,771
Other receivables		856	869
Deferred tax asset		5,655	4,810
		<hr/>	<hr/>
Total non-current assets		42,175	42,720
		<hr/>	<hr/>
Current assets			
Inventories		8,882	8,464
Trade and other receivables		30,107	31,178
Deferred tax asset		900	1,225
Cash and cash equivalents	10	536	777
		<hr/>	<hr/>
Total current assets		40,425	41,644
		<hr/>	<hr/>
Total assets		82,600	84,364
		<hr/> <hr/>	<hr/> <hr/>
Current liabilities			
Trade and other payables		28,558	30,056
Current tax liabilities		1	464
Obligations under finance leases	10	272	208
Bank overdrafts and loans	10	6,908	7,254
		<hr/>	<hr/>
Total current liabilities		35,739	37,982
		<hr/>	<hr/>
Net current assets		4,686	3,662
		<hr/>	<hr/>
Non-current liabilities			
Retirement benefit obligations	11	20,366	17,477
Deferred tax liabilities		712	832
Other creditors		136	153
Obligations under finance leases	10	686	522
		<hr/>	<hr/>
Total non-current liabilities		21,900	18,984
		<hr/>	<hr/>
Total liabilities		57,639	56,966
		<hr/>	<hr/>
Net assets		24,961	27,398
		<hr/> <hr/>	<hr/> <hr/>
Equity			
Share capital		28,755	28,755
Revaluation reserves		70	70
Own shares		(943)	(1,406)
Translation reserves		336	506
Retained earnings		(3,257)	(527)
		<hr/>	<hr/>
Total equity	3	24,961	27,398
		<hr/> <hr/>	<hr/> <hr/>

Macfarlane Group PLC
Consolidated cash flow statement
For the year ended 31 December 2009

	Note	2009 £000	2008 £000
Net cash inflow from operating activities	10	<u>1,744</u>	<u>4,160</u>
Investing activities			
Interest received		6	67
Disposal of subsidiary undertaking	8	1,916	(595)
Acquisition of subsidiary undertakings	9	(1,190)	(7,410)
Proceeds on disposal of property, plant and equipment		119	2,428
Purchases of property, plant and equipment		<u>(466)</u>	<u>(466)</u>
Net cash inflow/(outflow) from investing activities		<u>385</u>	<u>(5,976)</u>
Financing activities			
Dividends paid	6	(1,688)	(2,252)
Repayments of obligations under finance leases	10	(336)	14
(Decrease)/increase in bank overdrafts	10	<u>(346)</u>	<u>4,002</u>
Net cash generated (used in)/from financing activities		<u>(2,370)</u>	<u>1,764</u>
Net decrease in cash and cash equivalents		(241)	(52)
Cash and cash equivalents at beginning of year		<u>777</u>	<u>829</u>
Cash and cash equivalents at end of year	10	<u><u>536</u></u>	<u><u>777</u></u>

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2009

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 435 of the Companies Act 2006 and has been extracted from the full statutory accounts for the years ended 31 December 2009 and 31 December 2008 respectively. The information for the year ended 31 December 2008 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 2009 was unqualified pursuant to Section 498 of the Companies Act 2006 and did not contain a statement under sub-section 498 (2) or (3) of that Act.

2. Basis of preparation

The Group's business activities, together with the factors likely to affect its future development, performance and financial position are set out on pages 1 to 9.

The Group has adopted IFRS 8 "Operating Segments" for the current and preceding financial periods with no change to the Group's reportable segments.

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

The Group's principal banking facility of £12.5 million has been renewed until 28 February 2011 and the Directors are of the opinion that the Group's cash forecasts and revenue projections, which they believe are based on prudent market data and past experience taking account of reasonably possible changes in trading performance given current market and economic conditions, show that the Group should be able to operate within its current facilities and comply with its banking covenants.

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 for the year ended 31 December 2009.

3. Segmental information

The Group's principal business segment is **Packaging Distribution**, comprising the distribution of packaging materials and supply of storage and warehousing services in the UK. This constitutes over 75% of the turnover and profit of Group operations and 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**.

Discontinued Operations

The results of the Ireland-based Plastics business, Macfarlane Plastics Limited for 2008 were classified as discontinued operations in the comparative figures in the consolidated income statement with details of the disposal set out in note 8.

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2009

3. Segmental information (continued)	2009	2009	2009	2008
	Before	Exceptional		
	Exceptional	items	£000	£000
	Items	£000	£000	£000
Packaging Distribution				
Revenue	98,989	-	98,989	103,654
Cost of sales	(67,971)	-	(67,971)	(72,511)
Gross profit	<u>31,018</u>	-	<u>31,018</u>	31,143
Net operating expenses	(26,762)	(325)	(27,087)	(28,241)
Operating profit	<u>4,256</u>	<u>(325)</u>	<u>3,931</u>	<u>2,902</u>
Manufacturing Operations				
Revenue	24,607	-	24,607	27,755
Cost of sales	(15,502)	-	(15,502)	(16,760)
Gross profit	<u>9,105</u>	-	<u>9,105</u>	10,995
Net operating expenses	(8,955)	(374)	(9,329)	(9,189)
Operating profit/(loss)	<u>150</u>	<u>(374)</u>	<u>(224)</u>	<u>1,806</u>
Exceptional costs comprise:-				
Redundancy costs			596	-
Costs to exit premises			103	-
			<u>699</u>	<u>-</u>

Given the ongoing uncertainty in the UK economy, action plans were implemented in 2009 to reduce the cost base to ensure our infrastructure is in line with the potentially lower level of demand. These costs, set out above, are those costs, which the directors consider directly relate to these plans and are of a non-recurring nature.

	2009	2008
	£000	£000
Group segment		
Packaging Distribution	3,931	2,902
Manufacturing Operations	(224)	1,806
Operating profit/(loss) – continuing operations	<u>3,707</u>	4,708
Net finance costs	(1,223)	(1,006)
Profit before tax	<u>2,484</u>	3,702
Tax	(514)	(824)
Profit after tax	<u>1,970</u>	2,878
Loss on discontinued activities (see note 8)	351	(1,083)
	<u><u>2,321</u></u>	<u><u>1,795</u></u>
Group segment		
Packaging Distribution	17,804	18,528
Manufacturing Operations	7,157	7,245
Continuing operations	<u>24,961</u>	25,773
Discontinued operations	<u>-</u>	1,625
Net assets	<u><u>24,961</u></u>	<u><u>27,398</u></u>

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2009

	2009	2008
	£000	£000
4. Net finance expense	2009	2008
	£000	£000
Interest on bank loans and overdrafts	(260)	(559)
Interest on obligations under finance leases	(53)	(51)
Interest cost of pension scheme liabilities	(3,241)	(3,520)
	<hr/>	<hr/>
Total finance expense	(3,554)	(4,130)
	<hr/>	<hr/>
Expected return on pension scheme assets	2,325	3,075
Investment income	6	49
	<hr/>	<hr/>
Total finance income	2,331	3,124
	<hr/>	<hr/>
Net finance expense	(1,223)	(1,006)
	<hr/> <hr/>	<hr/> <hr/>
5. Tax	2009	2008
	£000	£000
Current tax		
United Kingdom corporation tax at 28% (2008: 28.5%)	-	(57)
Foreign tax	(32)	(83)
Adjustments in respect of prior periods	81	-
	<hr/>	<hr/>
Current tax credit/(charge)	49	(140)
Deferred taxation charge	(563)	(684)
	<hr/>	<hr/>
Total tax (charge)/credit	(514)	(824)
	<hr/> <hr/>	<hr/> <hr/>

The standard rate of tax for the year, based on the UK average rate of corporation tax is 28% (2008 – 28.5%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The actual tax charge for the current and previous year is less than 28% (2008 – 28.5%) of the results as set out in the income statement for the reasons set out in the following reconciliation:

	2009	2008
	£000	£000
Profit before taxation	2,484	3,702
	<hr/>	<hr/>
Tax on profit at 28% (2008 – 28.5%)	(696)	(1,055)
Factors affecting tax charge for the year:-		
Depreciation in excess of capital allowances	34	49
Tax charge on contributions to defined benefit pension scheme	-	269
Other differences	(78)	(116)
Utilisation of tax losses not previously recognised	151	-
Difference on overseas tax rates	(6)	29
Adjustments in respect of prior periods	81	-
	<hr/>	<hr/>
Tax charge for the year	(514)	(824)
	<hr/> <hr/>	<hr/> <hr/>

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2009

6. Dividends		2009	2008
		£000	£000
	Amounts recognised as distributions to equity holders in the year:		
	Final dividend for the year ended 31 December 2008 of 1.00p per share (2008 – 1.00p per share)	1,126	1,126
	Interim dividend for the year ended 31 December 2009 of 0.50p per share (2008 –1.00p per share)	582	1,126
		<u>1,688</u>	<u>2,252</u>

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

In addition to the amounts shown above, the proposed dividend of 1.00p per share will be paid on 10 June 2010 to those shareholders on the register at 14 May 2010 and is subject to approval by shareholders at the Annual General Meeting in 2010 and has not been included as a liability in these financial statements.

7. Earnings per share

From continuing and discontinued operations

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

	2009	2008
	£000	£000
Earnings from continuing and discontinued operations for the purposes of earnings per share being profit for the year	2,321	1,795
(Less)/add: (Profit)/loss for the year from discontinued operations	(351)	1,083
	<u>1,970</u>	<u>2,878</u>
Number of shares in issue for the purposes of calculating basic and diluted earnings per share	2009	2008
	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	(1,671)	(2,491)
	<u>113,348</u>	<u>112,528</u>
Weighted average number of shares in issue for the purposes of basic earnings per share	113,348	112,528
Effect of dilutive potential ordinary shares due to share options	-	-
	<u>113,348</u>	<u>112,528</u>
Weighted average number of shares in issue for the purposes of diluted earnings per share	113,348	112,528

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2009

8. Discontinued operations

	2009	2008
Discontinued Manufacturing Operations	£000	£000
Revenue	-	7,139
Cost of sales	-	(4,284)
	<hr/>	<hr/>
Gross profit	-	2,855
Net operating expenses	-	(2,579)
	<hr/>	<hr/>
Operating profit	-	266
Net interest receivable	-	5
	<hr/>	<hr/>
Profit before tax	-	271
Tax	-	24
	<hr/>	<hr/>
Profit after tax	-	295
Profit/(loss) on disposal of discontinued operations	351	(1,378)
	<hr/>	<hr/>
Profit/(loss) on disposal of discontinued activities	351	(1,083)
	<hr/> <hr/>	<hr/> <hr/>
	2009	2008
	£000	£000
Manufacturing Operations		
Loss on disposal of subsidiary undertaking		
Property, plant and equipment	-	1,932
Inventories	-	430
Trade receivables	-	1,121
Trade payables	-	(1,075)
	<hr/>	<hr/>
Net assets disposed of	-	2,408
	<hr/>	<hr/>
Accumulated foreign exchange loss on disposal	-	733
Loss on disposal of subsidiary undertaking	-	(2,518)
	<hr/>	<hr/>
Loss on disposal of Plastics business	-	(1,785)
Release of provisions on conclusion of previous disposals	351	407
	<hr/>	<hr/>
Total profit/(loss) on disposal	351	(1,378)
	<hr/>	<hr/>
Total consideration	351	1,030
	<hr/> <hr/>	<hr/> <hr/>
Cash	1,916	(595)
Deferred consideration	(1,565)	1,625
	<hr/>	<hr/>
Total consideration	351	1,030
	<hr/> <hr/>	<hr/> <hr/>

During the year, the Group reached full and final settlements in respect of certain remaining sums due and obligations relating to previous year's disposals, resulting in a credit of £351,000 in respect of discontinued operations.

On 8 January 2009, the Group concluded an agreement for the sale of its Ireland-based plastics business, Macfarlane Plastics Limited to Procap Holdings SA. In the opinion of the directors, as the agreement was substantively completed by 31 December 2008, it was appropriate to treat the business as having an effective date of disposal for accounting purposes of 31 December 2008.

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2009

9. Acquisition of subsidiary

Fair values of net assets acquired	2009	2008
	£000	£000
Other intangible assets	-	2,973
Property, plant and equipment	-	367
Inventories	-	1,056
Trade and other receivables	-	3,430
Cash and cash equivalents	-	907
Bank overdrafts	-	(463)
Trade and other payables	-	(3,304)
Current tax liabilities	-	(512)
Finance lease liabilities	-	(31)
Deferred tax liabilities	-	(872)
	<hr/>	<hr/>
Total assets	-	3,551
Goodwill arising on acquisition	(200)	5,753
	<hr/>	<hr/>
Total consideration	(200)	9,304
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash	(1,190)	(7,854)
Deferred consideration	1,390	(1,450)
	<hr/>	<hr/>
Total consideration	200	(9,304)
	<hr/> <hr/>	<hr/> <hr/>
Net cash outflow arising on acquisition		
Cash consideration	(1,190)	(7,854)
Cash and cash equivalents acquired	-	907
Bank overdrafts acquired	-	(463)
	<hr/>	<hr/>
	(1,190)	(7,410)
	<hr/> <hr/>	<hr/> <hr/>

On 7 January 2008, the Group acquired 100% of the issued share capital of Online Packaging Limited, for a consideration of approximately £5.0 million. The deferred consideration of £0.5 million was paid in the first quarter of 2009. 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 Limited, for a consideration assessed at £4.3 million at 31 December 2008. £3.3 million of the consideration was paid in 2008, with deferred consideration of a further £0.7 million paid in the final quarter of 2009. The maximum additional consideration payable in 2010 is £0.1 million. As a result the deferred consideration assessed on acquisition has been reduced by £0.2 million in these accounts with a corresponding reduction in goodwill. The business is a Packaging Distributor and is accounted for in the Packaging Distribution segment.

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2009

10. Notes to the cash flow statement	2009	2008
	£000	£000
Operating profit	3,707	4,708
Continuing operations		
Discontinued operations	-	266
Operating profit	3,707	4,974
Adjustments for:		
Amortisation of intangible assets	310	102
Depreciation of property, plant and equipment	1,155	1,575
Gain on disposal of property, plant and equipment	(51)	(9)
Operating cash flows before movements in working capital	5,121	6,642
(Increase)/decrease in inventories	(418)	712
(Increase)/decrease in receivables	(481)	2,701
Increase/(decrease) in payables	584	(3,233)
Adjustment for pension scheme funding	(2,309)	(1,407)
Cash generated by operations	2,497	5,415
Income taxes paid	(423)	(647)
Interest paid	(330)	(608)
Net cash from operating activities	1,744	4,160
	2009	2008
	£000	£000
Decrease in cash and cash equivalents in the year	(241)	(52)
(Increase)/decrease in bank overdrafts	346	(4,002)
New finance leases in the year	(564)	-
Cash flows from debt and lease financing	336	(45)
Movement in net debt in the year	(123)	(4,099)
Opening net debt	(7,207)	(3,108)
Closing net debt	(7,330)	(7,207)
Net debt comprises:		
Cash and cash equivalents	536	777
Bank overdrafts and loans	(6,908)	(7,254)
Net bank debt	(6,372)	(6,477)
Obligations under finance leases		
Due within one year	(272)	(208)
Due outwith one year	(686)	(522)
Closing net debt	(7,330)	(7,207)

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 2009, (2008 - £385,000) cash outflows in respect of investing activities totalled £1,916,000 (2008 – outflows £808,000) and cash outflows from financing activities amounted to Nil (2008 £Nil).

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2009

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 at 1 May 2008. The principal assumptions adopted were that investment returns would average 7.00% per annum and that salary increases would average 4.75% per annum for pre-2007 service and 2.5% for post-2007 service. The 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 71% 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 2009 and the expected rates of return were:

Asset class	Fair value 2009 £000	Fair value 2008 £000	Fair value 2007 £000	Fair value 2006 £000	Fair value 2005 £000
Equities	23,315	18,332	28,162	26,785	24,077
Bonds	17,277	17,506	16,859	16,661	16,678
Other (cash)	30	105	11	184	21
Fair value of assets	40,622	35,943	45,032	43,630	40,776
Present value of scheme liabilities	(60,988)	(53,420)	(59,304)	(59,503)	(63,753)
Deficit in the scheme	(20,366)	(17,477)	(14,272)	(15,873)	(22,977)
Related deferred tax asset	5,702	4,894	3,996	4,762	6,893
Net pension liability	(14,664)	(12,583)	(10,276)	(11,111)	(16,084)

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

Assumptions	2009	2008	2007	2006	2005
Discount rate	5.75%	6.25%	5.80%	5.25%	4.75%
Rate of increase in salaries	3.50%	2.75%	3.25%	2.75%	2.75%
Inflation assumption	3.50%	2.75%	3.25%	2.75%	2.75%
Life expectancy beyond normal retirement date of 65					
Male	21.3 years	21.3 years	21.3 years	19.5 years	19.5 years
Female	24.0 years	24.0 years	24.0 years	22.4 years	22.4 years
Movement in scheme deficit	£000	£000	£000	£000	£000
At 1 January	(17,477)	(14,272)	(15,873)	(22,977)	(17,424)
Current service cost	(240)	(237)	(272)	(353)	(298)
Employer contributions	2,415	1,558	1,571	1,925	746
Curtailement gains	134	86	84	58	-
Net finance costs	(916)	(445)	(175)	(361)	(448)
Actuarial (loss)/gain in period	(4,282)	(4,167)	393	5,835	(5,553)
At 31 December	(20,366)	(17,477)	(14,272)	(15,873)	(22,977)

Macfarlane Group PLC

Notes to the financial information

For the year ended 31 December 2009

11. Pension scheme (continued)

Our UK defined benefit pension scheme has assets at current market value of £40.6 million (2008 - £35.9 million) and liabilities discounted using specified bond yields of £61.0 million (2008 - £53.4 million). On this valuation basis at 31 December 2009, there is a deficit of £20.4 million (2008 - £17.5 million), which is partially offset by a deferred tax asset of £5.7 million (2008 - £4.9 million) giving a net pension deficit of £14.7 million (2008 - £12.6 million).

The value of investments in equities of £23,315,000 at 31 December 2009 includes a holding of 819,506 ordinary shares in Macfarlane Group PLC (2008 – None). These are held at a value of £160,000 (2008 - £Nil).

During 2009, the pension scheme's investments in equities increased in value by over 25% reflecting the positive growth in equity markets. The actual return on scheme assets in 2009 was £3.3 million above expected returns estimated at the start of 2009. However this increase was more than offset by a decrease from 6.25% to 5.75% in the assumed bond yields to discount pension scheme liabilities and other actuarial assumptions, which had a negative impact of around £7.6 million on the liabilities recorded in our balance sheet. The net result was an actuarial loss of £4.3 million in 2009. Assumptions in relation to mortality are consistent with 2008.

The Company's pension scheme deficit is sensitive to movements in interest rates, inflation and longevity assumptions. This constitutes an ongoing risk, creating significant volatility in the charges and equity in each financial year.

12. 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 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 this preliminary statement.

13. Posting to shareholders and Annual General Meeting

The Annual Report and Accounts will be sent to shareholders on Tuesday 30 March 2010 and will be available to members of the public at the Company's Registered Office, 21 Newton Place, Glasgow G3 7PY from 31 March 2010. The Annual General Meeting will take place at the Thistle Hotel, Cambridge Street Glasgow at 12 noon on Tuesday 11 May 2010.

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.