MACFARLANE
GROUP

Interim Report 2017

Chairman's statement

Macfarlane Group has continued to perform well in the first half of 2017. Group sales of £89.8 million, were 10% ahead of the comparable period in 2016 and profit before tax of £2.5 million, was 27% higher than in 2016. The strong performance in the first six months of 2017, supplemented by the expected seasonal uplift from the e-commerce sector in the second half of the year gives the Board confidence that its full year expectations for 2017 will be achieved.

Packaging Distribution sales were 12% up on the first half of 2016, with 3% achieved from organic growth and the remainder from recent acquisitions, all of which are performing well. Gross margin in Packaging Distribution was similar to last year at 29.0%, (2016 – 29.2%). Operating profit at £2.7 million is £0.4 million, 18% ahead of 2016.

Sales in our Manufacturing Operations are 1% below 2016 levels, principally due to our continuing programme of focusing on higher margin sales. Operating profit is £0.3 million, 29% ahead of 2016.

After charging net interest of £0.4 million (2016 – £0.5 million), profit before tax grew to £2.5 million (2016 – £2.0 million).

Net debt at 30 June 2017 was £14.6 million, a £1.5 million reduction from the level of £16.1 million at 31 December 2016. The Group is operating well within its existing bank facility of £25.0 million. Consistent with our normal pattern, Group trading is expected to be strongly cash generative in the second half of 2017.

The pension scheme deficit reduced to £13.4 million at 30 June 2017 from £14.5 million at 31 December 2016, mainly due to the payment of deficit reduction contributions during the six month period.

The Board is recommending an increase of 9.1% in the interim dividend to 0.60p per share to be paid on 12 October 2017 to shareholders on the register as at 22 September 2017 (2016 – 0.55p per share).

Earlier this year I indicated to the Board, my intention to step down from the Chair by the end of 2017. Having been a member of the Board since 2004 and Chairman since 2012, I took the view that the time was right to make the change and to enable an orderly transition. The Nominations Committee's process to select a new Chairman is well advanced and the outcome will be announced in due course.

Our strategy is to deliver sustainable profit growth by focusing on added value products and services in our target market sectors, combined with the execution of value-enhancing acquisitions. Macfarlane Group's performance in the first half of 2017 reflects the successful implementation of our strategy and we are confident that the Group will continue to make further progress in the remainder of 2017.

Graeme Bissett
Chairman

24 August 2017

Interim results – management report

Macfarlane Group's trading activities comprise two divisions, Packaging Distribution and Manufacturing Operations.

Packaging Distribution

Macfarlane's Packaging Distribution business is the UK's leading specialist distributor of protective packaging materials. In a fragmented market, Macfarlane operates from 20 Regional Distribution Centres ('RDCs') supplying customers with a comprehensive range of protective packaging materials and services on a local, regional and national basis. Macfarlane benefits its customers by enabling them to ensure their products are cost-effectively protected in transit and storage by offering a comprehensive product range, single source supply, Just-In-Time delivery, tailored stock management programmes, electronic trading and independent advice on both packaging materials and packing processes.

	2017 £000	2016 £000
Sales	**78,055**	69,955
Cost of sales	**55,427**	49,503
Gross margin	**22,628**	20,452
Overheads	**19,958**	18,201
Operating profit	**2,670**	2,251

The main features of our first half performance in 2017 were:

- Sales showed organic growth of 3% on 2016, reflecting the benefit of new business wins;
- Sales growth of 9% was achieved by the continuing contribution made by recent acquisitions;
- Sales to internet retailers accounted for 25% of business in H1 2017, slightly above 2016. We continue to retain, develop and win business in this key growth sector and our Innovation Lab in Milton Keynes has supported our sales growth in 2017;
- We are making good progress in the development of our National Account business with additional business from existing customers in H1 2017;
- The Third-party Logistics ('3PL') sector now represents 11% of our total business (2016 – 11%) as we continue to strengthen our partnerships with key 3PL operators;
- Gross margin at 29.0% (2016 – 29.2%) was marginally impacted by industry wide input price increases on paper-based products, which we are in the process of recovering from our customer base; and
- Overhead investment in the current year is primarily due to the impact of acquisitions; meanwhile the strong cost control ethos throughout the business remains.

We expect sales to be weighted towards H2 2017 reflecting the growing proportion of internet retailers in our customer base. The key areas we shall focus on to support this are:

- Maintaining our focus on the growth potential for protective packaging in our key market segments – the e-commerce sector, National Accounts and 3PL operators;
- Building on the new business momentum created in H1 2017 to ensure that key business wins are effectively implemented to improve sales growth in H2 2017;
- Utilising the benefits of our membership of NovuPak, for UK based customers requiring our capabilities on a wider European basis;
- Improving our sourcing through stronger relationships with our existing supplier base;
- Fully implementing sales price recovery of paper-related input price increases;
- Rolling out the new products introduced to the business from recent acquisitions;
- Pursuing cost reduction opportunities through productivity improvements as well as in our property portfolio;
- Maintaining the focus on working capital management to reduce borrowing levels; and
- Supplementing organic growth through the identification and completion of further suitable high quality acquisition opportunities.

Manufacturing Operations

Macfarlane's Manufacturing Operations comprise Labels and Packaging Design & Manufacture.

	2017 £000	2016 £000
Sales	**13,553**	13,650
Cost of sales	**8,650**	7,983
Gross margin	**4,903**	5,667
Overheads	**4,625**	5,451
Operating profit	**278**	216

Labels

Our Labels business designs and prints self-adhesive labels for major FMCG customers in the UK and Europe and resealable labels for major customers in the UK, Europe and the USA. The business operates from production sites in Kilmarnock and Wicklow and a sales and design office in Sweden, which focuses on the development and growth of our resealable labels business, Reseal-it. More product sectors are adopting the re-sealable label format and this is a key strategic focus for the Labels management team.

In H1 2017 sales at Macfarlane Labels were at similar levels to 2016 as we continued our focus on sales of resealable products to key customers. As a result gross margin improved versus 2016. Profit in the first half of 2017 was at a similar level to that achieved in 2016.

Packaging Design & Manufacture

We operate the Packaging Design & Manufacture business from two UK sites – Grantham and Westbury, where we design, manufacture and assemble custom-designed packaging solutions for customers requiring cost-effective methods of protecting high value products in storage and transit. We differentiate ourselves through our technical expertise, design capability, industry accreditations and national capability through the partnership with Macfarlane Packaging Distribution.

Packaging Design & Manufacture sales reduced by 1% from last year's levels with demand weakness in particular market sectors, impacting certain of our customers. We reduced operating costs from the high levels seen in the second quarter of 2016, which resulted in profit in H1 2017 being above the same period in 2016.

The priorities for the Manufacturing Operations in the second half of 2017 are to:

- Accelerate the Reseal-it growth momentum through improved geographic penetration, extending the product range and introducing Reseal-it to new product sectors;
- Increase self-adhesive label sales with key brands to create a more balanced customer portfolio;
- Improve operational efficiency at our Grantham site;
- Accelerate Packaging Design & Manufacture sales growth, particularly in key sectors e.g. Defence, Aerospace and Medical;
- Prioritise sales activity on the higher added value bespoke composite pack product range; and
- Continue to strengthen the relationship between our Packaging Design & Manufacture operations and our Packaging Distribution business to create both sales and cost synergies.

Summary and future prospects

Macfarlane businesses all have strong market positions with differentiated product and service offerings. We have a flexible business model and a clear strategic plan incorporating a range of actions, which is being effectively implemented and is reflected in our consistent, profitable growth in recent years.

Our future performance is largely dependent on our own efforts to grow sales, increase efficiencies and bring high quality acquisitions into the Group. With a focus on the most attractive UK market sectors for our products and services, combined with our successful track record of growth and acquisitions, we expect the full year 2017 to be another successful year for Macfarlane Group.

Interim results – management report (continued)

Principal risks and uncertainties

The principal risks and uncertainties, which could impact on the performance of the Group, were outlined in our Annual Report and Accounts for 2016 (available on our website at www.macfarlanegroup.com) together with the mitigating actions. These remain substantially the same for the remaining six months of the financial year and are summarised below:

- The Group's businesses are impacted by commodity-based raw material prices and manufacturer energy costs, with profitability sensitive to supplier price changes. The Group works closely with its supplier base to manage effectively the scale and timing of these price movements and any resultant impact on profit;
- The Group's defined benefit pension scheme is sensitive to a number of key factors; investment returns, discount rates used to calculate the scheme's liabilities and mortality assumptions. Small changes in these assumptions could cause significant movements in the pension deficit. The Group has sought to manage the volatility of the pension scheme deficit caused by these factors by undertaking exercises to reduce liabilities, more effectively match the investment profile with the liability profile and making contributions to reduce the deficit;
- Given the multi-site nature of its business the Group has an extensive property portfolio comprising three owned sites and 30 leased sites, three of which are sub-let. The portfolio can give rise to risks in relation to ongoing lease costs, dilapidations and fluctuations in value. The Group adopts a proactive approach to managing property costs and exposures;
- The Group needs continued access to funding to meet its trading obligations and to support organic growth and acquisitions. There is a risk that the Group may be unable to obtain funds or that such funds will only be available on unfavourable terms. The Group's borrowing facility comprises a committed facility of £25 million with Lloyds Bank plc, with an option to increase it further to £30 million, available until June 2019. This facility finances our trading requirements and supports controlled expansion, providing a medium-term funding platform for growth;
- In Packaging Distribution, the business model reflects a decentralised approach with a high dependency on effective local decision-making. There is a risk that local decisions may not always meet overall corporate objectives. This is closely monitored in the Group with regular reviews of performance and prospects for all locations;
- The Group has a significant investment in working capital in trade receivables and inventories. There is a risk that this investment is not fully recovered. Rigour is applied to the management of trade receivables and inventories throughout the Group to mitigate these risks; and
- The Group's growth strategy includes acquisitions as a key component. There are risks that the availability of acquisition candidates may reduce, or that acquisitions may not perform as expected either after acquisition or on integration into the Group. Having made six acquisitions since 2014, the Group has well-established due diligence and integration processes and procedures and seeks to acquire quality businesses which will perform well in the Group.

The Group operates a formal framework for the identification and evaluation of the major business risks faced by each business and determines an appropriate course of action to manage these risks.

Statement of Directors' responsibilities

The Directors of Macfarlane Group PLC are

G. Bissett	Chairman
P.D. Atkinson	Chief Executive
J. Love	Finance Director
M.R. Arrowsmith	Non-Executive Director/ Senior Independent Director
S.R. Paterson	Non-Executive Director
R. McLellan	Non-Executive Director

The Directors confirm that, to the best of their knowledge:

(i) the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;

(ii) the interim management report includes a fair review of the information required by:

a. DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

b. DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Approved by the Board of Directors on 24 August 2017 and signed on its behalf by:

Peter D. Atkinson
Chief Executive

John Love
Finance Director

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.

This announcement contains certain forward-looking statements relating to operations, performance and financial status. Such statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future and should be treated with caution as there are a number of factors, including both economic and business risk factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements.

These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this announcement. Nothing in this report should be construed as a profit forecast.

Independent review report to Macfarlane Group PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated balance sheet, the condensed consolidated cash flow statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA').

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Hugh Harvie
for and on behalf of KPMG LLP
Chartered Accountants
319 St Vincent Street
Glasgow G2 5AS

24 August 2017

Condensed consolidated income statement (unaudited)

For the six months ended 30 June 2017

	Note	Six months to 30 June 2017 £000	Six months to 30 June 2016 £000	Year to 31 December 2016 £000
Continuing operations				
Revenue	3	**89,824**	81,479	179,772
Cost of sales		**(62,293)**	(55,360)	(124,059)
Gross profit		**27,531**	26,119	55,713
Distribution costs		**(4,000)**	(3,999)	(7,622)
Administrative expenses		**(20,583)**	(19,653)	(39,379)
Operating profit	3	**2,948**	2,467	8,712
Finance costs	4	**(413)**	(464)	(901)
Profit before tax		**2,535**	2,003	7,811
Tax	5	**(443)**	(327)	(1,761)
Profit for the period	3	**2,092**	1,676	6,050
Earnings per share	7			
Basic		**1.53p**	1.35p	4.67p
Diluted		**1.52p**	1.34p	4.64p

Condensed consolidated statement of comprehensive income (unaudited) For the six months ended 30 June 2017

	Note	Six months to 30 June 2017 £000	Six months to 30 June 2016 £000	Year to 31 December 2016 £000
Items that may be reclassified to profit or loss				
Foreign currency translation differences		**35**	164	195
Items that will not be reclassified to profit or loss				
Remeasurement of pension scheme liability	10	**(505)**	(2,323)	(5,552)
Tax recognised in other comprehensive income				
Tax on remeasurement of pension scheme liability	11	**86**	418	1,000
Long-term corporation tax rate change	11	**–**	–	(146)
Other comprehensive expense for the period, net of tax		**(384)**	(1,741)	(4,503)
Profit for the period		**2,092**	1,676	6,050
Total comprehensive income/(expense) for the period		**1,708**	(65)	1,547

Condensed consolidated statement of changes in equity (unaudited) For the six months ended 30 June 2017

	Note	Share capital £000	Share premium £000	Revaluation reserve £000	Translation reserve £000	Retained earnings £000	Total £000
At 1 January 2017		34,084	4,641	70	254	274	**39,323**
Comprehensive income							
Profit for the year		–	–	–	–	2,092	**2,092**
Foreign currency translation differences		–	–	–	35	–	**35**
Remeasurement of pension scheme liability	10	–	–	–	–	(505)	**(505)**
Tax on remeasurement of pension scheme liability	11	–	–	–	–	86	**86**
Total comprehensive income		**–**	**–**	**–**	**35**	**1,673**	**1,708**
Transactions with shareholders							
Dividends	6	–	–	–	–	(1,909)	**(1,909)**
Credit for share-based payments		–	–	–	–	54	**54**
Total transactions with shareholders		**–**	**–**	**–**	**–**	**(1,855)**	**(1,855)**
At 30 June 2017		**34,084**	**4,641**	**70**	**289**	**92**	**39,176**

Condensed consolidated statement of changes in equity (unaudited) For the six months ended 30 June 2016

	Note	Share capital £000	Share premium £000	Revaluation reserve £000	Translation reserve £000	Retained earnings £000	Total £000
At 1 January 2016		31,153	1,018	70	59	1,172	**33,472**
Comprehensive income							
Profit for the year		–	–	–	–	1,676	**1,676**
Foreign currency translation differences		–	–	–	164	–	**164**
Remeasurement of pension scheme liability	10	–	–	–	–	(2,323)	**(2,323)**
Tax on remeasurement of pension scheme liability	11	–	–	–	–	418	**418**
Total comprehensive income/(expense)		**–**	**–**	**–**	**164**	**(229)**	**(65)**
Transactions with shareholders							
Dividends	6	–	–	–	–	(1,608)	**(1,608)**
Credit for share-based payments		–	–	–	–	54	**54**
Total transactions with shareholders		**–**	**–**	**–**	**–**	**(1,554)**	**(1,554)**
At 30 June 2016		**31,153**	**1,018**	**70**	**223**	**(611)**	**31,853**

Condensed consolidated statement of changes in equity (unaudited) For the year ended 31 December 2016

	Note	Share capital £000	Share premium £000	Revaluation reserve £000	Translation reserve £000	Retained earnings £000	Total £000
At 1 January 2016		31,153	1,018	70	59	1,172	**33,472**
Comprehensive income							
Profit for the year		–	–	–	–	6,050	**6,050**
Foreign currency translation differences		–	–	–	195	–	**195**
Remeasurement of pension scheme liability	10	–	–	–	–	(5,552)	**(5,552)**
Tax on remeasurement of pension scheme liability	11	–	–	–	–	1,000	**1,000**
Corporation tax rate change	11	–	–	–	–	(146)	**(146)**
Total comprehensive income		**–**	**–**	**–**	**195**	**1,352**	**1,547**
Transactions with shareholders							
Dividends	6	–	–	–	–	(2,358)	**(2,358)**
Credit for share-based payments		–	–	–	–	108	**108**
Issue of share capital	12	2,931	3,623	–	–	–	**6,554**
Total transactions with shareholders		**2,931**	**3,623**	**–**	**–**	**(2,250)**	**4,304**
At 31 December 2016		**34,084**	**4,641**	**70**	**254**	**274**	**39,323**

Condensed consolidated balance sheet (unaudited)
At 30 June 2017

	Note	30 June 2017 £000	30 June 2016 £000	31 December 2016 £000
Non-current assets				
Goodwill and other intangible assets		**43,330**	38,371	44,002
Property, plant and equipment		**7,961**	7,868	7,770
Other receivables		**358**	457	425
Deferred tax asset	11	**2,691**	2,698	2,878
Total non-current assets		**54,340**	49,394	55,075
Current assets				
Inventories		**12,848**	10,968	12,986
Trade and other receivables		**42,880**	40,358	48,572
Cash and cash equivalents	9	**1,212**	730	1,930
Total current assets		**56,940**	52,056	63,488
Total assets	3	**111,280**	101,450	118,563
Current liabilities				
Trade and other payables		**39,943**	37,904	43,202
Current tax liabilities		**563**	271	1,020
Finance lease liabilities	9	**398**	383	395
Bank borrowings	9	**15,259**	16,634	17,206
Total current liabilities		**56,163**	55,192	61,823
Net current assets/(liabilities)		**777**	(3,136)	1,665
Non-current liabilities				
Retirement benefit obligations	10	**13,419**	12,624	14,537
Deferred tax liabilities	11	**1,577**	1,191	1,697
Trade and other payables		**778**	31	781
Finance lease liabilities	9	**167**	559	402
Total non-current liabilities		**15,941**	14,405	17,417
Total liabilities		**72,104**	69,597	79,240
Net assets	3	**39,176**	31,853	39,323
Equity				
Share capital		**34,084**	31,153	34,084
Share premium		**4,641**	1,018	4,641
Revaluation reserve		**70**	70	70
Translation reserve		**289**	223	254
Retained earnings		**92**	(611)	274
Total equity		**39,176**	31,853	39,323

Condensed consolidated cash flow statement (unaudited)

For the six months ended 30 June 2017

	Note	Six months to 30 June 2017 £000	Six months to 30 June 2016 £000	Year to 31 December 2016 £000
Net cash inflow from operating activities	9	**4,427**	991	3,294
Investing activities				
Acquisitions	8	**(246)**	(2,701)	(8,718)
Proceeds on disposal of property, plant and equipment		**18**	11	57
Purchases of property, plant and equipment		**(829)**	(781)	(1,144)
Net cash used in investing activities		**(1,057)**	(3,471)	(9,805)
Financing activities				
Dividends paid	6	**(1,909)**	(1,608)	(2,358)
Proceeds from issue of share capital (net of issue expenses)		**–**	–	5,554
(Repayment)/drawdown on bank facility		**(1,947)**	3,595	4,167
Repayment of obligations under finance leases		**(232)**	(184)	(329)
Net cash (used in)/generated by financing activities		**(4,088)**	1,803	7,034
Net (decrease)/increase in cash and cash equivalents		**(718)**	(677)	523
Cash and cash equivalents at beginning of period		**1,930**	1,407	1,407
Cash and cash equivalents at end of period	9	**1,212**	730	1,930

Notes to the Group condensed financial statements (unaudited)
For the six months ended 30 June 2017

1. Basis of preparation
This condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the company's published consolidated financial statements for the year ended 31 December 2016.

Judgements, assumptions and estimation uncertainties
In preparing these condensed financial statements, management has made judgements, estimates and assumptions, which affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from the amounts estimated. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about judgements, assumptions and estimation uncertainties made in applying accounting policies that have the most significant effect on the amounts recognised in these financial statements and therefore have the most significant risk of resulting in a material adjustment are as follows:

(i) Trade and Other Receivables	The provision for doubtful receivables is based on judgemental estimates over the recoverable amounts
(ii) Retirement Benefit Obligations	The valuation of the pension deficit is affected by key actuarial assumptions

Business activities, risks and financing
The Group's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the Interim Management Report on pages 1 to 5.

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 committed banking facilities with suitable terms and conditions to accommodate the requirements of the Group's operations. Credit risk is managed by applying considerable rigour in managing the Group's trade receivables. The Directors believe that the Group is adequately placed to manage its financial risks effectively in the current economic climate.

The Group's banking arrangements with Lloyds Bank PLC comprise a committed borrowing facility of £25 million, expiring in June 2019, secured over part of Macfarlane Group's trade receivables, with an option to increase it further to £30 million. The facility bears interest at normal commercial rates and has financial covenants in relation to interest cover and headroom over trade receivables.

The Directors are of the opinion that the Group's cash 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.

In assessing the going concern basis, the Directors have considered the Group's business activities, the financial position of the Group and the Group's risks and uncertainties. The Directors have a reasonable expectation that, despite the current uncertain economic environment, the Company...

Notes to the Group condensed financial statements (unaudited)
For the six months ended 30 June 2017

1. Basis of preparation (continued)
...and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason this condensed set of financial statements have been prepared on the going concern basis.

Approval and review of condensed financial statements
These condensed financial statements were approved by the Board of Directors on 24 August 2017.

This condensed set of financial statements is unaudited but has been formally reviewed by the auditor and their Independent Review Report to the Company is set out on page 6.

2. General information
Comparative figures for the financial year ended 31 December 2016 are extracted from the Company's statutory accounts for 2016. Those accounts have been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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. 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 USA and the design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK comprise one segment headed **Manufacturing Operations**. No individual business segment within Manufacturing Operations represents more than 10% of Group revenue or profit in each period presented.

Trading results – continuing operations

	Six months to 30 June 2017 £000	Six months to 30 June 2016 £000	Year ended 31 December 2016 £000
Packaging Distribution			
Revenue	**78,055**	69,955	156,187
Cost of sales	**(55,427)**	(49,503)	(110,928)
Gross profit	**22,628**	20,452	45,259
Net operating expenses	**(19,958)**	(18,201)	(37,423)
Operating profit	**2,670**	2,251	7,836
Manufacturing Operations			
Revenue	**13,553**	13,650	28,031
Cost of sales	**(8,650)**	(7,983)	(17,577)
Gross profit	**4,903**	5,667	10,454
Net operating expenses	**(4,625)**	(5,451)	(9,578)
Operating profit	**278**	216	876

	Six months to 30 June 2017 £000	Six months to 30 June 2016 £000	Year to 31 December 2016 £000
Group segment – total revenue			
Packaging Distribution	**78,055**	69,955	156,187
Manufacturing Operations	**13,553**	13,650	28,031
Inter-segment revenue	**(1,784)**	(2,126)	(4,446)
External revenue – continuing operations	**89,824**	81,479	179,772
Operating profit – continuing operations			
Packaging Distribution	**2,670**	2,251	7,836
Manufacturing Operations	**278**	216	876
Operating profit	**2,948**	2,467	8,712
Finance costs (see note 4)	**(413)**	(464)	(901)
Profit before tax	**2,535**	2,003	7,811
Tax (see note 5)	**(443)**	(327)	(1,761)
Profit for the period	**2,092**	1,676	6,050

The Packaging Distribution business has historically benefited from additional demand in the final months of the year, resulting in revenue and profitability at higher levels in the second half of the year.

	30 June 2017 £000	30 June 2016 £000	31 December 2016 £000
Total assets			
Packaging Distribution	**96,872**	86,883	105,034
Manufacturing Operations	**14,408**	14,567	13,529
Total assets	**111,280**	101,450	118,563
Net assets			
Packaging Distribution	**32,342**	25,530	32,531
Manufacturing Operations	**6,834**	6,323	6,792
Net assets	**39,176**	31,853	39,323

Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2017

4. Finance costs

	Six months to 30 June 2017 £000	Six months to 30 June 2016 £000	Year to 31 December 2016 £000
Interest on bank borrowings	**(214)**	(241)	(480)
Interest on obligations under finance leases	**(15)**	(23)	(48)
Net interest expense on retirement benefit obligation (see note 10)	**(184)**	(200)	(373)
Total finance costs	**(413)**	(464)	(901)

5. Tax

	Six months to 30 June 2017 £000	Six months to 30 June 2016 £000	Year to 31 December 2016 £000
Current tax			
UK corporation tax	**(327)**	(263)	(1,409)
Overseas tax	**(12)**	(33)	(79)
Prior year adjustments	**49**	99	83
Total current tax	**(290)**	(197)	(1,405)
Total deferred tax (see note 11)	**(153)**	(130)	(356)
Total	**(443)**	(327)	(1,761)

Tax for the first six months has been charged at 19.25% (2016 – 20.00%) representing the best estimate of the effective tax charge for the full year.

6. Dividends

	Six months to 30 June 2017 £000	Six months to 30 June 2016 £000	Year to 31 December 2016 £000
Amounts recognised as distributions to equity holders in the period			
Final Dividend (1.40p per share) (2016 – 1.29p per share)	**1,909**	1,608	1,608
Interim Dividend (2016 – 0.55p per share)	**–**	–	750
Distributions in the period	**1,909**	1,608	2,358

An interim dividend of 0.60p per share, payable on 12 October 2017 was declared on 24 August 2017 and has therefore not been included as a liability in these condensed financial statements.

7. Earnings per share

	Six months to 30 June 2017 £000	Six months to 30 June 2016 £000	Year to 31 December 2016 £000
Earnings			
Earnings from continuing operations for the purposes of earnings per share being profit for the year from continuing operations	**2,092**	1,676	6,050

	30 June 2017	30 June 2016	31 December 2016
Number of shares '000			
Weighted average number of ordinary shares in issue	**136,335**	124,611	129,496
Weighted average number of shares in issue for the purposes of basic earnings per share	**136,335**	124,611	129,496
Effect of dilutive potential ordinary shares due to share options	**967**	743	859
Weighted average number of shares in issue for the purposes of diluted earnings per share	**137,302**	125,354	130,355
Basic earnings per share	**1.53p**	1.35p	4.67p
Diluted earnings per share	**1.52p**	1.34p	4.64p

8. Acquisitions

On 29 July 2016, the Group acquired 100% of Nelsons for Cartons & Packaging Limited for a consideration of £7.2 million. £4.7 million was paid in cash on acquisition with £1.0 million settled by the issue of shares. The deferred consideration of £1.5 million, is payable in two equal instalments in the final quarter of 2017 and 2018, subject to certain trading targets being met in the two twelve month periods ending on 29 July 2017 and 29 July 2018 respectively.

In the first half of 2016, Macfarlane Group UK Limited, acquired the business of Colton Packaging Teesside ('Colton'), for £1.3 million and the packaging business of Edward McNeil Limited, for £1.7 million. £2.7 million was paid in cash on acquisition, with the deferred consideration payable based on earn-out targets in Colton for the year to 31 March 2017 and based on working capital levels in the Edward McNeil business. In 2017 £246,000 was paid to conclude both transactions.

In 2014 and 2015 the Group acquired 100% of One Packaging Limited and Network Packaging Limited. The final deferred considerations of £2.1 million were paid in the second half of 2016 following the successful conclusion of the respective earn-out periods.

Notes to the Group condensed financial statements (unaudited)
For the six months ended 30 June 2017

8. Acquisitions (continued)
All the businesses are packaging distributors, accounted for in our Packaging Distribution segment. Goodwill arising on these acquisitions is attributable to the anticipated future profitability of the distribution of the Group's product ranges in the UK and anticipated operating synergies from future combinations of activities with the existing Packaging Distribution network. All deferred consideration is recognised in liabilities at the respective reporting dates. Fair values assigned to net assets acquired and consideration paid and payable are set out below:

	Six months to 30 June 2017 £000	Six months to 30 June 2016 £000	Year to 31 December 2016 £000
Net assets acquired			
Other intangible assets	**–**	1,619	4,552
Property, plant and equipment	**–**	25	195
Inventories	**–**	628	1,542
Trade and other receivables	**–**	–	1,728
Cash and bank balances	**–**	–	696
Trade and other payables	**–**	–	(1,837)
Current tax liabilities	**–**	–	(256)
Finance lease liabilities	**–**	–	(7)
Deferred tax liabilities	**–**	(292)	(828)
Net assets acquired	**–**	1,980	5,785
Goodwill arising on acquisition	**–**	1,041	4,386
Total consideration	**–**	3,021	10,171
Contingent consideration on acquisitions			
Current year	**–**	(320)	(1,820)
Prior years	**246**	–	2,063
Shares	**–**	–	(1,000)
Total cash consideration	**246**	2,701	9,414
Net cash outflow arising on acquisition			
Cash consideration	**(246)**	(2,701)	(9,414)
Cash and bank balances acquired	**–**	–	696
Net cash outflow	**(246)**	(2,701)	(8,718)

9. Notes to the cash flow statement

	Six months to 30 June 2017 £000	Six months to 30 June 2016 £000	Year to 31 December 2016 £000
Operating profit	**2,948**	2,467	8,712
Adjustments for:			
Amortisation of intangible assets	**672**	471	1,117
Depreciation of property, plant and equipment	**629**	661	1,267
Gain on disposal of property, plant and equipment	**(9)**	(3)	(18)
Operating cash flows before movements in working capital	**4,240**	3,596	11,078
Decrease/(increase) in inventories	**138**	219	(885)
Decrease/(increase) in receivables	**5,737**	2,982	(3,450)
(Decrease)/increase in payables	**(2,905)**	(3,535)	1,280
Employer pension contributions less current service costs recognised in the income statement	**(1,807)**	(1,417)	(2,906)
Cash generated from operations	**5,403**	1,845	5,117
Income taxes paid	**(747)**	(590)	(1,295)
Interest paid	**(229)**	(264)	(528)
Net cash inflow from operating activities	**4,427**	991	3,294
Movement in net debt			
(Decrease)/increase in cash and cash equivalents	**(718)**	(677)	523
Decrease/(increase) in bank borrowings	**1,947**	(3,595)	(4,167)
Cash flows from payment of finance lease liabilities	**232**	184	329
Movement in net debt in the period	**1,461**	(4,088)	(3,315)
Opening net debt	**(16,073)**	(12,758)	(12,758)
Closing net debt	**(14,612)**	(16,846)	(16,073)
Net debt comprises:			
Cash and cash equivalents	**1,212**	730	1,930
Bank borrowings	**(15,259)**	(16,634)	(17,206)
Net bank debt	**(14,047)**	(15,904)	(15,276)
Finance lease liabilities			
Due within one year	**(398)**	(383)	(395)
Due outwith one year	**(167)**	(559)	(402)
Closing net debt	**(14,612)**	(16,846)	(16,073)

Cash and cash equivalents (which are presented as a single class of asset on the balance sheet) comprise cash at bank and other short-term highly liquid investments with maturity of three months or less.

Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2017

10. Retirement benefit obligations

The figures below have been prepared by Aon Hewitt and are based on the results of the triennial actuarial valuation as at 1 May 2014, updated to 30 June 2017, 30 June 2016 and 31 December 2016. The assets in the scheme and the net liability position of the scheme as calculated under IAS 19 are as follows:

Investment class	30 June 2017 £000	30 June 2016 £000	31 December 2016 £000
Equities			
UK equities and equity funds	**7,129**	5,725	6,604
Overseas equity funds	**10,354**	10,374	10,508
Multi-asset diversified funds	**21,872**	25,506	21,509
Bonds			
Liability driven investment funds	**26,526**	26,660	26,532
Corporate bond fund	**–**	952	–
Other			
Loan fund	**6,476**	6,076	6,334
Secured property income fund	**6,330**	–	–
Cash	**343**	859	6,321
Fair value of assets	**79,030**	76,152	77,808
Present value of scheme liabilities	**(92,449)**	(88,776)	(92,345)
Pension scheme deficit	**(13,419)**	(12,624)	(14,537)
Deferred tax asset (see note 11)	**2,281**	2,272	2,471
Pension scheme deficit net of related deferred tax asset	**(11,138)**	(10,352)	(12,066)

These amounts were calculated using the following principal assumptions as required under IAS 19:

Assumptions	30 June 2017	30 June 2016	31 December 2016
Discount rate	**2.60%**	2.90%	2.70%
Rate of increase in pensionable salaries	**0.00%**	0.00%	0.00%
Rate of increase in pensions in payment	**3% or 5% for fixed increases or 3.20% for LPI**	3% or 5% for fixed increases or 2.95% for LPI	3% or 5% for fixed increases or 3.20% for LPI
Inflation assumption (RPI)	**3.30%**	3.00%	3.30%
Inflation assumption (CPI)	**2.30%**	2.00%	2.30%
Life expectancy beyond normal retirement age of 65			
Male	**22.9 years**	22.8 years	22.8 years
Female	**25.4 years**	25.3 years	25.3 years

LPI represents limited price indexation applied to pensions in payment.

	Six months to 30 June 2017 £000	Six months to 30 June 2016 £000	Year to 31 December 2016 £000
Movement in scheme deficit in the period			
At start of period	**(14,537)**	(11,518)	(11,518)
Current service cost	**(61)**	(51)	(95)
Employer contributions	**1,868**	1,468	3,001
Net finance cost	**(184)**	(200)	(373)
Remeasurement of pension scheme liability in the period	**(505)**	(2,323)	(5,552)
At end of period	**(13,419)**	(12,624)	(14,537)

Sensitivity to key assumptions

Key assumptions used for IAS 19 are discount rate, inflation and mortality. If different assumptions were used, then this could have a material effect on the deficit. Assuming all other assumptions are held static then a movement in the following key assumptions would affect the level of the deficit as shown below:

Assumptions	30 June 2017 £000	30 June 2016 £000	31 December 2016 £000
Discount rate movement of +0.1%	**1,572**	1,278	1,478
Inflation rate movement of +0.1%	**(370)**	(453)	(471)
Mortality movement of +0.1 year in age rating	**276**	240	277

Positive figures reflect a reduction in scheme liabilities and therefore a reduction in the scheme deficit. The sensitivity information has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date and is consistent with the approach adopted in previous years.

Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2017

10. Retirement benefit obligations (continued)

	Six months to 30 June 2017 £000	Six months to 30 June 2016 £000	Year to 31 December 2016 £000
Movement in fair value of scheme assets			
Scheme assets at start of period	**77,808**	67,793	67,793
Interest income	**1,045**	1,243	2,470
Return on scheme assets (exc. amounts shown in interest income)	**1,004**	8,320	9,610
Contributions from sponsoring companies	**1,868**	1,468	3,001
Contribution from scheme members	**36**	35	72
Benefits paid	**(2,731)**	(2,707)	(5,138)
Scheme assets at end of period	**79,030**	76,152	77,808
Movement in present value of defined benefit obligations			
Obligations at start of period	**(92,345)**	(79,311)	(79,311)
Current service cost	**(61)**	(51)	(95)
Interest cost	**(1,229)**	(1,443)	(2,843)
Contribution from scheme members	**(36)**	(35)	(72)
Changes in assumptions underlying the defined benefit obligations	**(1,509)**	(10,643)	(15,162)
Benefits paid	**2,731**	2,707	5,138
Obligations at end of period	**(92,449)**	(88,776)	(92,345)

Investments

The Trustees review the scheme investments regularly and consult with the Company regarding any proposed changes. During the first half of 2017, the majority of the cash held at 31 December 2016 was invested in a Secured property income fund.

Funding

Following the completion of the triennial actuarial valuation at 1 May 2014, Macfarlane Group PLC is paying deficit reduction contributions in agreement with the scheme trustees to reduce the deficit over 10 years. The next triennial actuarial valuation of the scheme is due at 1 May 2017.

11. Deferred tax

	Tax losses less accelerated capital allowances £000	Other intangible assets £000	Retirement benefit obligations £000	Total £000
At 1 January 2016	433	(995)	2,073	**1,511**
Acquisitions	–	(292)	–	**(292)**
(Charged)/credited in income statement				
Current period	(7)	96	(219)	**(130)**
Credited in other comprehensive income	–	–	418	**418**
At 30 June 2016	**426**	**(1,191)**	**2,272**	**1,507**
Acquisitions	–	(536)	–	**(536)**
(Charged)/credited in income statement				
Current period	(19)	190	(237)	**(66)**
Prior periods	(160)	–	–	**(160)**
Credited in other comprehensive income	–	–	436	**436**
At 1 January 2017	**247**	**(1,537)**	**2,471**	**1,181**
Credited/(charged) in income statement				
Current period	3	120	(276)	**(153)**
Credited in other comprehensive income	–	–	86	**86**
At 30 June 2017	**250**	**(1,417)**	**2,281**	**1,114**
Deferred tax assets	410	–	2,281	**2,691**
Deferred tax liabilities	(160)	(1,417)	–	**(1,577)**
At 30 June 2017	**250**	**(1,417)**	**2,281**	**1,114**

Notes to the Group condensed financial statements (unaudited)
For the six months ended 30 June 2017

12. Related party transactions
Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed.

Details of individual and collective remuneration of the Company's Directors and dividends received by the Directors for calendar year 2017 will be disclosed in the Group's 2017 Annual Report.

On 8 May 2015, Peter Atkinson and John Love were granted options over 775,254 and 360,026 ordinary shares respectively under the Macfarlane Group PLC Long Term Incentive Plan. These Performance Share Plan awards are based on targets around Earnings per share, Total Shareholder Return and Sales levels for the year ended 31 December 2017.

The directors are satisfied that there are no other related party transactions occurring during the six month period which require disclosure.

13. Interim Report
The Interim Report will be posted to shareholders on 8 September 2017. Copies will be available from the registered office, 21 Newton Place, Glasgow G3 7PY and available on the Company's website, www.macfarlanegroup.com, from that date.

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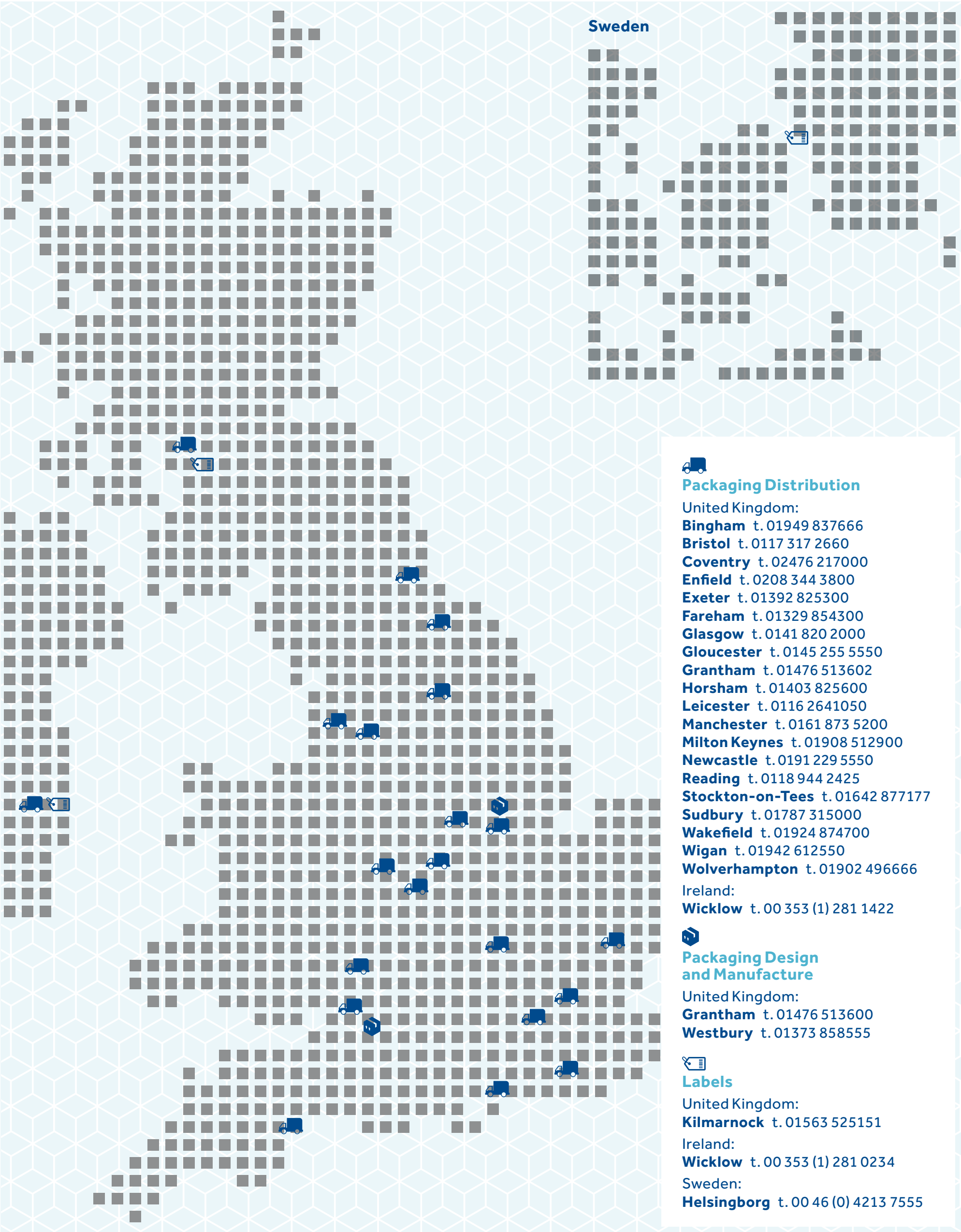

Packaging Distribution

United Kingdom:
Bingham t. 01949 837666
Bristol t. 0117 317 2660
Coventry t. 02476 217000
Enfield t. 0208 344 3800
Exeter t. 01392 825300
Fareham t. 01329 854300
Glasgow t. 0141 820 2000
Gloucester t. 0145 255 5550
Grantham t. 01476 513602
Horsham t. 01403 825600
Leicester t. 0116 2641050
Manchester t. 0161 873 5200
Milton Keynes t. 01908 512900
Newcastle t. 0191 229 5550
Reading t. 0118 944 2425
Stockton-on-Tees t. 01642 877177
Sudbury t. 01787 315000
Wakefield t. 01924 874700
Wigan t. 01942 612550
Wolverhampton t. 01902 496666

Ireland:
Wicklow t. 00 353 (1) 281 1422

Packaging Design and Manufacture

United Kingdom:
Grantham t. 01476 513600
Westbury t. 01373 858555

Labels

United Kingdom:
Kilmarnock t. 01563 525151

Ireland:
Wicklow t. 00 353 (1) 281 0234

Sweden:
Helsingborg t. 00 46 (0) 4213 7555