MACFARLANE GROUP

27 August 2015

MACFARLANE GROUP'S INTERIM RESULTS FOR THE SIX MONTHS TO 30 JUNE 2015

Financial Highlights £000	2015	2014	Year on Year Change
Group turnover	£78,602	£70,146	+12%
Profit before tax	£1,853	£1,219	+52%
Interim dividend	0.53p	0.50p	+6%
Earnings per share	1.26p	0.84p	+50%

Graeme Bissett, Chairman of Macfarlane Group PLC, today said: -

"Our performance in the six months to 30 June 2015 demonstrated good progress with results in line with our statement at the AGM in May 2015. Group sales at £78.6m were 12% ahead of the comparable period in 2014 and profit before tax at £1.9m was 52% ahead. Both our sales and profits benefitted from good organic growth as well as the positive impact of our acquisitions in 2014, underlining the value of a well-executed acquisition strategy. We continue to grow our presence in the internet retail sector, where trading patterns of customers are more weighted towards H2 and we expect to see the typical seasonal uplift in the second six months of the year. Overall, the Board is confident that its full year expectations will be met.

Packaging Distribution sales were 16% ahead of the equivalent period in 2014, with 7% achieved from organic growth and the remainder from our 2014 acquisitions. The businesses acquired in 2014 continue to perform well and we recently announced the acquisition of One Packaging Limited ("One"), based in Nottingham. One is a good quality, successful business and we expect it to contribute to profits in H2. Our gross margins in Packaging Distribution demonstrated the anticipated improvement from 28.6% to 29.3% and, as a result, operating profit at £2.1m is £0.6m ahead of the equivalent period in 2014.

Sales in our Manufacturing Operations are 5% below 2014 levels principally due to our decision not to follow low price competition in the Labels sector. The competitive UK retail sector continues to impact our Labels business but our actions to improve margins are beginning to show positive signs. The additional sales investment we have made in our Packaging Design & Manufacture business has assisted us in winning new customers in our target sectors, which will benefit H2 2015. Operating profit in our Manufacturing Operations is £0.3m, just above 2014 levels.

Net interest for the period was £0.5m (2014: £0.5m) giving a profit before tax of £1.9m. (2014: £1.2m)

Net debt at 30 June 2015 was £11.9m, an increase of £0.3m compared to the same point last year. This reflects the normal seasonal uplift in working capital and the Group continues to operate well within its existing bank facilities. As is our normal pattern, Group trading is expected to be strongly cash generative in the second half of 2015.

The pension scheme deficit reduced from £13.9m at 31 December 2014 to £12.1m at 30 June 2015, through continued contributions and some benefit from a small increase in discount rates.

In view of the first half performance the Board is recommending an increase of 6% in the interim dividend to 0.53p per share to be paid on 15 October 2015 to shareholders on the register as at 9 October 2015.

Our strategy is to continue to deliver sustainable profit growth through focussing on added value products and services in our key UK market sectors combined with the execution of value enhancing acquisitions. The performance of the business continues to reflect the successful implementation of this strategy."

Further enquiries:	**Macfarlane Group**		Tel: 0141 333 9666
	Graeme Bissett	Chairman	
	Peter Atkinson	Chief Executive	
	John Love	Finance Director	
	Spreng & Co		Tel: 0141 548 5191
	Callum Spreng		Mob: 07803 970103

Notes to Editors:

- Macfarlane is listed on the London Stock Exchange (LSE: MACF) in the Industrials Sector.
- The company has more than 60 years' experience in the UK packaging industry.
- Macfarlane has three businesses:
    - **Macfarlane Packaging** is the leading UK distributor of a comprehensive range of protective packaging products.
    - **Labels** designs and prints high quality self-adhesive and re-sealable labels, principally for FMCG companies.
    - **Packaging Design and Manufacture** specialises in designing and producing protective packaging for high value, fragile products.
- Macfarlane is headquartered in Glasgow, Scotland, and employs over 730 people at 25 sites, principally in the UK & Ireland.
- The company has 20,000+ customers in the UK, Europe and USA, providing 600,000+ lines to a wide range of industry sectors including consumer goods; logistics; internet retail; mail order; food manufacturing; electronics; defence and aerospace.

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 leading UK distributor of a comprehensive range of protective packaging materials. In a highly fragmented market, Macfarlane is the market leader. We operate through 18 Regional Distribution Centres ("RDCs") supplying customers with a 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 through 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.

	2015	2014
	£000	£000
Sales	**66,291**	56,978
Cost of sales	**46,885**	40,680
Gross margin	**19,406**	16,298
Overheads	**17,354**	14,784
Operating profit	**2,052**	1,514

The main features of our first half performance in 2015 were:

- Sales showed growth of 16% on 2014, with volumes comprising 6%, reflecting the benefit of new business wins, supported by the continuing contribution made by the 2014 acquisitions;
- Sales to internet retailers accounted for 19% of our business in H1 2015 (2014 - 16%). We continue to retain, develop and win business in this key growth sector and the trends in the sector will benefit our sales performance in H2 2015;
- We are making good progress in the development of our National Account business with significant new business wins in H1 2015;
- The Third-party Logistics ("3PL") sector now represents 10% of our total business (2014 – 9%) as we continue to strengthen our partnerships with key 3PL operators;
- We continued the search for suitable high quality acquisition opportunities and concluded the acquisition of One Packaging in August 2015;
- Gross margin at 29.3% (2014 : 28.6%) increased through a more favourable customer mix and improved sourcing;
- Overhead investment in the current year is primarily due to the impact of acquisitions; meanwhile the strong cost control ethos throughout the business remains evident; and
- Progress is being made on improving the use of our UK wide network to drive further operating efficiencies.

We expect sales to strengthen in H2 2015 reflecting the proportion of internet retailers in our customer base.

The key areas we shall focus on to support this are:

- We will build on the new business momentum created in H1 2015 to ensure the key business wins are effectively implemented to achieve further sales growth in H2 2015;
- We will maintain our focus on the growth potential for protective packaging in our key target markets - the internet retail sector, 3PL operators and National Accounts;
- We will work with our supplier base and identify new suppliers to ensure cost effective sourcing;
- Cost reduction opportunities will continue to be pursued in respect of the property portfolio as a number of our current property leases are approaching maturity;
- We will maintain the focus on improving our positioning and service to key segments of the UK protective packaging market which clearly benefit from the Macfarlane offering;
- Lane Packaging, acquired in 2014, will be fully integrated into the Macfarlane business; and
- We will continue to seek value-enhancing acquisition opportunities.

Manufacturing Operations

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

	2015	2014
	£000	£000
Sales	**15,006**	15,767
Cost of sales	**9,848**	10,618
Gross margin	**5,158**	5,149
Overheads	**4,902**	4,928
Operating profit	**256**	221

Our Labels business designs and produces self-adhesive labels for major FMCG customers in the UK and Europe and resealable labels for major customers in the UK, Europe and the USA. The business operates from production sites in Kilmarnock and County Wicklow in Ireland 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, improving the penetration of our Reseal-it product in the UK, Europe and the USA. This is a key strategic focus for the Labels management team.

In H1 2015 sales at Macfarlane Labels were 8% below 2014 levels primarily as we proactively exited relationships with low margin customers. Gross margin showed improvement versus 2014 due to the better customer mix and improvements in our operational efficiency. Profit in the first half of 2015 was ahead of that achieved in the same period in 2014.

We operate the Packaging Design & Manufacture business from two UK sites - Grantham and Westbury, where we design, manufacture and assemble customised 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 2% from last year's levels due mainly to demand weakness in particular market sectors, impacting certain of our customers. We achieved a number of good new business wins in the first half of the year, which will benefit H2 2015. Gross margin remained strong as we concentrated on the higher added value bespoke composite pack product range. Packaging Design & Manufacture profit in H1 2015 was slightly below that achieved in the same period in 2014.

The priorities for the Manufacturing Operations in the second half of 2015 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 our new business in the UK self-adhesive labels market, particularly in the branded sectors in order to create a more balanced customer portfolio;
- Improve operational efficiency at our Kilmarnock site;
- Maintain focus on operational and customer service improvements at Grantham and Westbury;
- Accelerate Packaging Design & Manufacture sales growth, particularly in key sectors e.g. Defence, Aerospace and Medical;
- Identify suitable quality acquisition targets in the UK Packaging Design & Manufacture;
- Prioritise our 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

The 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.

Our track record of continued profitable growth reflects the successful execution of this plan and we expect the full year 2015 to be another successful year for Macfarlane Group.

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 2014 (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 supply partners to manage effectively the scale and timing of these price movements and any resultant impact on profit;
- Given the multi-site nature of its business the Group has an extensive property portfolio, which 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;
- 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 the form of trade receivables and inventories and 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;
- The Group needs continuous access to funding to meet its trading obligations and to support organic growth and acquisitions and there is a risk that the Group may be unable to obtain the necessary funds or that such funds will only be available on unfavourable terms. In February 2014, the Group agreed a new three-year banking facility with Lloyds Banking Group for up to £20.0 million committed until 2017, to finance our trading requirements but also to support controlled expansion, providing a medium-term funding platform for the growth of our business; and
- 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 (based on corporate bond yields) 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, as well as making contributions to reduce the deficit. Additional exercises will be considered in the future.

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.

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.

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 27 August 2015 and signed on its behalf by

………………….	………………………
Peter D. Atkinson	**John Love**
Chief Executive	**Finance Director**

INDEPENDENT REVIEW REPORT TO MACFARLANE GROUP PLC

Introduction

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 2015, 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. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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 Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("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.

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 Company are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in the half yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* 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.

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 the persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) 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.

Conclusion

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 2015 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Craig Anderson

for and on behalf of KPMG LLP
Chartered Accountants
191 West George Street
Glasgow G2 2LJ

27 August 2015

MACFARLANE GROUP PLC

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Note	**Six months to 30 June 2015 £000**	Six months to 30 June 2014 £000	Year to 31 December 2014 £000
Continuing operations	3			
Revenue		**78,602**	70,146	153,767
Cost of sales		**(54,038)**	(48,699)	(106,304)
Gross profit		**24,564**	21,447	47,463
Distribution costs		**(3,849)**	(3,607)	(7,432)
Administrative expenses		**(18,407)**	(16,105)	(33,385)
Operating profit	3	**2,308**	1,735	6,646
Finance costs	4	**(455)**	(516)	(1,040)
Profit before tax		**1,853**	1,219	5,606
Tax	5	**(288)**	(257)	(1,164)
Profit for the period	3/7	**1,565**	962	4,442
Earnings per share	7			
Basic		**1.26p**	0.84p	3.78p
Diluted		**1.26p**	0.84p	3.78p

MACFARLANE GROUP PLC

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Note	**Six months to 30 June 2015 £000**	Six months to 30 June 2014 £000	Year to 31 December 2014 £000
Foreign currency translation differences - foreign operations		**(124)**	(60)	(102)
Remeasurement of pension scheme liability	10	**622**	(870)	(2,737)
Tax recognised in other comprehensive income				
Tax on remeasurement of pension scheme liability	11	**(124)**	174	548
Other comprehensive income/(expense) for the period, net of tax		**374**	(756)	(2,291)
Profit for the period		**1,565**	962	4,442
Total comprehensive income for the period		**1,939**	206	2,251

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Note	**Share Capital £000**	**Share Premium £000**	**Revaluation Reserve £000**	**Translation Reserve £000**	**Retained Earnings £000**	**Total £000**
At 1 January 2015		31,153	1,018	70	121	(2,116)	**30,246**
Profit for the period		-	-	-	-	1,565	**1,565**
Dividends	6	-	-	-	-	(1,433)	**(1,433)**
Foreign currency translation differences		-	-	-	(124)	-	**(124)**
Remeasurement of pension scheme liability	10	-	-	-	-	622	**622**
Tax on remeasurement of pension scheme liability	11	-	-	-	-	(124)	**(124)**
At 30 June 2015		**31,153**	**1,018**	**70**	**(3)**	**(1,486)**	**30,752**

MACFARLANE GROUP PLC

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Note	Share Capital £000	Revaluation Reserve £000	Own Shares £000	Translation Reserve £000	Retained Earnings £000	Total £000
At 1 January 2014		28,755	70	(311)	223	(2,313)	**26,424**
Profit for the period		-	-	-	-	962	**962**
Dividends	6	-	-	-	-	(1,265)	**(1,265)**
Foreign currency translation differences		-	-	-	(60)	-	**(60)**
Exercise of share options		-	-	311	-	(168)	**143**
Remeasurement of pension scheme liability	10	-	-	-	-	(870)	**(870)**
Tax on remeasurement of pension scheme liability	11	-	-	-	-	174	**174**
At 30 June 2014		**28,755**	**70**	**-**	**163**	**(3,480)**	**25,508**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Share Capital £000	Share Premium £000	Revaluation Reserve £000	Own Shares £000	Translation Reserve £000	Retained Earnings £000	Total £000
At 1 January 2014		28,755	-	70	(311)	223	(2,313)	**26,424**
Profit for the period		-	-	-	-	-	4,442	**4,442**
Dividends	6	-	-	-	-	-	(1,888)	**(1,888)**
Issue of share capital		2,398	1,018	-	-	-	-	**3,416**
Foreign currency translation differences		-	-	-	-	(102)	-	**(102)**
Exercise of share options		-	-	-	311	-	(168)	**143**
Remeasurement of pension scheme liability	10	-	-	-	-	-	(2,737)	**(2,737)**
Tax on remeasurement of pension scheme liability	11	-	-	-	-	-	548	**548**
At 31 December 2014		**31,153**	**1,018**	**70**	**-**	**121**	**(2,116)**	**30,246**

MACFARLANE GROUP PLC

CONDENSED CONSOLIDATED BALANCE SHEET AT 30 JUNE 2015 (UNAUDITED)

	Note	**30 June 2015 £000**	30 June 2014 £000	31 December 2014 £000
Non-current assets				
Goodwill and other intangible assets		**33,824**	26,932	34,125
Property, plant and equipment		**7,617**	7,099	7,445
Other receivables		**591**	726	659
Deferred tax asset	11	**2,882**	3,552	3,245
Total non-current assets		**44,914**	38,309	45,474
Current assets				
Inventories		**11,026**	9,227	9,663
Trade and other receivables		**38,460**	35,765	39,998
Cash and cash equivalents	9	**659**	258	1,250
Total current assets		**50,145**	45,250	50,911
Total assets	3	**95,059**	83,559	96,385
Current liabilities				
Trade and other payables		**37,056**	32,441	37,566
Current tax liabilities		**322**	103	279
Provisions		**52**	52	52
Finance lease liabilities	9	**284**	16	155
Bank borrowings	9	**11,579**	11,824	11,349
Total current liabilities		**49,293**	44,436	49,401
Net current assets		**852**	814	1,510
Non-current liabilities				
Retirement benefit obligations	10	**12,060**	13,185	13,873
Deferred tax liabilities	11	**945**	356	1,019
Trade and other payables		**1,358**	36	1,368
Finance lease liabilities	9	**651**	38	478
Total non-current liabilities		**15,014**	13,615	16,738
Total liabilities		**64,307**	58,051	66,139
Net assets	3	**30,752**	25,508	30,246
Equity				
Share capital		**31,153**	28,755	31,153
Share premium		**1,018**	-	1,018
Revaluation reserve		**70**	70	70
Translation reserve		**(3)**	163	121
Retained earnings		**(1,486)**	(3,480)	(2,116)
Total equity		**30,752**	25,508	30,246

MACFARLANE GROUP PLC

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Note	**Six months to 30 June 2015 £000**	Six months to 30 June 2014 £000	Year to 31 December 2014 £000
Net cash inflow/(outflow) from operating activities	9	**1,325**	(617)	2,843
Investing activities				
Acquisition of subsidiary undertakings	8	**(246)**	(1,216)	(5,051)
Proceeds on disposal of property, plant and equipment		**5**	58	152
Purchases of property, plant and equipment		**(372)**	(252)	(624)
Net cash used in investing activities		**(613)**	(1,410)	(5,523)
Financing activities				
Dividends paid	6	**(1,433)**	(1,265)	(1,888)
Proceeds from issue of share capital, net of issue expenses		**-**	-	2,791
Proceeds on sale of own shares to satisfy share options		**-**	143	143
Repayment of bank loan		**-**	(6,000)	(6,000)
Additional payment to pension scheme		**-**	(2,500)	(2,500)
Drawdown on bank facility		**230**	11,824	11,349
Repayments of obligations under finance leases		**(100)**	(35)	(83)
Net cash (used in)/generated by financing activities		**(1,303)**	2,167	3,812
Net (decrease)/increase in cash and cash equivalents		**(591)**	140	1,132
Cash and cash equivalents at beginning of period		**1,250**	118	118
Cash and cash equivalents at end of period	9	**659**	258	1,250

NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

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 2014.

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 judgmental 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 6.

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 debt facility with Lloyds Banking Group PLC comprises a three-year committed borrowing facility expiring in February 2017 of up to £20.0 million and secured over part of Macfarlane Group's trade receivables. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over trade receivables.

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 this condensed set of financial statements.

Approval and review of condensed financial statements

These condensed financial statements were approved by the Board of Directors on 27 August 2015.

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 7.

1. Basis of preparation (continued)

Adoption of Financial Reporting Standard (FRS) 101 – Reduced Disclosure Framework

Following the publication of FRS 100 Application of Financial Reporting Requirements by the Financial Reporting Council, Macfarlane Group PLC is required to change its accounting framework for its entity financial statements, which is currently UK GAAP, for its financial year commencing 1 January 2015. The Board considers that it is in the best interests of the Group for Macfarlane Group to adopt FRS 101 Reduced Disclosure Framework. No disclosures in the current UK GAAP financial statements would be omitted on adoption of FRS 101. A shareholder or shareholders holding in aggregate 5% or more of the total allotted shares in Macfarlane Group PLC may serve objections to the use of the disclosure exemptions on Macfarlane Group PLC, in writing, to its registered office at 21 Newton Place, Glasgow, G3 7PY not later than 31 October 2015.

2. General information

The comparative figures for the financial year ended 31 December 2014 are extracted from the Company's statutory accounts for that financial year. 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 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 turnover or profit in each period presented.

Trading results - continuing operations	**Six months to 30 June 2015 £000**	Six months to 30 June 2014 £000	Year ended 31 December 2014 £000
Packaging Distribution			
Revenue	**66,291**	56,978	126,907
Cost of sales	**(46,885)**	(40,680)	(90,382)
Gross profit	**19,406**	16,298	36,525
Net operating expenses	**(17,354)**	(14,784)	(30,767)
Operating profit	**2,052**	1,514	5,758
Manufacturing Operations			
Revenue	**15,006**	15,767	32,358
Cost of sales	**(9,848)**	(10,618)	(21,420)
Gross profit	**5,158**	5,149	10,938
Net operating expenses	**(4,902)**	(4,928)	(10,050)
Operating profit	**256**	221	888

3. Segmental information (continued)

		Six months to 30 June 2015 £000	Six months to 30 June 2014 £000	Year to 31 December 2014 £000
Group segment – total revenue				
Packaging Distribution		**66,291**	56,978	126,907
Manufacturing Operations		**15,006**	15,767	32,358
Inter-segment revenue		**(2,695)**	(2,599)	(5,498)
External revenue - continuing operations		**78,602**	70,146	153,767
Operating profit - continuing operations				
Packaging Distribution		**2,052**	1,514	5,758
Manufacturing Operations		**256**	221	888
Operating profit		**2,308**	1,735	6,646
Finance costs	(see note 4)	**(455)**	(516)	(1,040)
Profit before tax		**1,853**	1,219	5,606
Tax	(see note 5)	**(288)**	(257)	(1,164)
Profit for the period		**1,565**	962	4,442

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 2015 £000	30 June 2014 £000	31 December 2014 £000
Total assets			
Packaging Distribution	**79,307**	69,314	80,365
Manufacturing Operations	**15,752**	14,245	16,020
Total assets	**95,059**	83,559	96,385
Net assets			
Packaging Distribution	**23,218**	18,784	22,176
Manufacturing Operations	**7,534**	6,724	8,070
Net assets	**30,752**	25,508	30,246

4. Finance costs

	Six months to 30 June 2015 £000	Six months to 30 June 2014 £000	Year to 31 December 2014 £000
Interest on bank borrowings	**(219)**	(201)	(438)
Interest on obligations under finance leases	**(6)**	(1)	(8)
Net interest expense on retirement benefit obligation (See note 10)	**(230)**	(314)	(594)
Total finance costs	**(455)**	(516)	(1,040)

5. Tax

		Six months to 30 June 2015 £000	Six months to 30 June 2014 £000	Year to 31 December 2014 £000
Current tax				
UK corporation tax		**(180)**	-	(230)
Overseas tax		**(27)**	(79)	(95)
Prior year adjustments		**84**	42	-
Total current tax		**(123)**	(37)	(325)
Total deferred tax	(See note 11)	**(165)**	(220)	(839)
Total		**(288)**	(257)	(1,164)

Tax for the first six months has been charged at 21.5% (2014 – 23.5%) representing the best estimate of the effective tax charge for the full year.

6. Dividends

		Six months to 30 June 2015 £000	Six months to 30 June 2014 £000	Year to 31 December 2014 £000
Amounts recognised as distributions to equity holders in the period				
Final Dividend (1.15p per share)	(2014 1.10p per share)	**1,433**	1,265	1,265
Interim Dividend	(2014 0.50p per share)	**-**	-	623
Distributions in the period		**1,433**	1,265	1,888

Dividends were not paid on the Own shares held in the Employee Share Ownership Trust.

The dividend of 0.53p per share, payable on 15 October 2015 was declared on 27 August 2015 and has therefore not been included as a liability in these condensed financial statements.

7. Earnings per share

	Six months to 30 June 2015 £000	Six months to 30 June 2014 £000	Year to 31 December 2014 £000
Earnings			
Earnings from continuing operations for the purposes of earnings per share being profit for the year from continuing operations	**1,565**	962	4,442

	30 June 2015	30 June 2014	31 December 2014
Number of shares '000			
Weighted average number of ordinary shares in issue	**124,611**	115,019	117,550
Weighted average number of shares in Employee Share Ownership Trusts	**-**	(368)	(184)
Weighted average number of shares in issue for the purposes of basic earnings per share	**124,611**	114,651	117,366
Effect of dilutive potential ordinary shares due to share options	**46**	-	-
Weighted average number of shares in issue for the Purposes of diluted earnings per share	**124,657**	114,651	117,366
Basic and Diluted Earnings per share	**1.26p**	0.84p	3.78p

8. Acquisition of subsidiary companies

During 2014 the Group acquired two trading subsidiary companies.

On 2 May 2014, the Group's subsidiary, Macfarlane Group UK Limited, acquired 100% of the issued share capital of PSD Industrial Holdings Limited, the immediate parent company of Lane Packaging Limited, for a consideration of approximately £0.9 million. £0.7 million was paid in cash on acquisition, with the deferred consideration of £0.2 million paid in the second quarter of 2015, after certain trading targets were met in the year to 30 April 2015.

On 5 September 2014, the Group acquired 100% of the issued share capital of Network Packaging Limited for a consideration of approximately £7.5 million. £4.3 million of the consideration was paid in cash on acquisition and £0.6 million was settled by the issue of shares. The deferred consideration of £2.6 million, is payable in two instalments in the final quarter of 2015 and the final quarter of 2016, subject to certain trading targets being met in the two twelve month periods ending on 5 September 2015 and 5 September 2016 respectively.

Both businesses are packaging distributors and are accounted for in the 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 new geographical markets in the UK and anticipated operating synergies from the future combination of activities with the existing Packaging Distribution network.

Fair values assigned to net assets acquired and consideration paid and payable are set out below:-

	Six months to 30 June 2015 £000	Six months to 30 June 2014 £000	Year to 31 December 2014 £000
Net assets acquired			
Other intangible assets	**-**	663	4,280
Property, plant and equipment	**-**	76	195
Inventories	**-**	72	538
Trade and other receivables	**-**	453	2,219
Cash and bank balances	**-**	-	432
Bank loans and overdrafts	**-**	(532)	(532)
Trade and other payables	**-**	(681)	(2,315)
Current tax liabilities	**-**	(16)	(312)
Finance lease liabilities	**-**	(56)	(141)
Deferred tax liabilities	**-**	(133)	(858)
Net (liabilities)/assets acquired	**-**	(154)	3,506
Goodwill arising on acquisition	**83**	1,001	4,858
Total consideration	**83**	847	8,364
Satisfied by:			
Cash	**246**	684	4,951
Deferred consideration	**(163)**	163	2,788
Shares	**-**	-	625
Total consideration	**83**	847	8,364
Net cash outflow arising on acquisition			
Cash consideration	**(246)**	(684)	(4,951)
Cash and bank balances acquired	**-**	-	432
Bank loans and overdrafts assumed	**-**	(532)	(532)
Net cash outflow	**(246)**	(1,216)	(5,051)

9. Notes to the cash flow statement

	Six months to 30 June 2015 £000	Six months to 30 June 2014 £000	Year to 31 December 2014 £000
Operating profit	**2,308**	1,735	6,646
Adjustments for:			
Amortisation of intangible assets	**384**	147	428
Depreciation of property, plant and equipment	**530**	487	1,020
Gain on disposal of property, plant and equipment	**(2)**	(35)	(8)
Operating cash flows before movements in working capital	**3,220**	2,334	8,086
Increase in inventories	**(1,363)**	(1,224)	(1,194)
Decrease/(increase) in receivables	**1,606**	1,069	(4,119)
(Decrease)/increase in payables	**(417)**	(784)	4,193
Decrease in provisions	**-**	(30)	(30)
Employer pension contributions less amounts recognised in income statement (excluding additional contribution)	**(1,421)**	(1,395)	(2,854)
Cash generated from/(absorbed by) operations	**1,625**	(30)	4,082
Income taxes paid	**(75)**	(385)	(793)
Interest paid	**(225)**	(202)	(446)
Net cash inflow/(outflow) from operating activities	**1,325**	(617)	2,843
Movement in net debt			
(Decrease)/increase in cash and cash equivalents	**(591)**	140	1,132
Increase in bank borrowings	**(230)**	(11,824)	(11,349)
Decrease in bank loans	**-**	6,000	6,000
New finance lease facilities	**(402)**	(56)	(683)
Cash flows from payment of finance lease liabilities	**100**	35	83
Movement in net debt in the period	**(1,123)**	(5,705)	(4,817)
Opening net debt	**(10,732)**	(5,915)	(5,915)
Closing net debt	**(11,855)**	(11,620)	(10,732)
Net debt comprises:-			
Cash and cash equivalents	**659**	258	1,250
Bank borrowings	**(11,579)**	(11,824)	(11,349)
Net bank debt	**(10,920)**	(11,566)	(10,099)
Finance lease liabilities			
Due within one year	**(284)**	(16)	(155)
Due outwith one year	**(651)**	(38)	(478)
Closing net debt	**(11,855)**	(11,620)	(10,732)

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

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 2015, 30 June 2014 and 31 December 2014. 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 2015 £000**	30 June 2014 £000	31 December 2014 £000
Equities			
UK equities and equity funds	**5,905**	5,486	5,677
Overseas equity funds	**10,948**	9,654	10,216
Multi-asset diversified funds	**25,514**	17,974	18,541
Bonds			
Liability Driven Investment funds	**13,810**	15,516	22,195
Corporate bond fund	**11,003**	10,082	11,263
Other			
Cash	**782**	220	98
Fair value of assets	**67,962**	58,932	67,990
Present value of scheme liabilities	**(80,022)**	(72,117)	(81,863)
Pension scheme deficit	**(12,060)**	(13,185)	(13,873)
Deferred tax asset (see note 11)	**2,412**	2,637	2,775
Pension scheme deficit net of related deferred tax asset	**(9,648)**	(10,548)	(11,098)

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

Assumptions	**30 June 2015**	30 June 2014	31 December 2014
Discount rate	**3.60%**	4.30%	3.50%
Rate of increase in salaries	**0.00%**	0.00%	0.00%
Rate of increase in pensions in payment	**3% or 5% for fixed increases or 3.30% for LPI**	3% or 5% for fixed increases or 3.30% for LPI	3% or 5% for fixed increases or 3.30% for LPI
Inflation assumption (RPI)	**3.20%**	3.30%	3.00%
Inflation assumption (CPI)	**2.30%**	2.40%	2.10%
Life expectancy beyond normal retirement age of 65			
Male	**22.8 years**	22.7 years	22.7 years
Female	**25.1 years**	25.1 years	25.1 years

	30 June 2015 £000	30 June 2014 £000	31 December 2014 £000
Movement in scheme deficit in the period			
At start of period	**(13,873)**	(15,896)	(15,896)
Current service cost	**(83)**	(67)	(126)
Employer contributions	**1,504**	3,962	5,480
Net finance cost	**(230)**	(314)	(594)
Remeasurement of pension scheme liability in the period	**622**	(870)	(2,737)
At end of period	**(12,060)**	(13,185)	(13,873)

10. Retirement benefit obligations (continued)

Sensitivity to key assumptions

The 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 results disclosed. 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	**Six months to 30 June 2015 £000**	Six months to 30 June 2014 £000	Year to 31 December 2014 £000
Discount rate movement of +0.1%	**1,280**	1,226	1,285
Inflation rate movement of +0.1%	**(380)**	(288)	(393)
Mortality movement of +0.1 year in age rating	**288**	238	295

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.

	Six months to 30 June 2015 £000	Six months to 30 June 2014 £000	Year to 31 December 2014 £000
Movement in fair value of scheme assets			
Scheme assets at start of period	**67,990**	54,238	54,238
Interest income	**1,187**	1,245	2,488
Return on scheme assets (exc. amounts shown in interest income)	**(901)**	1,221	9,184
Contributions from sponsoring companies	**1,504**	3,962	5,480
Contribution from scheme members	**42**	38	79
Benefits paid	**(1,860)**	(1,772)	(3,479)
Scheme assets at end of period	**67,962**	58,932	67,990
Movement in present value of defined benefit obligations			
Obligations at start of period	**(81,863)**	(70,134)	(70,134)
Current service cost	**(83)**	(67)	(126)
Interest cost	**(1,417)**	(1,559)	(3,082)
Contribution from scheme members	**(42)**	(38)	(79)
Changes in assumptions underlying the defined benefit obligations	**1,523**	(2,091)	(11,921)
Benefits paid	**1,860**	1,772	3,479
Obligations at end of period	**(80,022)**	(72,117)	(81,863)

Investments

The Trustees review the investments of the scheme on a regular basis and consult with the Company regarding any proposed changes to the investment profile. At the start of February 2014, the investment in fixed interest government gilts was transferred into a liability-driven investment fund, which concentrates solely on interest rate and inflation protection strategies, to provide a more effective hedge against the impact of both interest rates and inflation on the liabilities in the scheme.

As a result, despite the reductions in bond yields in 2014 causing a significant increase in liabilities, improved investment returns helped offset this position.

Funding

Following the completion of the triennial actuarial valuation at 1 May 2014, Macfarlane Group PLC is now paying deficit reduction contributions in accordance with an 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**	**30 June 2015 £000**	30 June 2014 3000	31 December 2014 £000
Deferred tax asset on pension scheme deficit			
At start of period	**2,775**	3,179	3,179
(Charge)/credit on actuarial movement in the period applied through statement of comprehensive income	**(124)**	174	548
Charge through income statement based on payments made to reduce deficit in the period	**(239)**	(716)	(952)
Deferred tax asset on pension scheme deficit (see note 10)	**2,412**	2,637	2,775
Deferred tax asset on other timing differences			
At start of period	**470**	449	449
Acquisition (see note 8)	**-**	-	(2)
Credit through income statement	**-**	466	23
Deferred tax asset on other timing differences	**470**	915	470
Total deferred tax assets at end of period	**2,882**	3,552	3,245
Deferred tax liability on other intangible assets			
At start of period	**(1,019)**	(253)	(253)
Acquisition (see note 8)	**-**	(133)	(856)
Credit through income statement			
Movement in other intangible assets in the period	**74**	30	90
Deferred tax liability at end of period	**(945)**	(356)	(1,019)

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 2015 will be disclosed in the Group's Annual Report for the year ending 31 December 2015.

On 8 May 2015, Peter Atkinson and John Love were granted options over 775,254 and 360,206 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.

During 2014, Peter Atkinson, the Group's Chief Executive, exercised options over 551,372 ordinary shares of 25p each. The consideration paid for the shares was £143,357.

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 9 September 2015. 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.