MACFARLANE GROUP

Interim Report 2016

Chairman's statement

Macfarlane Group's performance in the six months to 30 June 2016 is consistent with the Board's expectation in our AGM statement in May 2016. Group sales, at £81.5m, were 3.7% ahead of the comparable period in 2015 and profit before tax, at £2.0m, was 8.1% ahead. Sales and profits both benefited from the positive impact of recent acquisitions, underlining the value of our acquisition strategy. Our increasing presence in the internet retail sector means that sales revenues are more weighted towards H2 and we expect to see the typical seasonal uplift in the second six months of the year. The Board remains confident that its full year expectations for 2016 will be met.

Packaging Distribution sales were 5.5% ahead of the equivalent period in 2015, with 0.5% achieved from organic growth and the remainder from recent acquisitions, all of which are performing well. Our gross margin in Packaging Distribution was 29.2%, similar to last year. Operating profit at £2.3m is £0.2m (9.7%) ahead of the equivalent period in 2015.

During the first half of 2016, we acquired two quality businesses, Colton Packaging Teesside and the packaging business of Edward McNeil Limited, based in Glasgow. On 29 July 2016, we completed the acquisition of Nelsons for Cartons & Packaging Limited, a high quality successful packaging distributor, which we expect to contribute to profits in the second half of the year.

Sales in our Manufacturing Operations are 9.0% below 2015 levels principally due to our decision not to follow low price competition in the Labels sector. Operating profit in our Manufacturing Operations is £0.2m, similar to the 2015 level.

Net interest for the period was £0.5m, similar to 2015 and we recorded a profit before tax of £2.0m (2015: £1.9m).

Net debt at 30 June 2016 was £16.9m, an increase of £5.0m compared to the same point last year, reflecting outgoings of £6.4m in respect of acquisitions in the last twelve months. The Group continues to operate well within its existing bank facilities of £25.0m. Consistent with our normal pattern, Group trading is expected to be strongly cash generative in the second half of 2016.

The pension scheme deficit increased from £11.5m at 31 December 2015 to £12.6m at 30 June 2016, due to lower bond yields, despite the payment of £1.4m deficit reduction contributions. The pension scheme investments include liability driven investments that seek to match the liability profile in the scheme and provide a measure of protection against movements in interest rates and inflation. These investments performed well and helped mitigate the impact of falling bond yields in the first half of 2016.

When we acquired Nelsons, Macfarlane Group completed a share placing to raise £5.6m, net of issue expenses, with the issue of 10,000,000 new ordinary shares at a price of 58p each. The placing was oversubscribed and saw participation of both existing and new institutional shareholders.

In view of the first half performance the Board is recommending an increase of 3.8% in the interim dividend to 0.55p per share to be paid on 13 October 2016 to shareholders on the register as at 23 September 2016.

Our strategy is to continue to deliver sustainable profit growth through focusing on added value products and services in our key UK market sectors, combined with the execution of value-enhancing acquisitions. The uncertain economic climate arising from the outcome of the EU Referendum is likely to continue for a considerable time and we will monitor developments and take appropriate action. The performance of the business in the period to 30 June 2016 reflects the successful implementation of our strategy and we will maintain that focus in the period ahead.

Graeme Bissett
Chairman

25 August 2016

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 specialist distributor of protective packaging materials. In a highly 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 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.

	2016 £000	2015 £000
Sales	**69,955**	66,291
Cost of sales	**49,503**	46,885
Gross margin	**20,452**	19,406
Overheads	**18,201**	17,354
Operating profit	**2,251**	2,052

The main features of our first half performance in 2016 were:

- Sales showed growth of 5.5% on 2015, with volumes comprising 0.5%, reflecting the benefit of new business wins, supported by the continuing contribution made by recent acquisitions;
- Sales to internet retailers accounted for 22% of business in H1 2016 (2015: 19%). We continue to retain, develop and win business in this key growth sector and our recently opened Innovation Lab in Milton Keynes should benefit our sales performance in H2 2016;
- We are making good progress in the development of our National Account business with additional business from existing customers in H1 2016;
- The Third-party Logistics ("3PL") sector now represents 11% of our total business (2015: 10%) 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 Colton Packaging Teesside and the packaging business of Edward McNeil in H1 2016. Both businesses have performed well since acquisition;
- Gross margin at 29.2% (2015 : 29.3%) reflected a competitive environment ; 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 strengthen in H2 reflecting the growing proportion of internet retailers in our customer base. The key areas we shall focus on to support this are:

- We will maintain our focus on the growth potential for protective packaging in our key target markets – the internet retail sector, National Accounts and 3PL operators;
- We will build on the new business momentum created in H1 2016 to ensure that key business wins are effectively implemented to improve sales growth in H2 2016;
- We will work with our supplier base and identify new suppliers to ensure cost effective sourcing;
- We shall roll out the new products introduced to the business from recent acquisitions;
- Cost reduction opportunities will continue to be pursued through productivity improvements as well as in our property portfolio;
- One Packaging, acquired in 2015, Colton Packaging Teesside and Edward McNeil, both acquired in H1 2016, will be fully integrated into the Macfarlane business to improve efficiencies;
- We acquired Nelsons for Cartons & Packaging Limited in July 2016 and look forward to its strong contribution in the second half of the year; and
- We will continue to seek value-enhancing acquisition opportunities.

Manufacturing Operations

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

	2016 £000	2015 £000
Sales	**13,650**	15,006
Cost of sales	**7,983**	9,848
Gross margin	**5,667**	5,158
Overheads	**5,451**	4,902
Operating profit	**216**	256

Packaging Design and Manufacture

We operate the Packaging Design and 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 and Manufacture sales increased by 1% from last year's levels despite demand weakness in particular market sectors, impacting certain of our customers. Gross margin remained strong as we concentrated on the higher added value bespoke composite pack product range. However changes in customers' ordering patterns required increased operating costs in the second quarter which resulted in profit in H1 2016 being below the same period in 2015.

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 resealable label format and this is a key strategic focus for the Labels management team.

In H1 2016 sales at Macfarlane Labels were 19% below 2015 levels as we proactively exited relationships with low margin customers. As a result, gross margin showed a strong improvement versus 2015. Profit in the first half of 2016 was ahead of that achieved in the same period in 2015.

The priorities for the Manufacturing Operations in the second half of 2016 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 Grantham site;
- Accelerate Packaging Design and 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 and 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.

The key impact of the EU referendum is that there is a likelihood that we will experience slower demand as well as potentially higher input prices for those items purchased from non-UK suppliers. We have a good track record of reacting promptly to changes in market conditions and if demand is not maintained at normalised levels then we would take positive steps to adjust our cost base accordingly. Existing procedures should ensure that we recover input price changes from the market.

Our track record of continued profitable growth reflects the successful execution of this plan and we expect the full year 2016 to be another successful year for Macfarlane Group.

Interim results – management report (continued)

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 2015 (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, as well as making contributions to reduce the deficit;
- Given the multi-site nature of its business the Group has an extensive property portfolio comprising 3 owned sites, 30 leased sites, 3 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 continuous 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 facilities comprise a committed facility of up to £25.0 million with Lloyds Bank plc, with an option to increase it further to £30.0 million, available until June 2019. These facilities will finance our trading requirements and support controlled expansion, providing a medium-term funding platform for the growth of our business;
- 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; and
- The Group has a significant investment in working capital in the form of 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.

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 25 August 2016 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.

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 2016, 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 Group 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 2016 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
25 August 2016

Condensed consolidated income statement (unaudited)

For the six months ended 30 June 2016

	Note	Six months to 30 June 2016 £000	Six months to 30 June 2015 £000	Year to 31 December 2015 £000
Continuing operations				
Revenue	3	**81,479**	78,602	169,132
Cost of sales		**(55,360)**	(54,038)	(115,911)
Gross profit		**26,119**	24,564	53,221
Distribution costs		**(3,999)**	(3,849)	(7,587)
Administrative expenses		**(19,653)**	(18,407)	(37,932)
Operating profit	3	**2,467**	2,308	7,702
Finance costs	4	**(464)**	(455)	(935)
Profit before tax		**2,003**	1,853	6,767
Tax	5	**(327)**	(288)	(1,317)
Profit for the period	3	**1,676**	1,565	5,450
Earnings per share	7			
Basic		**1.35p**	1.26p	4.37p
Diluted		**1.34p**	1.26p	4.35p

Condensed consolidated statement of comprehensive income (unaudited) For the six months ended 30 June 2016

	Note	Six months to 30 June 2016 £000	Six months to 30 June 2015 £000	Year to 31 December 2015 £000
Foreign currency translation differences – foreign operations		**164**	(124)	(62)
Remeasurement of pension scheme liability	10	**(2,323)**	622	111
Tax recognised in other comprehensive income				
Tax on remeasurement of pension scheme liability	11	**418**	(124)	(22)
Long-term corporation tax rate change	11	**–**	–	(229)
Other comprehensive (expense)/income for the period, net of tax		**(1,741)**	374	(202)
Profit for the period		**1,676**	1,565	5,450
Total comprehensive (expense)/income for the period		**(65)**	1,939	5,248

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**
Profit for the period		–	–	–	–	1,676	**1,676**
Dividends	6	–	–	–	–	(1,608)	**(1,608)**
Foreign currency translation differences		–	–	–	164	–	**164**
Credit for share-based payments		–	–	–	–	54	**54**
Remeasurement of pension scheme liability	10	–	–	–	–	(2,323)	**(2,323)**
Tax on remeasurement of pension scheme liability	11	–	–	–	–	418	**418**
At 30 June 2016		**31,153**	**1,018**	**70**	**223**	**(611)**	**31,853**

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**

Condensed consolidated statement of changes in equity (unaudited) For the year ended 31 December 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		–	–	–	–	5,450	**5,450**
Dividends	6	–	–	–	–	(2,094)	**(2,094)**
Foreign currency translation differences		–	–	–	(62)	–	**(62)**
Credit for share-based payments		–	–	–	–	72	**72**
Remeasurement of pension scheme liability	10	–	–	–	–	111	**111**
Tax on remeasurement of pension scheme liability	11	–	–	–	–	(22)	**(22)**
Long-term corporation tax rate change	11	–	–	–	–	(229)	**(229)**
At 31 December 2015		**31,153**	**1,018**	**70**	**59**	**1,172**	**33,472**

Condensed consolidated balance sheet (unaudited)

At 30 June 2016

	Note	30 June 2016 £000	30 June 2015 £000	31 December 2015 £000
Non-current assets				
Goodwill and other intangible assets		**38,371**	33,824	36,181
Property, plant and equipment		**7,868**	7,617	7,691
Other receivables		**457**	591	559
Deferred tax asset	11	**2,698**	2,882	2,499
Total non-current assets		**49,394**	44,914	46,930
Current assets				
Inventories		**10,968**	11,026	10,559
Trade and other receivables		**40,358**	38,460	43,238
Cash and cash equivalents	9	**730**	659	1,407
Total current assets		**52,056**	50,145	55,204
Total assets	3	**101,450**	95,059	102,134
Current liabilities				
Trade and other payables		**37,904**	37,056	41,297
Current tax liabilities		**271**	322	654
Provisions		**–**	52	–
Finance lease liabilities	9	**383**	284	388
Bank borrowings	9	**16,634**	11,579	13,039
Total current liabilities		**55,192**	49,293	55,378
Net current (liabilities)/assets		**(3,136)**	852	(174)
Non-current liabilities				
Retirement benefit obligations	10	**12,624**	12,060	11,518
Deferred tax liabilities	11	**1,191**	945	988
Trade and other payables		**31**	1,358	40
Finance lease liabilities	9	**559**	651	738
Total non-current liabilities		**14,405**	15,014	13,284
Total liabilities		**69,597**	64,307	68,662
Net assets	3	**31,853**	30,752	33,472
Equity				
Share capital		**31,153**	31,153	31,153
Share premium		**1,018**	1,018	1,018
Revaluation reserve		**70**	70	70
Translation reserve		**223**	(3)	59
Retained earnings		**(611)**	(1,486)	1,172
Total equity		**31,853**	30,752	33,472

Condensed consolidated cash flow statement (unaudited)

For the six months ended 30 June 2016

	Note	Six months to 30 June 2016 £000	Six months to 30 June 2015 £000	Year to 31 December 2015 £000
Net cash inflow from operating activities	9	**991**	1,325	5,368
Investing activities				
Acquisitions	8	**(2,701)**	(246)	(3,941)
Proceeds on disposal of property, plant and equipment		**11**	5	263
Purchases of property, plant and equipment		**(781)**	(372)	(809)
Net cash used in investing activities		**(3,471)**	(613)	(4,487)
Financing activities				
Dividends paid	6	**(1,608)**	(1,433)	(2,094)
Drawdown on bank facility		**3,595**	230	1,690
Repayments of obligations under finance leases		**(184)**	(100)	(320)
Net cash generated by/(used in) financing activities		**1,803**	(1,303)	(724)
Net (decrease)/increase in cash and cash equivalents		**(677)**	(591)	157
Cash and cash equivalents at beginning of period		**1,407**	1,250	1,250
Cash and cash equivalents at end of period	9	**730**	659	1,407

Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2016

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 2015.

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 Banking Group PLC comprise a committed borrowing facility of £25.0 million expiring on 30 June 2019, secured over part of Macfarlane Group's trade receivables, with an option to increase it further to £30.0 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.

1. Basis of preparation (continued)

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 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 25 August 2016.

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.

Financial Reporting Standard (FRS) 101 – Reduced Disclosure Framework

The Board considers that it is in the best interests of the Group for the Company to continue to apply FRS 101 Reduced Disclosure Framework in the preparation of the Company's individual financial statements. 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 2016.

2. General information

Comparative figures for the financial year ended 31 December 2015 are extracted from the Company's statutory accounts for 2015. 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.

Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2016

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 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 turnover or profit in each period presented.

Trading results – continuing operations

	Six months to 30 June 2016 £000	Six months to 30 June 2015 £000	Year ended 31 December 2015 £000
Packaging Distribution			
Revenue	**69,955**	66,291	143,265
Cost of sales	**(49,503)**	(46,885)	(101,047)
Gross profit	**20,452**	19,406	42,218
Net operating expenses	**(18,201)**	(17,354)	(35,467)
Operating profit	**2,251**	2,052	6,751
Manufacturing Operations			
Revenue	**13,650**	15,006	31,017
Cost of sales	**(7,983)**	(9,848)	(20,014)
Gross profit	**5,667**	5,158	11,003
Net operating expenses	**(5,451)**	(4,902)	(10,052)
Operating profit	**216**	256	951

3. Segmental information (continued)

	Six months to 30 June 2016 £000	Six months to 30 June 2015 £000	Year to 31 December 2015 £000
Group segment – total revenue			
Packaging Distribution	**69,955**	66,291	143,265
Manufacturing Operations	**13,650**	15,006	31,017
Inter-segment revenue	**(2,126)**	(2,695)	(5,150)
External revenue – continuing operations	**81,479**	78,602	169,132
Operating profit – continuing operations			
Packaging Distribution	**2,251**	2,052	6,751
Manufacturing Operations	**216**	256	951
Operating profit	**2,467**	2,308	7,702
Finance costs (see note 4)	**(464)**	(455)	(935)
Profit before tax	**2,003**	1,853	6,767
Tax (see note 5)	**(327)**	(288)	(1,317)
Profit for the period	**1,676**	1,565	5,450

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 2016 £000	30 June 2015 £000	31 December 2015 £000
Total assets			
Packaging Distribution	**86,883**	79,307	87,590
Manufacturing Operations	**14,567**	15,752	14,544
Total assets	**101,450**	95,059	102,134
Net assets			
Packaging Distribution	**25,530**	23,218	25,965
Manufacturing Operations	**6,323**	7,534	7,507
Net assets	**31,853**	30,752	33,472

Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2016

4. Finance costs

	Six months to 30 June 2016 £000	Six months to 30 June 2015 £000	Year to 31 December 2015 £000
Interest on bank borrowings	**(241)**	(219)	(460)
Interest on obligations under finance leases	**(23)**	(6)	(37)
Net interest expense on retirement benefit obligation (see note 10)	**(200)**	(230)	(438)
Total finance costs	**(464)**	(455)	(935)

5. Tax

	Six months to 30 June 2016 £000	Six months to 30 June 2015 £000	Year to 31 December 2015 £000
Current tax			
UK corporation tax	**(263)**	(180)	(1,134)
Overseas tax	**(33)**	(27)	(48)
Prior year adjustments	**99**	84	80
Total current tax	**(197)**	(123)	(1,102)
Total deferred tax (see note 11)	**(130)**	(165)	(215)
Total	**(327)**	(288)	(1,317)

Tax for the first six months has been charged at 20.0% (2015: 21.5%) representing the best estimate of the effective tax charge for the full year.

6. Dividends

			Six months to 30 June 2016 £000	Six months to 30 June 2015 £000	Year to 31 December 2015 £000
Amounts recognised as distributions to equity holders in the period					
Final Dividend	(1.29p per share)	(2015: 1.15p per share)	**1,608**	1,433	1,433
Interim Dividend		(2015: 0.53p per share)	**–**	–	661
Distributions in the period			**1,608**	1,433	2,094

The dividend of 0.55p per share, payable on 13 October 2016 was declared on 25 August 2016 and has therefore not been included as a liability in these condensed financial statements.

7. Earnings per share

	Six months to 30 June 2016 £000	Six months to 30 June 2015 £000	Year to 31 December 2015 £000
Earnings			
Earnings from continuing operations for the purposes of earnings per share being profit for the year from continuing operations	**1,676**	1,565	5,450

	30 June 2016	30 June 2015	31 December 2015
Number of shares '000			
Weighted average number of ordinary shares in issue	**124,611**	124,611	124,611
Weighted average number of shares in issue for the purposes of calculating basic earnings per share	**124,611**	124,611	124,611
Effect of dilutive potential ordinary shares due to share options	**743**	46	576
Weighted average number of shares in issue for the purposes of calculating diluted earnings per share	**125,354**	124,657	125,187
Basic earnings per share	**1.35p**	1.26p	4.37p
Diluted earnings per share	**1.34p**	1.26p	4.35p

8. Acquisitions

In 2015 the Group acquired 100% of One Packaging Limited for a consideration of £2.7 million. £2.0 million was paid in cash on acquisition, with the deferred consideration now payable in the second half of 2016 as the earn-out target for the year ended 31 July 2016 has been met. In 2014 the Group acquired Network Packaging Limited with deferred consideration on acquisition of £2.6 million. £1.3 million of this was paid in 2015 with the remainder payable in the second half of 2016 following the achievement of the earn-out target. These deferred considerations are recognised as liabilities at 30 June 2016.

On 5 April 2016, the Group's subsidiary, Macfarlane Group UK Limited, acquired the business of Colton Packaging Teesside, for a consideration of approximately £1.3 million. £1.1 million was paid in cash on acquisition, with the deferred consideration of £0.2 million payable in the second quarter of 2017, if the earn-out target for the year to 31 March 2017 is achieved.

On 3 May 2016, the Group's subsidiary, Macfarlane Group UK Limited, acquired the packaging business of Edward McNeil Limited, for a consideration of approximately £1.7 million. £1.6 million was paid in cash on acquisition, with the deferred consideration of £0.1 million payable in the next twelve months, based on certain working capital targets.

Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2016

8. Acquisitions (continued)

All the businesses above are packaging distributors, 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 the UK and anticipated operating synergies from future combinations 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 2016 £000	Six months to 30 June 2015 £000	Year to 31 December 2015 £000
Net assets acquired			
Other intangible assets	**1,619**	–	1,238
Property, plant and equipment	**25**	–	168
Inventories	**628**	–	350
Trade and other receivables	**–**	–	1,098
Bank loans and overdrafts	**–**	–	(403)
Trade and other payables	**–**	–	(974)
Finance lease liabilities	**–**	–	(59)
Deferred tax liabilities	**(292)**	–	(249)
Net assets acquired	**1,980**	–	1,169
Goodwill arising on acquisition	**1,041**	83	1,644
Total consideration	**3,021**	83	2,813
Deferred consideration on acquisitions			
Current year	**(320)**	–	–
Prior years	**–**	163	725
Total cash consideration	**2,701**	246	3,538
Net cash outflow arising on acquisition			
Cash consideration	**(2,701)**	(246)	(3,538)
Bank loans and overdrafts assumed	**–**	–	403
Net cash outflow	**(2,701)**	(246)	(3,941)

9. Notes to the cash flow statement

	Six months to 30 June 2016 £000	Six months to 30 June 2015 £000	Year to 31 December 2015 £000
Operating profit	**2,467**	2,308	7,702
Adjustments for:			
Amortisation of intangible assets	**471**	384	826
Depreciation of property, plant and equipment	**661**	530	1,151
Gain/(loss) on disposal of property, plant and equipment	**(3)**	(2)	34
Operating cash flows before movements in working capital	**3,596**	3,220	9,713
Decrease/(increase) in inventories	**219**	(1,363)	(546)
Decrease/(increase) in receivables	**2,982**	1,606	(2,042)
(Decrease)/increase in payables	**(3,535)**	(417)	2,178
Decrease in provisions	**–**	–	(32)
Employer pension contributions less amounts recognised in income statement	**(1,417)**	(1,421)	(2,682)
Cash generated from operations	**1,845**	1,625	6,589
Income taxes paid	**(590)**	(75)	(724)
Interest paid	**(264)**	(225)	(497)
Net cash inflow from operating activities	**991**	1,325	5,368
Movement in net debt			
(Decrease)/increase in cash and cash equivalents	**(677)**	(591)	157
Increase in bank borrowings	**(3,595)**	(230)	(1,690)
New finance lease facilities	**–**	(402)	(813)
Cash flows from payment of finance lease liabilities	**184**	100	320
Movement in net debt in the period	**(4,088)**	(1,123)	(2,026)
Opening net debt	**(12,758)**	(10,732)	(10,732)
Closing net debt	**(16,846)**	(11,855)	(12,758)
Net debt comprises:			
Cash and cash equivalents	**730**	659	1,407
Bank borrowings	**(16,634)**	(11,579)	(13,039)
Net bank debt	**(15,904)**	(10,920)	(11,632)
Finance lease liabilities			
Due within one year	**(383)**	(284)	(388)
Due outwith one year	**(559)**	(651)	(738)
Closing net debt	**(16,846)**	(11,855)	(12,758)

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 2016

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 2016, 30 June 2015 and 31 December 2015. 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 2016 £000	30 June 2015 £000	31 December 2015 £000
Equities			
UK equities and equity funds	**5,725**	5,905	6,030
Overseas equity funds	**10,374**	10,948	10,758
Multi-asset diversified funds	**25,506**	25,514	25,476
Bonds			
Liability driven investment funds	**26,660**	13,810	14,107
Corporate bond fund	**952**	11,003	11,119
Other			
Loan fund	**6,076**	–	–
Cash	**859**	782	303
Fair value of assets	**76,152**	67,962	67,793
Present value of scheme liabilities	**(88,776)**	(80,022)	(79,311)
Pension scheme deficit	**(12,624)**	(12,060)	(11,518)
Deferred tax asset (see note 11)	**2,272**	2,412	2,073
Pension scheme deficit net of related deferred tax asset	**(10,352)**	(9,648)	(9,445)

Assumptions

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

	30 June 2016	30 June 2015	31 December 2015
Discount rate	**2.90%**	3.60%	3.70%
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 2.95% for LPI**	3% or 5% for fixed increases or 3.30% for LPI	3% or 5% for fixed increases or 2.10% for LPI
Inflation assumption (RPI)	**3.00%**	3.20%	3.10%
Inflation assumption (CPI)	**2.00%**	2.30%	2.10%
Life expectancy beyond normal retirement age of 65			
Male	**22.8 years**	22.8 years	22.7 years
Female	**25.3 years**	25.1 years	25.3 years

LPI represents Limited Price Indexation applied to pensions in payment.

10. Retirement benefit obligations (continued)

	Six months to 30 June 2016 £000	Six months to 30 June 2015 £000	Year to 31 December 2015 £000
Movement in scheme deficit in the period			
At start of period	**(11,518)**	(13,873)	(13,873)
Current service cost	**(51)**	(83)	(152)
Employer contributions	**1,468**	1,504	2,834
Net finance cost	**(200)**	(230)	(438)
Remeasurement of pension scheme liability in the period	**(2,323)**	622	111
At end of period	**(12,624)**	(12,060)	(11,518)

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

	Six months to 30 June 2016 £000	Six months to 30 June 2015 £000	Year to 31 December 2015 £000
Discount rate movement of +0.1%	**1,278**	1,280	1,142
Inflation rate movement of +0.1%	**(453)**	(380)	(404)
Mortality movement of +0.1 year in age rating	**240**	288	214

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 2016

10. Retirement benefit obligations (continued)

	Six months to 30 June 2016 £000	Six months to 30 June 2015 £000	Year to 31 December 2015 £000
Movement in fair value of scheme assets			
Scheme assets at start of period	**67,793**	67,990	67,990
Interest income	**1,243**	1,187	2,364
Return on scheme assets (exc. amounts shown in interest income)	**8,320**	(901)	(1,658)
Contributions from sponsoring companies	**1,468**	1,504	2,834
Contribution from scheme members	**35**	42	84
Benefits paid	**(2,707)**	(1,860)	(3,821)
Scheme assets at end of period	**76,152**	67,962	67,793
Movement in present value of defined benefit obligations			
Obligations at start of period	**(79,311)**	(81,863)	(81,863)
Current service cost	**(51)**	(83)	(152)
Interest cost	**(1,443)**	(1,417)	(2,802)
Contribution from scheme members	**(35)**	(42)	(84)
Changes in assumptions underlying the defined benefit obligations	**(10,643)**	1,523	1,769
Benefits paid	**2,707**	1,860	3,821
Obligations at end of period	**(88,776)**	(80,022)	(79,311)

Investments

The Trustees review the scheme investments regularly and consult with the Company regarding any proposed changes. During the first half of 2016, the majority of the investment in the Corporate Bond Fund was realised and reinvested in Liability Driven Investments Funds and a Loan 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

	30 June 2016 £000	30 June 2015 £000	31 December 2015 £000
Deferred tax asset on pension scheme deficit			
At start of period	**2,073**	2,775	2,775
Credit/(charge) on actuarial movement in the period applied through statement of comprehensive income	**418**	(124)	(22)
Charge due to long-term corporation tax rate change applied through statement of comprehensive income	–	–	(229)
Charge through income statement based on payments made to reduce deficit in the period	**(219)**	(239)	(451)
Deferred tax asset on pension scheme deficit (see note 10)	**2,272**	2,412	2,073
Deferred tax asset on other timing differences			
At start of period	**426**	470	470
Credit through income statement	**–**	–	(44)
Deferred tax asset on other timing differences	**426**	470	426
Total deferred tax assets at end of period	**2,698**	2,882	2,499
Deferred tax liability on other intangible assets			
At start of period	**(988)**	(1,019)	(1,019)
Acquisition (see note 8)	**(292)**	–	(249)
Credit through income statement Movement in other intangible assets in the period	**89**	74	280
Deferred tax liability at end of period	**(1,191)**	(945)	(988)

Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2016

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 2016 will be disclosed in the Group's Annual Report for the year ending 31 December 2016.

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. Post balance sheet events

Acquisition

On 29 July 2016, the Company concluded the acquisition of Nelsons for Cartons & Packaging Limited ("Nelsons"), a packaging distributor based in Leicester for a maximum consideration of up to £6.75 million. The initial cash consideration was £4.25 million. As part of the consideration, the vendors received 1,724,137 new Ordinary shares of the Company at a price of 58p, a value of £1.0 million. The Acquisition has deferred consideration of £1.5 million payable in two instalments and is subject to certain trading targets being achieved in the two twelve month periods ending on 31 July 2017 and 31 July 2018.

Share Placing

On 29 July 2016, the Company raised £5.8 million before expenses through a Share Placing of 10,000,000 new Ordinary Shares at a price of 58 pence per share with new and existing shareholders. In accordance with the authority received at the 2016 Annual General Meeting, the proceeds from the Placing Shares are being used to fund the acquisition of Nelsons.

Admission of both the Vendor Shares and the Placing Shares took place on 29 July 2016.

The current issued share capital consists of 136,335,497 Ordinary Shares. The Company does not hold any Ordinary Shares in treasury. Therefore the total number of Ordinary Shares and voting rights in the Company is 136,335,497.

14. Interim Report

The Interim Report will be posted to shareholders on 9 September 2016. 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.

Report designed and produced by Tayburn

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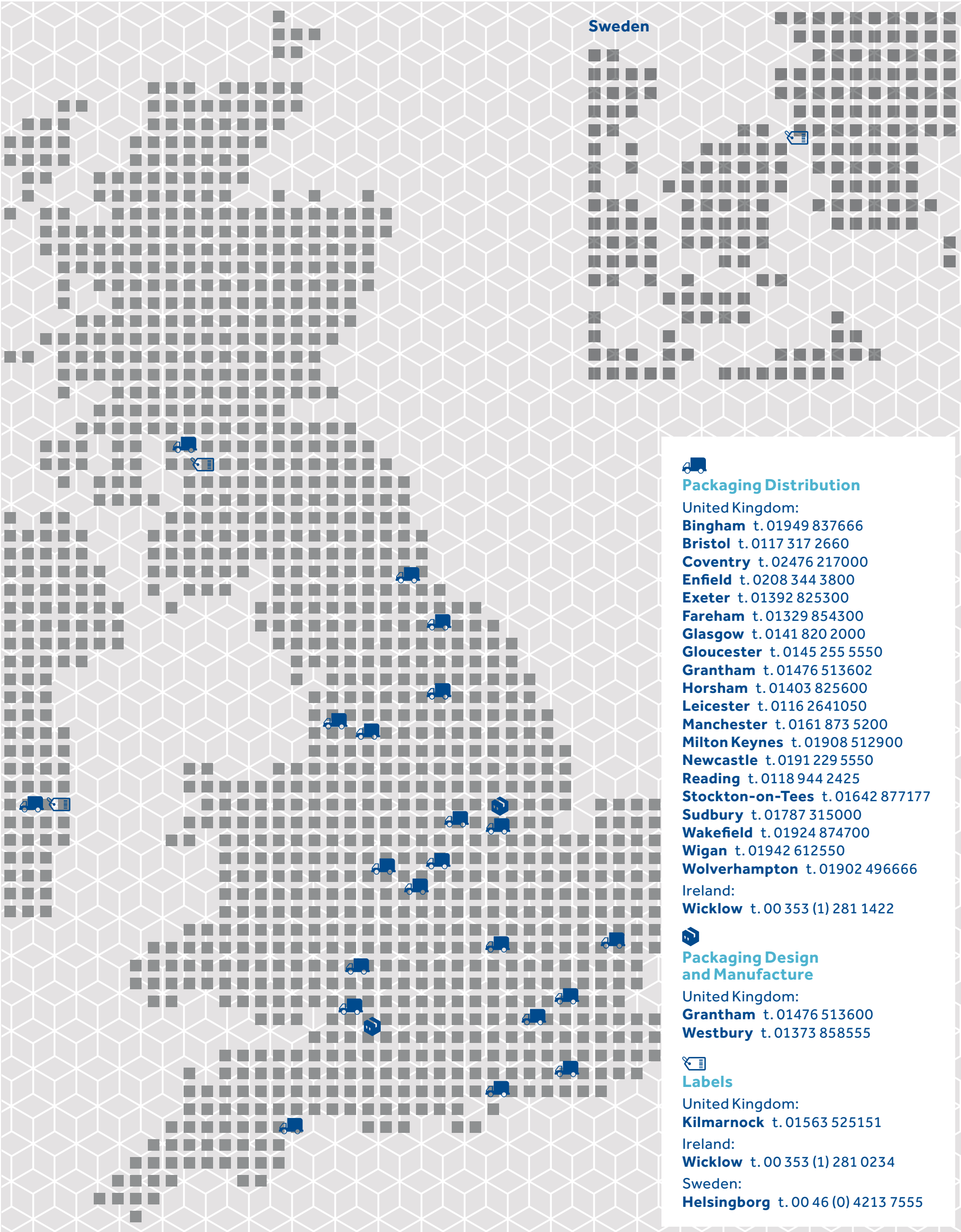

Packaging Distribution

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