





Headquartered in Glasgow, Macfarlane Group PLC employs over 900 people at 29 sites across the UK, one site in Ireland and one site in Sweden and services more than 20,000 customers in a wide range of sectors.

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Chairman's statement

Macfarlane Group has performed well in the first half of 2018. Group sales of £102.0 million, were 14% ahead of the comparable period last year and profit before tax of £3.5 million, was 39% higher than in 2017.



This strong performance in the first six months of 2018, supplemented by the expected seasonal uplift from the e-commerce sector in the second half of the year, gives the Board confidence that its full year expectations for 2018 will be achieved.

Packaging Distribution grew its sales by 14% in the first half of 2018, with 5% achieved from organic growth and the remainder from the 2017 acquisition of Greenwoods, which is performing well. Gross margin in Packaging Distribution rose to 29.3%, (2017: 29.0%). Operating profit for the division at £3.7 million was £1.0 million ahead of 2017, an increase of 39%.

Sales in our Manufacturing Operations were 11% above 2017, with strong demand for composite packs for export markets. Both manufacturing businesses experienced lower gross margins as a result of increased raw material prices and unfavourable sales mix, resulting in operating profit of £0.2 million, slightly below that achieved in 2017.

After charging net interest of £0.4 million, (2017: £0.4 million), the Group profit before tax grew by 39% to £3.5 million (2017: £2.5 million).

Net debt at 30 June 2018 was £11.1 million, £3.6 million below the level of £14.7 million at 31 December 2017. The Group is operating well within its existing bank facility of £30.0 million. Consistent with our normal pattern, we expect to be strongly cash generative from trading in the second half of 2018, enabling us to finance up to £4.0 million in deferred consideration as forecast, relating to the acquisitions of Nelsons for Cartons and Packaging Limited and Greenwoods Stock Boxes, made in earlier years. Both of these companies are continuing to trade strongly.

On 31 July 2018 and 2 August 2018, we concluded the acquisitions of Tyler Packaging (Leicester) Limited ('Tyler') and Harrison's Packaging Limited ('Harrison's'), two successful packaging distributors, based in Leicester and Leyland respectively. The maximum net cash consideration including deferred payments for both acquisitions is estimated to be £3.5 million.

The pension scheme deficit reduced to £9.4 million at 30 June 2018 from £11.8 million at 31 December 2017, mainly due to the continued payment of deficit reduction contributions during the six month period.

The Board is recommending an 8% increase in the interim dividend to 0.65p per share to be paid on 11 October 2018 to shareholders on the register as at 21 September 2018 (2017: 0.60p per share).

Our strategy is to deliver sustainable profit growth by focusing on added value products and services in our target market sectors, combined with the execution of value-enhancing acquisitions. Macfarlane Group's performance in the first half of 2018 reflects the successful implementation of our strategy and we are confident that the Group will continue to make further progress in the remainder of 2018.

Stuart R Paterson
Chairman

23 August 2018

Interim results – management report

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

Packaging Distribution

Macfarlane's Packaging Distribution business is the UK's leading specialist distributor of protective packaging materials. Macfarlane operates from 23 Regional Distribution Centres ('RDCs') and 3 satellite sites, supplying customers with a comprehensive range of protective packaging materials and services on a local, regional and national basis. Macfarlane meets the needs of customers by enabling them to ensure their products are cost-effectively protected in transit and storage by offering a comprehensive product range, single source supply, Just-In-Time delivery, tailored stock management programmes, electronic trading and independent advice on both packaging materials and packing processes.

	2018 £000	2017 £000
Sales	89,119	78,055
Cost of sales	62,976	55,427
Gross margin	26,143	22,628
Overheads	22,430	19,958
Operating profit	3,713	2,670

The main features of our first half performance in 2018 were:

- Sales growth of 14% comprised 5% organic growth and additional sales growth of 9% from our 2017 acquisition;
- Strong progress in the development of our National Account business in the industrial sector with incremental business from existing customers in H1 2018;
- Sales to internet retailers accounted for 19% of business in H1 2018. We continue to develop and win business in this key growth sector and our Innovation Lab in Milton Keynes has supported our sales growth in 2018;

- The Third-party Logistics ('3PL') sector represents 10% of our total business as we continue to strengthen our partnerships with key 3PL operators;
- Gross margin is 29.3% (2017: 29.0%) reflecting favourable margins in our 2017 acquisition and the recovery of industry-wide input price increases on paper-based products in Q2 2018; and
- Overhead increases in the current year are primarily due to the impact of acquisitions; meanwhile the strong cost control ethos throughout the business remains.

We expect sales to continue to be weighted towards H2 2018 reflecting the proportion of internet retailers in our customer base. The key areas we shall focus on to support this are:

- Maintaining our focus on the growth potential for protective packaging in key market segments – the e-commerce sector, National Accounts in the industrial sector and 3PL operators;
- Providing UK and pan-European customers requiring our capabilities on a European basis with access to our offering and where appropriate, utilising the benefits of our NovuPak membership;
- Improving our sourcing through stronger relationships with our existing supplier base;
- Continuing the price recovery programme for paper-related input price increases;
- Rolling out the new products introduced to the business from recent acquisitions, particularly Airsac and Shelf-Ready Packaging;
- Pursuing cost-reduction opportunities from productivity improvements and in our property portfolio;
- Maintaining the focus on working capital management to facilitate future growth; and
- Supplementing organic growth by the identification and completion of further suitable high-quality acquisitions. Our recent acquisitions, Tyler and Harrison's, are good local businesses with a strong customer focus, which are expected to integrate well into the Macfarlane network.

Manufacturing Operations

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

	2018 £000	2017 £000
Sales	14,989	13,553
Cost of sales	10,037	8,650
Gross margin	4,952	4,903
Overheads	4,751	4,625
Operating profit	201	278

Packaging Design & Manufacture

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

Packaging Design & Manufacture sales increased by 16% from last year's levels, with strong growth from customers focusing on export markets. Actions to reduce operating costs were implemented, which, with the benefit of stronger sales, resulted in profit in H1 2018 being above the same period in 2017.

Labels

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

In H1 2018 sales at Macfarlane Labels were 6% higher than in 2017 reflecting growth in pre-applied labels in FMCG sectors. Profit in the first half of 2018 was below that achieved in 2017, due to an unfavourable sales mix, but showed an improved run-rate in the second quarter.

The priorities for the Manufacturing Operations in the second half of 2018 are to:

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

Summary and future prospects

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

Our future performance is largely dependent on our own efforts to grow sales, increase efficiencies and bring high quality acquisitions into the Group. With a focus on the most attractive UK market sectors for our products and services, combined with our successful track record of growth and acquisitions, we expect 2018 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 2017 (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 current 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 and customer base 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 comprising 3 owned sites and 34 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 has a significant investment in working capital in trade receivables and inventories. There is a risk that this investment is not fully recovered. Rigour is applied to the management of trade receivables and inventories throughout the Group to mitigate these risks;
- The Group needs continued access to funding to meet its trading obligations and to support organic growth and acquisitions. There is a risk that the Group may be unable to obtain funds or that such funds will only be available on unfavourable terms. The Group's borrowing facility comprises a committed facility of £30 million with Lloyds Bank PLC, available until June 2022, which finances our trading requirements and supports controlled expansion, providing a medium-term funding platform for growth;
- In Packaging Distribution, the business model reflects a decentralised approach with a high dependency on effective local decision-making. There is a risk that local decisions may not always meet overall corporate objectives. This is closely monitored in the Group with regular reviews of performance and prospects for all locations;
- The Group's defined benefit pension scheme is sensitive to a number of key factors; investment returns, discount rates used to calculate the scheme's liabilities and mortality assumptions. Small changes in these assumptions could cause significant movements in the pension deficit. The Group has sought to manage the volatility of the pension scheme deficit caused by these factors by undertaking exercises to reduce liabilities, more effectively match the investment profile with the liability profile and making contributions to reduce the deficit; and
- The Group's growth strategy includes acquisitions as a key component. There are risks that the availability of acquisition candidates may reduce, or that acquisitions may not perform as expected either after acquisition or on integration into the Group. Having made nine acquisitions since 2014, the Group has well-established due diligence and integration processes and procedures and seeks to acquire quality businesses which will perform well in the Group.

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

Statement of Directors' responsibilities

The Directors of Macfarlane Group PLC are

S.R. Paterson	Chairman
P.D. Atkinson	Chief Executive
J. Love	Finance Director
M.R. Arrowsmith	Non-Executive Director/ Senior Independent Director
J.W.F. Baird	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 23 August 2018 and signed on its behalf by:



Peter D. Atkinson
Chief Executive



John Love
Finance Director

Cautionary statement

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

This announcement contains certain forward-looking statements relating to operations, performance and financial status. Such statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future and should be treated with caution as there are a

number of factors, including both economic and business risk factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements.

These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this announcement. Nothing in this Interim Results Statement should be construed as a profit forecast or an invitation to deal in the securities of the Group.

Independent review report to Macfarlane Group PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated balance sheet, the condensed consolidated cash flow statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA').

Scope of review

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

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

Directors' responsibilities

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

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

Our responsibility

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

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

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



Hugh Harvie
for and on behalf of KPMG LLP
Chartered Accountants
319 St Vincent Street
Glasgow G2 5AS
23 August 2018

Condensed consolidated income statement (unaudited)

For the six months ended 30 June 2018

	Note	Six months to 30 June 2018 €000	Six months to 30 June 2017 €000	Year to 31 December 2017 €000
Continuing operations				
Revenue	3	102,007	89,824	195,991
Cost of sales		(70,912)	(62,293)	(135,687)
Gross profit		31,095	27,531	60,304
Distribution costs		(4,324)	(4,000)	(8,208)
Administrative expenses		(22,857)	(20,583)	(42,007)
Operating profit	3	3,914	2,948	10,089
Finance costs	4	(388)	(413)	(828)
Profit before tax		3,526	2,535	9,261
Tax	5	(675)	(443)	(1,837)
Profit for the period	3	2,851	2,092	7,424
Earnings per share	7			
Basic		1.81p	1.53p	5.22p
Diluted		1.81p	1.52p	5.22p

Condensed consolidated statement of comprehensive income (unaudited)

For the six months ended 30 June 2018

	Note	Six months to 30 June 2018 €000	Six months to 30 June 2017 €000	Year to 31 December 2017 €000
Items that may be reclassified to profit or loss				
Foreign currency translation differences		(26)	35	45
Items that will not be reclassified to profit or loss				
Remeasurement of pension scheme liability	10	979	(505)	(223)
Tax recognised in other comprehensive income				
Tax on remeasurement of pension scheme liability	11	(166)	86	38
Other comprehensive income/(expense) for the period, net of tax		787	(384)	(140)
Profit for the period		2,851	2,092	7,424
Total comprehensive income for the period		3,638	1,708	7,284

Condensed consolidated statement of changes in equity (unaudited) For the six months ended 30 June 2018

	Note	Share capital £000	Share premium £000	Revaluation reserve £000	Translation reserve £000	Retained earnings £000	Total £000
At 1 January 2018		39,387	12,975	70	299	4,479	57,210
Comprehensive income							
Profit for the year		—	—	—	—	2,851	2,851
Foreign currency translation differences		—	—	—	(26)	—	(26)
Remeasurement of pension scheme liability	10	—	—	—	—	979	979
Tax on remeasurement of pension scheme liability	11	—	—	—	—	(166)	(166)
Total comprehensive income		—	—	—	(26)	3,664	3,638
Transactions with shareholders							
Dividends	6	—	—	—	—	(2,363)	(2,363)
Total transactions with shareholders		—	—	—	—	(2,363)	(2,363)
At 30 June 2018		39,387	12,975	70	273	5,780	58,485

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

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

Condensed consolidated statement of changes in equity

For the year ended 31 December 2017

	Note	Share capital £000	Share premium £000	Revaluation reserve £000	Translation reserve £000	Retained earnings £000	Total £000
At 1 January 2017		34,084	4,641	70	254	274	39,323
Comprehensive income							
Profit for the year		—	—	—	—	7,424	7,424
Foreign currency translation differences		—	—	—	45	—	45
Remeasurement of pension scheme liability	10	—	—	—	—	(223)	(223)
Tax on remeasurement of pension scheme liability	11	—	—	—	—	38	38
Total comprehensive income		—	—	—	45	7,239	7,284
Transactions with shareholders							
Dividends	6	—	—	—	—	(2,854)	(2,854)
Share-based payments		—	—	—	—	(180)	(180)
Issue of share capital	12	5,303	8,334	—	—	—	13,637
Total transactions with shareholders		5,303	8,334	—	—	(3,034)	10,603
At 31 December 2017		39,387	12,975	70	299	4,479	57,210

Condensed consolidated balance sheet (unaudited)

At 30 June 2018

	Note	30 June 2018 £000	30 June 2017 £000	31 December 2017 £000
Non-current assets				
Goodwill and other intangible assets		56,160	43,330	57,234
Property, plant and equipment		8,647	7,961	8,630
Other receivables		189	358	296
Deferred tax assets	11	1,998	2,691	2,407
Total non-current assets		66,994	54,340	68,567
Current assets				
Inventories		15,384	12,848	15,465
Trade and other receivables		48,555	42,880	52,578
Cash and cash equivalents	9	2,576	1,212	2,013
Total current assets		66,515	56,940	70,056
Total assets	3	133,509	111,280	138,623
Current liabilities				
Trade and other payables		48,444	39,943	49,100
Current tax payable		604	563	741
Finance lease liabilities	9	151	398	245
Bank borrowings	9	13,478	15,259	16,346
Total current liabilities		62,677	56,163	66,432
Net current assets		3,838	777	3,624
Non-current liabilities				
Retirement benefit obligations	10	9,418	13,419	11,823
Deferred tax liabilities	11	2,882	1,577	3,048
Trade and other payables		27	778	13
Finance lease liabilities	9	20	167	97
Total non-current liabilities		12,347	15,941	14,981
Total liabilities		75,024	72,104	81,413
Net assets	3	58,485	39,176	57,210
Equity				
Share capital		39,387	34,084	39,387
Share premium		12,975	4,641	12,975
Revaluation reserve		70	70	70
Translation reserve		273	289	299
Retained earnings		5,780	92	4,479
Total equity		58,485	39,176	57,210

Condensed consolidated cash flow statement (unaudited)

For the six months ended 30 June 2018

	Note	Six months to 30 June 2018 £000	Six months to 30 June 2017 £000	Year to 31 December 2017 £000
Net cash inflow from operating activities	9	6,730	4,427	6,482
Investing activities				
Acquisitions	8	–	(246)	(8,337)
Proceeds on disposal of property, plant and equipment		24	18	210
Purchases of property, plant and equipment		(789)	(829)	(1,740)
Net cash used in investing activities		(765)	(1,057)	(9,867)
Financing activities				
Dividends paid	6	(2,363)	(1,909)	(2,854)
Proceeds from issue of share capital (net of issue expenses)		–	–	7,637
Repayment of bank facility		(2,868)	(1,947)	(860)
Repayment of finance lease liabilities		(171)	(232)	(455)
Net cash (used in)/generated by financing activities		(5,402)	(4,088)	3,468
Net increase/(decrease) in cash and cash equivalents		563	(718)	83
Cash and cash equivalents at beginning of period		2,013	1,930	1,930
Cash and cash equivalents at end of period	9	2,576	1,212	2,013

Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2018

1. Basis of preparation

Macfarlane Group PLC is a public company listed on the London Stock Exchange, incorporated and domiciled in the United Kingdom. The Group's annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. Other than as disclosed below, as required by the Disclosure and Transparency Rules of the Financial Conduct Authority, this condensed set of financial statements has been prepared applying the accounting policies that were applied in the preparation of the company's published consolidated financial statements for the year ended 31 December 2017. This condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

This is the first set of Group financial statements where IFRS 15 and IFRS 9 have been applied, both with effect from 1 January 2018.

- (i) The adoption of *IFRS 15 Revenue from Contracts with Customers* has not resulted in significant changes to the revenue recognition policy applied in the Group's financial statements for the year ended 31 December 2017. This is due to the nature of the majority of existing customer contracts entered into by the Group recognising revenue at the point of transfer of goods to the customer, consistent with the revenue recognition framework in *IFRS 15*. As a result, no adjustments have been made to the 31 December 2017 balance sheet nor to opening retained earnings at 1 January 2018.
- (ii) *IFRS 9 Financial Instruments* contains provisions for the calculation of impairment losses for doubtful trade receivables. This has not resulted in any significant changes to the existing methodology used to calculate provisions applied in the Group's 2017 financial statements. As a result, no adjustments have been made to the 31 December 2017 balance sheet nor to opening retained earnings at 1 January 2018.

The Directors are in the process of evaluating the impact of *IFRS 16 Leases* in the Group's 2019 financial statements. The Group's financial commitments under all operating leases at 31 December 2017 are set out in note 22 to the 2017 financial statements. From 1 January 2019 all operating leases will be reclassified as finance leases under *IFRS 16*. Adoption of this standard will result in an increase in gross assets and gross liabilities on the balance sheet and reclassifications of expenditure between operating costs and finance costs in the income statement. There will be no net cash flow impact arising from the new accounting standard and the Group does not currently intend to alter its approach as to whether assets should be leased or acquired outright going forward.

Judgements, assumptions and estimation uncertainties

In preparing the 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, with revisions to estimates 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

Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2018

1. Basis of preparation (continued)

Business activities, risks and financing

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

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

The Group's banking arrangements with Lloyds Bank PLC comprise a committed facility of £30 million, expiring in June 2022, secured over part of Macfarlane Group's trade receivables and bearing interest at commercial rates. The facility has financial covenants for interest cover and over trade receivables headroom.

The Directors are of the opinion that the Group's cash and revenue projections, which they believe are based on prudent market data and past experience taking account of reasonably possible changes in trading performance given current market and economic conditions, show that the Group should be able to operate within its current facilities and comply with its banking covenants.

In assessing the going concern basis, the Directors have considered the Group's business activities, the financial position of the Group and the Group's risks and uncertainties. The Directors have a reasonable expectation that, despite the current uncertain economic environment, the Company 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 23 August 2018.

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

2. General information

Comparative figures for the financial year ended 31 December 2017 are extracted from Macfarlane Group's statutory accounts for 2017. Those accounts have been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

3. Segmental information

The Group's principal business segment is **Packaging Distribution**, comprising the distribution of packaging materials and supply of storage and warehousing services in the UK. The remaining operations for the manufacture and supply of self-adhesive and resealable labels to a variety of FMCG customers in the UK, Europe and USA and the design, manufacture and assembly of timber,

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

Trading results – continuing operations

	Six months to 30 June 2018 £000	Six months to 30 June 2017 £000	Year ended 31 December 2017 £000
Packaging Distribution			
Revenue	89,119	78,055	171,771
Cost of sales	(62,976)	(55,427)	(121,323)
Gross profit	26,143	22,628	50,448
Net operating expenses	(22,430)	(19,958)	(41,012)
Operating profit	3,713	2,670	9,436
Manufacturing Operations			
Revenue	14,989	13,553	28,191
Cost of sales	(10,037)	(8,650)	(18,335)
Gross profit	4,952	4,903	9,856
Net operating expenses	(4,751)	(4,625)	(9,203)
Operating profit	201	278	653
	Six months to 30 June 2018 £000	Six months to 30 June 2017 £000	Year to 31 December 2017 £000
Group segment – total revenue			
Packaging Distribution	89,119	78,055	171,771
Manufacturing Operations	14,989	13,553	28,191
Inter-segment revenue	(2,101)	(1,784)	(3,971)
External revenue – continuing operations	102,007	89,824	195,991
Operating profit – continuing operations			
Packaging Distribution	3,713	2,670	9,436
Manufacturing Operations	201	278	653
Operating profit	3,914	2,948	10,089
Finance costs (see note 4)	(388)	(413)	(828)
Profit before tax	3,526	2,535	9,261
Tax (see note 5)	(675)	(443)	(1,837)
Profit for the period	2,851	2,092	7,424

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.

Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2018

3. Segmental information (continued)

	30 June 2018 €000	30 June 2017 €000	31 December 2017 €000
Total assets			
Packaging Distribution	117,732	96,872	124,069
Manufacturing Operations	15,777	14,408	14,554
Total assets	133,509	111,280	138,623
Net assets			
Packaging Distribution	50,858	32,342	49,745
Manufacturing Operations	7,627	6,834	7,465
Net assets	58,485	39,176	57,210

4. Finance costs

	Six months to 30 June 2018 €000	Six months to 30 June 2017 €000	Year to 31 December 2017 €000
Interest on bank borrowings	(239)	(214)	(462)
Interest on obligations under finance leases	(11)	(15)	(18)
Net interest expense on retirement benefit obligation (see note 10)	(138)	(184)	(348)
Total finance costs	(388)	(413)	(828)

5. Tax

	Six months to 30 June 2018 €000	Six months to 30 June 2017 €000	Year to 31 December 2017 €000
Current tax			
UK corporation tax	(611)	(327)	(1,551)
Overseas tax	(29)	(12)	(62)
Prior year adjustments	42	49	49
Total current tax	(598)	(290)	(1,564)
Total deferred tax (see note 11)	(77)	(153)	(273)
Total	(675)	(443)	(1,837)

Tax for the first six months has been charged at 19.00% (2017: 19.25%) representing the best estimate of the effective tax charge for the full year.

6. Dividends

	Six months to 30 June 2018 €000	Six months to 30 June 2017 €000	Year to 31 December 2017 €000
Amounts recognised as distributions to equity holders in the period			
Final Dividend (1.50p per share) (2017: 1.40p per share)	2,363	1,909	1,909
Interim Dividend (2017: 0.60p per share)	–	–	945
Distributions in the period	2,363	1,909	2,854

An interim dividend of 0.65p per share, payable on 11 October 2018 was declared on 23 August 2018 and has therefore not been included as a liability in these condensed financial statements.

7. Earnings per share

	Six months to 30 June 2018 €000	Six months to 30 June 2017 €000	Year to 31 December 2017 €000
Earnings			
Earnings from continuing operations for the purposes of earnings per share being profit for the year from continuing operations	2,851	2,092	7,424

	30 June 2018	30 June 2017	31 December 2017
Number of shares '000			
Weighted average number of shares in issue for the purposes of basic earnings per share	157,548	136,335	142,228
Effect of dilutive potential ordinary shares due to share options	–	967	–
Weighted average number of shares in issue for the purposes of diluted earnings per share	157,548	137,302	142,228
Basic earnings per share	1.81p	1.53p	5.22p
Diluted earnings per share	1.81p	1.52p	5.22p

Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2018

8. Acquisitions

On 21 September 2017, the Group's subsidiary, Macfarlane Group UK Limited, acquired the packaging business and selected assets of Almadon Limited (formerly Greenwoods Stock Boxes Limited) and 100% of the issued share capital of Nottingham Recycling Limited, for a total consideration of approximately £17.22 million. £7.97 million was paid in cash on acquisition, and £6.0 million was settled by the issue of shares. The deferred consideration of £3.25 million is payable in the final quarter of 2018, subject to certain trading targets being met in the twelve month period ending on 20 September 2018.

On 29 July 2016, the Group acquired 100% of Nelsons for Cartons & Packaging Limited for a total consideration of £7.2 million. £4.7 million was paid in cash on acquisition with £1.0 million settled by the issue of shares. Of the deferred consideration of £1.5 million, £0.75 million was paid in the final quarter of 2017 and £0.75 million will be paid in the third quarter of 2018.

Both businesses 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. All deferred consideration is recognised in liabilities at the respective reporting dates. Fair values assigned to net assets acquired and consideration paid and payable are set out below:

	Six months to 30 June 2018 £000	Six months to 30 June 2017 £000	Year to 31 December 2017 £000
Net assets acquired			
Other intangible assets	—	—	9,185
Property, plant and equipment	—	—	712
Inventories	—	—	1,109
Trade and other receivables	—	—	2,736
Cash and bank balances	—	—	625
Trade and other payables	—	—	(1,179)
Current tax liabilities	—	—	(12)
Deferred tax liabilities	—	—	(1,587)
Net assets acquired	—	—	11,589
Goodwill arising on acquisition	—	—	5,627
Total consideration	—	—	17,216
Contingent consideration on acquisitions			
Current year	—	—	(3,250)
Prior years	—	246	996
Shares	—	—	(6,000)
Total cash consideration	—	246	8,962
Net cash outflow arising on acquisition			
Cash consideration	—	(246)	(8,962)
Cash and bank balances acquired	—	—	625
Net cash outflow	—	(246)	(8,337)

9. Notes to the cash flow statement

	Six months to 30 June 2018 £000	Six months to 30 June 2017 £000	Year to 31 December 2017 £000
Operating profit	3,914	2,948	10,089
Adjustments for:			
Amortisation of intangible assets	1,074	672	1,580
Depreciation of property, plant and equipment	762	629	1,391
Gain on disposal of property, plant and equipment	(14)	(9)	5
Operating cash flows before movements in working capital	5,736	4,240	13,065
Decrease/(increase) in inventories	81	138	(1,370)
Decrease/(increase) in receivables	4,130	5,737	(1,163)
(Decrease)/increase in payables	(668)	(2,905)	1,570
Employer pension contributions less current service costs recognised in the income statement	(1,564)	(1,807)	(3,285)
Cash generated from operations	7,715	5,403	8,817
Income taxes paid	(735)	(747)	(1,855)
Interest paid	(250)	(229)	(480)
Net cash inflow from operating activities	6,730	4,427	6,482
Movement in net debt			
Increase/(decrease) in cash and cash equivalents	563	(718)	83
Decrease in bank borrowings	2,868	1,947	860
Cash flows from payment of finance lease liabilities	171	232	455
Movement in net debt in the period	3,602	1,461	1,398
Opening net debt	(14,675)	(16,073)	(16,073)
Closing net debt	(11,073)	(14,612)	(14,675)
Net debt comprises:			
Cash and cash equivalents	2,576	1,212	2,013
Bank borrowings	(13,478)	(15,259)	(16,346)
Net bank debt	(10,902)	(14,047)	(14,333)
Finance lease liabilities			
Due within one year	(151)	(398)	(245)
Due outwith one year	(20)	(167)	(97)
Closing net debt	(11,073)	(14,612)	(14,675)

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 2018

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 2017, updated to 30 June 2018 and 31 December 2017 and the actuarial valuation at 1 May 2014 updated to 30 June 2017. 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 2018 £000	30 June 2017 £000	31 December 2017 £000
Equities			
UK equity funds	7,182	7,129	7,034
Overseas equity funds	10,704	10,354	10,660
Multi-asset diversified funds	19,865	21,872	21,533
Bonds			
Liability-driven investment funds	28,742	26,526	28,534
Other			
European loan fund	6,603	6,476	6,562
Secured property income fund	6,859	6,330	6,606
Cash	288	343	31
Fair value of scheme investments	80,243	79,030	80,960
Present value of scheme liabilities	(89,661)	(92,449)	(92,783)
Pension scheme deficit	(9,418)	(13,419)	(11,823)
Deferred tax asset (see note 11)	1,601	2,281	2,010
Pension scheme deficit net of related deferred tax asset	(7,817)	(11,138)	(9,813)

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

Assumptions	30 June 2018	30 June 2017	31 December 2017
Discount rate	2.60%	2.60%	2.50%
Rate of increase in pensionable salaries	0.00%	0.00%	0.00%
Rate of increase in pensions in payment	3% or 5% for fixed increases or 3.10% for LPI	3% or 5% for fixed increases or 3.20% for LPI	3% or 5% for fixed increases or 3.20% for LPI
Inflation assumption (RPI)	3.20%	3.30%	3.30%
Inflation assumption (CPI)	2.20%	2.30%	2.30%
Life expectancy beyond normal retirement age of 65			
Male	23.8 years	22.9 years	23.7 years
Female	25.8 years	25.4 years	25.7 years

LPI represents limited price indexation applied to pensions in payment.

	Six months to 30 June 2018 €000	Six months to 30 June 2017 €000	Year to 31 December 2017 €000
Movement in scheme deficit in the period			
At start of period	(11,823)	(14,537)	(14,537)
Current service cost	(65)	(61)	(105)
Employer contributions	1,629	1,868	3,390
Net finance cost	(138)	(184)	(348)
Remeasurement of pension scheme liability in the period	979	(505)	(223)
At end of period	(9,418)	(13,419)	(11,823)

Sensitivity to key assumptions

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

Assumptions	30 June 2018 €000	30 June 2017 €000	31 December 2017 €000
Discount rate movement of +0.1%	1,435	1,572	1,485
Inflation rate movement of +0.1%	(359)	(370)	(473)
Mortality movement of +0.1 year in age rating	267	276	278

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 2018

10. Retirement benefit obligations (continued)

	Six months to 30 June 2018 £000	Six months to 30 June 2017 £000	Year to 31 December 2017 £000
Movement in fair value of scheme investments			
Scheme investments at start of period	80,960	77,808	77,808
Interest income	1,007	1,045	2,065
Return on scheme assets (exc. amounts shown in interest income)	(877)	1,004	3,730
Contributions from sponsoring companies	1,629	1,868	3,390
Contribution from scheme members	36	36	72
Benefits paid	(2,512)	(2,731)	(6,105)
Scheme investments at end of period	80,243	79,030	80,960
Movement in present value of defined benefit obligations			
Obligations at start of period	(92,783)	(92,345)	(92,345)
Current service cost	(65)	(61)	(105)
Interest cost	(1,145)	(1,229)	(2,413)
Contribution from scheme members	(36)	(36)	(72)
Changes in assumptions underlying the defined benefit obligations	1,856	(1,509)	(3,953)
Benefits paid	2,512	2,731	6,105
Obligations at end of period	(89,661)	(92,449)	(92,783)

Investments

The Trustees review the scheme investments regularly and consult with the Company regarding any proposed changes. There were no major changes in the investment profile in the first half of 2018.

Funding

Following the completion of the triennial actuarial valuation at 1 May 2017, Macfarlane Group PLC is paying deficit reduction contributions in agreement with the scheme trustees with a deficit recovery period of 7 years. Contributions in 2018 are expected to be £2.95 million. The next triennial actuarial valuation of the scheme is due at 1 May 2020.

11. Deferred tax

	Tax losses less accelerated capital allowances £000	Other intangible assets £000	Retirement benefit obligations £000	Total £000
At 1 January 2017	247	(1,537)	2,471	1,181
Credited/(charged) in income statement				
Current period	3	120	(276)	(153)
Credited in other comprehensive income	–	–	86	86
At 30 June 2017	250	(1,417)	2,281	1,114
Acquisitions	(25)	(1,562)	–	(1,587)
(Charged)/credited in income statement				
Current period	(59)	162	(223)	(120)
Credited in other comprehensive income	–	–	(48)	(48)
At 1 January 2018	166	(2,817)	2,010	(641)
(Charged)/credited in income statement				
Current period	(17)	183	(243)	(77)
Credited in other comprehensive income	–	–	(166)	(166)
At 30 June 2018	149	(2,634)	1,601	(884)
Deferred tax assets	397	–	1,601	1,998
Deferred tax liabilities	(248)	(2,634)	–	(2,882)
At 30 June 2018	149	(2,634)	1,601	(884)

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 2018 will be disclosed in the Group's 2018 Annual Report.

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

Notes to the Group condensed financial statements (unaudited)

For the six months ended 30 June 2018

13. Post balance sheet events

On 31 July 2018, the Company's subsidiary, Macfarlane Group UK Limited, concluded the acquisition of Tyler Packaging (Leicester) Limited, a packaging distributor based in Leicester and on 2 August 2018 concluded the acquisition of Harrison's Packaging Limited, a packaging distributor based in Leyland. The combined turnover for both businesses is projected to be £6.0 million in the year after acquisition.

The maximum consideration for both acquisitions will be £4.6 million. The initial cash considerations totalled £3.0 million. The acquisitions have deferred considerations totalling £1.6 million payable in the second half of 2019, subject to certain trading targets being achieved in the twelve month period ending on 31 July 2019.

14. Interim Report

The interim report will be posted to shareholders on 10 September 2018. 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.

Transacting with Macfarlane

Our product catalogue is available on request from 02476 511511 or contactus@macfarlanepackaging.com

Our trading website www.macfarlanepackaging.com enables customers to place orders at their convenience 24 hours each day.



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