

26 August 2010

MACFARLANE GROUP'S INTERIM RESULTS FOR THE SIX MONTHS TO 30 JUNE 2010

- Profit before tax and exceptional items from continuing operations of £0.72m (2009: £0.45m)
- Profit after tax and exceptional items of £1.4m (2009: £0.2m)
- Actions taken reduced pension liabilities by £1.2m in the first half of 2010
- Sales from continuing operations of £64.1m (2009: £59.1m)
- Net debt of £9.7m at June 2010 (2009 - £9.6m), Group expects trading to be cash generative in second half of 2010
- Interim dividend proposed of 0.5p payable October 2010

Archie Hunter, Chairman of Macfarlane Group PLC today said: -

“The first six months of 2010 have seen a period of further performance improvement for Macfarlane Group PLC in challenging circumstances. There has been considerable focus on sales pricing levels with existing customers, seeking out new business opportunities, reducing costs and addressing underperforming parts of the business, and Macfarlane Group is emerging stronger as a result.

Group turnover in the first half of 2010 grew by 9% to £64.1m, (2009: £59.1m) largely attributable to passing on a number of substantial supplier price increases. However, not all such price increases can be passed on immediately and there was an inevitable resultant impact on gross margins, which reduced to 31.2% for 1H 2010 from 32.2% for the same period in 2009. Significant effort is being made to restore this position in the second half of the year. Our Packaging Distribution business saw an increase in turnover of 9% to £51.3m (2009: £47.1m), reflecting supplier price increases and a degree of increased demand in some target sectors with operating profit before exceptional costs maintained at £1.2m (2009: £1.2m). Our Manufacturing Operations grew turnover by 7% to £12.8m (2009: £12.0m) as a result of some recovery in demand, particularly in the industrial manufacturing sector. Management had previously taken action to improve the performance of this business and I am pleased to report that 1H 2010 saw a return to operating profit before exceptional items for our Manufacturing Operations of £0.1m (2009: £0.1m loss before charging restructuring costs). Consequently, the Group recorded a significant increase in profit before tax and exceptional items from continuing operations to £0.72m (2009: £0.45m) for the period.

I outlined earlier this year the Board's strategy to reduce the Group's pension deficit and today's statement reflects the results of actions to put in place an earnings cap that will curtail the ongoing accrual of benefits by active members. While we are very sensitive to the implications, we have had to take this action due to the size of the deficit. As a result, today's statement shows an exceptional gain of £1.2m following this action. The Group's pension deficit at 30 June 2010 was £20.0m (31 December 2009: £20.4m), however investment values have recovered by over £1.0m since then with a positive impact on the deficit. Further measures to reduce the deficit are planned.

Net debt at 30 June 2010 at £9.7m, is marginally higher than at 30 June 2009 at £9.6m, and the Group is again expected to be cash generative in the second half of the year, which will result in debt levels reducing at the year-end.

In accordance with our previously announced policy of paying a fuller final dividend with a lower interim dividend, and against the background of continuing economic uncertainty, the Board has proposed that the interim dividend be maintained at its 2009 level of 0.5p per share, to be paid on 14 October 2010.

Trading in the second half of 2010 has started satisfactorily. Our Distribution business's concentration is on performance improvement from existing business with additional focus on the development of the business in the third party logistics sector, the roll-out of presentational packaging and the growth of online sales, while Packaging Manufacturing is making good progress in the aerospace sector and Labels continues to see growth potential in its Reseal-it™ labels range. The focus of the Group is on the growth of market share predominantly from within. The Board expects the Group to continue to deliver to its expectations in the second half of 2010."

Further enquiries:	Macfarlane Group	Tel: 0141 333 9666
	Archie Hunter Chairman	
	Peter Atkinson Chief Executive	
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Notes to Editors:

Macfarlane Group PLC is a UK-based group of companies focused on packaging-related activities. The Packaging Distribution business is the leading UK distributor of a comprehensive range of packaging consumable products. The Manufacturing Operations comprise two businesses, the manufacture of transit packaging and the manufacture of self-adhesive and re-sealable labels. Headquartered in Glasgow, Scotland, Macfarlane Group employs 700 people at 22 sites, principally in the UK and Ireland, servicing 20,000+ customers, in a wide range of sectors including: consumer goods; logistics; electronics; food manufacturing and retailing; internet and home retailing.

Interim Results - Management Report

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

Packaging Distribution

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

In the first six months of 2010 operating profit from Macfarlane Packaging Distribution before exceptional items was £1.2m, consistent with the same period in 2009. The major feature of 1H 2010 was the significant impact in the market of supplier price increases, particularly on paper and polymer related products, where price increases versus 2009 of c30% were experienced in some key product categories. Management of these levels of increase and working with the customer base to offset their impact were the key priorities in the first half of the year.

The main features of our 1H 2010 performance were:

- Sales at £51.3m were 9% above the same period in 2009, reflecting price inflation as well as a modest recovery in demand across a number of the key customer sectors we supply;
- New business revenue was in line with our 2009 performance;
- Supplier price inflation has been significant in 1H 2010 and, due to the normal time lag in passing through these price increases, our gross margin reduced to 29.9% compared with 31.3% in 1H 2009. As is traditionally the case, we would expect gross margin to begin to recover in 2H 2010;
- Our Telford RDC was closed at the end of 2009 and has been integrated into our network, primarily benefiting the Coventry and Manchester RDCs;
- Our operating costs (before exceptional items) increased by almost 5% compared to 2009, primarily driven by incremental expenditure to support business growth. Overheads as a percentage of sales are lower than 2009;
- The integration of Allpoint Packaging into the Macfarlane Distribution network is progressing satisfactorily; and
- There has been good progress on a number of the key strategic initiatives with momentum building particularly in our development into the third party logistics sector, the increasing importance of our web-based presence through macfarlanepackaging.com and some early success in the launch of our presentational packaging business.

We do not expect demand conditions to improve in the second half of 2010 and therefore we will retain our focus on a number of key areas:

- We have created strong new business momentum and we will look to strengthen this further in 2H 2010, expanding our focus in specific industry sectors, which would benefit from Macfarlane's national coverage;
- Supplier pricing remains volatile and we will work closely both with our suppliers and customers to recover gross margin in 2H 2010;
- All areas of our cost structure will be examined with the objective of eliminating any costs that are not adding value;
- Our web-based packaging service, macfarlanepackaging.com, will be enhanced to increase market visibility of our offering to existing and potential customers;
- We will accelerate the development of our key strategic initiatives, particularly our penetration of the third party logistics sector and the roll out of our presentational packaging business; and
- The implementation of productivity improvement initiatives to ensure all RDCs are operating to their full profit potential will continue.

Interim Results - Management Report (continued)

Manufacturing Operations

Macfarlane has two manufacturing businesses, *Labels* producing self-adhesive and re-sealable labels and *Packaging Manufacturing* producing bespoke, composite transit packaging and protective packaging components.

In the first half of 2010 the **Manufacturing Operations** recorded an operating profit before exceptional items of £0.1m, compared with a loss of £0.1m in the first half of 2009. Key features of the performance in the first six months of 2010 were:

- Sales increased by 7% versus 2009 as we experienced some recovery in demand, particularly in the industrial manufacturing sector; and
- Gross margins increased to 36.4% compared with 35.7% in 1H 2009 reflecting our margin recovery programmes in both businesses.

Macfarlane Labels operates from two plants, Kilmarnock and Dublin, designing and producing high quality self-adhesive and re-sealable labels primarily for consumer packs.

In the first half of 2010 sales revenue was 1% ahead of the same period in 2009 reflecting an increase in volume of 6% but a lower value per label. This lower value per label is due to a change in customer mix as the weakness in the UK economy reduced sales to the branded sector offset by increased sales to the own-brand sector. We made some progress in sales of re-sealable labels, particularly through our US distributor where sales have almost doubled, but as a premium product, changing consumer preferences in weak economic conditions have reduced demand for this product range in Europe.

The Labels business experienced significant cost increases from the supplier base in 2009 and in the current environment it has still not been possible to pass on these price increases fully to our customer base. As a result profit in the first half of 2010 was below that achieved in the same period in 2009.

We operate Packaging Manufacturing operations from two UK sites - Grantham and Westbury, both of which manufacture custom-designed packaging solutions for customers who require cost-effective methods of protecting higher-value products in storage and transit.

Sales in our UK Packaging Manufacturing operations were 21% ahead of the same period in 2009 as demand recovered in a number of the key sectors of UK industry we serve. This increase came from both customers of our Packaging Distribution business and our directly serviced customers. Packaging Manufacturing recorded a small profit in 1H 2010 compared to a significant loss in 2009 and this improvement reflects the benefits of the restructuring carried out during 2009.

Our priorities for the Manufacturing Operations in the second half of 2010 are to:

- Work with our customer base in Labels to recover supplier price increases;
- Increase our new business momentum in the UK self-adhesive labels market, particularly in the branded sectors in order to create a more balanced customer portfolio;
- Accelerate the Reseal-it™ growth momentum in the US market and extend the range of Reseal-it™ products to improve competitiveness versus the alternatives;
- Focus on both operational and customer service improvements at our Westbury Packaging Manufacturing site;
- Accelerate current Packaging Manufacturing sales momentum, particularly in the aerospace sector; and
- Continue to strengthen the relationship between our Packaging Manufacturing operations and Packaging Distribution operations to create both sales and cost synergies.

Summary and Future Outlook

The outlook for the UK economy remains uncertain and it is clear that trading conditions will continue to be challenging. The immediate priority is to ensure we successfully manage through this period of intensive supplier-lead price inflation to ensure margin stability, whilst growing sales and keeping a tight control of costs.

The future progress of the business will be maintained through the successful execution of our plans in respect of strategic improvement opportunities. To date there is good momentum in these plans and this will be accelerated in 2H 2010.

The Macfarlane business is well positioned and focused for both the short and medium term. There is a range of both operational and strategic initiatives being implemented, which will improve financial performance and enable the business to deliver to its full potential.

Risks and Uncertainties

The principal risks, which could impact on the performance of the Group, were outlined in our Annual Report and Accounts for 2009 (available on our website at www.macfarlanegroup.net). These risks and uncertainties remain substantially the same for the remaining six months of the financial year and are summarised below: -

- Profitability is sensitive to supplier price changes, whether caused by movements in commodity-based raw material price movements or in manufacturers' energy and fuel costs;
- In Packaging Distribution, our recruitment and retention of staff with good local market knowledge is vital to compete in local and regional markets;
- In our Manufacturing Operations, there is a high level of dependency on a small number of major customers;
- Both our businesses serve a wide range of customers in the UK. The customer base covers a range of UK market sectors, therefore a prolonged UK economic slowdown would adversely affect the Group's results; and
- The Company's pension scheme deficit is very sensitive to movements in interest rates, inflation and longevity assumptions.

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

Cautionary Statement

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

This announcement contains certain forward-looking statements. 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. Such statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. These statements 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.

Statement of Directors' Responsibilities

The Directors of Macfarlane Group PLC are

A.S. Hunter	Chairman
P.D. Atkinson	Chief Executive
G. Bissett	Non-Executive Director
J. Love	Finance Director
K.D. Mellor	Non-Executive Director and Senior Independent 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";
- (ii) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- (iii) the interim management report includes a fair review of the information required under DTR 4.2.8R (disclosure of related party transactions and material changes therein).

Approved by the Board of Directors on 26 August 2010 and signed on its behalf by

.....
Peter D Atkinson
Chief Executive

.....
John Love
Finance Director

INDEPENDENT REVIEW REPORT TO MACFARLANE GROUP PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half yearly financial report for the six months ended 30 June 2010, which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement and related notes 1 to 14. 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 condensed set of financial statements.

This report is made solely to the Company in accordance with the 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. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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 formed.

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 Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2 the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in the half yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

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 United Kingdom. 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 performed 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 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditors
Glasgow
United Kingdom
26 August 2010

MACFARLANE GROUP PLC

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2010

		Six months to 30 June 2010 before exceptional items £000	Exceptional items £000	Six months to 30 June 2010 £000	Six months to 30 June 2009 before exceptional items £000	Exceptional items £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
	Note	(see Note 5)			(see Note 5)			
Continuing operations								
Revenue	3	64,121	-	64,121	59,078	-	59,078	123,596
Cost of sales		(44,093)	-	(44,093)	(40,037)	-	(40,037)	(83,473)
Gross profit		20,028	-	20,028	19,041	-	19,041	40,123
Distribution costs		(3,228)	-	(3,228)	(3,165)	-	(3,165)	(5,890)
Administrative expenses		(15,522)	1,150	(14,372)	(14,795)	(421)	(15,216)	(30,526)
Operating profit	3	1,278	1,150	2,428	1,081	(421)	660	3,707
Investment income	4	1,348	-	1,348	1,171	-	1,171	2,331
Finance costs	4	(1,903)	-	(1,903)	(1,802)	-	(1,802)	(3,554)
Profit before tax		723	1,150	1,873	450	(421)	29	2,484
Tax	6	(186)	(322)	(508)	(125)	117	(8)	(514)
Profit for the period from continuing operations		537	828	1,365	325	(304)	21	1,970
Discontinued operations								
Profit for the period from discontinued operations	7	-	-	-	175	-	175	351
Profit for the period	9	537	828	1,365	500	(304)	196	2,321
Earnings per ordinary share								
From continuing operations	9							
Basic and diluted		0.47p	0.73p	1.20p	0.29p	(0.27p)	0.02p	1.74p
From continuing and discontinued operations								
Basic and diluted		0.47p	0.73p	1.20p	0.45p	(0.27p)	0.18p	2.05p

MACFARLANE GROUP PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2010

		Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
	Note			
Exchange difference on translation of foreign operations		(140)	(273)	(170)
Actuarial losses on defined benefit pension schemes	12	(1,685)	(3,380)	(4,282)
Tax on items taken directly to equity - actuarial loss	13	472	946	1,199
		<hr/>	<hr/>	<hr/>
Other comprehensive expense for the period		(1,353)	(2,707)	(3,253)
Profit for the period		1,365	196	2,321
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Total comprehensive income/(expense) for the period		12	(2,511)	(932)
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MACFARLANE GROUP PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2010

		Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
	Note			
Profit for the period		1,365	196	2,321
Dividends to equity holders in the period	8	(1,134)	(1,125)	(1,688)
Other comprehensive expense for the period		(1,353)	(2,707)	(3,253)
Transfer of own shares to pension scheme		-	-	149
Credit in respect of share-based payments		2	4	34
		<hr/>	<hr/>	<hr/>
Movements in equity in the period		(1,120)	(3,632)	(2,437)
Opening equity		24,961	27,398	27,398
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Closing equity		23,841	23,766	24,961
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MACFARLANE GROUP PLC

CONSOLIDATED BALANCE SHEET AT 30 JUNE 2010 (UNAUDITED)

	Note	30 June 2010 £000	30 June 2009 £000	31 December 2009 £000
Non-current assets				
Goodwill		24,151	24,124	24,199
Other intangible assets		2,408	2,728	2,561
Property, plant and equipment		8,471	9,286	8,904
Other receivables		856	870	856
Deferred tax asset	13	5,556	5,716	5,655
Total non-current assets		41,442	42,724	42,175
Current assets				
Inventories		9,525	7,970	8,882
Trade and other receivables		30,720	26,903	30,107
Deferred tax asset	13	921	1,139	900
Cash and cash equivalents	11	272	756	536
		41,438	36,768	40,425
Total assets	3	82,880	79,492	82,600
Current liabilities				
Trade and other payables		28,244	23,873	28,558
Current tax liabilities		8	38	1
Obligations under finance leases	11	273	183	272
Bank overdrafts and loans	11	9,200	9,267	6,908
Total current liabilities		37,725	33,361	35,739
Net current assets		3,713	3,407	4,686
Non-current liabilities				
Retirement benefit obligations	12	19,993	20,688	20,366
Deferred tax liabilities	13	670	757	712
Other creditors		129	48	136
Obligations under finance leases	11	522	872	686
Total non-current liabilities		21,314	22,365	21,900
Total liabilities		59,039	55,726	57,639
Net assets	3	23,841	23,766	24,961
Equity				
Share capital		28,755	28,755	28,755
Revaluation reserve		70	70	70
Own shares		(943)	(1,406)	(943)
Translation reserve		196	231	336
Retained earnings		(4,237)	(3,884)	(3,257)
Total equity		23,841	23,766	24,961

MACFARLANE GROUP PLC
CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Note	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
Net cash (outflow)/inflow from operating activities	11	(1,099)	(2,063)	1,744
Investing activities				
Interest received		2	2	6
Disposal of subsidiary undertaking		-	1,565	1,916
Acquisition of subsidiary undertaking	10	-	(440)	(1,190)
Proceeds on disposal of property, plant and equipment		-	-	119
Purchases of property, plant and equipment		(162)	(298)	(466)
Net cash (used in)/from investing activities		(160)	829	385
Financing activities				
Dividends paid	8	(1,134)	(1,125)	(1,688)
Repayments of obligations under finance leases		(163)	325	(336)
Increase/(decrease) in bank overdrafts		2,292	2,013	(346)
Net cash generated from/(used in) financing activities		995	1,213	(2,370)
Net decrease in cash and cash equivalents		(264)	(21)	(241)
Cash and cash equivalents at beginning of period		536	777	777
Cash and cash equivalents at end of period	11	272	756	536

MACFARLANE GROUP PLC

SIX MONTHS ENDED 30 JUNE 2010

NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. General information

The information for the year ended 31 December 2009 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006, but has been extracted from the Group's statutory accounts, which have been filed with the Registrar of Companies. The auditors' report on these statutory accounts was unqualified pursuant to Section 498 of the Companies Act 2006 and did not contain a statement under either Section 498 (2) or Section 498 (3) of that Act.

The interim report will be posted to shareholders on 8 September 2010. Copies will be available from the registered office, 21 Newton Place, Glasgow G3 7PY from that date.

2. Basis of preparation

This condensed set of financial statements for the six months ended 30 June 2010 has been prepared on the basis of the accounting policies set out in the Group's 2009 statutory accounts. There have been no changes in accounting policies in the six months ended 30 June 2010.

The condensed set of financial statements has also been prepared in accordance with the recognition and measurement criteria of IFRS's and the Disclosure and Transparency Rules of the Financial Services Authority. The Group has applied IAS 34 "Interim Financial Reporting" as adopted by the European Union in the preparation of this condensed set of financial statements.

The Group adopted IFRS 8 "Operating Segments" in the year to 31 December 2009 with no change to the Group's reportable segments.

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 3 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 banking facilities with suitable terms and conditions to accommodate the requirements of the Group's operations. Credit risk, which is heightened as a result of the difficulties customers may face in the current climate, is managed by applying considerable rigour in managing the Group's trade receivables. The Directors believe that the Group is adequately placed to manage its financial risks effectively despite the current uncertain economic outlook.

The Group's principal banking facility of £12.5 million has been renewed until 28 February 2011 and the Directors are of the opinion that the Group's cash forecasts and revenue projections, which they believe are based on prudent market data and past experience taking account of reasonably possible changes in trading performance given current market and economic conditions, show that the Group should be able to operate within its current facilities and comply with its banking covenants. The Group has held preliminary discussions with its bankers about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on commercially acceptable terms.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing this condensed set of financial statements.

These financial statements were approved by the Board of Directors on 26 August 2010.

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

3. Segmental information

The Group's principal business segment is **Packaging Distribution**, comprising the distribution of packaging materials and supply of storage and warehousing services in the UK. This constitutes over 75% of the turnover and profit of Group operations and as permitted by IFRS 8, the Group has elected to combine the remaining operations for the manufacture and supply of self-adhesive and resealable labels to a variety of FMCG customers in the UK & Europe and the design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK into one segment headed **Manufacturing Operations**.

MACFARLANE GROUP PLC

SIX MONTHS ENDED 30 JUNE 2010

NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

3. Segmental information

Trading results	continuing operations	Six months to 30 June 2010 before exceptional items £000	Exceptional items £000 (see note 5)	Six months to 30 June 2010 £000
<u>Packaging Distribution</u>				
Revenue		51,317	-	51,317
Cost of sales		(35,952)	-	(35,952)
Gross profit		15,365	-	15,365
Net operating expenses		(14,205)	523	(13,682)
Operating profit		1,160	523	1,683
 <u>Manufacturing Operations</u>				
Revenue		12,804	-	12,804
Cost of sales		(8,141)	-	(8,141)
Gross profit		4,663	-	4,663
Net operating expenses		(4,545)	627	(3,918)
Operating profit		118	627	745
		Six months to 30 June 2009 before exceptional items £000	Exceptional items £000 (see note 5)	Six months to 30 June 2009 £000
<u>Packaging Distribution</u>				
Revenue		47,101	-	47,101
Cost of sales		(32,336)	-	(32,336)
Gross profit		14,765	-	14,765
Net operating expenses		(13,537)	(170)	(13,707)
Operating profit		1,228	(170)	1,058
 <u>Manufacturing Operations</u>				
Revenue		11,977	-	11,977
Cost of sales		(7,701)	-	(7,701)
Gross profit		4,276	-	4,276
Net operating expenses		(4,423)	(251)	(4,674)
Operating loss		(147)	(251)	(398)

MACFARLANE GROUP PLC

SIX MONTHS ENDED 30 JUNE 2010

NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

3. Segmental information (continued)

		Year to 31 December 2009 before exceptional items £000	Exceptional items £000 (see note 5)	Year to 31 December 2009 £000
Trading results	continuing operations			
<u>Packaging Distribution</u>				
Revenue		98,989	-	98,989
Cost of sales		(67,970)	-	(67,970)
Gross profit		31,019	-	31,019
Net operating expenses		(26,763)	(325)	(27,088)
Operating profit		4,256	(325)	3,931
<u>Manufacturing Operations</u>				
Revenue		24,607	-	24,607
Cost of sales		(15,503)	-	(15,503)
Gross profit		9,104	-	9,104
Net operating expenses		(8,954)	(374)	(9,328)
Operating profit/(loss)		150	(374)	(224)
		Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
Group segment – total revenue				
Packaging Distribution		51,472	47,289	99,637
Manufacturing Operations		15,105	13,742	28,544
Inter-segment revenue		(2,456)	(1,953)	(4,585)
External revenue	continuing operations	64,121	59,078	123,596
Operating profit	continuing operations			
Packaging Distribution		1,683	1,058	3,931
Manufacturing Operations		745	(398)	(224)
Operating profit		2,428	660	3,707
Net finance costs	(see note 4)	(555)	(631)	(1,223)
Profit before tax		1,873	29	2,484
Tax		(508)	(8)	(514)
Profit for the period from discontinued operations		-	175	351
Profit after tax and discontinued operations		1,365	196	2,321

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3. Segmental information (continued)	30 June 2010	30 June 2009	31 December 2009
	£000	£000	£000
Total assets			
Packaging Distribution	65,438	62,146	64,598
Manufacturing Operations	17,442	17,346	18,002
Total assets	82,880	79,492	82,600
Net assets			
Packaging Distribution	17,510	20,270	17,804
Manufacturing Operations	6,331	3,496	7,157
Net assets	23,841	23,766	24,961
4. Investment income and finance costs	Six months to 30 June 2010	Six months to 30 June 2009	Year to 31 December 2009
	£000	£000	£000
Expected return on pension scheme assets	1,346	1,169	2,325
Investment income	2	2	6
Total investment income	1,348	1,171	2,331
Interest on bank loans and overdrafts	(140)	(113)	(260)
Interest on obligations under finance leases	(30)	(38)	(53)
Interest cost of pension scheme liabilities	(1,733)	(1,651)	(3,241)
Total finance costs	(1,903)	(1,802)	(3,554)
Net finance costs	(555)	(631)	(1,223)
5. Exceptional items			
Pension scheme			
Curtailment gain on freezing pensionable salaries (see note 12)	1,200	-	-
Related professional costs	(50)	-	-
	1,150	-	-
Restructuring costs			
Redundancy and termination costs			
Packaging Distribution	-	(140)	(222)
Manufacturing Operations	-	(251)	(374)
	1,150	(391)	(596)
Closure costs for site consolidations in Packaging Distribution	-	(30)	(103)
Total exceptional items	1,150	(421)	(699)
Taxation (charge)/credit thereon	(322)	117	196
Exceptional gain/(loss) after related tax	828	(304)	(503)

During the first half of 2010 the Company concluded a consultation with the active members of the final salary pension scheme to freeze future increases in pensionable salary with effect from 30 April 2010. The resultant curtailment gain of £1.2m has been recognised in these accounts and costs of implementing the change have been offset against the curtailment gain.

In 2009, given the ongoing uncertainty in the UK economy, action plans were implemented to reduce the cost base to ensure our infrastructure was in line with the potentially lower level of demand. These were costs, which the directors considered related directly to these plans and are of a non-recurring nature.

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6. Tax	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
Current tax			
UK corporation tax	-	-	-
Overseas tax	5	(30)	(32)
Prior year	-	80	81
	<u>5</u>	<u>50</u>	<u>49</u>
Current tax	5	50	49
Deferred tax (See note 13)	(513)	(58)	(563)
	<u>(508)</u>	<u>(8)</u>	<u>(514)</u>
Total	(508)	(8)	(514)

Tax for the first six months has been charged at 27% representing the best estimate of the effective tax charge for the full year.

7. Discontinued operations	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
The results for current and comparative periods are as follows: -			
Profit on disposal of subsidiary undertaking	-	175	351
	<u>-</u>	<u>175</u>	<u>351</u>
Profit before tax	-	175	351
Tax	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Post-tax profit from discontinued operations	-	175	351

On 8 January 2009, the Group completed the final and formal arrangements for the sale of its plastic injection-moulding business. Of the deferred consideration of £1.625m receivable at 31 December 2008 in respect of the sale of the plastic injection-moulding business, £1.565m was received in January 2009.

The profit on disposal recorded for both periods in 2009 relates to finalising adjustments in relation to disposals in previous financial periods.

Cash inflows in respect of the discontinued operations' operating activities amounted to £Nil for 2010 (2009 - £Nil). Cash inflows in respect of investing activities totalled £Nil (2009 - £1,565,000 in the six months to 30 June 2009 and £1,916,000 for the year to 31 December 2009) and cash outflows from financing activities were £Nil (2009 - £Nil).

8. Dividends	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
Amounts recognised as distributions to equity holders in the period			
Final Dividend (1.00p per share) (2009 1.00p per share)	1,134	1,125	1,125
Interim Dividend (2009 0.50p per share)	-	-	563
	<u>1,134</u>	<u>1,125</u>	<u>1,688</u>
Distributions in the period	1,134	1,125	1,688

Dividends are not payable on shares held in the Employee Share Trust.

The dividend of 0.50p per share, payable on 14 October 2010, was declared on 26 August 2010 and has therefore not been included as a liability in these financial statements.

MACFARLANE GROUP PLC

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NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

9. Earnings per share	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
Earnings			
Earnings from continuing and discontinued operations being net profit attributable to equity holders of the parent	1,365	196	2,321
Profit for the period from discontinued operations	-	(175)	(351)
	<hr/>	<hr/>	<hr/>
Earnings from continuing operations for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	1,365	21	1,970
	<hr/>	<hr/>	<hr/>
	30 June 2010	30 June 2009	31 December 2009
Number of shares '000			
Weighted average number of ordinary shares in issue	115,019	115,019	115,019
Own shares in Employee Share Ownership Trusts	(1,671)	(2,491)	(1,671)
	<hr/>	<hr/>	<hr/>
Weighted average number of shares in issue for the purposes of basic earnings per share	113,348	112,528	113,348
Effect of dilutive potential ordinary shares due to share options	-	-	-
	<hr/>	<hr/>	<hr/>
Weighted average number of shares in issue for the purposes of diluted earnings per share	113,348	112,528	113,348
	<hr/>	<hr/>	<hr/>

10. Acquisition of subsidiary companies

On 7 January 2008, the Group acquired 100% of the issued share capital of Online Packaging Limited, for £5.0 million. The deferred consideration of £0.4 million was paid in the first half of 2009.

On 3 October 2008, the Group acquired 100% of the issued share capital of Allpoint Packaging Limited, for £4.1 million. £3.3 million was paid in 2008, with a further £0.8 million paid in the final quarter of 2009. The estimated additional consideration payable at 31 December 2009 of £48,000 was subsequently determined not to be payable and has been reversed with a corresponding reduction in goodwill.

Both businesses are Packaging Distributors and are accounted for in the Packaging Distribution segment. The cash outflows relating to the considerations paid are set out below:-

	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
Release of goodwill arising on acquisition	(48)	(275)	(200)
	<hr/>	<hr/>	<hr/>
Total consideration	(48)	(275)	(200)
	<hr/>	<hr/>	<hr/>
Satisfied by:			
Cash	-	(440)	(1,190)
Deferred consideration	48	715	1,390
	<hr/>	<hr/>	<hr/>
Total consideration	48	275	200
	<hr/>	<hr/>	<hr/>
Net cash outflow arising on acquisition			
Cash consideration	-	(440)	(1,190)
	<hr/>	<hr/>	<hr/>
Net cash outflow	-	(440)	(1,190)
	<hr/>	<hr/>	<hr/>

MACFARLANE GROUP PLC

SIX MONTHS ENDED 30 JUNE 2010

NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

11. Notes to the cash flow statement	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
Operating profit from continuing operations before exceptional items	1,278	1,081	4,406
Exceptional items (see note 5)	1,150	(421)	(699)
Operating profit	2,428	660	3,707
Adjustments for:			
Amortisation of intangible assets	153	143	310
Depreciation of property, plant and equipment	504	578	1,155
Gain on disposal of property, plant and equipment	-	-	(51)
Operating cash flows before movements in working capital	3,085	1,381	5,121
(Increase)/decrease in inventories	(643)	494	(418)
(Increase)/decrease in receivables	(592)	2,709	(481)
(Decrease)/increase in payables	(1,489)	(5,469)	584
Adjustment for pension scheme funding	(1,295)	(652)	(2,309)
Cash (absorbed)/generated by operations	(934)	(1,537)	2,497
Income taxes paid	(12)	(375)	(423)
Interest paid	(153)	(151)	(330)
Net cash (outflow)/inflow from operating activities	(1,099)	(2,063)	1,744
	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
Movement in net debt			
Decrease in cash and cash equivalents in period	(264)	(21)	(241)
(Increase)/decrease in bank overdrafts	(2,292)	(2,013)	346
New finance leases in the year	-	-	(564)
Cash flows from debt and lease financing	163	(325)	336
Movement in net debt in the period	(2,393)	(2,359)	(123)
Opening net debt	(7,330)	(7,207)	(7,207)
Closing net debt	(9,723)	(9,566)	(7,330)
Net debt comprises: -			
Cash and cash equivalents at end of period	272	756	536
Bank overdrafts and loans	(9,200)	(9,267)	(6,908)
Net bank debt	(8,928)	(8,511)	(6,372)
Obligations under finance leases			
Due within one year	(273)	(183)	(272)
Due outwith one year	(522)	(872)	(686)
Closing net debt	(9,723)	(9,566)	(7,330)

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

MACFARLANE GROUP PLC

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NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

12. Retirement benefit obligations

The figures below have been based on the results of the triennial actuarial valuation as at 1 May 2008, updated to 30 June 2010, 31 December 2009 and 30 June 2009. The assets in the scheme, the net liability position of the scheme as calculated under IAS 19 and the principal assumptions were:

	30 June 2010 £000	30 June 2009 £000	31 December 2009 £000
Fair value of assets	40,632	35,892	40,622
Present value of scheme liabilities	(60,625)	(56,580)	(60,988)
Pension scheme deficit	(19,993)	(20,688)	(20,366)
Deferred tax asset (see note 13)	5,598	5,793	5,702
Pension scheme deficit net of related deferred tax asset	(14,395)	(14,895)	(14,664)

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

Assumptions	30 June 2010	30 June 2009	31 December 2009
Discount rate	5.50%	6.20%	5.75%
Rate of increase in salaries	0.00%	3.30%	3.50%
Rate of increase in pensions in payment	3% or 5%	3% or 5%	3% or 5%
	for fixed increases or 2.75% for LPI	for fixed increases or 2.75% for LPI	for fixed increases or 2.75% for LPI
Inflation assumption	3.20%	3.30%	3.50%
Life expectancy beyond normal retirement age of 65			
Male	21.3 years	21.3 years	21.3 years
Female	24.0 years	24.0 years	24.0 years

	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
Movement in scheme deficit in the period			
At start of period	(20,366)	(17,477)	(17,477)
Normal service cost	(106)	(111)	(240)
Contributions	1,327	762	2,415
Settlement gains	24	-	134
Curtailed gains (see note 5)	1,200	-	-
Other finance charges	(387)	(482)	(916)
Actuarial loss in the period	(1,685)	(3,380)	(4,282)
At end of period	(19,993)	(20,688)	(20,366)
Movement in fair value of scheme assets			
Scheme assets at start of period	40,622	35,943	35,943
Expected return on scheme assets	1,346	1,169	2,325
Actual return less expected return on scheme assets	(1,137)	(707)	3,305
Contributions from sponsoring companies	1,327	762	2,415
Contributions from scheme members	73	91	169
Benefits paid	(1,599)	(1,366)	(3,535)
Scheme assets at end of period	40,632	35,892	40,622

MACFARLANE GROUP PLC

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NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

12. Retirement benefit obligations (continued)	Six months to 30 June 2010 £000	Six months to 30 June 2009 £000	Year to 31 December 2009 £000
Movement in present value of defined benefit obligations			
Obligations at start of period	(60,988)	(53,420)	(53,420)
Service costs	(106)	(111)	(240)
Interest costs	(1,733)	(1,651)	(3,241)
Settlement gains	24	-	134
Curtailment gains	1,200	-	-
Contributions from scheme members	(73)	(91)	(169)
Actuarial loss on liabilities in the period	(548)	(2,673)	(7,587)
Benefits paid	1,599	1,366	3,535
Obligations at end of period	(60,625)	(56,580)	(60,988)
13. Deferred tax			
	30 June 2010 £000	30 June 2009 £000	31 December 2009 £000
Deferred tax asset on pension scheme deficit			
At start of period	5,702	4,894	4,894
Charge on actuarial movement in the period applied through statement of comprehensive income	472	946	1,199
Charge through income statement based on curtailment gain in the period	(332)	-	-
Charge through income statement based on payments made to reduce deficit in the period	(244)	(47)	(391)
Deferred tax asset on pension scheme deficit (see note 12)	5,598	5,793	5,702
Deferred tax liabilities on other timing differences	(42)	(77)	(47)
Net deferred tax asset – due after one year	5,556	5,716	5,655
Deferred tax asset on corporation tax losses			
At start of period	900	1,225	1,225
Credit/(charge) through income statement	21	(86)	(325)
Net deferred tax asset – due within one year	921	1,139	900
Deferred tax liability on other intangible assets			
At start of period	(712)	(832)	(832)
Credit through income statement	42	75	120
Net deferred tax liability	(670)	(757)	(712)

The Finance Act 2010, which provides for a reduction in the main rate of corporation tax from 28% to 27% effective from 1 April 2011, was substantively enacted on 21 July 2010. As it was not substantively enacted at the balance sheet date, the rate reduction is not yet reflected in these financial statements in accordance with IAS 10, as it is a non-adjusting event occurring after the reporting period.

The impact of the rate reduction, which will be reflected in the next reporting period, is estimated to reduce our UK deferred tax balances provided at 30 June 2010 by a net value of £0.2 million.

The Government has also indicated that it intends to enact future reductions in the main tax rate of 1% each year down to 24% by 1 April 2014. The future 1% main tax rate reductions are expected to have a similar impact on our financial statements as outlined above, however the actual impact will be dependent on our deferred tax position at that time.

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14. Related party transactions

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

The fair value of investments, shown in the pension scheme disclosures in note 12, include 819,506 shares in Macfarlane Group PLC at 30 June 2010 and 31 December 2009 with a value of £151,000 and £160,000 respectively. No shares were held at 30 June 2009.

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