

27 August 2009

MACFARLANE GROUP'S INTERIM RESULTS TO 30 JUNE 2009

Profit before tax and exceptional items from continuing operations for six months of £0.5m (2008: £1.0m)

Sales from continuing operations of £59.1m (2008: £64.4m)

Improvements in both profits and margins in Packaging Distribution

Profit from continuing and discontinued operations after tax of £0.2m (2008: £0.1m)

Net debt of £9.6m at June 2009, Group expects trading to be cash positive in second half of 2009

Interim dividend proposed of 0.5p payable October 2009

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

“In my address to shareholders at the AGM this year I said it was inevitable that Macfarlane Group would feel the headwind of recession and that we were determined that we would demonstrate resilience. I can report now that the prompt actions of management in reducing costs, focusing the business on retaining existing accounts and seeking out new business opportunities have mitigated the worst effects of the recession and Macfarlane Group is well placed to perform to the Board’s expectations for 2009 and to benefit from the economic recovery when it emerges.

The 8% fall in overall group turnover in the first six months of 2009 to £59.1m (2008: £64.4m) is an inevitable consequence of the adverse trading conditions being experienced by our 20,000 customers. Against this background I am pleased to report that the group has maintained an improving gross margins trend (up 0.6% to 32.2%). Our Packaging Distribution business has demonstrated particular robustness in these difficult market conditions, improving both profits and margins in spite of a reduction in sales. During the period, the Group also implemented a restructuring programme, principally in its Manufacturing Division, and while the benefits will be evident in the second half, there was an exceptional cost of £0.4m taken in the first half. In addition our Labels business experienced a £0.2m impact from the weakening of the Euro as a high proportion of its sales were Euro-denominated in 2008. The net effect of all this, was a profit before tax and exceptional items from continuing operations, of £0.5m (2008: £1.0m). Profit for the period from continuing and discontinued operations after tax was £0.2m (2008: £0.1m).

We have re-assessed the pension scheme funding deficit at the half-year and, in line with many others, the combination of stock market performance, lower interest rates and increased inflation and life expectancy, produces a higher pension scheme deficit of £14.9m net of deferred tax. Management is currently addressing the means by which the deficit could be reduced.

The major elements in the Board’s determination of dividend payments are distributable reserves, which are significantly impacted by the movement in pension deficit and the pattern of profit and cash generation. Macfarlane Group’s normal earnings and cash generation cycle is weighted towards the second half of the year and the Board intends that future dividend payment patterns should reflect this.

Accordingly the Board intends to adopt a policy of paying a fuller final dividend with a lower interim dividend each year. Consequently the Board proposes to pay an interim dividend of 0.5p per share on 22 October 2009, with the intention of declaring a higher final dividend, dependent on performance and subject to shareholder approval at the Annual General Meeting in May 2010.

The second half of 2009 has started satisfactorily and, with the actions taken, the Board is confident that results for the year as a whole will be in line with its expectations.”

Further enquiries:

Macfarlane Group	Archie Hunter	Chairman	Tel: 0141 333 9666
	Peter Atkinson	Chief Executive	
	John Love	Finance Director	
Spreng & Co	Callum Spreng		Tel: 0141 229 0482
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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 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 in excess of 15%. The business operates through 18 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 2009 operating profit from Macfarlane Packaging Distribution before exceptional costs grew to £1.2m compared to £0.6m for the same period in 2008. The major factors in 1H 2009 were:

- Sales were 7.5% below the same period in 2008 as the weakness in the UK economy was reflected in lower demand across a number of the key customer sectors we supply;
- New business revenue was 44% ahead of 2008, as an increased focus from our sales team and the uncertain economic environment motivated a range of customers to switch their business to Macfarlane to ensure supply certainty;
- We implemented a series of actions in both our pricing strategy and our supplier base which enabled us to improve gross margin to 31.3% compared with 29.5% in 2008;
- We reduced our operating costs by almost 7% compared to 2008 through a series of cost actions implemented in 2H 2008 together with additional cost saving programmes in 1H 2009 at a cost of £0.2m; and
- The benefits resulting from the integration of Online Packaging and the acquisition of Allpoint Packaging contributed £0.3m to 1H 2009 profits.

We do not expect demand conditions to improve significantly in the second half of 2009 and therefore we will retain our focus in a number of key areas:

- We have created strong new business momentum and we will look to strengthen this further in 2H 2009;
- Supplier pricing remains volatile and we will continue to work closely both with our suppliers and customers to maintain the gross margin improvement we have achieved in 1H 2009;
- We will continue to examine all areas of our cost structure with the objective of eliminating any costs that are not adding value;
- Our web-based packaging service, which has been rebranded as MacfarlanePackaging.com, will be enhanced to increase market visibility of our offering to existing and potential customers;
- During the second half of 2009 we will complete the integration of Online Packaging and achieve additional cost saving benefits; and
- During the final quarter of 2009 we will commence the integration of Allpoint Packaging the benefits of which will principally take effect in 2010.

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 2009 the Manufacturing Operations recorded an operating loss, before exceptional costs of £0.1m, compared with a profit of £0.9 m in the first half of 2008. Key features of the performance in the first six months of 2009 were:

- Sales reduced by 11.2% versus 2008 as the weakness in the UK economy impacted demand particularly in the industrial manufacturing sector;
- Gross margins reduced to 35.7% compared with 39.9% in 1H 2008 through a combination of supplier cost increases in Labels, the negative impact of exchange rates and the relative inflexibility of the manufacturing cost base when demand conditions change materially; and
- We reduced the overhead base in Packaging Manufacturing. The full benefit of our actions will not be experienced until 2H 2009 as exceptional costs of £0.2m have been incurred in the first half to implement the cost reductions.

Interim Management Report (continued)

Manufacturing Operations

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 2009 sales were 4% down versus the same period in 2008 due to a change in customer mix as the weakness in the UK economy resulted in our sales to the branded sector reducing as our sales to the own-brand sector increased. The impact of foreign currency rates weakening also had the effect of reducing sales. We made some progress in sales of re-sealable labels particularly through our US distributor but as a premium product, changing consumer preferences in weak economic conditions have impacted demand for this product range.

The Labels business has experienced significant cost increases from the supplier base in the first half of 2009 and in the current environment it has not been possible to pass on these price increases fully to our customer base. As a result the profits in the first half of 2009 were below those achieved in the same period in 2008.

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

Sales in our UK Packaging Manufacturing operations were 21% below the same period in 2008 as demand in a number of the key sectors of UK industry we serve reduced dramatically. This impacted both our sales to our Packaging Distribution business and our directly serviced customers. In the light of these difficult demand conditions we implemented a major restructuring of our Packaging Manufacturing operations, commencing in the first half of 2009 in order to reduce the cost base more in line with the anticipated demand outlook. The impact of these actions was for Packaging Manufacturing to record a loss in 1H 2009 with the objective of returning the business to profit in 2H 2009 through the benefit of a re-sized cost base.

Our priorities for the Manufacturing Operations in the second half of 2009 are to:

- Work with our customer base in Labels to recover supplier price increases incurred in 1H 2009;
- Increase our new business momentum in the UK self-adhesive labels market;
- Improve our penetration in the re-sealable labels market, particularly in the USA;
- Complete the restructuring of the Packaging Manufacturing business; and
- Continue to strengthen the relationship between our Packaging Manufacturing operations and Packaging Distribution operations to create both sales and cost synergies.

Discontinued Operations

In January 2009 we received the initial cash consideration of £1.6m following the final and formal arrangements for the sale of the Macfarlane Plastics business based in Wicklow in Ireland.

We also received a benefit of £0.2m in concluding matters relating to prior year disposals.

Risks and Uncertainties

The principal risks, which could impact on the performance of the Group, were outlined in our Annual Report and Accounts for 2008 (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, however a prolonged UK economic slowdown would adversely affect the Group's results; and
- The Company's pension scheme deficit is 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.

Summary and Future Outlook

During the first half of 2009 we have experienced tough UK demand conditions across a range of the market sectors we supply and we have responded by implementing a number of initiatives to generate new business and cut our cost base. The Packaging Distribution business has demonstrated the strength of its market position and the robustness of its operating model and has performed well in these conditions. The Manufacturing businesses with their higher fixed costs have had more difficulty in protecting profitability as demand has weakened.

We expect the weakness in the UK economy to continue and plans have been implemented across all the Macfarlane businesses to ensure our cost bases are in line with the new demand conditions. In these uncertain conditions customers are looking for suppliers who can provide consistency and certainty and we are committed to ensuring that all our businesses are well focused to take advantage of sustainable new business opportunities.

Macfarlane Group's traditional cycle for stronger earnings and cash generation will again be weighted towards 2H 2009. This combined with the actions we have taken in 1H 2009 and the additional actions planned for 2H mean the Group's results for 2009 remain in line with the Board's expectations. As the UK economy begins to recover the benefit of our 2009 actions means that Macfarlane is particularly well positioned to be a beneficiary of an upturn in demand.

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 27 August 2009 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 2009, which comprises the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated reconciliation of movements in equity, the consolidated balance sheet, the consolidated cash flow statement and related notes 1 to 16. 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 2009 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
27 August 2009

MACFARLANE GROUP PLC

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2009

		Six months to 30 June 2009 before exceptional items £000	Exceptional items £000 (see Note 5)	Six months to 30 June 2009 £000	Six months to 30 June 2008 £000	Year to 31 December 2008 £000
	Note					
Continuing operations						
Revenue	3	59,078	-	59,078	64,430	131,410
Cost of sales		(40,037)	-	(40,037)	(44,048)	(89,272)
Gross profit		19,041	-	19,041	20,382	42,138
Distribution costs		(3,165)	-	(3,165)	(3,442)	(6,421)
Administrative expenses		(14,795)	(421)	(15,216)	(15,513)	(31,009)
Operating profit	3	1,081	(421)	660	1,427	4,708
Investment income	4	1,171	-	1,171	1,555	3,124
Finance costs	4	(1,802)	-	(1,802)	(1,993)	(4,130)
Profit before tax		450	(421)	29	989	3,702
Tax	6	(125)	117	(8)	(278)	(824)
Profit for the period from continuing operations		325	(304)	21	711	2,878
Discontinued operations						
Profit/(loss) for the period from discontinued operations	7	175	-	175	(613)	(1,083)
Profit for the period	9	500	(304)	196	98	1,795
Earnings per ordinary share						
From continuing operations	9					
Basic and diluted		0.29p	(0.27p)	0.02p	0.63p	2.56p
From continuing and discontinued operations						
Basic and diluted				0.18p	0.09p	1.60p

MACFARLANE GROUP PLC

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2009

		Six months to 30 June 2009 £000	Six months to 30 June 2008 £000	Year to 31 December 2008 £000
	Note			
Exchange difference on translation of foreign operations		(273)	343	558
Actuarial losses on defined benefit pension schemes	14	(3,380)	(307)	(4,167)
Tax on items taken directly to equity		946	85	1,167
		<hr/>	<hr/>	<hr/>
Net (expense)/income recognised directly in equity		(2,707)	121	(2,442)
Profit for the period		196	98	1,795
		<hr/>	<hr/>	<hr/>
Total recognised income and expense for the period		(2,511)	219	(647)
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

MACFARLANE GROUP PLC

CONSOLIDATED RECONCILIATION OF MOVEMENTS IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2009

		Six months to 30 June 2009 £000	Six months to 30 June 2008 £000	Year to 31 December 2008 £000
	Note			
Profit for the period		196	98	1,795
Dividends to equity holders in the period	8	(1,125)	(1,125)	(2,252)
Net (expense)/income recognised directly to equity		(2,707)	121	(2,442)
Credit in respect of share based payments		4	62	52
		<hr/>	<hr/>	<hr/>
Movements in equity in the period		(3,632)	(844)	(2,847)
Opening equity		27,398	30,245	30,245
		<hr/>	<hr/>	<hr/>
Closing equity		23,766	29,401	27,398
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

MACFARLANE GROUP PLC

CONSOLIDATED BALANCE SHEET AT 30 JUNE 2009 (UNAUDITED)

	Note	30 June 2009 £000	30 June 2008 £000	31 December 2008 £000
Non-current assets				
Goodwill		24,124	22,812	24,399
Other intangible assets		2,728	-	2,871
Property, plant and equipment		9,286	9,956	9,771
Other receivables		870	875	869
Deferred tax asset	15	5,716	3,801	4,810
Total non-current assets		42,724	37,444	42,720
Current assets				
Inventories		7,970	8,848	8,464
Trade and other receivables		26,903	29,985	31,178
Deferred tax asset	15	1,139	1,565	1,225
Cash and cash equivalents		756	641	777
Assets classified as held for sale	11	-	4,096	-
		36,768	45,135	41,644
Total assets		79,492	82,579	84,364
Current liabilities				
Trade and other payables		23,873	27,578	30,056
Current tax liabilities		38	58	464
Obligations under finance leases		183	209	208
Bank overdrafts and loans		9,267	9,222	7,254
Liabilities directly associated with assets classified as held for sale	11	-	1,475	-
Total current liabilities		33,361	38,542	37,982
Net current assets		3,407	6,593	3,662
Non-current liabilities				
Retirement benefit obligations	14	20,688	14,021	17,477
Deferred tax liabilities	15	757	-	832
Other creditors		48	160	153
Obligations under finance leases		872	455	522
Total non-current liabilities		22,365	14,636	18,984
Total liabilities		55,726	53,178	56,966
Net assets		23,766	29,401	27,398
Equity				
Share capital		28,755	28,755	28,755
Revaluation reserves		70	70	70
Own shares		(1,406)	(1,406)	(1,406)
Translation reserves		231	291	506
Retained earnings		(3,884)	1,691	(527)
Total equity		23,766	29,401	27,398

MACFARLANE GROUP PLC
CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Note	Six months to 30 June 2009 £000	Six months to 30 June 2008 £000	Year to 31 December 2008 £000
Net cash (outflow)/inflow from operating activities	13	(2,063)	(2,695)	4,160
Investing activities				
Interest received		2	48	67
Disposal of subsidiary undertaking	10	1,565	-	(595)
Acquisition of subsidiary undertaking	12	(440)	(3,630)	(7,410)
Proceeds on disposal of property, plant and equipment		-	2,408	2,428
Purchases of property, plant and equipment		(298)	(589)	(466)
Net cash from/(used in) investing activities		829	(1,763)	(5,976)
Financing activities				
Dividends paid	8	(1,125)	(1,125)	(2,252)
Repayments of obligations under finance leases		325	(21)	14
Increase in bank overdrafts		2,013	5,970	4,002
Net cash generated from financing activities		1,213	4,824	1,764
Net (decrease)/increase in cash and cash equivalents		(21)	366	(52)
Cash and cash equivalents at beginning of period		777	829	829
Cash and cash equivalents at end of period	13	756	1,195	777

MACFARLANE GROUP PLC

SIX MONTHS ENDED 30 JUNE 2009

NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. General information

The information for the year ended 31 December 2008 does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985, 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 235 of the Companies Act 1985 and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.

2. Basis of preparation

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 2 to 4.

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 2010 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.

This condensed set of financial statements for the six months ended 30 June 2009 has been prepared on the basis of the accounting policies set out in the Group's 2008 statutory accounts and were approved by the Board of Directors on 27 August 2009. There have been no changes in accounting policies in the six months ended 30 June 2009. The condensed set of financial statements has also been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules. 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 has adopted IFRS 8 Operating Segments for the current and preceding financial periods with no change to the Group's reportable segments.

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 5.

3. Segmental information

The Group's activities remain centred around two principal activities, with those Manufacturing Operations being classified as discontinued in prior years disclosed separately.

(i) Packaging Distribution

The distribution of packaging materials from a UK network of Regional Distribution Centres.

(ii) Manufacturing Operations

The manufacture and supply of self-adhesive and re-sealable labels to a variety of FMCG customers in the UK and Europe and the design, manufacture, assembly and supply of timber, corrugated and foam-based packaging materials in the UK.

Discontinued Operations

The results from the Group's plastic-injection moulding operation in Ireland are disclosed as discontinued operations in the consolidated income statement for 2008. The plastic-injection moulding operation in Ireland was sold at the end of 2008 with details of the disposal set out in note 10.

MACFARLANE GROUP PLC

SIX MONTHS ENDED 30 JUNE 2009

NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

3. Segmental information	Six months to 30 June 2009 before exceptional items £000	Exceptional items £000	Six months to 30 June 2009 £000	Six months to 30 June 2008 £000	Year to 31 December 2008 £000
<u>Packaging Distribution</u>					
Revenue	47,101	-	47,101	50,958	103,655
Cost of sales	(32,336)	-	(32,336)	(35,950)	(72,512)
Gross profit	14,765	-	14,765	15,008	31,143
Net operating expenses	(13,537)	(170)	(13,707)	(14,446)	(28,241)
Operating profit	1,228	(170)	1,058	562	2,902
<u>Manufacturing Operations</u>					
Revenue	11,977	-	11,977	13,472	27,755
Cost of sales	(7,701)	-	(7,701)	(8,098)	(16,760)
Gross profit	4,276	-	4,276	5,374	10,995
Net operating expenses	(4,423)	(251)	(4,674)	(4,509)	(9,189)
Operating profit	(147)	(251)	(398)	865	1,806
Trading results continuing operations					
Group segment – total revenue					
Packaging Distribution			47,289	50,994	103,691
Manufacturing Operations			13,742	15,731	31,857
Inter-segment revenue			(1,953)	(2,295)	(4,138)
External revenue	continuing operations		59,078	64,430	131,410
Operating profit continuing operations					
Packaging Distribution			1,058	562	2,902
Manufacturing Operations			(398)	865	1,806
Operating profit			660	1,427	4,708
Net finance costs	(see note 4)		(631)	(438)	(1,006)
Profit before tax			29	989	3,702
Tax			(8)	(278)	(824)
Profit/(loss) for the period from discontinued operations			175	(613)	(1,083)
Profit after tax and discontinued operations			196	98	1,795

MACFARLANE GROUP PLC

SIX MONTHS ENDED 30 JUNE 2009

NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

3. Segmental information (continued)	30 June 2009 £000	30 June 2008 £000	31 December 2008 £000
Net assets			
Group segment			
Packaging Distribution	20,270	19,007	18,528
Manufacturing Operations	3,496	7,773	7,245
	<hr/>	<hr/>	<hr/>
Continuing operations	23,766	26,780	25,773
Discontinued operations	-	2,621	1,625
	<hr/>	<hr/>	<hr/>
Net assets	23,766	29,401	27,398
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
4. Investment income and finance costs	Six months to 30 June 2009 £000	Six months to 30 June 2008 £000	Year to 31 December 2008 £000
Expected return on pension scheme assets	1,169	1,524	3,075
Investment income	2	31	49
	<hr/>	<hr/>	<hr/>
Total investment income	1,171	1,555	3,124
	<hr/>	<hr/>	<hr/>
Interest on bank loans and overdrafts	(113)	(271)	(559)
Interest on obligations under finance leases	(38)	(21)	(51)
Interest cost of pension scheme liabilities	(1,651)	(1,701)	(3,520)
	<hr/>	<hr/>	<hr/>
Total finance costs	(1,802)	(1,993)	(4,130)
	<hr/>	<hr/>	<hr/>
Net finance costs	(631)	(438)	(1,006)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

5. Exceptional items

Given the ongoing uncertainty in the UK economy, action plans were implemented in the first half of 2009 to reduce the cost base in the second half of the year to ensure our infrastructure is in line with the potentially lower level of demand. These costs, set out below, are those costs, which the directors consider directly relate to these plans and are of a non-recurring nature.

	Six months to 30 June 2009
Restructuring costs	
Redundancy and termination costs for employees	
Packaging Distribution	(140)
Manufacturing Operations	(251)
	<hr/>
	(391)
Closure costs for site consolidations in Packaging Distribution	(30)
	<hr/>
Total restructuring costs	(421)
Taxation credit thereon	117
	<hr/>
Restructuring costs after related taxation credit	(304)
	<hr/> <hr/>

There were no equivalent costs incurred in the periods to 30 June 2008 or 31 December 2008.

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6. Tax	Six months to 30 June 2009 £000	Six months to 30 June 2008 £000	Year to 31 December 2008 £000
Current tax			
UK corporation tax	-	-	(57)
Overseas tax	(30)	(23)	(83)
Prior year	80	-	-
	<u>50</u>	<u>(23)</u>	<u>(140)</u>
Current tax			
Deferred tax (See note 15)	(58)	(255)	(684)
	<u>(8)</u>	<u>(278)</u>	<u>(824)</u>

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 2009 £000	Six months to 30 June 2008 £000	Year to 31 December 2008 £000
The results for current and comparative periods are as follows:-			
Revenue	-	3,691	7,139
Cost of sales	-	(2,239)	(4,284)
	<u>-</u>	<u>1,452</u>	<u>2,855</u>
Gross profit			
Net operating expenses	-	(1,315)	(2,589)
	<u>-</u>	<u>137</u>	<u>266</u>
Operating profit			
Net interest received	-	-	5
Impairment loss on re-measurement of discontinued operations	-	(750)	-
Profit/(loss) on disposal of subsidiary undertaking (see note 10)	175	-	(1,378)
	<u>175</u>	<u>(613)</u>	<u>(1,107)</u>
Profit/(loss) before tax			
Tax	-	-	24
	<u>-</u>	<u>(613)</u>	<u>(1,083)</u>
Post-tax profit/(loss) from discontinued operations	<u>175</u>	<u>(613)</u>	<u>(1,083)</u>

Details of Discontinued Operations are set out in note 3.

The profit on disposal in the first six months of 2009 relates to finalising adjustments in relation to disposals in previous financial periods.

Comparative figures for June 2008 and December 2008 include results for the Group's plastic-injection moulding operation in Ireland and adjustments in respect of other disposals in prior periods.

Cash inflows in respect of the discontinued operations' operating activities amounted to £Nil for 2009 (2008, inflow of £156,000 in the six months to 30 June 2008 and an inflow of £385,000 for the year to 31 December 2008). Cash inflows in respect of investing activities totalled £1,565,000 (2007, £50,000 in the six months to 30 June 2008 and outflows of £808,000 for the year to 31 December 2008) and cash outflows from financing activities were £Nil (2008 - £Nil).

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8. Dividends	Six months to 30 June 2009 £000	Six months to 30 June 2008 £000	Year to 31 December 2008 £000
Amounts recognised as distributions to equity holders in the period			
Final Dividend (1.00p per share) (2008 1.00p per share)	1,125	1,125	1,126
Interim Dividend (2008 1.00p per share)	-	-	1,126
Distributions in the period	<u>1,125</u>	<u>1,125</u>	<u>2,252</u>

Dividends are not payable on shares held in the employee share trust.

The dividend of 0.50p per share, payable on 22 October 2009, was declared on 27 August 2009 and has therefore not been included as a liability in these financial statements.

9. Earnings per share	Six months to 30 June 2009 £000	Six months to 30 June 2008 £000	Year to 31 December 2008 £000
Earnings			
Earnings from continuing and discontinued operations being net profit attributable to equity holders of the parent	196	98	1,795
(Profit)/loss for the period from discontinued operations	(175)	613	1,083
Earnings from continuing operations for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	<u>21</u>	<u>711</u>	<u>2,878</u>
Number of shares	30 June 2009	30 June 2008	31 December 2008
Weighted average number of ordinary shares in issue '000	115,019	115,019	115,019
Own shares in Employee Share Ownership Trusts '000	(2,491)	(2,491)	(2,491)
Weighted average number of shares in issue for the purposes of basic earnings per share '000	112,528	112,528	112,528
Effect of dilutive potential ordinary shares due to share options	-	20	-
Weighted average number of shares in issue for the purposes of diluted earnings per share '000	<u>112,528</u>	<u>112,548</u>	<u>112,528</u>

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10. Disposal of subsidiary

On 8 January 2009, the Group completed the final and formal arrangements for the sale of its plastic injection-moulding business. The agreement had been substantively completed by 31 December 2008. Accordingly for accounting purposes, 31 December 2008 was treated as the effective date of disposal and the date on which control passed, with the resultant loss on disposal being accounted for in the financial statements for 2008. The amounts treated as disposed of are as follows:-

	Year to 31 December 2008 £000
Net assets disposed	
Property, plant and equipment	1,932
Inventories	430
Trade and other receivables	1,121
Trade payables	(668)
	2,815
Net assets disposed of	2,815
Foreign exchange gain on disposal	733
Loss on disposal	(2,925)
	(2,195)
Loss on disposal of Plastics business	(2,195)
Release of provisions on conclusion of previous disposals	407
	(1,785)
Total loss on disposal (see Note 7)	(1,785)
Total consideration (net of attributable expenses)	1,030
Cash consideration (net of attributable expenses)	(595)
Deferred consideration (see below)	1,625
	1,030

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.

11. Non-current assets held for sale

The major classes of assets and liabilities in the plastic-injection moulding business in Ireland, classified as held for sale at 30 June 2008 are as follows:-

	30 June 2008 £000
Property, plant and equipment	1,711
Inventories	440
Trade and other receivables	1,391
Cash and cash equivalents	554
	4,096
Total assets classified as held for sale	4,096
Total liabilities associated with assets classified as held for sale	(1,475)
	2,621
Net assets classified as held for sale	2,621

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12. Acquisition of subsidiary companies

On 7 January 2008, the Group acquired 100% of the issued share capital of Online Packaging. The business is a Packaging Distributor and is accounted for in the Packaging Distribution segment.

On 3 October 2008, the Group acquired 100% of the issued share capital of Allpoint Packaging, for an initial consideration of approximately £3.3 million, with the estimated deferred consideration payable in the final quarter of 2009, subject to certain trading targets being met in the twelve months to 30 September 2009. The business is a Packaging Distributor and is accounted for in the Packaging Distribution segment.

The fair values assigned to the assets acquired and the consideration paid and payable are set out below:-

	Six months to 30 June 2009 £000	Six months to 30 June 2008 £000	Year to 31 December 2008 £000
Net assets acquired			
Other intangible assets	-	-	2,973
Property, plant and equipment	-	228	367
Inventories	-	429	1,056
Trade and other receivables	-	1,603	3,430
Cash and cash equivalents	-	906	907
Bank overdrafts	-	-	(463)
Trade and other payables	-	(1,758)	(3,304)
Current tax liabilities	-	(198)	(512)
Finance lease liabilities	-	-	(31)
Deferred tax liabilities	-	(40)	(872)
Total assets	-	1,170	3,551
Goodwill arising on acquisition	(275)	4,166	5,753
Total consideration	(275)	5,336	9,304
Satisfied by:			
Cash	(440)	(4,536)	(7,854)
Deferred consideration	715	(800)	(1,450)
Total consideration	275	(5,336)	(9,304)
Net cash outflow arising on acquisition			
Cash consideration	(440)	(4,536)	(7,854)
Cash and cash equivalents acquired	-	906	907
Bank overdrafts acquired	-	-	(463)
Net cash outflow	(440)	(3,630)	(7,410)

Other intangible assets arising on consolidation represent the best estimate of the values attaching to brand names and customer relationships acquired on acquisition.

Goodwill arising on the acquisitions of Online Packaging and Allpoint Packaging is attributable to the anticipated future profitability of the distribution of the Group's product ranges in additional geographical markets in the UK and anticipated operating synergies from future combination of activities within our Packaging Distribution network.

The deferred consideration for Online Packaging was agreed and paid in April 2009. The deferred consideration for Allpoint Packaging has been adjusted to reflect the best estimate of the consideration payable at 30 June 2009 with a corresponding adjustment to goodwill.

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NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

13. Notes to the cash flow statement		Six months to 30 June 2009 £000	Six months to 30 June 2008 £000	Year to 31 December 2008 £000
Operating profit	Continuing operations	660	1,427	4,708
	Discontinued operations	175	137	266
Profit from operations		835	1,564	4,974
Adjustments for:				
	Amortisation of intangible assets	143	-	102
	Depreciation of property, plant and equipment	578	1,023	1,575
	Gain on disposal of property, plant and equipment	-	(1)	(9)
Operating cash flows before movements in working capital		1,556	2,586	6,642
	Decrease/(increase) in inventories	494	(309)	712
	Decrease in receivables	2,709	190	2,701
	Decrease in payables	(5,644)	(3,569)	(3,233)
	Adjustment for pension scheme funding	(652)	(735)	(1,407)
Cash generated by operations		(1,537)	(1,837)	5,415
	Income taxes paid	(375)	(570)	(647)
	Interest paid	(151)	(288)	(608)
Net cash (outflow)/inflow from operating activities		(2,063)	(2,695)	4,160
		Six months to 30 June 2009 £000	Six months to 30 June 2008 £000	Year to 31 December 2008 £000
Movement in net debt				
	(Decrease)/increase in cash and cash equivalents in period	(21)	366	(52)
	Increase in bank overdrafts	(2,013)	(5,970)	(4,002)
	Cash flows from debt and lease financing	(325)	21	(45)
Movement in net debt in the period		(2,359)	(5,583)	(4,099)
	Opening net debt	(7,207)	(3,108)	(3,108)
Closing net debt		(9,566)	(8,691)	(7,207)
Net debt comprises:-				
	Cash and cash equivalents	756	641	777
	Cash and cash equivalents in business held for resale	-	554	-
Cash and cash equivalents at end of period		756	1,195	777
	Bank overdrafts and loans	(9,267)	(9,222)	(7,254)
Net bank debt		(8,511)	(8,027)	(6,477)
	Obligations under finance leases	(1,055)	(664)	(730)
Closing net debt		(9,566)	(8,691)	(7,207)

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.

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NOTES TO THE GROUP CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

14. 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 2009, 31 December 2008 and 30 June 2008. The assets in the scheme, the net liability position of the scheme as calculated under IAS 19 and the principal assumptions were:

	30 June 2009 £000	30 June 2008 £000	31 December 2008 £000
Fair value of assets	35,892	40,784	35,943
Present value of scheme liabilities	(56,580)	(54,805)	(53,420)
Pension scheme deficit	(20,688)	(14,021)	(17,477)
Deferred tax asset	5,793	3,926	4,894
Pension scheme deficit net of related deferred tax asset	(14,895)	(10,095)	(12,583)

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

Assumptions	30 June 2009	30 June 2008	31 December 2008
Discount rate	6.20%	6.60%	6.25%
Rate of increase in salaries	3.30%	3.90%	2.75%
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 3.20% for LPI	for fixed increases or 2.75% for LPI
Inflation assumption	3.30%	3.90%	2.75%
Life expectancy beyond normal retirement date 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 2009 £000	Six months to 30 June 2008 £000	Year to 31 December 2008 £000
Movement in scheme deficit in the period			
At start of period	(17,477)	(14,272)	(14,272)
Normal service cost	(111)	(114)	(237)
Contributions	762	763	1,558
Curtailement gains	-	86	86
Other finance charges	(482)	(177)	(445)
Actuarial loss in the period	(3,380)	(307)	(4,167)
At end of period	(20,688)	(14,021)	(17,477)
Movement in fair value of scheme assets	£000	£000	£000
Scheme assets at start of period	35,943	45,032	45,032
Expected return on scheme assets	1,169	1,524	3,075
Actual return less expected return on scheme assets	(707)	(5,152)	(11,356)
Contributions from sponsoring companies	762	763	1,558
Contributions from scheme members	91	89	176
Benefits paid	(1,366)	(1,472)	(2,542)
Scheme assets at end of period	35,892	40,784	35,943

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14. Retirement benefit obligations (continued)	Six months to 30 June 2009 £000	Six months to 30 June 2008 £000	Year to 31 December 2008 £000
Movement in present value of defined benefit obligations			
Obligations at start of period	(53,420)	(59,304)	(59,304)
Service costs	(111)	(114)	(237)
Interest costs	(1,651)	(1,701)	(3,520)
Curtailement gain	-	86	86
Contributions from scheme members	(91)	(89)	(176)
Actuarial (loss)/gain on liabilities in the period	(2,673)	4,845	7,189
Benefits paid	1,366	1,472	2,542
Obligations at end of period	(56,580)	(54,805)	(53,420)
15. Deferred tax asset	30 June 2009 £000	30 June 2008 £000	31 December 2008 £000
Deferred tax asset on pension scheme deficit			
At start of period	4,894	3,996	3,996
Charge on actuarial movement in the period applied through statement of recognised income and expense	946	85	1,167
Charge through income statement based on payments made to reduce deficit in the period	(47)	(155)	(269)
Deferred tax asset on pension scheme deficit (see note 14)	5,793	3,926	4,894
Deferred tax liabilities on other timing differences	(77)	(125)	(84)
Net deferred tax asset – due after one year	5,716	3,801	4,810
Deferred tax asset on corporation tax losses			
At start of period	1,225	1,665	1,665
Charge through income statement	(86)	(100)	(440)
Net deferred tax asset – due within one year	1,139	1,565	1,225
Deferred tax liability on other intangible assets			
At start of period	(832)		-
Incorporated on recognition of other intangible assets	-		(832)
Credit through income statement	75		-
Net deferred tax liability	(757)		(832)

16. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed. The directors are satisfied that there are no other related party transactions occurring during the six month period which require disclosure.

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.