ANNUAL REPORT AND ACCOUNTS 2013

HEADQUARTERED IN GLASGOW, MACFARLANE GROUP PLC EMPLOYS 700 PEOPLE AT 20 SITES ACROSS THE UK, 1 SITE IN IRELAND AND 1 SITE IN SWEDEN AND SERVICES MORE THAN 20,000 CUSTOMERS IN A WIDE RANGE OF SECTORS.

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CHAIRMAN'S STATEMENT

MACFARLANE GROUP INCREASED PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS IN 2013 BY 13% TO £5.1M. THE EARLY SIGNS OF ECONOMIC RECOVERY NOW VISIBLE IN THE UK MARKET ARE WELCOME BUT SHOULD NOT MASK THE FACT THAT 2013 WAS ANOTHER CHALLENGING YEAR.

The real incomes of UK consumers remain below pre-recession levels, though with some signs that the corner will be turned in 2014. The story on business investment is one of rising confidence and future action but with only limited progress in 2013. Against that backdrop, further growth in our profits in 2013 represents a very solid performance and one that can be built upon as conditions improve.

TRADING

Our Packaging Distribution business grew operating profit before exceptional items by £0.1m to £5.0m. New business wins once more offset the impact of subdued demand. The growing impact of the internet as a retail channel is now well documented and we have developed the customer base in that sector over the last few years. We believe this sector will continue to offer good growth potential. Cost control was again a significant contributor to profit performance but we have nonetheless continued to develop new sales, marketing and fulfilment initiatives, which will bear fruit in future years.

Our Manufacturing businesses made further progress in 2013, driven by our high-quality design-led packaging manufacturing business and increased sales from our Reseal-it label range. Operating profit before exceptional items increased to £1.3m compared to £1.0m in 2012.

The commitment and abilities of the people of Macfarlane Group remains our most important asset and on behalf of the Board, I would like to thank them for all their efforts in 2013. Their skills and their determination to provide the best possible service to our customers will be a key driver of our future success.

EXCEPTIONAL ITEMS

During 2013 the Group incurred exceptional charges of £0.3m to terminate the leases for surplus properties and also adjusted the carrying value of a property to reflect the latest assessment of realisable value. In 2012, a Pension Increase Exchange exercise was completed, reducing the pension deficit by £1.65m, which was reflected as an exceptional credit in the prior year. This benefit was partly offset by a reorganisation of our activities in Ireland, which resulted in an exceptional charge of £0.66m in 2012.

NET DEBT

The Group operated comfortably within its banking facilities in 2013, including the seasonal peak working capital requirement in the final quarter. In February 2014, we have agreed a new three-year facility with Lloyds Banking Group, which will enable us to continue to finance our trading requirements but also to support controlled expansion activity and to make a further contribution to reducing the pension scheme deficit. The new bank facility extends up to £20.0m and is committed until 2017, providing a medium-term funding platform for the growth of our business.

We see appropriate acquisitions as an important element of our growth strategy and the new funding will help facilitate that.

PENSION DEFICIT

The pension deficit at the end of the year was £15.9m, a reduction of £3.0m from £18.9m a year previously. Whilst still subject to influences beyond our control such as corporate bond yields and volatile returns from stock markets, the combined effect of action taken in conjunction with the scheme's trustees and significant contributions in 2013 from our cash flows have reduced the impact on reserves. We will continue to work in partnership with the scheme's trustees to reduce the deficit further. This includes an agreement to make a contribution of £2.5m to the scheme from the new bank facility in advance of the next triennial actuarial valuation on 1 May 2014.

DIVIDENDS

We remain aware of the potential adverse impact of bond yields on our pension scheme deficit and on the distributable reserves from which dividends are paid. This feature and continued earnings growth, will be the key influences in considering the level of dividend increases in future years.

We have held our dividend level at 1.55p per share for two years. In recognition of the progress achieved with profitability and the improved economic outlook, the Directors are pleased to propose an increase in the final dividend by 5% to 1.10p per share, making 1.60p per share for the year, an increase of 3% on the previous year. Subject to the approval of shareholders at the Annual General Meeting in May 2014, this will be paid on 5 June 2014.

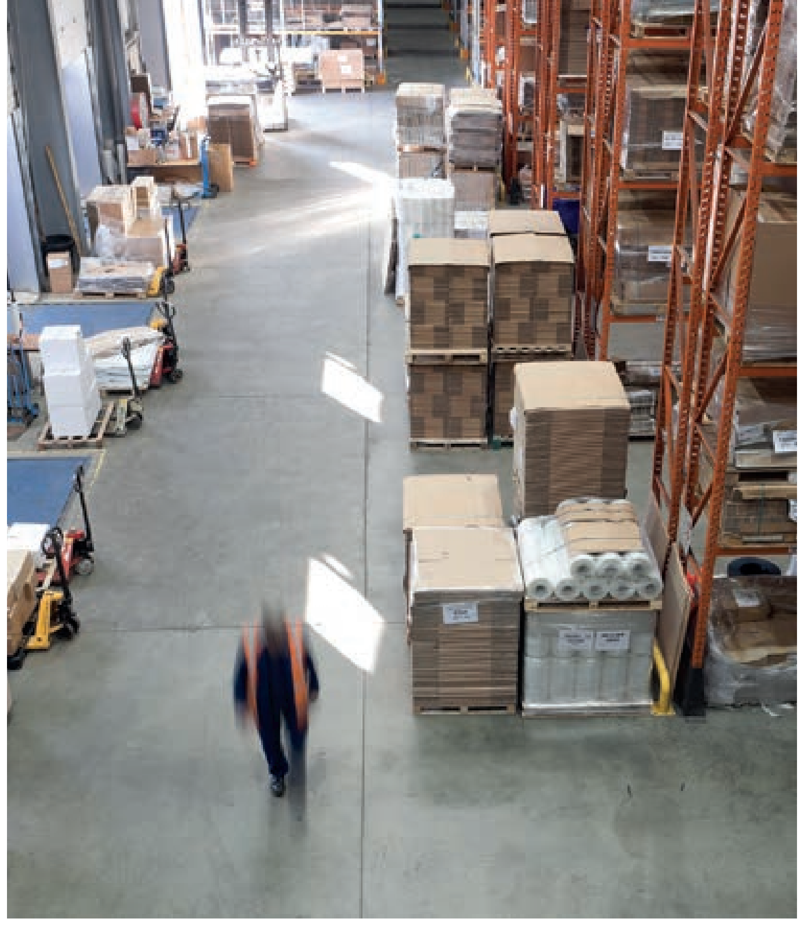
FUTURE PROSPECTS

Macfarlane Group's performance in the last quarter of 2013 demonstrated good year on year growth, primarily from the benefit of new customer wins. Performance in the early months of 2014 has continued these trends. We believe that our new funding arrangement will enable the Group to sustain our organic growth, further reduce the legacy pension deficit and enable us to expand through a controlled acquisition strategy.

Overall increases in market demand remain elusive, but the signs are certainly more positive than they have been for a number of years and we are confident that Macfarlane Group will continue to succeed through its own actions, together with some benefit from improving market conditions.

Graeme Bissett
Chairman
27 February 2014

OUR BUSINESS MODEL

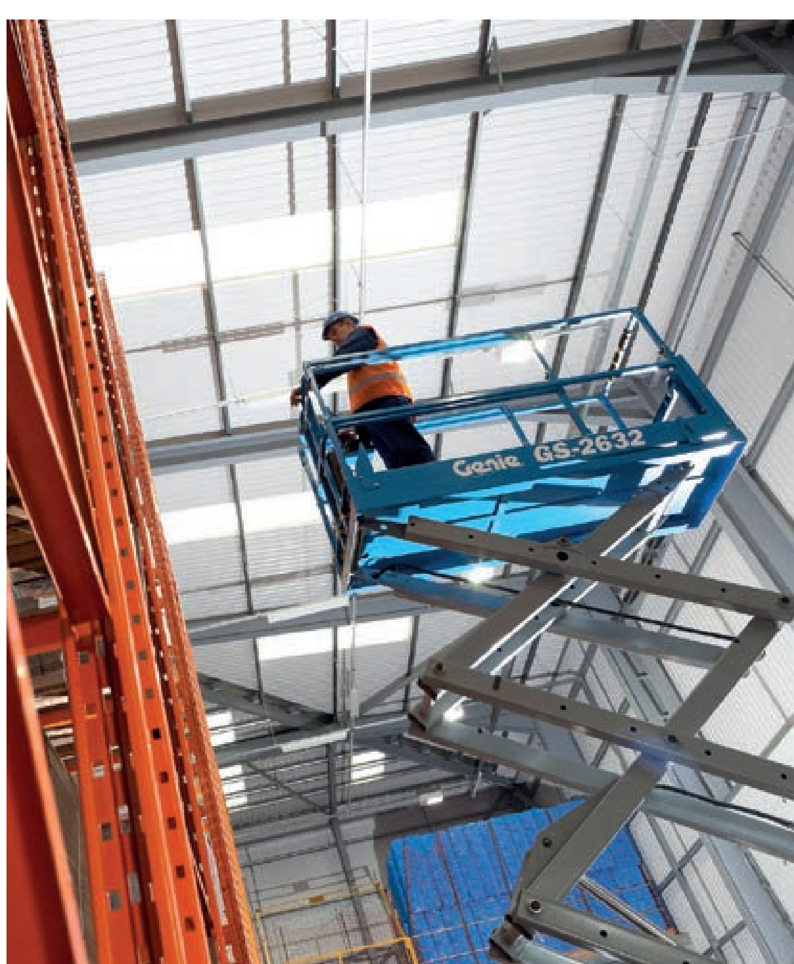


OUR FOCUS IS THE DESIGN, MANUFACTURE AND DISTRIBUTION OF PROTECTIVE PACKAGING PRODUCTS AND LABELS TO BUSINESS USERS

PACKAGING DESIGN AND MANUFACTURE PROVIDE A BESPOKE SERVICE TO SUPPORT MAJOR MANUFACTURING CUSTOMERS TO COST-EFFECTIVELY PROTECT THEIR HIGH-VALUE PRODUCTS IN STORAGE AND TRANSIT

MACFARLANE PACKAGING DISTRIBUTION IS THE UK MARKET LEADER IN THE DISTRIBUTION OF PROTECTIVE PACKAGING PRODUCTS

LABELS ENABLE FMCG CUSTOMERS TO ATTRACTIVELY DISPLAY AND ACCURATELY IDENTIFY THEIR PRODUCTS AT THE POINT OF PURCHASE OR SALE



STRATEGIC REVIEW

OUR BUSINESS MODEL

WHAT WE DO

Our focus is the design, manufacture and distribution of protective packaging products and labels to business users. Protective packaging products are mainly sold to customers in the UK. Labels are sold to customers in the UK, mainland Europe and the USA. For reporting purposes, we split the Group into two segments:

> Packaging Distribution; and

> Manufacturing Operations which comprises Labels and Packaging Design and Manufacture.

WHERE WE DO IT

The Group operates 16 Regional Distribution Centres (RDCs) which provide a national network to support customers on a local, regional and national basis. In addition the Group operates four manufacturing centres, two within Packaging Design and Manufacture and two within Labels. There is a central administration centre in Coventry, a Labels design centre in Sweden and Group head office is located in Glasgow.

WHO WE ARE

Macfarlane Group has over 700 employees, mainly in the UK but also in Sweden and Ireland. Our sites range in size from over 100 employees at manufacturing locations to under 20 for smaller RDCs. The Group operates a decentralised structure for sales and operations supported by central functional teams covering key areas such as procurement, logistics, IT and finance.

HOW OUR BUSINESS GENERATES VALUE

Macfarlane is the UK market leader in the distribution of protective packaging products. Macfarlane leverages its purchasing scale to cost-effectively source a comprehensive range of protective packaging products and adds value for the customer by providing independent advice on the most cost-effective choice of product and packing processes, and operating as a single-source supplier for these products on a Just In Time basis with tailored stock management programmes and electronic trading capability.

The manufacturing businesses utilise design, intellectual property and know-how to provide a bespoke service to support major manufacturing customers to cost-effectively protect their high-value products in storage and distribution and for FMCG customers to attractively display and accurately identify their products at the point of purchase or sale.

Macfarlane aims to grow its business by increasing the penetration of existing customers and winning new customers. There will be a natural churn of packaging requirements with our existing customers and we experience a level of erosion each year as we optimise the protective packaging usage of our customers. Therefore new business is key to the Group's overall growth and there is specific measurement and focus on this area.

OUR STRATEGY

The following table summarises the key strategic priorities. The overall Group objective is to grow sales volumes and achieve a return on sales of at least 5%.

STRATEGIC PRIORITIES	2013 PROGRESS
Implementation of a segmental sales strategy to improve customer retention levels, increase product penetration and accelerate new business.	Successful implementation of segmented approach has provided increased customer focus within Packaging Distribution. New Customer Service Centre established to enhance support of smaller local customers. Segmentation to be introduced in Packaging Design and Manufacture in 2014. Segmentation by product type in place within Labels. Overall sales growth of 1.2% in 2013 but exit rate of 3.4% in Packaging Distribution is in line with our strategic objectives for organic growth.
Focus on key sectors with growth potential, particularly Third Party Logistics ("3PL") and internet retail.	2013 growth in 3PL was 9.4% and in internet retail 6.2%.
Enhance gross margins through focus on higher added value products and services and more effective sourcing.	Gross margins within Manufacturing Operations have improved due to the focus on composite transit packaging and Reseal-it labels. Both strategic and tactical purchasing programmes are in place to improve our sourcing capability.
Ensure operational effectiveness is maximised through efficiencies in logistics and optimising the costs associated with the physical infrastructure.	Logistics costs reduced to 3.1% of sales through use of the Paragon planning tool and driver training. Coventry RDC relocated to a lower cost site, realising an annualised benefit of £0.2 million.
Supplement organic growth with suitable acquisitions.	Identification of suitable targets is ongoing and an appropriate funding structure has been put in place in February 2014 to support the future growth of the business.

THERE WAS A STRONG FINAL QUARTER'S SALES PERFORMANCE, REFLECTING A 3.4% INCREASE VERSUS 2012, THROUGH THE BENEFIT OF NEW BUSINESS WINS EARLIER IN THE YEAR.

PERFORMANCE REVIEW

The UK economic environment remained challenging in 2013 with subdued demand levels and as a result, increased levels of competition. Despite this, Macfarlane Group's sales in 2013 were 1.4% above the level achieved in 2012. The growth in sales was supported by management actions to reduce costs and, as a result, profit before tax and exceptional items at £5.1m was 13% ahead of the level achieved in 2012.

The Packaging Distribution business achieved a sales increase versus 2012 of 1.3%. There was a strong final quarter's sales performance, reflecting a 3.4% increase versus 2012, through the benefit of new business wins earlier in the year. The growth in new business particularly focused on the supply of protective packaging to internet retailers both directly and through our partnerships with major Third Party Logistics ("3PL") customers. The increased competitive environment together with supplier price inflation resulted in a lower gross margin of 29.1% compared to 30.3% in 2012. Costs in 2013 were below 2012 primarily through lower property costs. Operating profit before tax and exceptional items in the Packaging Distribution business at £5.0 million showed growth of 2% versus 2012.

2013 was a year of continued improvement for our Manufacturing Operations. The focus for both our Labels and Packaging Design and Manufacture businesses in 2013 was to concentrate on their higher added-value activities and this resulted in changes to both the customer and product mix. Sales in our Manufacturing Operations increased by 2.1% versus 2012 and gross margin improved through this concentration on higher added-value products. Both businesses held their cost base at similar levels to 2012 resulting in 2013 operating profit before tax and exceptional items of £1.3 million compared with £1.0 million in 2012.

Whilst there are early signs of a very modest improvement in the economic environment in 2014, our performance will again be largely dependent on our own efforts to grow sales and increase efficiencies. We operate a flexible business model and our ability to focus on the most attractive UK market sectors for our products and services gives us confidence in 2014 being another year of progress for Macfarlane Group.

GROUP PERFORMANCE

	REVENUE 2013 £000	PROFIT BEFORE EXCEPTIONAL ITEMS 2013 £000	REVENUE 2012 £000	PROFIT BEFORE EXCEPTIONAL ITEMS 2012 £000
SEGMENT				
PACKAGING DISTRIBUTION	116,280	4,960	114,807	4,867
MANUFACTURING OPERATIONS	27,591	1,291	27,016	967
REVENUE FROM CONTINUING OPERATIONS	143,871		141,823	
OPERATING PROFIT		6,251		5,834
NET FINANCE COSTS		(1,199)		(1,349)
PROFIT BEFORE TAX – CONTINUING OPERATIONS		5,052		4,485

STRATEGIC REVIEW

PACKAGING DISTRIBUTION BENEFITS ITS CUSTOMERS BY ENABLING THEM TO ENSURE THEIR PRODUCTS ARE COST-EFFECTIVELY PROTECTED IN TRANSIT AND STORAGE.

PACKAGING DISTRIBUTION

Macfarlane Packaging Distribution is the leading specialist UK distributor of protective packaging materials. In a highly fragmented market, Macfarlane is the market leader. The business operates through 16 Regional Distribution Centres (RDCs) supplying customers with a comprehensive range of protective packaging materials and services on a local, regional and national basis.

Competition in the distribution market is from local and regional protective packaging specialist companies and national distribution generalists who supply a range of products, including protective packaging materials. Macfarlane competes effectively on a local basis through its strong focus on and regular monitoring of customer service, its breadth and depth of product offer and through the recruitment and retention of staff with good local market knowledge. On a national basis Macfarlane has focus, expertise and a breadth of product and service knowledge all of which enables it to compete effectively against non-specialist packaging distributors.

Macfarlane Packaging benefits its customers by enabling them to ensure their products are cost-effectively protected in transit and storage through the supply of a comprehensive product range, single source supply, Just In Time delivery, tailored stock management programmes, electronic trading and independent advice on both packaging materials and packing processes.

2013 PERFORMANCE

In 2013 Packaging Distribution operating profit before exceptional items showed an increase to £5.0 million from £4.9 million in 2012. The key features of the 2013 performance were:

> Sales grew by 1.3% over 2012 levels with sales volume higher than 2012 but sales value was reduced by price deflation with competitive price pressure intensifying due to subdued demand conditions;

> Sales growth in the final quarter was 3.4% ahead of 2012 primarily through a number of significant new business wins in the internet retail sector including ASOS, feelunique.com and The Hut;

> Our business in the 3PL sector grew by 9.4% as we continued to strengthen our partnerships with key 3PL operators;

> Sales to internet retailers grew by 6.2% versus 2012 and represented 21.8% of total sales for the year;

> Gross margin at 29.1% reduced versus 2012 due to the impact of strong competition and supplier input price movements in the final quarter of 2013, which have yet to be fully recovered;

> Overheads (before exceptional items) were £0.9 million lower than 2012 reflecting our ongoing programme to reduce property costs; and

> Progress is being made on improving our focus on key segments of our customer base and a new Customer Service Centre has been created at Milton Keynes to facilitate this improvement.

feelunique.com is an internet retailer of beauty and cosmetic products who have worked with Macfarlane to improve the protection and presentation of their products to customers.

PERFORMANCE POTENTIAL

The 16 RDCs in our network are managed and measured as profit centres. In 2013 we had 11 RDCs performing above the target return on sales level of 5%. The remaining 5 RDCs continue to demonstrate improvements that indicate their ability to achieve the target return on sales.

ACQUISITIONS

During 2013 we considered a number of opportunities to acquire quality businesses in order to accelerate growth and better utilise our current RDC infrastructure. However none of the opportunities was pursued as they failed to meet our return criteria.

FUTURE PLANS

We expect general demand levels to increase, albeit very modestly, in 2014. Therefore our plans for 2014 are focused on those markets showing growth, building market share and improving operational effectiveness through the following actions:

> Improving our sales focus on key segments of our customer base with the new Customer Service Centre at Milton Keynes being a key element to facilitate this improvement;

> Accelerating our penetration of the growing internet retail sector both directly and through our partnerships with key 3PL organisations;

> Expanding our focus in industry sectors which benefit from Macfarlane's national coverage through our specialist National Account sales team;

> Continuing the development of our web-based presence through macfarlanepackaging.com to improve online visibility and access to our full range of products and services;

> Enhancing organic growth through the identification of suitable acquisition opportunities;

> Improving the awareness of our membership of NovuPak, for UK based customers requiring our capabilities on a wider European basis;

> Enhancing RDC productivity and customer engagement through the re-launch of our electronic trading system Customer Connect;

> Continuing to reduce property cost by evaluating alternatives to our current property footprint;

> Implementing further operational savings in logistics through expanded use of the Paragon vehicle management system and the introduction of a warehouse best practice programme; and

> Maintaining the focus on working capital management to reduce borrowing levels.

STRATEGIC REVIEW

LABELS

OUR LABELS BUSINESS DESIGNS AND PRINTS SELF-ADHESIVE LABELS FOR MAJOR FMCG CUSTOMERS IN THE UK AND EUROPE AND RESEALABLE LABELS FOR MAJOR CUSTOMERS IN THE UK, EUROPE AND THE USA.

MANUFACTURING OPERATIONS

Macfarlane's Manufacturing Operations comprise Labels, which includes self-adhesive and resealable labels and our Packaging Design and Manufacture business.

In 2013 Macfarlane's Manufacturing Operations recorded an operating profit before exceptional items of £1.3 million (2012 – £1.0 million). The key features of the Manufacturing Operations' performance in 2013 were:

> Sales increased by 2.1% versus 2012 mainly through new business growth in resealable labels and systems in Europe and the UK;

> Gross margins improved compared to 2012 through the focus on higher added value products and services; and

> Net overheads were largely flexed in line with sales, reducing marginally as a percentage of sales from 35.6% in 2012, to 35.3% in 2013.

LABELS

Our Labels business designs and prints self-adhesive labels for major FMCG customers in the UK and Europe and resealable labels for major customers in the UK, Europe and the USA. The business operates from production sites in Kilmarnock and Wicklow and a sales and design office in Sweden, which focuses on the development and growth of our resealable labels business – Reseal-it.

The Labels business has a high level of dependency on a small number of major customers. Management works closely with these key customers to ensure high levels of service and to introduce product and service development initiatives to achieve competitive differentiation.

Business Performance

2013 was a year where despite sales growth of 3.6%, profits were below the level achieved in 2012 due to the higher costs associated with the re-location of our manufacturing activities in Ireland to a larger site in Wicklow.

We continued to make good progress in the development of the resealable range of labels and systems and Reseal-it in 2013 represented 36% of revenue compared with 33% in 2012. Competition in the resealable label sector is increasing but total sales for Reseal-it grew by 13% versus 2012. Despite some slowing of momentum in the USA this was more than offset with good growth in Reseal-it system sales in Europe and improved penetration in the UK market through major retailers.

Future Plans

The priorities for Labels in 2014 are:

> Maintenance of the strategic focus on higher added value products and services;

> Continued improvement in operational efficiencies to counterbalance competitive price pressure;

> Further development of the Reseal-it product in the US market through the Printpack partnership, in Europe through new business wins and in the UK through improved penetration with key retailers; and

> Increased penetration of the Irish market through our new manufacturing facility in Ireland.

Reseal-it labels highlight the easy to use opening and resealable technology which helps minimise food and packaging waste.

PACKAGING DESIGN AND MANUFACTURE

WE DIFFERENTIATE OURSELVES THROUGH OUR TECHNICAL EXPERTISE, DESIGN CAPABILITY AND INDUSTRY ACCREDITATIONS.

PACKAGING DESIGN AND MANUFACTURE

The principal activity of the Packaging Design and Manufacture business is the design, manufacture and assembly of custom-designed packaging solutions for customers requiring cost-effective methods of protecting high value products in storage and transit. The primary raw materials are corrugate, timber and foam. The business operates from two manufacturing sites in Grantham and Westbury, supplying both direct to customers and also through the RDC network of the Packaging Distribution business.

The key market sectors supplied are aerospace, medical equipment, electronics and automotive. The markets in which we operate are highly fragmented with a range of locally based competitors. We differentiate ourselves through our technical expertise, design capability, industry accreditations and national coverage through the partnership with Macfarlane Packaging Distribution.

Business Performance

2013 sales were at the same level as 2012 partly through lower demand and the impact of the offshoring of a key customer. Management continued to change the mix of products and services towards those with higher added-value and the benefit was an improvement in gross margin, which together with good cost control contributed to an overall level of profitability in 2013 ahead of that achieved in 2012. There was encouraging progress during 2013 in the development of new customer relationships, which should benefit the business in 2014.

Future Plans

The priorities for 2014 are:

- Accelerate sales growth, particularly in key sectors e.g. Defence, Aerospace and Medical;
- Prioritise our sales activity on the higher added-value bespoke composite pack product range;
- Continue to strengthen the relationship between our Packaging Design and Manufacture operations and our Packaging Distribution business to create both sales and cost synergies; and
- Make selective investments to improve productivity at both our manufacturing sites.

2014 OUTLOOK

We expect general market demand in 2014 to increase slightly on the levels we experienced in 2013 as the UK economy begins to strengthen. There are specific market sectors such as internet retail which are forecast to show good growth and Macfarlane Group will continue to focus on ensuring we are well positioned to benefit from the growth expected in these sectors.

During 2014 the completion of our new bank facilities will enable us to accelerate sales growth through the acquisition of quality protective packaging businesses that can leverage our current infrastructure or improve our geographic penetration.

Macfarlane Group's businesses all have good market positions with strong differentiated product and service offerings. Our business model is flexible and we have a clear strategic plan, which is being effectively implemented as reflected in our track record of consistent, profitable growth.

We expect 2014 to be another successful year for Macfarlane Group.

Peter D. Atkinson
Chief Executive
27 February 2014

STRATEGIC REVIEW

FINANCIAL REVIEW

	NOTE	PROFIT BEFORE EXCEPTIONAL ITEMS 2013 £000	EXCEPTIONAL ITEMS 2013 £000	TOTAL 2013 £000	PROFIT BEFORE EXCEPTIONAL ITEMS *2012 £000	EXCEPTIONAL ITEMS 2012 £000	TOTAL *2012 £000
REVENUE	1	143,871	–	143,871	141,823	–	141,823
COST OF SALES		(98,983)	–	(98,983)	(96,510)	–	(96,510)
GROSS PROFIT	2	44,888	–	44,888	45,313	–	45,313
NET OPERATING EXPENSES	3,4	(38,637)	(336)	(38,973)	(39,479)	993	(38,486)
OPERATING PROFIT		6,251	(336)	5,915	5,834	993	6,827
NET FINANCE COSTS	5	(1,199)	–	(1,199)	(1,349)	–	(1,349)
PROFIT BEFORE TAX	6	5,052	(336)	4,716	4,485	993	5,478
TAX	7	(1,265)	5	(1,260)	(1,223)	(390)	(1,613)
PROFIT AFTER TAX	8	3,787	(331)	3,456	3,262	603	3,865
EARNINGS PER SHARE	9	3.32p	(0.29p)	3.03p	2.87p	0.53p	3.40p

* As restated for IAS19 – see note 1 to the financial statements

TRADING PERFORMANCE

1. Group revenues in 2013 were £143.9 million, £2.1 million above 2012. Sales increased by 1% in Packaging Distribution, with good new business wins. Our Manufacturing Operations saw an increase in sales of 2% as sales teams addressed lower margin business as well as focusing on higher value design-led products.

2. Gross margins reduced by 0.8% from 32.0% to 31.2% reflecting strong competition in Packaging Distribution offset by the focus on higher value own-design products in our Manufacturing Operations. The decrease in gross profit amounted to £0.4 million in 2013.

3. Pre-exceptional net operating expenses reduced by £0.8 million primarily due to continued reduction in property costs as we continue to take advantage of opportunities to reshape the property portfolio.

4. Exceptional items
   During 2013 the Group incurred costs of £0.2 million to terminate the leases for surplus properties to minimise future costs. In addition the Group took a write-down of £0.1 million against its owned property in Ireland to reflect the latest assessment of its realisable value. The combined costs of £0.3 million have been classified as exceptional items in the current year.

   In 2012, Macfarlane Group PLC made a Pension Increase Exchange ("PIE") offer to pensioner members at 1 May 2012 and provided a PIE option for deferred and active members after 1 May 2012. As a result of both of these actions, a credit of £1.65 million was recorded in 2012. This was offset by a reorganisation of our Labels business in Ireland, which gave rise to an exceptional charge of £0.66 million.

5. Net finance costs reduced by £0.2 million due to reduced interest costs for the pension scheme deficit.

6. Group profit from continuing operations before tax was £4.7 million in 2013 compared to £5.5 million in 2012.

   Profit before exceptional items increased by £0.6 million to £5.1 million (2012 – £4.5 million).

7. The tax charge for the year from continuing operations was £1.3 million on the profit before tax of £4.7 million, higher than the prevailing statutory tax rates primarily due to the exceptional costs to restructure the property portfolio not being fully tax deductible.

   This compared with a tax charge of £1.6 million on the profit before tax of £5.5 million in the previous year, higher than the prevailing statutory tax rates primarily due to non-cash impairment charges not being tax deductible.

8. As a result the profit after tax from continuing operations after exceptional items was £3.5 million compared to £3.9 million in 2012.

9. Basic earnings per share from all activities totalled 3.03p per share in 2013 compared to 3.40p in 2012. Earnings per share before exceptional items totalled 3.32p (2012 – 2.87p).

10. A dividend of 0.50p was paid on 10 October 2013. A further dividend of 1.10p per share is subject to approval by shareholders at the AGM in May 2014 and is not included as a liability in these financial statements.

MARKET CAPITALISATION AND SHARE PRICE MOVEMENTS

At the year-end the Company's market capitalisation was £39.4 million, compared with £32.2 million last year. The share price at 31 December 2013 was 34.25p, compared with 28.00p at 31 December 2012. The range of transaction prices for Macfarlane Group shares during 2013 was 24.90p to 40.00p for each ordinary share of 25p.

CASH FLOW AND NET DEBT

Cash inflow from operating activities was £3.4 million (2012 – £3.4 million). The Group's financing requirements are met by maintaining committed borrowing facilities.

The Group agreed a new debt facility with Lloyds Banking Group PLC. The new facility comprises a three-year committed borrowing facility of up to £20.0 million for the period to February 2017 and is secured over part of Macfarlane Group's trade receivables. In recognition of the agreement of the trustees of Macfarlane's final salary pension scheme to the new arrangements, the Group will make an additional payment of £2.5 million to the scheme to further reduce the deficit in the first half of 2014. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over trade receivables.

The Group had net debt of £5.9 million at 31 December 2013, a reduction of £0.9 million from the previous year. The Group spent £0.8 million on capital expenditure in 2013 (2012 – £0.8 million). We will continue to invest where there are needs or opportunities to meet future growth plans.

The Group will strive to ensure that in 2014, profit generation is, at the very minimum, matched by cash generation. The Group will remain prudent in its assessment of the likely returns from capital expenditure and potential acquisitions.

FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise bank borrowings, cash balances and other items, such as trade receivables and trade payables that arise directly from its operations as well as shareholders' equity. The main purpose of any financial instruments is to provide finance for the Group's operations. It is the Group's policy that no speculative trading in financial instruments is undertaken. The main risks arising are liquidity risk and credit risk and the secondary risks are interest rate risk and currency risk. The Board reviews and agrees policies for managing these risks, which have remained unchanged since the beginning of 2013 and are set out in note 15 to the financial statements.

PENSION SCHEME DEFICIT

The Group's pension scheme deficit is sensitive to movements in bond yields, inflation, longevity assumptions and investment returns, which create significant volatility and the impact of these sensitivities is set out in note 25 to the financial statements.

Following the triennial actuarial valuation of the scheme at 1 May 2011, the Company agreed a new schedule of contributions with the Pension Scheme Trustees, which assumed a recovery plan period of 13 years.

INTERNATIONAL FINANCIAL REPORTING STANDARDS AND ACCOUNTING POLICIES

As detailed in the 2012 Annual Report, the new International Financial Reporting Standards adopted during 2013 had no major impact on the disclosures and accounting policies in these financial statements other than in relation to pensions as set out in note 1 to the financial statements. The Group continues to comply with all International Financial Reporting Standards adopted by the European Union.

GOING CONCERN

The Directors, in their consideration of going concern, have reviewed the Group's future cash flow forecasts and profit projections, which they believe are based on prudent market data and past experience as set out in the accounting policies on page 40.

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 the financial statements.

John Love
Finance Director
27 February 2014

PENSION SCHEME DEFICIT

	2013 £000	2012 £000	2011 £000
FAIR VALUE OF SCHEME INVESTMENTS	54,238	51,349	46,968
PRESENT VALUE OF SCHEME LIABILITIES	(70,134)	(70,247)	(67,452)
PENSION SCHEME DEFICIT	(15,896)	(18,898)	(20,484)

STRATEGIC REVIEW

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties faced by the Group and the factors mitigating these risks are detailed below.

There are a number of other risks that we manage which are not considered to be key risks. In addition the Group is subject to the impact of general economic conditions, the competitive environment and risks associated with business continuity. These are all mitigated in ways that are common to all businesses and not specific to Macfarlane Group.

The risks set out below are complemented by an overall governance framework including clear and delegated authorities, business performance monitoring and appropriate insurance cover for a wide range of potential risks. There is a dependence on good quality local management, which is supported by an investment in training and development and ongoing performance evaluation.

RISK	MITIGATING FACTORS
RAW MATERIAL PRICES The Group's businesses are impacted by commodity-based raw material prices and manufacturer energy costs, with profitability sensitive to supplier price changes. The principal components are corrugated paper, polythene films, timber and foam, with changes to paper and oil prices having a direct impact on the price we pay to our suppliers.	The Group works closely with its supplier base to manage the scale and timing of price increases to end-users effectively. Our IT systems monitor and measure our effectiveness in recovering supplier price changes. Where possible, alternative supplier relationships are maintained to minimise supplier dependency. We work with customers to redesign packs and reduce packing cost to mitigate the impact of cost increases.
DEFINED BENEFIT PENSION SCHEME The Group's defined benefit pension scheme is sensitive to a number of key factors; investment returns, discount rates used to calculate scheme liabilities (based on corporate bond yields) and mortality assumptions. The IAS19 valuation of the Group's defined benefit pension scheme as at 31 December 2013 estimated the scheme deficit to be £15.9 million. Small changes in these assumptions could mean that the deficit increases.	Steps undertaken include: > The scheme was closed to new members in 2002. > Benefits for active members were amended by freezing pensionable salaries at 30 April 2009 salary levels. > The revaluation of deferred members' benefits has reflected Consumer Prices Index as the inflation measure since 2010. > During 2012 a Pension Increase Exchange exercise was completed to offer flexibility to pensioners in the current level of pension benefits and the rate of future increases. Further actions to reduce volatility will be evaluated in 2014.
PROPERTY Given the multi-site nature of its business, the Group has a property portfolio comprising 4 owned sites and 25 leased sites of which 3 are sublet with 2 vacant at the balance sheet date. This portfolio gives rise to risks for ongoing lease costs, dilapidations and fluctuations in value.	Where a site is non-operational the Group seeks to assign or sub-lease the building to mitigate the financial impact. If this is not possible, rental voids are provided on vacant properties taking into consideration the likely period of vacancy and incentives to re-let. In 2013 the Group relocated its Labels business in Ireland to better utilise its property portfolio.
FINANCIAL LIQUIDITY, DEBT COVENANTS AND INTEREST RATES The Group needs continuous access to funding to meet its trading obligations and to support organic growth and acquisitions. There is a risk that the Group may be unable to obtain the necessary funds or that such funds will only be available on unfavourable terms. The Group's borrowing facilities comprise a committed facility including requirements to comply with specified covenants, with a breach potentially resulting in Group borrowings being subject to more onerous conditions.	The Group seeks to maintain an appropriate level of committed bank facilities that provides sufficient headroom above peak projected borrowing requirements. The Group continually monitors net debt and forecast cash flows to ensure that it will be able to meet its financial obligations as they fall due. Compliance with debt covenants is monitored on a monthly basis and sensitivity analysis is applied to forecasts to assess the impact on covenants.
DECENTRALISED STRUCTURE The Packaging Distribution business model reflects a decentralised approach with a high dependency on effective local decision-making. There is a risk that management control is less effective and local decisions do not meet overall corporate objectives.	A comprehensive management information system is maintained with key performance indicators monitored consistently and regularly with actions taken when required.
WORKING CAPITAL The Group has a significant investment in working capital in the form of trade receivables and inventories. There is a risk that this investment is not fully recovered.	Credit risk is controlled by applying rigour to the management of trade receivables by our credit control team, managed by a credit control manager and subject to additional scrutiny from the Finance Director. Inventory levels and order patterns are regularly reviewed and risks arising from holding bespoke stocks are managed by obtaining order cover from customers.
REFERENDUM The Independence Referendum takes place in September 2014. The full implications following the outcome of the Referendum are as yet unknown.	The Board will monitor the outcome of the Independence Referendum in September 2014 and assess the implications for the Group's business once the outcome is clear.

CORPORATE RESPONSIBILITY

Macfarlane Group has a responsibility to ensure that through its business operations it impacts positively on society. In order to achieve this we have a series of programmes focused on environmental care, improving the customer experience and increasing employee engagement.

Corporate Responsibility (CR) leadership comes from an internal committee consisting of members from a cross section of the Group led by the Chief Executive. The key objectives of the CR Committee are:

> To improve the awareness of CR across the Group;

> To develop and implement CR action plans that support the CR strategy;

> To ensure that CR becomes an integral part of daily operational activities; and

> To monitor and report on CR performance using agreed key performance indicators (KPI's).

THE ENVIRONMENT

MANDATORY GREENHOUSE GAS REPORTING – 2013

This report details Macfarlane's greenhouse gas ("GHG") emissions for the year ended 31 December 2013. As a socially responsible organisation Macfarlane Group is committed to reducing its GHG emissions. Using an operational control approach, Macfarlane Group assessed its boundaries to identify all of the activities and facilities for which it is responsible and reported on all of the material GHG emissions from Scopes 1 and 2. Relevant activity data was identified and collected and provided to independent consultant, Carbon Clear. The validity and completeness of the data was checked by Carbon Clear and used to calculate the greenhouse gas emissions for the Macfarlane Group. The calculations performed follow the ISO-14064-1:2006 standard and give absolute and intensity factors for Group emissions. Setting intensity factors can help monitor how the Company is reducing its emissions over time, particularly as the company expands. Macfarlane Group used total sales (£000) in the reporting period as an intensity factor to monitor emissions over time, this factor was chosen because it provides the greatest degree of accuracy and is the metric that best aligns to business growth.

The results show that total gross GHG emissions in the period were 6,810 tonnes of CO_2e, comprised of the following:

> Direct Emissions (Scope 1) amounted to 4,361 tonnes of CO_2e or 64% of the total; and

> Indirect Emissions (Scope 2) amounted to 2,449 tonnes of CO_2e or 36% of the total.

Broken down by business unit the results were as follows:

> Distribution had the highest emission with 4,547 tonnes of CO_2e or 67% of the total; and

> Manufacturing emissions amounted to 2,263 tonnes of CO_2e or 33% of the total.

The results are presented in Tables 1 to 3.

REFERENCES

The following source of the carbon emissions factors was used:

"2013 Guidelines to Defra/DECC's GHG Conversion Factors for Company Reporting", Department for Environment, Food and Rural Affairs (DEFRA) and Department for Energy and Climate Change (DECC).

WASTE MANAGEMENT

As a result of a waste review carried out by Cory Environmental, our waste management advisors, 2013 saw a significant reduction in waste tonnage sent to landfill and subsequently an overall increase in the volumes of waste recycled both internally and externally at our suppliers' newly commissioned recycling plants capable of separating different waste streams. In addition there are now plans in place to send waste from Labels that cannot be re-cycled to be used as an alternative fuel source when incinerated. Despite increases in landfill costs our overall waste expenditure was lower than the previous year. As part of our pro-active waste management programme we increased both volumes and revenues from baling corrugate and polythene waste materials. The focus for 2014 will be to maintain our levels of recycling and investigate options to reduce our general landfill waste.

TABLE 1: EMISSIONS DATA

TYPE OF EMISSIONS	ACTIVITY	UNITS	TONNES OF CO_2E	% OF TOTAL
DIRECT (SCOPE 1)	NATURAL GAS (KWH)	3,262,182	600	9%
	VEHICLE FUEL (LITRES)	1,406,368	3,658	54%
	OTHER	54,158	103	1%
	SUBTOTAL		4,361	64%
INDIRECT (SCOPE 2)	PURCHASED ELECTRICITY (KWH)	5,496,128	2,449	36%
	SUBTOTAL		2,449	36%
TOTAL GROSS EMISSIONS (TCO_2E)			6,810	100%

TABLE 2: INTENSITY RATIO

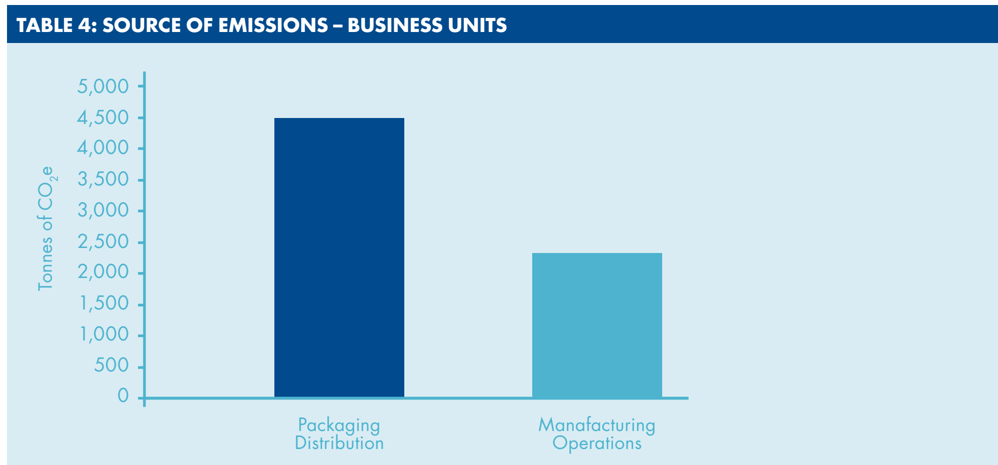
INTENSITY METRIC	2013
TOTAL GROSS GHG EMISSIONS (TCO_2E)	6,810
TOTAL SALES (£000)	143,871
CARBON INTENSITY TCO_2E/£K	0.047

CORPORATE RESPONSIBILITY

TABLE 3: EMISSIONS DATA – BUSINESS UNITS

BUSINESS UNIT	TONNES OF CO_2E	% (OF TCO_2E)	TOTAL SALES (£000)	TCO_2E/£000
PACKAGING DISTRIBUTION	4,547	67%	116,280	0.039
MANUFACTURING OPERATIONS	2,263	33%	27,591	0.082
TOTAL	6,810	100%	143,871	0.047

TABLE 4: SOURCE OF EMISSIONS – BUSINESS UNITS



ENVIRONMENTAL CARE

Macfarlane Packaging is committed to reducing the impact of its activities on the environment.

> We work closely with our suppliers to use sustainable resources wherever practical; and

> We support our customers in their efforts to reduce their environmental impact through their choice of packaging products.

We have implemented an environmental management system designed to continuously improve our environmental performance. In order to meet this commitment, we will pursue the following objectives:

> To ensure compliance with all applicable environmental legislation and regulations;

> To reduce emissions' pollution;

> To improve waste management practices;

> To reduce the consumption of natural resources;

> To minimise noise and other nuisances; and

> To continuously assess our environmental performance.

Resources will be allocated as necessary to ensure compliance with environmental objectives and targets. In addition, we will continue to raise the levels of environmental awareness throughout the organisation, to suppliers and to our customers.

All our UK packaging sites are registered to BSI ISO 14001 Environmental Management Standard. Registration involves a process of continual assessment providing instant marketplace recognition of our commitment to reducing the impact of the business on the environment.

HEALTH AND SAFETY

The health, safety and welfare of colleagues, customers and suppliers is an imperative for the Group. Striving for excellence in Health and Safety has meant that Health and Safety forms part of the key business objectives. The vision and goals for Health and Safety and the commitment given to achieve them are based upon the best practice guidelines, issued by the Health and Safety Executive (HSE). There is a dedicated Health and Safety Manager in the business who works with local Health and Safety teams to ensure Health and Safety knowledge and standards are effectively applied on a consistent basis.

To instill Health and Safety throughout the Group, it is a main agenda item at all formal monthly review meetings and each month all operating sites in the Group are internally assessed and graded on their Health and Safety performance. In addition, we hold regular meetings, whereby meaningful communication and consultation with local Health and Safety representatives is undertaken to ensure both group and local Health and Safety objectives are achieved.

The Group Board plays an active role in overseeing the implementation of all Health and Safety policies. The Board reviews a monthly report on Health and Safety at each meeting and, also, monitors any actions relating or flowing from them. This report covers reportable incidents, non-reportable incidents and near misses.

The Accident Frequency Rate representing the number of reportable incidents per 100,000 man-hours worked is shown below:

ACCIDENT FREQUENCY RATE

	2013	2012	2011
PACKAGING DISTRIBUTION	0.00	0.00	0.64
MANUFACTURING OPERATIONS	0.40	0.70	0.65
GROUP	0.08	0.24	0.64

THE CUSTOMER EXPERIENCE

CUSTOMER FEEDBACK

On an annual basis, we survey customers in all our businesses to evaluate our performance against a range of key metrics.

> In 2013, we further segmented our Packaging Distribution customers and developed focused initiatives to meet the needs of each of our customer groups. We are pleased that this attention has resulted in an improvement in our 2013 overall satisfaction rating to 86% (81% in 2012).

> The strategy for the Packaging Design and Manufacture business to focus on higher added value products and services allowed the business to improve our services to our key customers. As a result, our Packaging Design and Manufacture business has reported an increase in overall customer satisfaction from 86% in 2012 to 91% in 2013.

> Macfarlane Labels also reported an increase in overall satisfaction rating from 84% in 2012 to 89% in 2013. Contributing to this increase, were the improvements in operational efficiencies and the strategic focus on added-value products.

SALES ORDER MANAGEMENT

The re-launch of our electronic trading system, Customer Connect, and continued investment in www.macfarlanepackaging.com is contributing to improvements in RDC productivity and customer engagement. In the Packaging Distribution business in 2013, orders transacted online increased to 21% vs. 18% in 2012.

ELECTRONIC DOCUMENTATION

The Group is continuing to encourage customers to receive documentation electronically. In 2013, 63% (2012 – 51%) of invoices to our customers were delivered electronically, further reducing our paper usage.

MACFARLANE GROUP WEBSITES

Our family of websites enables existing and potential customers to research and evaluate our products and services and is quickly becoming a major contributor in generating new leads for the business. In 2013, we introduced www.macfarlanepackaging.ie to enable our customers in Ireland to easily buy packaging products online. We will continue to invest in our websites to improve the experience for our customers and visitors and strengthen our value proposition.

BUSINESS	WEBSITE DOMAIN	TARGET MARKET/AUDIENCE
Packaging Distribution	www.macfarlanepackaging.com	Wide range of businesses using packaging that need to protect their products during shipping and storage.
Packaging Distribution Ireland	www.macfarlanepackaging.ie	Wide range of businesses that need to protect their products during shipping and handling.
Packaging Design and Manufacture	www.macfarlanemanufacturing.com	Manufacturers of high value products in the Aerospace, Defence, Electronics, Medical and General Industrial sectors.
Macfarlane Labels	www.macfarlanelabels.com	FMCG manufacturers and retailers in the food, health and beauty, household products, beverages and pharmaceutical industries.
Macfarlane Group	www.macfarlanegroup.com	Individuals seeking information on Group operations, Board procedures and financial performance for existing and potential investors.

CORPORATE RESPONSIBILITY

THE EMPLOYEE EXPERIENCE

Macfarlane Group recognises the importance of recruiting, developing and retaining the best people to ensure business success. Maintaining a safe working environment, which promotes good employee relations at all levels throughout the business is critical to every Macfarlane operation.

EMPLOYEE DEVELOPMENT

Macfarlane Group strives to make the workplace one in which individuals feel challenged, fulfilled and able to reach their full potential. The Group invests in training in order to best equip individuals with the skills and knowledge required so they are able to provide an outstanding tailored service to our customers and fulfil their own personal potential. On average, in 2013 each employee was engaged in 12.5 hours of formal training, which included a total of 1,500 hours of driver Certificate of Professional Competence, Company-sponsored tuition.

Macfarlane Group provides a wide range of training opportunities, ranging from external training and coaching to on-the-job skills development. In 2013, 18 individuals participated in Company-Sponsored Further Education and coaching programmes, showing a year on year increase in the number of individuals engaging in longer-term education.

EMPLOYEE ENGAGEMENT

Employee Surveys are conducted across the business providing constructive feedback from employees. To ensure consistent Employee Engagement we have put in place a range of employee forums including role-specific forums, business specific forums in addition to informal review meetings and business update sessions. These forums work to provide a platform and a voice for employees, to engage in an open dialogue and have their opinions heard. Key actions often result from these forums, which continues to encourage engagement and supports business development.

DIVERSITY

A breakdown by gender of the Directors, Senior Managers and all employees of the Group is summarised below:

DIVERSITY	FEMALE	MALE
DIRECTORS	0	6
SENIOR MANAGERS	4	13
TOTAL EMPLOYEES	263	465

HUMAN RIGHTS

Macfarlane Group does not have a specific Human Rights policy at present but it does have other policies, which reflect established human rights principles. These are:

> Equality – Macfarlane Group is committed to providing equal opportunities in employment and to avoiding unlawful discrimination in recruitment, employment or to its customers and suppliers. Striving to ensure that the work environment is free of harassment and bullying and that everyone is treated with dignity and respect is as important aspect of ensuring equal opportunities in employment and there is a specific dignity at work policy, which deals with these issues. Where an employee becomes disabled every effort is made to ensure that their employment with the Group continues and that appropriate adjustments are made. Disabled employees receive equal opportunities regarding selection for training, career development and promotion.

> Engagement – Macfarlane Group recognises the importance of meaningful communication and consultation in maintaining good employee relations. This is achieved through formal and informal meetings across all business units as referred to above.

> Bribery and Corruption – Macfarlane Group has an anti-bribery and corruption policy, which is supplemented by a gift register and associated policy on accepting gifts.

> Whistleblowing policy – there is provision for employees to use an independent service if they are not comfortable speaking to anyone within Macfarlane Group with regard to any matters which give them concern. This service is promoted throughout the Group.

BOARD OF DIRECTORS

1. GRAEME BISSETT
CHAIRMAN

Graeme Bissett joined the Board on 11 May 2004 as a Non-Executive Director, becoming Chairman on 8 May 2012. He is Chairman of the Nominations Committee and a member of the Remuneration Committee. Graeme has previously served as finance Director of international groups and as a partner with Arthur Andersen and is currently Chairman or Non-Executive Director of a number of listed and private companies. He is Chairman of Children 1st, the children's welfare charity, and is a member of the Council of The Institute of Chartered Accountants of Scotland and a member of the Court of Glasgow University.

2. PETER ATKINSON
CHIEF EXECUTIVE

Peter joined Macfarlane Group as Chief Executive on 6 October 2003. He has a strong sales and marketing background through his career at Procter & Gamble and S.C. Johnson. Peter also has significant general management experience gained during his time at GKN PLC and its joint venture partners where he worked from 1988 to 2001 in a number of Senior Executive roles in their business-to-business operations. He has a successful track record of both business turnarounds and business development with extensive exposure to international business, having worked in the UK, Continental Europe and the USA. From 2000 to 2003, he was responsible for the US automotive and materials handling businesses of Brambles Industries PLC.

3. JOHN LOVE
FINANCE DIRECTOR

A member of The Institute of Chartered Accountants of Scotland, John has been with the Group for eighteen years and was appointed Finance Director on 12 July 1999. He was with Deloitte and its predecessor firms for sixteen years before joining Macfarlane Group in 1996.

4. MIKE ARROWSMITH
NON-EXECUTIVE DIRECTOR (SENIOR INDEPENDENT DIRECTOR)

Mike joined the Board on 26 September 2012. He was Group Chief Executive of Linpac Group Ltd, a market-leading international food and consumer packaging company with manufacturing operations across five continents and sales of £1.1 billion, from 2005 to 2010. Prior to this he worked for Tibbett & Britten Group Plc, the £1.5 billion third party logistics group, from 1999 to 2005, joining the board in a senior commercial role before leading the transformation of the group as Chief Executive from 2001 to 2004 prior to its sale to Exel Plc. Mike served as a Non-Executive Director of Enodis Plc from 2004 to 2008. Mike is a member of the Audit, Remuneration and Nominations Committees.

5. BOB MCLELLAN
NON-EXECUTIVE DIRECTOR

Bob McLellan joined the Board on 5 March 2013. Bob was Chief Executive of DS Smith Packaging UK until 2011, latterly as Deputy CEO Packaging (UK and Continental Europe). He has spent many years working in the packaging sector and is also currently Chairman of the Logson Group and a Non-Executive Director of Swanline Print Limited. Bob chairs the Remuneration Committee and is also a member of the Nominations and Audit Committees.

6. STUART PATERSON
NON-EXECUTIVE DIRECTOR

Stuart Paterson joined the Board on 1 January 2013 as a Non-Executive Director. He is a Chartered Accountant and is currently Chief Financial Officer at Forth Ports Limited, joining in March 2011 when it was listed on the London Stock Exchange. In June 2011, the company was acquired by Arcus Infrastructure Partners. Prior to his current role, Stuart was Chief Financial Officer of Johnston Press PLC from 2001 to 2010 and previously worked in senior financial management roles at the electronics group Motorola Corporation, and then as Group Finance Director and then Managing Director Europe for Aggreko PLC, the global power hire group. He served as a Non-Executive Director with Devro plc from 2006 to 2012, where he chaired the Audit Committee. Stuart succeeded Graeme Bissett as Chairman of the Audit Committee on 1 January 2013 and is also a member of the Remuneration and Nominations Committees.

7. ANDREW COTTON
COMPANY SECRETARY

Andrew joined Macfarlane Group in 1999 as Finance Director of the Labels business. He then moved to Macfarlane Group's head office in Glasgow in 2001 where he is now part of the Executive Team leading corporate development, acquisitions and disposals. Andrew was appointed Company Secretary on 3 August 2001.

1. 2. 3. 4. 5. 6. 7.

REPORT OF THE DIRECTORS

THE DIRECTORS PRESENT THEIR ANNUAL REPORT AND THE AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2013. PAGES 1 TO 32 INCLUSIVE COMPRISE THE DIRECTORS' REPORT.

CORPORATE GOVERNANCE

The information that fulfils the requirement of the Corporate Governance Statement can be found in the Corporate Governance Section on pages 28 to 32 (and is incorporated into this report by reference) with the exception of the information referred to in the Financial Services Authority Disclosure and Transparency Rules 7.2.6, which is located within this report.

REPORT ON GREENHOUSE GAS EMISSIONS

Details of the Group's emissions are contained within the Corporate Responsibility Report contained on pages 13 to 16.

CAUTIONARY STATEMENT

The Chairman's Statement on page 1 and the Strategic Review on pages 2 to 16 have been prepared to provide additional information to members of the Company 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 report and the financial statements contain certain forward-looking statements relating to operations, performance and financial status. By their nature, such statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors, including both economic and business risk factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report.

RESULTS AND DIVIDENDS

The Group's profit before tax from continuing activities was £4,716,000 (2012 – £5,478,000). This results in a profit for the year of £3,456,000 (2012 – £3,865,000).

The Directors declared an interim dividend of 0.50p, which was paid on 10 October 2013 (2012 – 0.50p per share). The proposed final dividend of 1.10p per share (2012 – 1.05p per share) is subject to approval by shareholders at the Annual General Meeting ("AGM") in May 2014 and has not been included as a liability in these financial statements.

SHAREHOLDER INFORMATION

CAPITAL STRUCTURE

The Group funds its operations from a number of sources of cash, namely operating cash flow, bank borrowings, finance lease borrowings and shareholders' equity, comprising share capital, reserves and retained earnings, where appropriate. The Group's objective is to achieve a capital structure that results in an appropriate cost of capital whilst providing flexibility in immediate and medium-term funding so as to accommodate any material investment requirements.

Details of the authorised and issued share capital are shown in note 20 and there were no movements during 2012 or 2013. The Company has one class of ordinary share, which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company. There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

The Company's new banking facilities may, at the discretion of the lender, be repayable on a change of control.

Details of the Company's Employee Share Ownership Trust ("ESOT") are given in note 21. The ESOT has waived its right to receive dividends but exercises its right to vote.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

The Company is governed by its Articles of Association, the UK Corporate Governance Code and the Companies Act 2006 with regard to the appointment and replacement of Directors. The Articles may be amended by special resolution of the shareholders. The powers of the Directors are detailed in the Corporate Governance report on pages 28 to 32.

At last year's AGM on 7 May 2013, the Directors were given authority to allot further ordinary shares beyond those committed to the share option schemes or long term incentive plans up to an aggregate amount of £1,437,738. That authority expires at the conclusion of the forthcoming AGM. A special resolution will be put to shareholders to renew for a further year the authority over the existing unissued and uncommitted ordinary share capital. This authority is limited to a maximum nominal amount of £1,437,738.

No authority will be sought at the 2014 AGM to enable the Company to purchase its own shares.

EMPLOYEE SHARE SCHEMES

During 2013, no options were exercised under the Group's share option schemes or long-term incentive plans. Options previously granted over 885,000 ordinary shares lapsed during 2013. Details relating to options granted to parent company Directors are set out in the Report on Directors' Remuneration on page 22. All remaining options outstanding under the Company's share option schemes are set out in note 24 to the financial statements.

The Remuneration Committee supervises the grant of share incentives, which are only capable of being exercised if the performance condition to which they are subject has been satisfied. The Remuneration Committee will specify the performance condition at the time of the grant of the share incentive, having regard to the objectives of the Company and to market practice at the relevant time.

Further detail is given in the Report on Directors' Remuneration on pages 21 to 27.

SUBSTANTIAL HOLDINGS OF SHARES IN THE COMPANY

The Company has received notification prior to 27 February 2014 in accordance with Chapter 5 of the Disclosure and Transparency Rules of the following voting rights as a shareholder of the Company.

SUBSTANTIAL HOLDINGS

	NUMBER OF SHARES HELD	%
FUNDS MANAGED OR ADVISED BY DISCRETIONARY UNIT FUND MANAGERS LIMITED	**20,659,184**	**17.96%**
FUNDS MANAGED OR ADVISED BY MITON GROUP PLC	**14,675,970**	**12.76%**
FUNDS MANAGED OR ADVISED BY UNICORN ASSET MANAGEMENT	**7,658,086**	**6.66%**
LORD MACFARLANE OF BEARSDEN KT AND LADY MACFARLANE	**3,533,170**	**3.07%**

DIRECTORS

The names of the Directors in office at 31 December 2013, who served throughout the year together with short biographical details, are set out on page 17. Details are included for the first time in respect of Bob McLellan, who was appointed a Director on 5 March 2013. The Board considers its three Non-Executive Directors to be independent.

John Love and Peter D. Atkinson retire by rotation at the AGM in May 2014 and offer themselves for re-election. They have service contracts with the Company dated 11 October 1999 and 6 October 2003 respectively, each with a notice period of twelve months.

Kevin Mellor retired from the Board on 7 May 2013, having served nine years as a Non-Executive Director.

No Director, either during or at the end of the financial year, had an interest in any contract relating to the business of the Company or any of its subsidiaries. The statement of Directors' interests in the ordinary share capital of Macfarlane Group PLC is contained in the Report on Directors' Remuneration on page 22.

There are no agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has maintained Directors' and officers' liability insurance cover throughout the financial year. The Company made qualifying third party indemnity provisions for the benefit of Directors in 2009, which remain in force.

These provisions were extended in 2012 and 2013 to cover the recently appointed Non-Executive Directors, Mike Arrowsmith, Stuart Paterson and Bob McLellan.

POLITICAL CONTRIBUTIONS

It is the Group's policy not to make donations for political purposes.

SPECIAL BUSINESS

A special resolution will be put to shareholders to renew for a further year the authority over the existing unissued and uncommitted ordinary share capital. This authority is limited to a maximum nominal amount of £1,437,738.

DISCLOSURE OF INFORMATION TO AUDITOR

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

INDEPENDENT AUDITOR

Our auditor, KPMG Audit Plc has announced the intention to transition the audit engagement with Macfarlane to KPMG LLP. The Board has decided to put KPMG LLP forward to be appointed as auditors and a resolution concerning their appointment will be put to the forthcoming AGM of the company.

COMPANY INFORMATION

The Company is registered in Scotland (SC 004221) and its registered office is at 21 Newton Place, Glasgow, G3 7PY.

Andrew Cotton
Company Secretary
27 February 2014

REPORT ON DIRECTORS' REMUNERATION

REMUNERATION COMMITTEE CHAIRMAN'S SUMMARY STATEMENT

This is the first Remuneration report under the new provisions of the Enterprise and Regulatory Reform Act 2013. In addition to this statement the report includes two further sections detailing the Annual Report on Remuneration on pages 21 to 23 and Remuneration Policy on pages 24 to 27.

The Company has a Remuneration Committee constituted in accordance with the UK Corporate Governance Code. I succeeded Kevin Mellor as Chairman of the Committee from the conclusion of the AGM in May 2013 and it comprises three independent Non-Executive Directors plus the Company Chairman, Graeme Bissett. The Committee determines the remuneration for the Executive Directors but also oversees the remuneration of the Chief Executive's direct reports.

The key components of Executive remuneration are:

> Basic salary and benefits – there was a 2% increase applied in 2013 and this was consistent with that applied to all eligible employees. The increase applied for 2014 is 2%, again consistent with all eligible employees.

> Bonus – there is a maximum payment of 50% of salary with 40% based on Profit before Tax ("PBT") performance and 10% based on personal objectives. Bonuses for 2013 of £16,000 and £7,000 were awarded to Peter Atkinson and John Love respectively. The basis for this is detailed in the Annual Report on Remuneration on page 21. These bonuses are paid in cash, following Board approval of the 2013 Annual Report and Accounts.

> Pension – the Chief Executive receives a cash payment in lieu of pension contribution and the Finance Director is a member of the legacy defined benefit pension scheme for which pensionable salary was frozen in 2010.

> Long term incentives – there is a Performance Share Plan available which permits grants of shares up to 100% of salary with a three year performance period using EPS and TSR performance conditions. Although this has not been used since 2008, awards under the scheme are considered on an annual basis. The Committee considers the current shareholding of the Executive Directors is sufficient to align their interests with shareholders and has focused the variable component of remuneration towards annual bonus. There is no requirement for the Executive Directors to hold shares in the Company.

Total Executive remuneration has decreased in 2013 by 9% due to lower bonuses. Notwithstanding this the Group has made substantial progress with profit before exceptional items increasing by 13% and the share price increasing by 22% to 34.25p at 31 December 2013.

The Remuneration Committee recommend this report and I hope that you feel able to support the remuneration resolutions submitted for approval at the Annual General Meeting on 6 May 2014.

Bob McLellan
Chairman of the Remuneration Committee
27 February 2014

ANNUAL REPORT ON REMUNERATION

SINGLE TOTAL FIGURE OF REMUNERATION FOR EACH DIRECTOR

The details set out on pages 21 and 22 of this report, up to and including the Statement of Directors' shareholdings and share interests, have been audited by KPMG Audit plc.

2013

	SALARIES AND FEES £000	TAXABLE BENEFITS £000	BONUS £000	PSP AWARDS VESTING £000	PENSION COSTS £000	TOTAL £000
CHAIRMAN						
G. BISSETT	60	–	–	–	–	60
EXECUTIVE DIRECTORS						
P.D. ATKINSON	315	16	16	–	69	416
J. LOVE	146	5	7	–	16	174
NON-EXECUTIVE DIRECTORS						
M. ARROWSMITH	30	–	–	–	–	30
S.R. PATERSON (appointed 1 January 2013)	30	–	–	–	–	30
R. MCLELLAN (appointed 5 March 2013)	25	–	–	–	–	25
K.D. MELLOR (retired 7 May 2013)	10	–	–	–	–	10
TOTAL	616	21	23	–	85	745

2012

	SALARIES AND FEES £000	TAXABLE BENEFITS £000	BONUS £000	PSP AWARDS VESTING £000	PENSION COSTS £000	TOTAL £000
CHAIRMAN						
G. BISSETT (Chairman from 8 May 2012, Non-Executive Director to 7 May 2012)	50	–	–	–	–	50
A.S. HUNTER (retired 8 May 2012)	22	–	–	–	–	22
EXECUTIVE DIRECTORS						
P.D. ATKINSON	309	15	70	–	68	462
J. LOVE	144	4	24	–	16	188
NON-EXECUTIVE DIRECTORS						
M. ARROWSMITH (appointed 26 September 2012)	8	–	–	–	–	8
K.D. MELLOR	29	–	–	–	–	29
TOTAL	562	19	94	–	84	759

ANNUAL BONUS FOR THE YEAR ENDED 31 DECEMBER 2013

The bonus is based on performance against financial targets and personal objectives as outlined in the policy report. The minimum financial target for 2013 was PBT before exceptional items of £5.2m, which was not achieved so no bonus has been awarded for this component. The Remuneration Committee has assessed performance against personal objectives and, has awarded bonuses of 5% of salary, equating to £16,000 and £7,000 to Peter Atkinson and John Love respectively. These bonuses are paid in cash.

DIRECTORS' PENSION ENTITLEMENTS

Peter Atkinson receives a cash allowance, which including the related employer's national insurance contributions, equates to 25% of basic salary.

John Love is a member of Macfarlane Group PLC Pension & Life Assurance Scheme (1974). The accrued pension at 31 December 2013 was £35,000. The associated transfer value was £710,000 and has been calculated for the first time using HMRC guidelines. The scheme's normal retirement date is 65 and there is no automatic entitlement to early retirement.

SCHEME INTEREST AWARDS IN 2013

There were no scheme interests awarded in 2013.

REPORT ON DIRECTORS' REMUNERATION

ANNUAL REPORT ON REMUNERATION (CONTINUED)

STATEMENT OF DIRECTORS' SHAREHOLDING AND SHARE INTERESTS

DIRECTORS' SHAREHOLDINGS

	2013 BENEFICIAL	2013 OPTION	2012 BENEFICIAL (OR DATE OF APPOINTMENT IF LATER)	2012 OPTION
G. BISSETT	343,750	–	343,750	–
P.D. ATKINSON	745,300	551,372	745,300	551,372
J. LOVE	725,000	–	725,000	–
M. ARROWSMITH	100,000	–	100,000	–
S.R. PATERSON	79,550	–	79,550	–
R. MCLELLAN	–	–	–	–

DIRECTORS' SHARE OPTIONS

	2013	LAPSED	EXERCISED	EXERCISE PRICE	MARKET PRICE ON EXERCISE	EXERCISE PERIOD
P.D. ATKINSON	551,372	–	–	26p	–	29 Oct 2007 – 28 Oct 2014

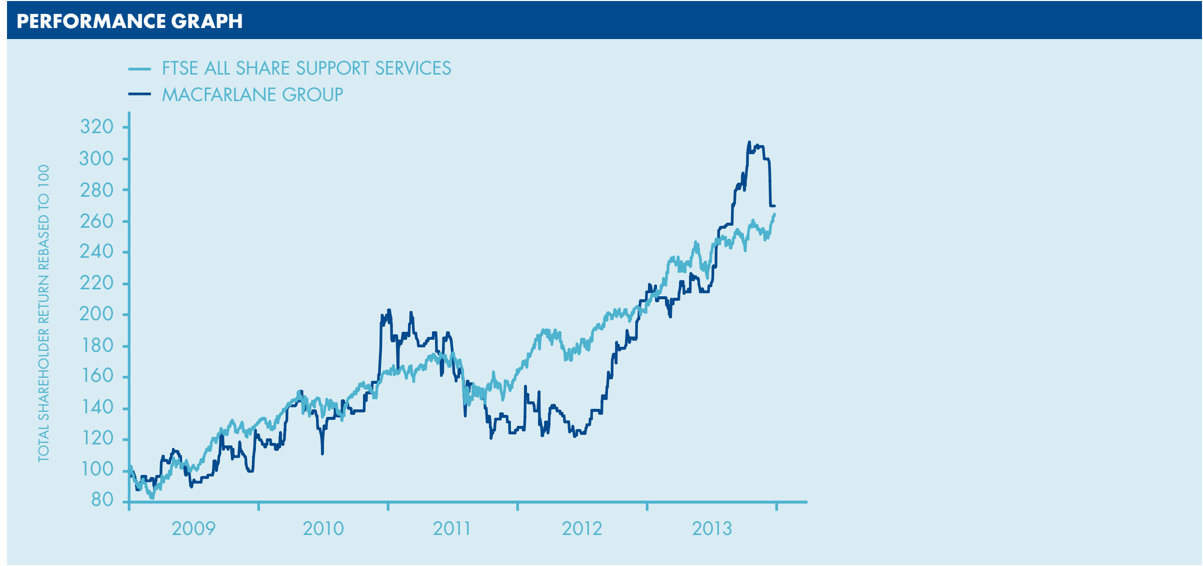
The performance condition for this option granted under The Macfarlane Group PLC Executive Share Option Scheme 2000 required total shareholder return ("TSR") of between 10% and 15% per annum over three years from the date of grant in October 2004 for vesting between 40% and 100% of the value of the option respectively. No re-testing of the option was allowed. 551,372 of the maximum award of 961,538 shares vested on 29 October 2007. None of these options has been exercised at 27 February 2014.

The remainder of the Annual Report on Remuneration is not subject to audit.

PERFORMANCE GRAPH AND TABLE

The following graph shows Macfarlane Group's performance, measured by Total Shareholder Return, compared with the performance of the FTSE All-Share Index for Support Services, also measured by Total Shareholder Return. The Index for Support Services has been selected because it includes a range of companies, which the Remuneration Committee considers to be the best available comparison for the Group for this purpose.

PERFORMANCE GRAPH



CEO SINGLE FIGURE

		SINGLE FIGURE OF TOTAL REMUNERATION £000	ANNUAL VARIABLE ELEMENT AWARD VS MAXIMUM OPPORTUNITY	LONG TERM INCENTIVE VESTING AGAINST MAXIMUM OPPORTUNITY
2013	P.D. ATKINSON	416	10%	n/a
2012	P.D. ATKINSON	462	45%	n/a
2011	P.D. ATKINSON	390	10%	n/a
2010	P.D. ATKINSON	411	10%	n/a
2009	P.D. ATKINSON	411	16%	n/a

PERCENTAGE CHANGE IN REMUNERATION OF CEO AND EMPLOYEES

The following table shows the percentage change in remuneration between 2012 and 2013 for the CEO and for all employees in the Group.

% CHANGE IN	CEO	AVERAGE FOR ALL ELIGIBLE EMPLOYEES
BASE SALARY	2%	2%
BENEFITS	7%	17%
BONUS	(77%)	(33%)

RELATIVE IMPORTANCE OF SPEND ON PAY

The difference in expenditure between 2012 and 2013 on remuneration for all employees in comparison to the distribution to shareholders by way of dividend is set out below:

	2013 £000	2012 £000	% CHANGE
TOTAL EMPLOYEE PAY	19,857	20,131	-1.4%
DIVIDEND	1,774	1,761	0.7%

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN THE CURRENT FINANCIAL YEAR

The salaries of Executive Directors were increased by 2% with effect from 1 January 2014 and the fees paid to the Chairman and Non-Executive Directors increased by 2% from 1 January 2014. There are no changes to the way the remuneration policy will be implemented in the current year. The policy detailed in this report will be submitted for approval at the AGM in May 2014.

No decision has been taken whether to make an award under the long term incentive plan in 2014 but if any award is made this will comply with the policy outlined on the following pages and stretching targets will be set based on TSR, EPS and other strategic objectives, subject to consultation with shareholders if appropriate.

DETAILS OF THE REMUNERATION COMMITTEE, ADVISERS TO THE COMMITTEE AND THEIR FEES

The Remuneration Committee currently comprises three independent Non-Executive Directors and the Company Chairman. Details of the Directors who were members of the Committee during the year are disclosed on page 30.

During 2013 the Remuneration Committee used the services of New Bridge Street ("NBS") to advise on certain aspects of remuneration. NBS are part of Aon Hewitt who also provide actuarial and administration services to the Company and the Trustees of the Group's final salary pension scheme. The total fee charged by NBS for the year was £4,000 and the Directors consider NBS to be independent of the Group and objective in their advice.

STATEMENT OF VOTING AT THE ANNUAL GENERAL MEETING

At the AGM held on 7 May 2013, the Directors' Remuneration Report received the following votes from shareholders.

	TOTAL NUMBER OF VOTES	% VOTES CAST
FOR	54,181,523	99.34%
AGAINST	357,435	0.66%
TOTAL VOTES CAST (FOR OR AGAINST)	54,538,958	100.00%
VOTES WITHHELD	51,158	
TOTAL	54,590,116	

REPORT ON DIRECTORS' REMUNERATION

REMUNERATION POLICY

The tables below summarise the main elements of the remuneration packages of the Executive Directors.

BASE SALARY (FIXED PAY)	
Link to strategy	To pay a fair salary commensurate with the individual's role, responsibilities and experience and having regard to market rates for similar roles in comparable companies.
Operation	The Remuneration Committee reviews basic salaries annually with changes effective from 1 January. When reviewing basic pay, practices elsewhere in the Group are taken into account.
Opportunity	There is no prescribed maximum salary or maximum rate of increase. The Committee will take into consideration the general increase for the broader employee population but on occasion may need to recognise changes in responsibility, development in the role or specific retention issues.

BENEFITS (FIXED PAY)	
Link to strategy	To provide cost effective benefits to aid recruitment and retention of Senior Executives and to support the wellbeing of employees.
Operation	Benefits comprise: > Car allowance or company car > Private medical insurance > Permanent health insurance
Opportunity	The benefits are not subject to a specific cap but represent a small element of total remuneration. Costs to provide these benefits are closely monitored.

PENSION (FIXED PAY)	
Link to strategy	To provide market competitive pension arrangements to aid recruitment and retention of Senior Executives.
Operation	The Group will pay a pension allowance or contribute to a pension scheme for all Executive Directors. The Group's legacy defined benefit plan has been closed to new members and the pensionable salary frozen in 2010.
Opportunity	Company contribution of up to 25% of base salary or equivalent cash allowance in lieu (inclusive of employer's national insurance contribution).

ANNUAL INCENTIVES (VARIABLE PAY)	
Link to strategy	To incentivise performance over a 12 month period based on financial targets and individual performance objectives agreed by the Remuneration Committee.
Operation	The bonus is paid in cash based on the audited financial results and the Remuneration Committee's assessment of delivery against personal objectives.
Opportunity	Maximum bonus potential is capped at 50% of basic salary.
Performance measure	Profit before tax (80%). The Remuneration Committee will continue to apply discretion in relation to exceptional items and other relevant matters. Personal performance (20%) – assessed against individual personal objectives that are set at the beginning of each financial year by the Remuneration Committee at its discretion.

LONG TERM INCENTIVE (VARIABLE PAY)	
Link to strategy	To incentivise delivery of strategic targets and sustained performance over the long-term.
Operation	Each year conditional awards over shares may be granted which can be earned subject to the delivery of performance goals. Any award will be based on absolute targets for total shareholder return ("TSR"), earnings per share ("EPS") and sales. The Remuneration Committee considers absolute measures to be more appropriate as there is no natural comparator group for the Company and these will reflect the Group's strategic targets. Performance conditions are for a fixed three-year period and there is no re-testing.
Opportunity	Any award is capped at 100% of basic salary.
Performance measure	Conditional awards will vest based on three-year performance against challenging targets for TSR, EPS and other strategic objectives set and assessed by the Committee in its discretion.
Changes in the year	Sales may be used as an additional performance measure, although the majority of any award will be based on TSR, EPS and other strategic objectives.

CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

The Remuneration Committee has not conducted a specific employee consultation exercise on the Directors' remuneration policy. However, there is a periodic employee survey and the Board receives a regular presentation from the Director of Human Resources, which includes consideration of the Group's remuneration policies.

CONSIDERATION OF SHAREHOLDER VIEWS

The Remuneration Committee considers shareholder feedback received as part of any dialogue with shareholders via the Chairman, Executive Management or the Company's brokers. Where necessary the Remuneration Committee Chairman will engage pro-actively with shareholders although there was no requirement for an explicit consultation in 2013.

APPROACH TO RECRUITMENT REMUNERATION

The Remuneration Committee will follow the above policy when setting the remuneration for a new Executive Director. Basic salary will be set at a competitive level appropriate for the role and experience of the Director being appointed. Where there is an external appointment, the Committee may consider it appropriate to recognise awards or benefits that will or may be forfeited on resignation from a previous appointment. This may take the form of cash and/or share awards. The policy is that the maximum payment under such arrangements will be no more than the Committee considers is required to provide reasonable compensation. If the Director is required to relocate then the policy is to provide reasonable relocation, travel and subsistence payments at the discretion of the Committee.

REPORT ON DIRECTORS' REMUNERATION

REMUNERATION POLICY (CONTINUED)

SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Executive service contracts have a standard notice period of 12 months. Executive Directors are entitled to accept appointments outside the Company provided the Board's permission is obtained. The Board may require the fees from such appointments to be accounted for to the Company. Neither P.D. Atkinson nor J. Love held any external appointments during the year.

Chairman and Non-Executive Director appointments are through letters of appointment for periods not exceeding three years subject to re-election at the AGM and contain notice periods of six months and three months respectively.

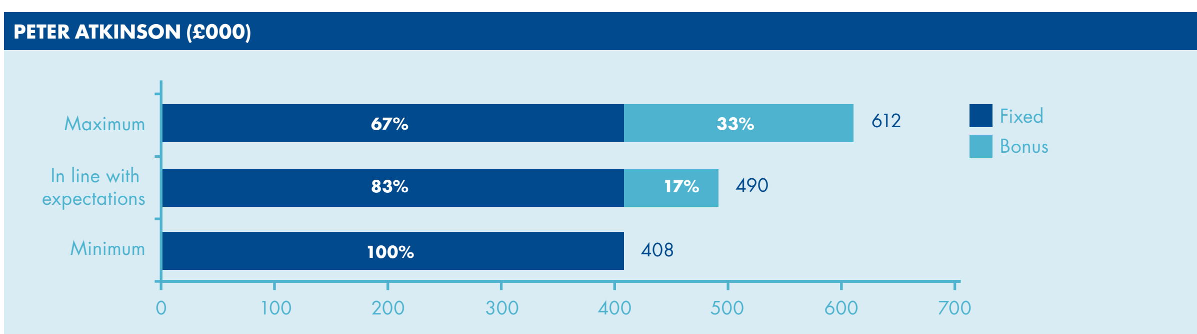
Directors' contracts are available for inspection at the Company's registered office by prior arrangement or immediately prior to the AGM.

SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

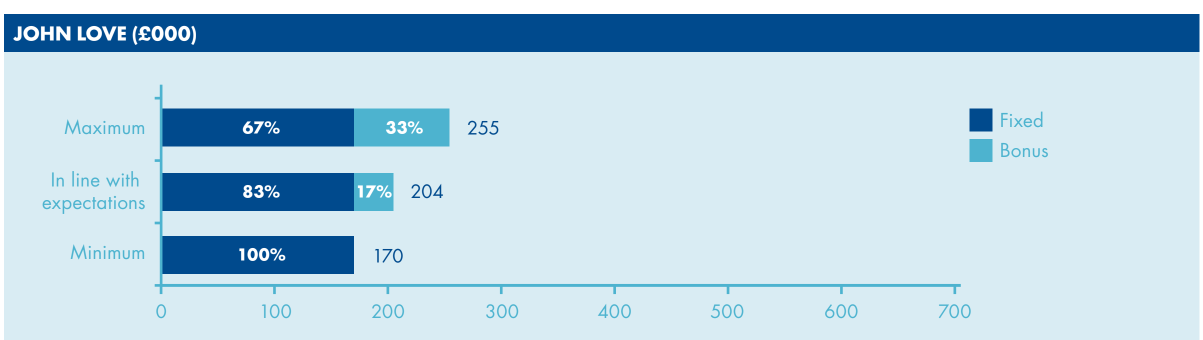
	CONTRACT COMMENCEMENT DATE	NOTICE PERIOD
EXECUTIVE DIRECTORS		
P.D. ATKINSON	6 October 2003	12 months
J. LOVE	11 October 1999	12 months
NON-EXECUTIVE DIRECTORS		
G. BISSETT	30 March 2012	6 months
M. ARROWSMITH	26 September 2012	3 months
S.R. PATERSON	26 September 2012	3 months
R. MCLELLAN	5 March 2013	3 months

ILLUSTRATION OF THE APPLICATION OF THE REMUNERATION POLICY

PETER ATKINSON (£000)



JOHN LOVE (£000)



The performance in line with expectations is based on the current 2014 market expectation of PBT of £5.5 million and full achievement of personal objectives. The PBT target for maximum award has not been disclosed due to commercial sensitivity.

PAYMENT FOR LOSS OF OFFICE

The Remuneration Committee's policy for an Executive Director whose employment is to be terminated is to agree a termination payment based on the value of the base salary and contractual pension amounts and benefits that would have accrued during the contractual notice period unless there has been a breach of the service agreement by the Director.

The policy is that the departing Director may work or be placed on garden leave for all or part of their notice period or receive payment in lieu of notice in accordance with the service agreement. The Committee supports the principle of mitigation and phased payments relative to any settlement and will take legal advice in relation to any settlements to be proposed.

Any share-based entitlements granted to an Executive Director will be determined based on the relevant rule plans as previously approved by shareholders.

FEE POLICY FOR THE BOARD CHAIRMAN AND OTHER NON-EXECUTIVE DIRECTORS

CHAIRMAN	
Link to strategy	To attract and retain a high calibre Board Chairman by offering a market competitive fee level.
Operation	The Board Chairman is paid a single fee for all his responsibilities. The level of fee is reviewed periodically by the Remuneration Committee with reference to other comparable companies.
Opportunity	The current fee is £61,200 subject to periodic change under this policy. There is no maximum fee level.

NON-EXECUTIVE DIRECTORS	
Link to strategy	To attract and retain high calibre Non-Executive Directors by offering a market competitive fee level.
Operation	Non-Executive Directors are paid a basic fee. The Committee Chairmen may be paid a supplement to reflect their additional responsibilities. The fee levels are reviewed periodically by the Chairman and Executive Directors with reference to other comparable companies.
Opportunity	The current basic fee is £30,600 subject to periodic change under this policy. There are currently no supplementary fees and there is no maximum fee level.

CORPORATE GOVERNANCE

INTRODUCTION
The Company is committed to the principles of corporate governance contained in the UK Corporate Governance Code issued in September 2012 ("the Code") by the Financial Reporting Council ("FRC"). The Company's compliance is set out in the narrative statement on pages 28 to 32 and for Directors' remuneration in the Report on Directors' Remuneration on pages 21 to 27.

COMPLIANCE
The Company complied with all Code provisions during 2013.

The Company's auditor, KPMG Audit Plc, is required to review whether the above statement reflects the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for its review by the Listing Rules and to report if it does not reflect such compliance.

THE BOARD
The Board currently comprises the Chairman, three independent Non-Executive Directors and two Executive Directors. The names of the Directors, together with their biographical details, which illustrate their range of experience, are set out on page 17. Details of Executive Directors' service contracts are given in the Report on Directors' Remuneration and both service contracts have notice periods of one year.

The current Board structure is in compliance with the Code, which requires companies outside the FTSE 350 to have at least two independent Non-Executive Directors. The Directors believe that the Board has an appropriate independent Non-Executive Director complement with recent and relevant experience, which brings strong, independent judgement to the Board's deliberations.

Non-Executive Directors contribute towards strategy and challenge the Group strategy as well as scrutinising performance in meeting agreed objectives and monitoring the reporting of performance. They satisfy themselves as to the integrity of the financial information and that the financial controls and systems of risk management are robust and defensible.

Non-Executive Directors are given access to independent professional advice at the Group's expense, subject to certain limits and procedures, when it is deemed necessary in order for them to carry out their responsibilities. No such advice was sought during the year.

The Company has maintained Directors' and officers' liability insurance cover throughout the financial year. The Company made qualifying third party indemnity provisions for the benefit of Directors in 2009, and these remained in force throughout 2013 and to the time of this report.

The Board confirms that it has considered and authorised any conflicts or potential conflicts of interest in accordance with the Group's existing procedures.

Details of the Chairman's other commitments are included in his biography on page 17. The Board is satisfied that these do not interfere with the performance of his duties for the Group, which is based on a commitment of approximately 45 days per annum.

The Board considers its Non-Executive Directors, Mike Arrowsmith, Stuart Paterson and Bob McLellan to be independent both in character and judgement. None of these three Directors:

> Has been an employee of the Group within the last five years;

> Has, or has had within the last three years, a material business relationship with the Group;

> Receives remuneration other than a Director's fee;

> Has close family ties with any of the Group's advisers, Directors or senior employees;

> Holds cross-Directorships or has significant links with other Directors through involvement in other companies or bodies;

> Represents a significant shareholder; or

> Has served on the Board for more than nine years from the date of their first election.

The balance of the Board's skills and experience will be kept under review.

THE ROLES OF THE CHAIRMAN AND CHIEF EXECUTIVE
The division of responsibilities between the Chairman and the Chief Executive is clearly defined and has been approved by the Board. The Chairman is responsible for the running of the Board, ensuring that all Directors receive sufficient and relevant information on financial, business and corporate issues prior to meetings to allow all Directors to bring independent judgement to bear on all issues. The Chairman facilitates the effective contribution of Non-Executive Directors and ensures effective communication with shareholders. As Chief Executive, Peter Atkinson's responsibilities focus on managing the business and the implementation of the Group's strategy.

SENIOR INDEPENDENT DIRECTOR
The Board appointed Mike Arrowsmith as Senior Independent Director on 7 May 2013. Mike is the Director whom shareholders may contact if they feel their concerns are not being addressed and resolved through the existing mechanisms for investor communication.

RE-ELECTION OF DIRECTORS
All Directors submit themselves for re-election by shareholders at least once in every three-year period. The Company is not a member of the FTSE 350 index of companies and is therefore not required to comply with provision B.7.1 of the Code, which requires all Directors of companies in that index to be subject to annual re-election. At the 2014 AGM, John Love and Peter D. Atkinson fall due to retire by rotation and, being eligible, offer themselves for re-election. Their service contracts will be available for shareholder review prior to the AGM on 6 May 2014.

Subject to the Company's Articles of Association, the Companies Act and satisfactory performance evaluation, Non-Executive Directors are appointed for an initial period of three years. Before the third and sixth anniversary of the Non-Executive Directors' first appointment, the Chairman will discuss with the Director whether it is appropriate for a further three-year term to be served.

COMPANY SECRETARY
Andrew Cotton, the Company Secretary, is responsible for advising the Board through the Chairman on all matters relating to corporate governance. Under the direction of the Chairman, the Company Secretary's responsibilities include ensuring good information flows within the Board, its committees and between Executive Management and Non-Executive Directors. The Company Secretary also facilitates induction and assists with professional development for the Board. All Directors have access to the advice and services of the Company Secretary. The Articles of Association and the schedule of matters reserved for the Board provide that the appointment and removal of the Company Secretary is a matter for the Board as a whole.

BOARD PROCEDURES
The Group is controlled through its Board of Directors. The Board's main roles are to set the Group's strategic objectives, guide and support management in achieving these objectives, create value and safeguard the interests of shareholders within the appropriate legal and regulatory framework. The Board meets at least nine times a year and individual attendance at those and the Board Committee meetings is set out in the table on the following page. In 2013, four Board meetings were held at operational locations to allow the Board to meet management teams and further develop their understanding of the Group.

The Board has a formal schedule of matters reserved for its approval. The specific matters reserved to the Board include setting the Group's strategy and approving an annual budget, reviewing management performance, approving acquisitions, divestments and major capital expenditure, monitoring returns on investment, reviewing the Group's systems of internal control and risk management and consideration of significant financing matters. The Board has delegated to Executive Management responsibility for the development and recommendation of strategic plans for consideration by the Board, the implementation of the strategy and policies of the Group as determined by the Board, the delivery of the operating and financial plan, the approval of capital expenditure below Board authority levels and the development and implementation of risk management systems.

Regular reports and papers are circulated to the Directors in a timely manner in preparation for Board and Committee meetings. These papers are supplemented by information specifically requested by the Directors from time to time.

The Directors receive monthly management accounts and a monthly report from the Chief Executive, which together with other papers enables them to scrutinise the Group and management performance against agreed objectives. At each meeting, the Board considers reports from the Chief Executive and the Finance Director.

ACCOUNTABILITY

The Board is responsible for presenting a fair, balanced and understandable assessment of the Group's position and prospects. The Board considers that the Annual Report provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

After making the enquiries set out on page 40, 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 the financial statements.

The Directors' Responsibilities Statement is set out on page 33.

PROFESSIONAL DEVELOPMENT

On appointment, Directors complete an induction programme designed to give them a thorough understanding of the Group and its activities. They receive information about the Group, the matters reserved for the Board, the terms of reference and membership of the Board Committees, and the latest financial information. This is supplemented with visits to key locations and meetings with and presentations from senior management.

BOARD AND COMMITTEE MEETINGS

The number of regular Board and Committee meetings attended by each member during 2013 is set out below:

Where a Director cannot attend a Board or Committee meeting, his comments on the papers to be considered at that meeting are relayed in advance to the relevant Chairman.

ATTENDANCE BY DIRECTORS AT BOARD AND COMMITTEE MEETINGS

	BOARD	AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATIONS COMMITTEE
GRAEME BISSETT – CHAIRMAN	9 (9)	2 (3)*	3 (3)	1 (1)
PETER ATKINSON – CHIEF EXECUTIVE	9 (9)	–	–	–
JOHN LOVE – FINANCE DIRECTOR	9 (9)	–	–	–
MIKE ARROWSMITH – SENIOR INDEPENDENT DIRECTOR	9 (9)	3 (3)	3 (3)	1 (1)
STUART PATERSON – NON-EXECUTIVE DIRECTOR	8 (9)	3 (3)	2 (3)	1 (1)
BOB MCLELLAN – NON-EXECUTIVE DIRECTOR (appointed 5 March 2013)	7 (7)	2 (2)	2 (2)	0 (0)
KEVIN MELLOR – NON-EXECUTIVE DIRECTOR (retired 7 May 2013)	4 (4)	1 (1)	1 (1)	0 (1)

Figures in brackets indicate the maximum number of meetings in the period in which the individual was a Board or Committee member.
* indicates that a Non-Executive Director is attending but is not a member of the relevant Committee.

BOARD PERFORMANCE EVALUATION

The Board has established a formal process, led by the Chairman, for the annual performance evaluation of the Board, its Committees and individual Directors. All Directors are made aware on appointment that their performance will be subject to regular evaluation.

The Board has completed a self-assessment questionnaire developed to take account of the areas identified in the FRC "Guidance on Board Effectiveness". This includes specific reference to the strategic objectives and performance of the Board and performance and processes for all Board Committees. The results have been collated by the Company Secretary and reviewed by the Board to identify any areas for improvement and to confirm objectives for the year ahead. The Chairman then holds individual meetings with each Director to review performance and set individual objectives.

The Chairman meets periodically with the Non-Executive Directors without the Executive Directors present. Led by the Senior Independent Director, the Non-Executive Directors meet annually without the presence of the Chairman to conduct a performance evaluation of the Chairman.

RELATIONSHIPS WITH SHAREHOLDERS

The Group maintains a corporate website (www.macfarlanegroup.com) containing a wide range of information of interest to institutional and private investors. Detailed reviews of the performance and financial position are included in the Strategic Review on pages 4 to 16 of this report. The Board uses this together with the Chairman's Statement on page 1, and the remainder of the Report of the Directors on pages 18 and 19 to present its assessment of the Company's position and prospects.

The Chairman seeks to maintain a regular dialogue with shareholders and gives feedback to the Board on issues raised. The Group has frequent discussions with institutional shareholders, including meetings led by the Chief Executive and the Finance Director, following the announcement of the annual financial results in February and the announcement of interim results in August. In addition, the Group responds to individual requests for discussions from shareholders.

The Board receives feedback on shareholder meetings including broker feedback for the meetings scheduled around the preliminary announcement and interim results. The Senior Independent Director is available to meet with shareholders if they have concerns with contact through the normal channels of Chairman, Chief Executive or Finance Director.

All Directors attend the AGM and shareholders are invited to ask questions during the meeting and to meet Directors after the formal proceedings have ended. All shareholders have an opportunity to raise questions with members of the Board on matters relating to the Group's operations and performance at the meeting. Details of the resolutions to be proposed at the AGM can be found in the Notice of Meeting accompanying the Annual Report and Accounts. In line with the requirements of the Code, the results of proxy votes are disclosed at the AGM and made available on the Group website and the Notice of Meeting is sent out more than 20 days in advance of the meeting.

CORPORATE GOVERNANCE

NOMINATIONS COMMITTEE

The Nominations Committee membership was as follows:

NOMINATIONS COMMITTEE MEMBERSHIP	
1 JANUARY 2013 TO 7 MAY 2013	8 MAY 2013 ONWARDS
Graeme Bissett (Chairman)	**Graeme Bissett (Chairman)**
Kevin Mellor	Mike Arrowsmith
Mike Arrowsmith	Stuart Paterson
Stuart Paterson	Bob McLellan

The Nominations Committee met once during 2013 and its terms of reference are available on the Group website (www.macfarlanegroup.com).

The principal work undertaken by the Nominations Committee in 2013 was

(a) to recruit Non-Executive Directors with relevant experience, who would add value to the operation of the Board; and

(b) to consider and recommend that the Company propose for re-election any Directors falling due for re-appointment at the AGM.

The Committee's responsibilities include reviewing the structure, size and composition of the Board and giving full consideration to succession planning for Directors and other Senior Executives. The Nominations Committee will continue to consider the mix of skills and experience that the Board requires and seek the appointment of Directors to meet its assessment of what is required to ensure that the Board is effective in discharging its responsibilities.

In addition the Committee met during 2013 to consider proposing Mike Arrowsmith, Stuart Paterson and Bob McLellan for election at the AGM on 7 May 2013. All three were recommended for election and this was approved by shareholders at the 2013 AGM. No Director is involved in any decisions regarding his own appointment or re-appointment.

Following a Nominations Committee held on 26 February 2014, the Committee proposed John Love and Peter Atkinson for re-election at the AGM on 6 May 2014.

REMUNERATION COMMITTEE

The Remuneration Committee membership was as follows:

REMUNERATION COMMITTEE MEMBERSHIP	
1 JANUARY 2013 TO 7 MAY 2013	8 MAY 2013 ONWARDS
Kevin Mellor (Chairman)	**Bob McLellan (Chairman)**
Graeme Bissett	Graeme Bissett
Mike Arrowsmith	Mike Arrowsmith
Stuart Paterson	Stuart Paterson

None of the members of the Remuneration Committee during 2013 has any personal financial interests, other than as a shareholder, in the matters to be decided, conflicts of interests arising from cross-Directorships or any day-to-day involvement in running the business.

The Remuneration Committee met three times during 2013 and its terms of reference are available on the Group website (www.macfarlanegroup.com).

The principal work undertaken by the Remuneration Committee in 2013 was

(a) to review performance against 2012 financial and personal objectives and to conclude on the appropriate performance related reward for Senior Executives including the Executive Directors;

(b) to approve the financial and personal objectives for 2013 in relation to the performance related bonus;

(c) to consider the use of share based incentives, either using the Long Term Incentive Plan or within a SAYE scheme. These were considered but not felt to be appropriate at this time; and

(d) to approve the Report on Directors' Remuneration.

The work carried out by the Remuneration Committee is described within the Report on Directors' Remuneration, which is set out on pages 21 to 27.

AUDIT COMMITTEE

The Audit Committee membership was as follows:

AUDIT COMMITTEE MEMBERSHIP	
1 JANUARY 2013 TO 4 MARCH 2013	5 MARCH 2013 ONWARDS
Stuart Paterson (Chairman)	**Stuart Paterson (Chairman)**
Kevin Mellor	Mike Arrowsmith
Mike Arrowsmith	Bob McLellan

Stuart Paterson was appointed as a Non-Executive Director and as Chairman of the Audit Committee on 1 January 2013 and has both recent and relevant financial experience. The remaining Committee members, Mike Arrowsmith and Bob McLellan have a wide range of commercial experience, as evidenced in the biographical details on page 17. The Company Chairman attends meetings to give the Committee the benefit of his relevant experience but he is no longer a member of that Committee with effect from 1 January 2013.

The Committee's terms of reference are displayed on the Group website, (www.macfarlanegroup.com) and its principal oversight responsibilities cover the following four areas:

> **Internal control and risk management**
The Committee reviews annually the Group's system of risk management and internal control and processes for evaluating and monitoring the risks facing the Group.

> **Internal audit**
The Committee reviews the effectiveness of the internal audit function and its terms of reference on an annual basis and recommends to the Board any changes required as a result of the review. Reports from internal audit are considered at each meeting and as part of its deliberations, the Committee will actively engage in selecting areas to be audited.

> **External audit (including auditor independence)**
The Committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, re-appointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the Group and the external auditor is maintained, including reviewing non-audit services and fees.

> **Financial reporting**
Under its terms of reference, the Audit Committee monitors the integrity of the Group's financial statements and any formal announcements relating to the Group's performance. Further details are set out on this page and the following page.

The Audit Committee met three times during 2013 and its agenda is linked to events in the Group's financial calendar. The Committee meets privately with the external and with the internal auditors and Executive Directors are invited to attend meetings as required. In 2013 the Audit Committee discharged its responsibilities by:

> Reviewing the Group's draft financial statements and interim results statement prior to Board approval and reviewing the external auditor's reports thereon;

> Debating the continuing appropriateness of the Group's accounting policies;

> Monitoring compliance with International Financial Reporting Standards;

> Challenging the output from the group-wide process used to identify, evaluate and mitigate risks;

> Reviewing the effectiveness of the group's internal controls and disclosures made in the Annual Report and financial statements on this matter;

> Agreeing a programme of work for the Company's internal audit function;

> Discussing reports from the Head of Internal Audit on the work undertaken by Internal Audit and management responses to proposals made in the audit reports issued by the function during the year, ensuring that these responses are actioned and completed on a timely basis;

> Agreeing the external auditor's plan for the audit of the Group accounts which included confirmations of auditor independence and approval of the engagement letter; and

> Reviewing and approving the audit fee and keeping the level of non-audit fees paid to the Group's external auditor under review.

2013 FINANCIAL STATEMENTS

Certain accounting policies have been identified as requiring key accounting judgements or involving particularly complex or subjective estimates or assumptions, which in turn have a significant effect on the amounts recognised in the financial statements. The Audit Committee receives a report from the Finance Director, in respect of each reported set of results, summarising the principal judgements taken by Executive Management. The Committee discusses and challenges these judgements and considers the report in conjunction with the results of the external audit process. For the 2013 financial statements, the Committee agrees the three most significant areas of judgement to be as follows:

VALUATION OF TRADE RECEIVABLES

Trade receivables recorded in the Group's balance sheet comprise a large number of individual balances. The Group reviews all trade receivables and provides against potentially irrecoverable items throughout the year. The Group's Executive Management then reviews local judgements. Whilst every attempt is made to ensure that the allowance for doubtful trade receivables is as accurate as possible, there remains a risk that the allowance may not match the level of debt, which ultimately proves to be uncollectible. At 31 December 2013, the Group retained an allowance for doubtful trade receivables of £340,000, compared to £365,000 in 2012. Further details are set out in note 14.

The Audit Committee has access to details of individual receivables in excess of £50,000 during the year. The Committee reviews the analysis of the extent to which year-end balances have been settled in 2014 to date, paying particular attention to receivables outwith terms. This is then considered against the level of allowance for doubtful trade receivables and based on this analysis, the Committee is of the view that the level of provision and the disclosures of items beyond terms was appropriate.

PENSION SCHEME DEFICIT

A net liability is recorded at each reporting date equivalent to the deficit on the Group's defined benefit pension scheme. This liability is determined in conjunction with advice from the Pension Scheme actuary and the Group's actuarial advisers and can fluctuate significantly based on a number of assumptions, some of which are linked to market-related factors outwith the control of management. The main actuarial assumptions that can impact the deficit are set out in note 25 to the financial statements.

The Audit Committee debated the assumptions being used to determine the liabilities in accordance with guidance from a number of actuarial firms and has satisfied itself that the assumptions used fall within an acceptable range taking into account the duration of liabilities in the Macfarlane final salary pension scheme.

The level of deficit calculated by the Scheme actuary and the related disclosures are based on these assumptions and the components of the movement in the deficit in the year have all been explained to the Committee's satisfaction. In addition the sensitivities of movements in the underlying assumptions are clearly set out in note 25. Accordingly the Committee is comfortable with the reporting of the pension scheme deficit.

VALUATION OF GOODWILL

The Group has significant goodwill balances relating to acquisitions made prior to December 2008. As explained in note 10 to the financial statements, the goodwill balances are tested for impairment annually or where there are indications that impairment may have occurred. In the first half of 2013, the Board concluded that the two Cash Generating Units ("CGU's) within the Manufacturing Operations' segment at 1 January 2013, associated with the Labels business and relating to the Reseal-it segment and the Irish operations should be combined and reported as one CGU due to the increasing overlap between the two CGU's.

As a result, the Group reported two goodwill balances at 31 December 2013, one of £24.1 million relating to Packaging Distribution and one of £1.4 million relating the combined Labels' CGUs referred to above. Determining whether these goodwill balances are impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value.

The Committee reviewed the underlying assumptions and the sensitivity analysis used to confirm that no impairment charge was required in the current year. It considers the assumptions to be in line with the Group's recent trading experience and the sensitivity scenarios to be appropriate.

CORPORATE GOVERNANCE

CONSIDERATION OF OTHER MATTERS

The Committee debates a number of other areas as a matter of normal practice at each reporting period, but does not consider these matters to be of such significance as those referred to above.

For the 2013 financial statements, those other areas included:

> The amount and classification of exceptional items in the consolidated income statement;

> The level of and basis for inventory provisions at 31 December 2013;

> The level of provision made for any legal or other claims, whether covered by insurance or not; and

> The disclosure of the principal terms of the new banking facilities.

For all of these other matters the Audit Committee is satisfied with the approach taken.

The Audit Committee has reviewed the contents of this year's Annual Report and accounts and has advised the Board that, in its view, the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Audit Committee also monitors the Group's arrangements by which staff may in confidence raise concerns about possible improprieties in matters of financial reporting and other areas including an external whistle-blowing service to take calls from employees. Brief details are included on the Group website (www.macfarlanegroup.com). All concerns will continue to be investigated at the earliest opportunity and the employee's anonymity is preserved wherever possible.

RELATIONSHIP WITH EXTERNAL AUDIT

The Audit Committee is responsible for the development, implementation and monitoring of the Group's position on external audit. The Committee's terms of reference assign oversight responsibility for monitoring the independence, objectivity and compliance with ethical and regulatory requirements to the Audit Committee, and day–to-day responsibility to the Group Finance Director. The Audit Committee has ensured that the Board and external auditor have safeguards in place to prevent auditor's independence and objectivity being compromised. The external auditor also reports to the Committee on the actions that it has taken to comply with professional and regulatory requirements and current best practice in order to maintain independence.

The Committee has considered the likelihood of a withdrawal of the auditor from the market and noted that there are no contractual obligations to restrict the choice of external auditor. In accordance with best practice guidelines the audit partner from the firm of the external auditor is required to rotate off the audit engagement every five years.

The Audit Committee monitors regularly the non-audit services provided to the Group by its external auditor. The Committee recognises that there will be certain non-audit work which the external auditor is best placed to undertake. Similarly there will be non-audit work in relation to the design of controls that the external auditors should not undertake.

The Committee's policy is to keep all services provided by the external auditor under review so as to ensure the independence and objectivity of the external auditor, taking account of relevant professional and regulatory requirements. As a matter of course all non-audit work over a certain level to be undertaken by the external auditors has to be approved by the Committee. Details of the amounts paid to the external auditor during the year for audit and other services are set out in note 3 to the financial statements.

The Committee Chairman will be available to answer questions on any aspect of the Committee's work at the AGM.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. It is the role of management to implement the Board's policies on risk and control through the design and operation of appropriate internal control systems. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against material mis-statement or loss.

The Board confirms that an ongoing process for identifying, evaluating and managing the significant risks faced by the Group was in place in compliance with the guidance of the Turnbull Review Group. The process has been in place throughout the year under review and has continued to the date of approval of the Annual Report and financial statements.

The Board regularly reviews the Group's system of internal control. The Board's monitoring covers all controls including financial, operational and compliance controls and risk management.

The key elements of the internal control process are:

> Formal Board reporting on a monthly basis by the Chief Executive and the Finance Director;

> Formal Board approval of the annual budget;

> Since 2009, the internal audit function has been sourced in-house. Certain parts of the internal audit plan may be outsourced when it is considered that specific expertise is required. The Committee challenges and agrees the annual plan proposed by Group management, receives copies of all reports and an update from the Head of internal audit on a six-monthly basis;

> Monthly and annual financial control checklists submitted by each business unit;

> Discussion by the Audit Committee of the external auditor's conclusions in its annual audit and interim review; and

> A formal risk assessment process as set out below.

During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. No significant corrective actions are outstanding.

Each business has a risk register which is kept under review during regular review meetings within these businesses. The Board considers the risk register every six months so that it can maintain an overview of risks facing the business and ensure management have identified and implemented appropriate controls to address these risks, which are acceptable to the Board. The risk register is taken into account in setting the internal audit programme each year.

The Directors have continued to review the effectiveness of the Group's system of financial and non-financial controls.

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

> Select suitable accounting policies and then apply them consistently;

> Make judgements and estimates that are reasonable and prudent;

> For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;

> For the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and

> Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

> The Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

> The Strategic Review, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Peter D. Atkinson
Chief Executive

27 February 2014

John Love
Finance Director

27 February 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MACFARLANE GROUP PLC

OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of Macfarlane Group PLC for the year ended 31 December 2013 set out on pages 36 to 71. In our opinion:

> the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;

> the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;

> the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; and

> the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Valuation of trade receivables £30,025,000

Refer to page 31 (Audit Committee statement), page 42 (accounting policy) and note 14 (financial disclosures).

> The risk – The Group has significant trade receivables with customers and in the current economic climate there remains a heightened risk of customer insolvency and a consequential risk over the recoverability of the Group's trade receivables.

> Our response – Our audit procedures included, among others, testing the design and operating effectiveness of a selection of the Group's controls over the receivables' collection processes. This included considering the Group's credit control processes over aged receivables and customer credit approvals. For a sample of customer balances, we compared the amount of cash received after the year-end against the year-end ledger balances. We tested the adequacy of the Group's provisions against trade receivables by assessing the relevant assumptions of the level of provision judged appropriate by management for each category of aged debt, with reference to the profile of aged debts at the balance sheet date compared with equivalent data observed subsequent to and at prior year ends. We have also considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provisions for the impairment of receivables.

Valuation of pension scheme deficit £15,896,000

Refer to page 31 (Audit Committee statement), page 41 (accounting policy) and note 25 (financial disclosures).

> The risk – Significant assumptions and estimates are made in valuing the Group's post-retirement defined benefit scheme and small changes in the assumptions and estimates used to value the Group's net pension deficit would have a significant effect on the results and financial position of the Group due to the size of the deficit in comparison to the net assets of the Group.

> Our response – Our audit procedures included, among others, utilising our own internal actuarial specialists to consider the appropriateness of key assumptions used in deriving the value of the scheme's liabilities, by comparing these both with internal actuarial indicators which have been benchmarked against current market practice and assumptions used by other groups with similar defined benefit pension schemes. We performed an assessment of the independence and competence of the external actuaries engaged by the Group to produce the actuarial valuation of the scheme liabilities. We also considered the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions.

Valuation of goodwill £24,149,000

Refer to page 31 (Audit Committee statement), page 41 (accounting policy) and note 10 (financial disclosures).

> The risk – There is a risk that the Group's goodwill balance is not recoverable due to weak demand in certain markets. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which form the basis for the assessment of recoverability, this is one of the key judgemental areas that our audit is focused on.

> Our response – In this area our audit procedures included, among others, an assessment of the assumptions and methodologies used by the Group, in particular those relating to projected revenue growth. We compared the Group's assumptions to external data in relation to key inputs such as projected economic growth, cost inflation and discount rates and applied sensitivities in assessing whether the Group's assumptions are reasonable. We considered the historical accuracy of the Group's cashflow forecasts, taking into account changes in market conditions. We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions properly reflected the risks inherent in the valuation of goodwill.

OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The materiality for the Group financial statements as a whole was set at £400,000. This has been determined with reference to a benchmark of Group profit before taxation (of which it represents 8.5%) which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £20,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The Group audit team performed the audit of the Group as if it was a single aggregated set of financial information, with the exception of an immaterial component in Sweden. The audit was performed using the materiality levels set out above and covered 98% of total Group revenue, 94% of Group profit before taxation, and 99% of total Group assets.

OUR OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 IS UNMODIFIED

In our opinion:

> the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

> the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

WE HAVE NOTHING TO REPORT IN RESPECT OF THE MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

> we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or

> the section of the Annual Report describing the work of the Group Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

> adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

> the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

> certain disclosures of Directors' remuneration specified by law are not made; or

> we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

> the Directors' statement, set out on page 40, in relation to going concern;

> the part of the Corporate Governance Statement on pages 28 and 29 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code 2010 specified for our review.

We have nothing to report in respect of the above responsibilities.

SCOPE AND RESPONSIBILITIES

As explained more fully in the Directors' Responsibilities Statement set out on page 33, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Craig Anderson
(Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc,
Statutory Auditor
Chartered Accountants
191 West George Street
Glasgow G2 2LJ

27 February 2014

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTE	RESULTS BEFORE EXCEPTIONAL ITEMS £000	EXCEPTIONAL ITEMS £000 SEE NOTE 2(C)	2013 £000	RESULTS BEFORE EXCEPTIONAL ITEMS £000 AS RESTATED (SEE NOTE 1)	EXCEPTIONAL ITEMS £000 SEE NOTE 2(E)	2012 £000 AS RESTATED (SEE NOTE 1)
CONTINUING OPERATIONS							
Revenue	2	143,871	–	143,871	141,823	–	141,823
Cost of sales		(98,983)	–	(98,983)	(96,510)	–	(96,510)
GROSS PROFIT		44,888	–	44,888	45,313	–	45,313
Distribution costs		(7,458)	–	(7,458)	(7,382)	–	(7,382)
Administrative expenses		(31,179)	(336)	(31,515)	(32,097)	993	(31,104)
OPERATING PROFIT	2, 3	6,251	(336)	5,915	5,834	993	6,827
Net finance costs	5	(1,199)	–	(1,199)	(1,349)	–	(1,349)
PROFIT BEFORE TAX		5,052	(336)	4,716	4,485	993	5,478
Tax	6	(1,265)	5	(1,260)	(1,223)	(390)	(1,613)
PROFIT FOR THE YEAR	7, 21	3,787	(331)	3,456	3,262	603	3,865
EARNINGS PER SHARE	9						
Basic		3.32p	(0.29p)	3.03p	2.87p	0.53p	3.40p
Diluted		3.31p	(0.29p)	3.02p	2.87p	0.53p	3.40p

The accompanying notes are an integral part of this consolidated income statement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTE	2013 £000	2012 £000 AS RESTATED (SEE NOTE 1)
Foreign currency translation differences – foreign operations	21	40	(63)
Remeasurement of pension scheme liability	25	1,177	(1,776)
Tax recognised in other comprehensive income			
Tax on remeasurement of pension scheme liability	19	(271)	403
Long-term corporation tax rate change	19	(476)	(365)
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR, NET OF TAX		470	(1,801)
Profit for the year		3,456	3,865
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,926	2,064

The accompanying notes are an integral part of this consolidated statement of comprehensive income.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTE	SHARE CAPITAL £000	REVALUATION RESERVE £000	OWN SHARES £000	TRANSLATION RESERVE £000	RETAINED EARNINGS £000 AS RESTATED (SEE NOTE 1)	TOTAL £000 AS RESTATED (SEE NOTE 1)
AT 1 JANUARY 2012		28,755	70	(810)	246	(4,546)	23,715
Profit for the year		–	–	–	–	3,865	3,865
Dividends	8	–	–	–	–	(1,761)	(1,761)
Foreign currency translation differences – foreign operations	21	–	–	–	(63)	–	(63)
Remeasurement of pension scheme liability	25	–	–	–	–	(1,776)	(1,776)
Tax recognised in other comprehensive income							
Tax on remeasurement of pension scheme liability	19	–	–	–	–	403	403
Long-term corporation tax rate change	19	–	–	–	–	(365)	(365)
AT 31 DECEMBER 2012		28,755	70	(810)	183	(4,180)	24,018
Profit for the year		–	–	–	–	3,456	3,456
Dividends	8	–	–	–	–	(1,774)	(1,774)
Foreign currency translation differences – foreign operations	21	–	–	–	40	–	40
Transfer of own shares to pension scheme	21	–	–	499	–	(245)	254
Remeasurement of pension scheme liability	25	–	–	–	–	1,177	1,177
Tax recognised in other comprehensive income							
Tax on remeasurement of pension scheme liability	19	–	–	–	–	(271)	(271)
Long-term corporation tax rate change	19	–	–	–	–	(476)	(476)
AT 31 DECEMBER 2013		28,755	70	(311)	223	(2,313)	26,424

The accompanying notes are an integral part of this consolidated statement of changes in equity.

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2013

	NOTE	2013 £000	2012 £000
ASSETS			
NON-CURRENT ASSETS			
Goodwill and other intangible assets	10	25,415	25,710
Property, plant and equipment	11	7,281	7,718
Trade and other receivables	14	1,651	1,783
Deferred tax asset	19	3,628	4,906
TOTAL NON-CURRENT ASSETS		37,975	40,117
CURRENT ASSETS			
Inventories	13	7,931	8,120
Trade and other receivables	14	35,481	34,515
Cash and cash equivalents	15	477	289
TOTAL CURRENT ASSETS		43,889	42,924
TOTAL ASSETS	2	81,864	83,041
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	16	32,346	31,705
Current tax liabilities		435	256
Provisions	17	82	332
Finance lease liabilities	18	33	126
Bank borrowings	15	6,359	6,954
TOTAL CURRENT LIABILITIES		39,255	39,373
NET CURRENT ASSETS		4,634	3,551
NON-CURRENT LIABILITIES			
Retirement benefit obligations	25	15,896	18,898
Deferred tax liabilities	19	253	381
Provisions	17	–	250
Trade and other payables	16	36	88
Finance lease liabilities	18	–	33
TOTAL NON-CURRENT LIABILITIES		16,185	19,650
TOTAL LIABILITIES	2	55,440	59,023
NET ASSETS	2	26,424	24,018
EQUITY			
Share capital	20	28,755	28,755
Revaluation reserve	21	70	70
Own shares	21	(311)	(810)
Translation reserve	21	223	183
Retained earnings	21	(2,313)	(4,180)
TOTAL EQUITY		26,424	24,018

The accompanying notes are an integral part of this consolidated balance sheet.

The financial statements of Macfarlane Group PLC, company registration number SC004221, were approved by the Board of Directors on 27 February 2014 and signed on its behalf by

Peter D. Atkinson
Chief Executive

John Love
Finance Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTE	2013 £000	2012 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	22	3,427	3,330
INVESTING ACTIVITIES			
Interest received		–	31
Disposal of subsidiary undertaking		–	25
Proceeds on disposal of property, plant and equipment		30	3
Purchases of property, plant and equipment		(774)	(825)
NET CASH USED IN INVESTING ACTIVITIES		(744)	(766)
FINANCING ACTIVITIES			
Dividends paid	8	(1,774)	(1,761)
Repayments of finance lease liabilities		(126)	(233)
NET CASH USED IN FINANCING ACTIVITIES		(1,900)	(1,994)
NET INCREASE IN CASH AND CASH EQUIVALENTS		783	570
Cash and cash equivalents at beginning of year		(665)	(1,235)
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	118	(665)

The accompanying notes are an integral part of this consolidated cash flow statement.

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 DECEMBER 2013

SUMMARY OF ACCOUNTING POLICIES

In preparing the Group financial statements in conformity with IFRSs, the Directors are required to make judgements, estimates and assumptions that impact the carrying amounts of revenues, expenses, assets and liabilities, that are not readily apparent from other sources. The judgements, estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Judgements, assumptions and estimation uncertainties

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions, which affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from the amounts estimated. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about judgements, assumptions and estimation uncertainties made in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements and therefore have the most significant risk of resulting in a material adjustment for calendar year 2013 is included in the following notes:

Note 14 Trade and Other Receivables: the provision for doubtful receivables is based on judgmental estimates over the recoverable amounts;

Note 25 Retirement Benefit Obligations: the valuation of the pension deficit is affected by key actuarial assumptions; and

Note 10 Goodwill and Other Intangible Assets: the impairment test of the valuation of goodwill is affected by key assumptions such as the discount rate and revenue growth rate.

The following accounting policies have been applied consistently for items which are considered to be material in relation to the financial statements.

(a) Basis of accounting

The financial statements for the year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The following adopted IFRSs have been issued but have not been applied by the Group in these financial statements:

- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint Arrangements;
- IFRS 12 Disclosure of Interests in Other Entities;
- IAS 27 Separate Financial Statements;
- IAS 28 Investments in Associates and Joint Ventures;
- IAS 32 (amended) Financial Instruments: Presentations;
- IAS 36 (amended) Impairment of assets; and
- IAS 39 (amended) Financial Instruments: Recognition and Measurement.

The Directors do not expect that the adoption of the standards listed above will have a significant impact on the financial statements of the Group in future periods. The financial statements have been prepared on the historical cost basis. The revaluation reserve relates to a period before transition to IFRS.

Going concern

The Directors, in their consideration of going concern, have reviewed the Group's future cash flow forecasts and profit projections, which they believe are based on prudent market data and past experience. The Group's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the Strategic Review on pages 4 to 16.

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 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 agreed a new debt facility with Lloyds Banking Group PLC comprising a three-year committed borrowing facility of up to £20 million, in place until February 2017. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over trade receivables.

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

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

(b) Basis of consolidation

The consolidated income statement and the consolidated balance sheet include the financial statements of the parent company and its subsidiaries (all of which are wholly-owned) made up to the end of the financial year. Transactions between group companies are eliminated on consolidation.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the effective date of acquisition (the date control is acquired). Any excess of the cost of acquisition over the fair values of the identifiable net assets is recognised as goodwill.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal. The consolidated gain or loss on disposal of a subsidiary is the difference between the net proceeds of sale and the Group's share of the subsidiary's net assets together with the carrying value of any related goodwill at the effective date of disposal.

(c) Goodwill and other intangible assets
Goodwill arising in a business combination is recognised as an asset and represents the excess of the cost of acquisition over the net fair values of the identifiable assets and liabilities of the acquired subsidiary at the effective date of acquisition.

Goodwill is allocated to cash generating units ("CGUs") expected to benefit from the synergies of the combination, for the purpose of impairment testing. The carrying value of goodwill for each CGU is considered annually and also reviewed where management has reason to believe that a change in circumstances may give rise to any impairment.

Other intangible assets comprise separately identifiable intangible assets recognised on the acquisitions of subsidiary companies. They are recorded at fair value on acquisition less any subsequent impairment. These are primarily brand values, which are calculated on the Relief From Royalty method, and customer relationship values, which are calculated on the excess earnings method based on the net anticipated earnings stream. Brand values are amortised on a straight-line basis over five years and customer relationships are amortised on a straight-line basis over ten years.

(d) Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided to third parties in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue from the sale of goods and services is recognised when the Group has transferred the significant risks and rewards of ownership of the goods and services to the customer, the amount of revenue and the costs related thereto can be measured reliably and it is probable that the economic benefits of the transaction will flow to the Group.

Investment income is recognised where it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(e) Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as tangible assets of the Group at their fair value as determined at the inception of the lease. Depreciation is provided in accordance with the Group's accounting policy for the class of tangible asset concerned. Interest costs are charged over the lease term and future obligations, comprising the corresponding liability to the lessor, are included in the balance sheet as finance lease liabilities.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Incentives to enter into an operating lease are initially recorded as a liability and then treated as a reduction in the rental expense on a straight-line basis over the lease term.

(f) Foreign currencies
The financial statements of each subsidiary are presented in the currency of the primary economic environment in which the business operates (its functional currency). For the purposes of preparing the Group financial statements, the results and the financial position of each business are expressed in Sterling, being the Company's functional currency. Exchange differences arising on the settlement and retranslation of monetary items on an ongoing basis are included in the profit or loss in the income statement for the period.

Assets and liabilities denominated in foreign currencies and financial statements of foreign subsidiaries are translated into Sterling at the rates of exchange prevailing on the balance sheet date. Exchange differences arising in the consolidated accounts on the retranslation at closing rates of the Group's net investments in foreign subsidiary companies are recorded as movements on the Group's translation reserve and reported in the statement of comprehensive income/(expense). Such translation differences are recognised as part of the profit or loss in the period in which the foreign business is disposed of.

(g) Retirement benefit costs
For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out triennially and updated at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur in the consolidated statement of comprehensive income/(expense). Past service cost is recognised immediately to the extent that benefits are already vested and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

Settlement gains represent the excess of the current value of the retirement obligation extinguished over the transfer value paid to extinguish the liability. Curtailment gains, which are recognised in the consolidated income statement, represent the reduction in value of the retirement obligations achieved following a change in benefits put forward by the Company but only after trustee approval to any necessary rule changes has been effected.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of the scheme assets. The obligations are measured on an actuarial basis and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme's liabilities.

Payments made to defined contribution schemes are charged as an expense in the income statement as they fall due.

(h) Taxation
The tax expense represents the sum of the current tax payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The current tax liability is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax balances represent the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also recorded in the consolidated statement of comprehensive income/(expense).

Deferred tax assets and liabilities are not discounted.

ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 DECEMBER 2013

SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(i) Property, plant and equipment
Property, plant and equipment are stated at cost. Assets revalued before the date of transition to IFRS have been recorded at deemed cost.

No depreciation is provided on land. Depreciation is recognised so as to write off the cost of the assets, less their estimated residual values, by equal annual instalments over their estimated useful lives. The rates of depreciation use the straight-line method and vary between 2% – 5% per annum on buildings and 7% – 33% per annum on plant and equipment. Rates of depreciation are reviewed annually to ensure they remain relevant and residual values are reviewed once in each calendar year.

The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying value of the asset and is recognised in the consolidated income statement.

(j) Inventories
Inventories are consistently stated at the lower of cost and net realisable value.

Cost represents average cost and is stated less any provisions required for obsolescence. In the case of work in progress and finished goods, cost comprises direct materials, direct labour costs and attributable overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling price, less any further costs expected to be incurred to completion and disposal.

(k) Financial instruments
Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

FINANCIAL ASSETS
Financial assets, categorised as investments, are recognised and derecognised on the effective date where the purchase or sale of an investment is under a contract whose terms require the delivery of the investment within the timeframe established and are initially measured at fair value, net of transactions costs except for those financial assets classified at fair value through the consolidated income statement which are initially measured at fair value.

Other financial assets comprise trade and other receivables that have fixed or determinable recoveries and are classified as trade and other receivables. The classification takes account of the nature and purpose of the financial assets and is determined on initial recognition. Trade and other receivables are measured at amortised cost less impairment.

IMPAIRMENT OF FINANCIAL ASSETS
Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted. For trade receivables the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying value of the allowance account are recognised in the consolidated income statement.

CASH AND CASH EQUIVALENTS
Cash and cash equivalents comprise cash on hand and on demand deposits, readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

FINANCIAL LIABILITIES AND EQUITY
Financial liabilities and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

FINANCIAL LIABILITIES
Financial liabilities comprise solely other financial liabilities under the terms of IFRS 7. Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost, with interest expense measured on an effective yield basis.

EQUITY INSTRUMENTS
An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

DERIVATIVE FINANCIAL INSTRUMENTS
During both the current and prior year, the Group did not enter into any derivative financial instruments.

(l) Provisions
The Group has a small number of surplus properties, held under operating leases, where it seeks to obtain rental income from a sub-lease to cover its ongoing liabilities under the head lease. In the event that a property held under one of these leases becomes vacant due to the expiry of a sub-lease or the default of a tenant, every effort is made to attract a new tenant. The Company reassesses the provision made for residual lease commitments together with other outgoings for dilapidations, after taking into account existing sub-tenant arrangements and assumptions relating to later periods of vacancy and if there is likely to be a rental void for a period of time, then a provision is made at each balance sheet date to cover management's best estimate of the future cost of the likely void period.

(m) Share-based payments
The Group grants equity-settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value of the equity instruments at the date of the grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed as an employee benefits expense on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The fair value is determined by the use of a binomial model with the expected life adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 24.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. RESTATEMENT OF PRIOR YEAR

In the current financial year the application of IAS19 (R) impacts the measurement of the various components representing movements in the retirement benefit obligations and associated disclosures, but not the Group's total retirement benefit obligations. Following the replacement of expected returns on pension scheme assets with a net finance cost in the consolidated income statement, the profit for the year reduces and accordingly other comprehensive income increases.

This change has been applied retrospectively and accordingly the comparative figures have been restated for the year ended 31 December 2012. The effect is to increase the interest expense on retirement benefit obligations recognised in the Consolidated Income Statement by £429,000 in that year and to reduce the remeasurement of the pension scheme liability recognised in the Consolidated Statement of Comprehensive Income by the same amount as set out in the table below.

	2012 £000
CONSOLIDATED INCOME STATEMENT	
FINANCE INCOME AND FINANCE COSTS (AS PREVIOUSLY REPORTED)	
Expected return on pension scheme assets	2,685
Interest cost of pension scheme liabilities	(3,186)
Net interest cost of pension scheme liabilities	(501)
FINANCE INCOME AND FINANCE COSTS (AS RESTATED)	
Net interest expense on retirement benefit obligation	(930)
Impact on finance costs and profit before taxation	(429)
TAX	
Adjustment to deferred tax thereon	104
IMPACT ON PROFIT FOR THE YEAR	(325)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME NON-CURRENT LIABILITIES	
REMEASUREMENT OF PENSION SCHEME LIABILITY	
Previously shown as	(2,205)
Now shown as	(1,776)
IMPACT ON REMEASUREMENT OF PENSION SCHEME LIABILITY	429
TAX	
Adjustment to deferred tax thereon	(104)
IMPACT ON COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR	325

There was no impact on the retirement benefit obligations or net asset position recorded on the balance sheet at 31 December 2012.

As in previous years, all scheme administration costs continue to be met by the Company.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business Segments

The Group adopted IFRS 8 "Operating Segments" with effect from 1 January 2009.

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 80% of the revenue and income of Group operations. As permitted by IFRS 8, the Group has elected to combine the remaining operations for the manufacture and supply of self-adhesive labels to a variety of FMCG customers in the UK and Europe, the manufacture and supply of resealable labels to a variety of FMCG customers in the UK, Europe and the USA and the design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK into one segment headed Manufacturing Operations. None of the individual business segments within Manufacturing Operations represent more than 10% of Group revenue or income.

EXTERNAL REVENUES FROM MAJOR PRODUCTS AND SERVICES	2013 £000	2012 £000
Packaging Distribution	116,280	114,807
Manufacture and supply of self-adhesive labels	11,532	11,653
Manufacture and supply of resealable labels	6,469	5,728
Design, manufacture and assembly of timber, corrugated and foam-based packaging materials	9,590	9,635
EXTERNAL REVENUES FROM CONTINUING OPERATIONS	143,871	141,823

(b) Segmental information 2013

	TOTAL REVENUE £000	INTER-SEGMENT REVENUE £000	EXTERNAL REVENUE £000	SEGMENT RESULT £000
GROUP SEGMENT				
Packaging Distribution	116,280	–	116,280	4,918
Manufacturing Operations	32,180	4,589	27,591	997
Continuing operations	148,460	4,589	143,871	
OPERATING PROFIT				5,915
Net finance costs				(1,199)
PROFIT BEFORE TAX				4,716
Tax				(1,260)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS				3,456

Inter-segment revenues are charged at prevailing market prices.

	CAPITAL ADDITIONS £000	DEPRECIATION/ AMORTISATION £000	SEGMENT ASSETS £000	SEGMENT LIABILITIES £000	NET ASSETS £000
GROUP SEGMENT					
Packaging Distribution	476	843	68,493	48,544	19,949
Manufacturing Operations	298	488	13,371	6,896	6,475
Continuing operations	774	1,331	81,864	55,440	26,424

2. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

(c) Exceptional items 2013

	PACKAGING DISTRIBUTION £000	MANUFACTURING OPERATIONS £000	2013 TOTAL £000
Property costs	(42)	(294)	(336)
NET EXCEPTIONAL CHARGE 2013	(42)	(294)	(336)

During 2013 the Group incurred exceptional costs of £0.3 million to terminate the leases for surplus properties to minimise future costs and took a write-down against its owned property to reflect the latest assessment of realisable value.

Exceptional items are those transactions material to the income statement where separate disclosure is necessary for an appropriate understanding of the Group's financial performance.

(d) Segmental information 2012

	TOTAL REVENUE £000	INTER-SEGMENT REVENUE £000	EXTERNAL REVENUE £000	SEGMENT RESULT £000
GROUP SEGMENT				
Packaging Distribution	114,807	–	114,807	5,643
Manufacturing Operations	31,475	4,459	27,016	1,184
Continuing operations	146,282	4,459	141,823	
OPERATING PROFIT				6,827
Net finance costs				(1,349)
PROFIT BEFORE TAX				5,478
Tax				(1,613)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS				3,865

	CAPITAL ADDITIONS £000	DEPRECIATION/ AMORTISATION £000	SEGMENT ASSETS £000	SEGMENT LIABILITIES £000	NET ASSETS £000
GROUP SEGMENT					
Packaging Distribution	699	784	69,054	50,868	18,186
Manufacturing Operations	126	542	13,987	8,155	5,832
Continuing operations	825	1,326	83,041	59,023	24,018

(e) Exceptional items 2012

	PACKAGING DISTRIBUTION £000	MANUFACTURING OPERATIONS £000	2012 TOTAL £000
PENSION SCHEME			
Pension Increase Exchange exercise (see note 25)	872	983	1,855
Related professional costs	(96)	(109)	(205)
	776	874	1,650
PROVISIONS FOR CLOSURE COSTS OF DUBLIN MANUFACTURING SITE	–	(657)	(657)
NET EXCEPTIONAL CREDIT 2012	776	217	993

In 2012, Macfarlane Group PLC made a Pension Increase Exchange ("PIE") offer to pensioner members at 1 May 2012 and provided a PIE option for deferred and active members after 1 May 2012. As a result of both of these actions, a gain of £1.65 million was recorded in 2012. This was offset by a reorganisation of our Labels business in Ireland, which gave rise to an exceptional charge of £0.66 million.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

(f) Geographical segments

The Group's operations are primarily located in the UK and Europe. Packaging Distribution's activities are primarily in the UK. Within the Manufacturing Operations, the Labels businesses operate in the UK, Europe and the USA and the Packaging Manufacturing business operates primarily in the UK.

	CONTINUING OPERATIONS UK £000	CONTINUING OPERATIONS EUROPE £000	2013 TOTAL £000	CONTINUING OPERATIONS UK £000	CONTINUING OPERATIONS EUROPE £000	2012 TOTAL £000
REVENUE						
Total revenue	140,375	3,496	143,871	138,966	2,857	141,823
RESULT						
Segment operating result	6,105	(190)	5,915	7,295	(468)	6,827
NON-CURRENT ASSETS	36,119	1,856	37,975	38,191	1,926	40,117
CAPITAL ADDITIONS	702	72	774	814	11	825

(g) Information about major customers

No single customer accounts for more than 5% of the Group's external revenues.

3. OPERATING PROFIT

OPERATING PROFIT HAS BEEN ARRIVED AT AFTER CHARGING:	2013 £000	2012 £000
Depreciation of property, plant and equipment (see note 11)	1,036	1,020
Amortisation of intangible assets (see note 10b)	295	306
Staff costs (see note 4)	22,524	22,893
Impairment loss recognised on trade receivables	35	271
Cost of inventories recognised as an expense	95,787	93,417
Write-down of inventories recognised as an expense	47	227
Auditor's remuneration		
Audit services	95	93
Non-audit services	34	78

AUDITOR'S REMUNERATION:

A detailed analysis of auditor's remuneration is provided below:	2013 £000	2012 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	30	30
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries	65	63
TOTAL AUDIT FEES	95	93
Audit related assurance services for review of half-year statements	16	15
Taxation advisory services	3	9
All other assurance services		
Fees payable in respect of the audit of the Macfarlane Group PLC pension schemes	9	5
All other non-audit services		
Fees for advice in relation to exercises for final salary pension scheme (included in £205k costs for PIE exercise (see note 2e)	–	49
Other pension related advice	6	–
TOTAL NON-AUDIT FEES	34	78
TOTAL FEES PAID TO AUDITOR	129	171

4. STAFF COSTS

The average monthly number of employees was:	2013 NO.	2012 NO.
Production	178	181
Sales and distribution	372	374
Administration	178	176
	728	731

The costs incurred in respect of these employees were:	2013 £000	2012 £000
Wages and salaries	19,857	20,131
Social security costs	1,847	1,860
Other pension costs	820	902
	22,524	22,893

5. NET FINANCE COSTS

	2013 £000	2012 £000 AS RESTATED (SEE NOTE 1)
Interest on bank overdrafts	(418)	(434)
Interest on obligations under finance leases	(6)	(16)
Net interest expense on retirement benefit obligation (see note 25)	(775)	(930)
TOTAL FINANCE COSTS	(1,199)	(1,380)
Investment income	–	31
TOTAL FINANCE INCOME	–	31
NET FINANCE COSTS	(1,199)	(1,349)

6. TAX

	2013 £000	2012 £000 AS RESTATED (SEE NOTE 1)
CURRENT TAX		
United Kingdom corporation tax at 23.25% (2012: 24.50%)	(795)	(811)
Foreign tax	(62)	(12)
CURRENT TAX CHARGE	(857)	(823)
DEFERRED TAX		
Current year charge	(403)	(790)
DEFERRED TAXATION CHARGE (see note 19)	(403)	(790)
TOTAL TAX CHARGE	(1,260)	(1,613)

6. TAX (CONTINUED)

The standard rate of tax based on the UK average rate of corporation tax, is 23.25% (2012 – 24.50%). Taxation for other jurisdictions is calculated at the rates prevailing in these jurisdictions. The actual tax charge for the current and previous year varies from 23.25% (2012 – 24.50%) of the results as set out in the income statement for the reasons set out in the following reconciliation:

	2013 £000	2012 £000
PROFIT BEFORE TAX	4,716	5,478
TAX ON PROFIT AT 23.25% (2012: 24.50%)	(1,096)	(1,343)
FACTORS AFFECTING TAX CHARGE FOR THE YEAR:		
Non deductible expenses	(70)	(23)
Difference on overseas tax rates	(47)	(4)
Changes in estimates related to prior years	16	(129)
Exceptional items	(63)	(114)
TAX CHARGE FOR THE YEAR	(1,260)	(1,613)

The impact of future changes in taxation rates is disclosed in note 19.

7. PROFIT FOR THE YEAR

The Company has taken advantage of Section 408 of the Companies Act 2006 and consequently a separate profit and loss account for the parent company is not presented as part of these financial statements. The Company's profit for the year is disclosed in note 34 to these financial statements.

8. DIVIDENDS

	2013 £000	2012 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for 2012 of 1.05p per share (2011 – 1.05p per share)	1,202	1,193
Interim dividend for 2013 of 0.50p per share (2012– 0.50p per share)	572	568
	1,774	1,761

Dividends are not payable on own shares held in the Employee Share Ownership Trust detailed in note 21.

In addition to the amounts shown above, a proposed dividend of 1.10p per share will be paid on 5 June 2014 to those shareholders on the register at 9 May 2014 and is subject to approval by shareholders at the Annual General Meeting on 6 May 2014. This has not been included as a liability in these financial statements.

9. EARNINGS PER SHARE

From continuing operations	2013 £000	2012 £000
BASIC EARNINGS PER SHARE	3.03p	3.40p
EARNINGS Profit for the year from continuing operations	3,456	3,865

NUMBER OF SHARES IN ISSUE FOR THE PURPOSES OF CALCULATING BASIC AND DILUTED EARNINGS PER SHARE	2013 NUMBER OF SHARES '000	2012 NUMBER OF SHARES '000
Weighted average number of ordinary shares in issue	115,019	115,019
Weighted average number of Own Shares in Employee Share Ownership Trust	(846)	(1,436)
WEIGHTED AVERAGE NUMBER OF SHARES IN ISSUE FOR THE PURPOSES OF CALCULATING BASIC EARNINGS PER SHARE	114,173	113,583
Effect of dilutive potential ordinary shares due to share options	96	–
WEIGHTED AVERAGE NUMBER OF SHARES IN ISSUE FOR THE PURPOSES OF CALCULATING DILUTED EARNINGS PER SHARE	114,269	113,583

10. GOODWILL AND OTHER INTANGIBLE ASSETS

	PACKAGING DISTRIBUTION £000	MANUFACTURING OPERATIONS £000	2013 TOTAL £000	2012 TOTAL £000
Goodwill	22,790	1,359	24,149	24,149
Other intangible assets	1,266	–	1,266	1,561
Goodwill and other intangible assets	24,056	1,359	25,415	25,710

(a) Goodwill

	PACKAGING DISTRIBUTION £000	MANUFACTURING OPERATIONS £000	2013 TOTAL £000
COST			
At 1 January 2013 and 31 December 2013	22,790	1,359	24,149
CARRYING AMOUNT			
At 31 December 2013 and 31 December 2012	22,790	1,359	24,149

The two Cash Generating Units ("CGU's") within the Manufacturing Operations' segment at 31 December 2012 related to the Reseal-it segment and the Irish operations in the Labels business. The relocation of these operations in Ireland to further develop the Reseal-it business means that the overlap between these two CGU's increased to such an extent that the Board concluded that they should be combined and reported as one CGU.

The recoverable amount of each CGU is determined using 'value in use' calculations with key assumptions relating to discount rates, growth rates and projected gross margin and overhead costs. A post tax discount rate of 8.2% (2012 – 10.2%) is used for all CGU's reflecting the Group's weighted average cost of capital, which is considered to be the most definitive basis for arriving at a discount rate and the Group believes the risk profiles across the markets in which it operates are not significantly different. This equates to a pre-tax discount rate of 10.7% for each CGU due to the variation in local tax rates. Growth rates and changes in gross margin and overhead costs are based on our expectation of future performance in the markets in which we operate. These are consistent with our budgets for 2014 and strategic plans for future years, and extrapolate cash flows for five years after which a terminal value is calculated using growth rates of up to 2%.

The Directors believe the assumptions used are appropriate, but in addition have conducted sensitivity analysis to determine the changes in assumptions that would result in an impairment of the carrying value of goodwill. Based on this analysis the Directors believe that any reasonable changes in the key assumptions would maintain a recoverable amount for each CGU, which exceeds its carrying value. Therefore at 31 December 2013 no impairment charge is required against the carrying value of goodwill.

(b) Other Intangible Assets

	BRAND VALUES £000	CUSTOMER RELATIONSHIPS £000	2013 TOTAL £000	2012 TOTAL £000
COST AT FAIR VALUE ON ACQUISITION				
At 1 January 2013 and 31 December 2013	130	2,843	2,973	2,973
AMORTISATION				
At 1 January	119	1,293	1,412	1,106
Charge for year	11	284	295	306
AT 31 DECEMBER	130	1,577	1,707	1,412
CARRYING AMOUNT				
AT 31 DECEMBER 2013	–	1,266	1,266	1,561
At 31 December 2012	11	1,550	1,561	

Other intangible assets comprise separately identifiable intangible assets recognised on acquisitions in Packaging Distribution in previous years. These are brand values, calculated on acquisition on the Relief From Royalty method and a valuation of customer relationships, calculated on acquisition on the excess earnings method, based on the net anticipated earnings stream. Brand values are calculated on royalty rates of 0.25%, consistent with an assessment of what would be charged in a typical franchise agreement. The valuation of customer relationships is calculated using our best estimates of customer attrition rates, and returns, based on assessments of performance levels in the markets in which we operate. Brand values and customer relationships are amortised on a straight-line basis over five years and ten years respectively.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

11. PROPERTY, PLANT AND EQUIPMENT

	LAND AND BUILDINGS £000	PLANT AND EQUIPMENT £000	TOTAL £000
COST			
At 1 January 2012	7,036	28,223	35,259
Additions	46	779	825
Exchange movements	(37)	(69)	(106)
Impairment charge	(653)	–	(653)
Disposals	(409)	(7,203)	(7,612)
At 1 January 2013	5,983	21,730	27,713
Additions	77	697	774
Impairment charge (see note 2c)	(169)	–	(169)
Disposals	–	(164)	(164)
AT 31 DECEMBER 2013	5,891	22,263	28,154
ACCUMULATED DEPRECIATION			
At 1 January 2012	2,936	23,909	26,845
Charge for year	153	867	1,020
Exchange movements	(16)	(65)	(81)
Impairment charge	(189)	–	(189)
Disposals	(409)	(7,191)	(7,600)
At 1 January 2013	2,475	17,520	19,995
Charge for year	138	898	1,036
Impairment charge (see note 2c)	(12)	–	(12)
Disposals	–	(146)	(146)
AT 31 DECEMBER 2013	2,601	18,272	20,873
CARRYING AMOUNT			
AT 31 DECEMBER 2013	3,290	3,991	7,281
At 31 December 2012	3,508	4,210	7,718

The carrying value of £7,281,000 (2012 – £7,718,000) includes £393,000 (2012 – £462,000) of assets held under finance leases. Depreciation charged in respect of these assets is £49,000 (2012 – £58,000).

LAND AND BUILDINGS AT NET BOOK VALUE COMPRISE:

	2013 £000	2012 £000
Freeholds	1,647	1,679
Long leaseholds	1,643	1,825
Short leaseholds	–	4
	3,290	3,508

12. SUBSIDIARY COMPANIES

A list of principal operating subsidiaries, including names and countries of incorporation is given on page 71.

13. INVENTORIES

	2013 £000	2012 £000
Raw materials and consumables	619	502
Work in progress	159	190
Finished goods and goods for resale	7,153	7,428
	7,931	8,120

Valuation of inventories
Inventories recorded in the Group's balance sheet comprise large numbers of comparatively small balances. The Group reviews inventory levels, older and obsolete inventories and provides against any exposures throughout the year. The Group's Executive Management then reviews local judgements.

MOVEMENT IN THE PROVISIONS FOR SLOW-MOVING AND OBSOLETE INVENTORIES

	2013 £000	2012 £000
At 1 January	682	512
Inventory write-off recognised in the income statement	47	227
Amounts written off during the year	(79)	(57)
AT 31 DECEMBER	650	682

14. TRADE AND OTHER RECEIVABLES

	2013 £000	2012 £000
DUE WITHIN ONE YEAR		
Trade receivables for the sale of goods and services	30,365	29,877
Allowance for doubtful receivables	(340)	(365)
	30,025	29,512
Other receivables	3,336	2,854
Prepayments and accrued income	2,120	2,149
	35,481	34,515
DUE AFTER MORE THAN ONE YEAR		
Other receivables	793	927
Prepayments and accrued income	858	856
	1,651	1,783

Trade receivables are measured at amortised cost. The Group's credit risk is primarily attributable to its trade receivables. The average credit period taken on sales of goods is 59 days (2012 – 61 days). No interest is charged on overdue receivables.

The Group uses external credit scoring systems to assess new customers' credit quality and uses this to help define credit limits by customer. Limits and scoring are attributed to major customers, with receivables over £50,000 reviewed twice per year. Of the trade receivables balance at 31 December 2013 and 31 December 2012, there are no customers with a balance in excess of 5% of the total balance.

Included in the Group's trade receivables balance are debtors with a carrying amount of £9,455,000, (2012 – £13,621,000) which are past due at the reporting date. The Group has not provided for these amounts as there has not been a significant change in the customers' credit quality and the Group believes that the amounts are still recoverable. The Group does not hold any collateral over these balances. The weighted average overdue age of these trade receivables is 18 days (2012 – 27 days).

AGEING OF PAST DUE BUT NOT IMPAIRED RECEIVABLES	2013 £000	2012 £000
30 – 60 days	5,155	7,390
60 – 90 days	3,222	4,302
Over 90 days	1,078	1,929
	9,455	13,621

Amounts presented in the balance sheet are net of allowances for doubtful trade receivables of £340,000 (2012 – £365,000), estimated by the Group's Executive Management based on prior experience and their assessment of the current economic environment.

MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL TRADE RECEIVABLES	2013 £000	2012 £000
At 1 January	365	518
Impairment losses recognised in the income statement	35	271
Amounts written off as uncollectible	(60)	(424)
AT 31 DECEMBER	340	365

In determining the recoverability of trade receivables, the Group's Executive Management considers any change in the credit quality of the trade receivables from the date credit was originally granted up to the reporting date.

The Directors consider that the carrying amount of the trade and other receivables approximate to their fair value.

15. FINANCIAL INSTRUMENTS

The Group funds its operations from a number of sources of cash, namely operating cash flow, bank borrowings, finance lease borrowings and shareholders' equity, comprising share capital, reserves and retained earnings, where appropriate. The Group's objective is to achieve a capital structure that results in an appropriate cost of capital whilst providing flexibility in immediate and medium-term funding so as to accommodate any material investment requirements.

The Group's principal financial instruments comprise borrowings, cash and short-term deposits, and other items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments is undertaken for speculative purposes.

There has been no significant change to the Group's exposure to market risks during 2013. The principal risks arising are liquidity risk and credit risk, with the secondary risks being interest rate risk and currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of 2014.

Liquidity risk

The Group's policy with regard to liquidity remains one of ensuring adequate access to funds by maintaining appropriate levels of committed banking facilities, which are then reviewed on a regular basis. The principal Group borrowing facility of up to £20 million is in place for the period to 2017. The maturity profile of debt outstanding at 31 December 2013 is set out in note 18 and this note to the financial statements.

Credit risk

The Group's exposure to credit risk is managed by dealing only with banks and financial institutions with good credit ratings and by applying considerable rigour in managing trade receivables. The Group's principal credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

Interest rate risk

The Group finances its business through a mixture of reserves and bank borrowings. The Group borrows in the desired currencies at floating rates of interest. Interest rate exposures are reviewed regularly and financial instruments considered. At present it is not deemed necessary to cover interest rate exposures by the use of financial instruments.

The Group is exposed to interest rate risk, as entities in the Group borrow funds at floating interest rates. The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. At the reporting date if the interest rates had been 50 basis points higher and all other variables held constant the Group's profit before tax would have decreased by £47,000 (2012 – £45,000).

Currency risk

The Group has two overseas subsidiaries, one operating in Ireland and the other operating in Sweden. Revenues and expenses are denominated exclusively in Euros and Swedish Krone respectively. As a result, movements in the Euro and Swedish Krone to sterling exchange rates could affect the Group's sterling balance sheet. The Group's policy during 2013 has been to review the need to hedge exposures on a regular basis and it was not deemed necessary to cover any currency exposures by the use of financial instruments. The Group's policy continues to be to review the need to hedge exposures on a regular basis.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	ASSETS 2013 £000	ASSETS 2012 £000	LIABILITIES 2013 £000	LIABILITIES 2012 £000
Euros	1,369	1,651	527	397
Swedish Krone	937	490	523	222
	2,306	2,141	1,050	619

The sterling value of the Group's foreign currency denominated profits/(losses) before tax are as follows:

	2013 £000	2012 £000
Euros	(474)	(500)
Swedish Krone	284	32
	(190)	(468)

The following table details the Group's sensitivity to a 5% change in Sterling against the respective foreign currencies. The sensitivity of the Group's exposure to foreign currency risk is determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period.

	RESULT 2013 £000	RESULT 2012 £000	OTHER EQUITY 2013 £000	OTHER EQUITY 2012 £000
Euros	(24)	(23)	42	63
Swedish Krone	15	2	21	13
	(9)	(21)	63	76

The numerical disclosures in this note deal with financial assets and financial liabilities.

15. FINANCIAL INSTRUMENTS (CONTINUED)

CASH AND CASH EQUIVALENTS	2013 £000	2012 £000
CURRENCY		
Sterling	15	14
Euros	416	246
Swedish Krone	46	29
CASH AND CASH EQUIVALENTS	477	289
BANK OVERDRAFTS AND LOANS		
Bank overdraft – Sterling	359	954
Bank loan – Sterling	6,000	6,000
BANK BORROWINGS AND LOANS	6,359	6,954
NET BANK INDEBTEDNESS	5,882	6,665

Cash and cash equivalents as set out above comprise cash at bank and other short-term highly liquid investments with maturity of three months or less.

All bank overdrafts shown above are repayable on demand. Bank loans are taken out for three-month periods with the loan at 31 December 2013 due to be repaid on 28 February 2014. The Company and certain UK subsidiaries have given inter-company guarantees to secure their respective overdrafts. The overall credit lines for all borrowing facilities total £10,500,000 (2012 – £11,000,000).

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

Interest rates
All Group deposits and borrowings are held at floating rates of interest. The average effective interest rate on bank loans and overdrafts approximates to 4.50% (2012 – 4.86%) per annum.

Fair value of financial instruments
Current assets and liabilities are all held at floating rates. The fair values of cash and cash equivalents and bank overdrafts at 31 December 2013 all materially equate to book values.

Borrowing facilities
The Group has various committed undrawn overdraft facilities available at 31 December 2013 in respect of which all conditions precedent had been met and which expire within one year as follows:

	2013 £000	2012 £000
Drawn down	6,359	6,954
Undrawn	4,641	4,546
	11,000	11,500

The Group's borrowing profile is as follows:	2013 £000	2012 £000
Unsecured – at amortised cost current bank overdrafts	359	954
Unsecured – at amortised cost current bank loan	6,000	6,000
Secured – at amortised cost current finance lease liabilities	33	126
CURRENT BORROWINGS	6,392	7,080
Secured – at amortised cost non-current finance lease liabilities	–	33
TOTAL BORROWINGS	6,392	7,113

The principal Group borrowing facility of up to £20.0 million is in place for the period to February 2017. The Group is currently in compliance with all conditions in relation to its borrowing facilities.

GEARING RATIO	2013 £000	2012 £000
The gearing ratio at the year end is as follows:		
Total borrowings (as defined above)	6,392	7,113
Equity	26,424	24,018
NET DEBT TO EQUITY RATIO	24%	30%

16. TRADE AND OTHER PAYABLES

	2013 £000	2012 £000
DUE WITHIN ONE YEAR		
Trade payables	26,182	25,202
Other taxation and social security	2,101	2,128
Other creditors	206	88
Accruals and deferred income	3,857	4,287
	32,346	31,705
DUE AFTER MORE THAN ONE YEAR		
Other creditors	36	88

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. No interest is charged on trade payables.

The Directors consider that the carrying amounts for trade and other payables approximate to their fair value.

17. PROVISIONS

	2013 £000	2012 £000
At 1 January	582	582
Charged to consolidated income statement (see note 2c)	193	–
Paid in the year	(693)	–
At 31 December	82	582
Due within one year – current liabilities	82	332
Due between two and five years – non-current liabilities	–	250
	82	582

The Group has two vacant and three sub-let properties, with the majority of the head leases expiring before 2020. The Company reassesses the provision made for residual lease commitments together with other outgoings for dilapidations, after taking into account existing sub-tenant arrangements and assumptions relating to potential later periods of vacancy.

Further information on lease commitments is set out in note 23.

18. FINANCE LEASE LIABILITIES

	2013 £000	2012 £000
AMOUNTS PAYABLE UNDER FINANCE LEASES		
Due within one year	33	126
Due in the second to fifth years inclusive	–	33
PRESENT VALUE OF FINANCE LEASE LIABILITIES	33	159
Due for settlement within 12 months (shown within current liabilities)	(33)	(126)
Due for settlement after more than 12 months (shown as non-current liabilities)	–	33

The average lease term is five years and the average effective borrowing rate is 4.76% (2012 – 4.08%). Interest rates are fixed at the contract date. All liabilities are on a fixed repayment basis. Finance lease liabilities are denominated in Sterling.

The Directors consider that the carrying amounts for finance lease liabilities approximate to their fair value.

The finance lease liabilities are secured over the assets to which the leases relate as disclosed in note 11.

19. DEFERRED TAX

	TAX LOSSES £000	HELD OVER GAINS £000	OTHER INTANGIBLE ASSETS £000	RETIREMENT BENEFIT OBLIGATIONS £000	TOTAL £000
AT 1 JANUARY 2012	1,109	(486)	(467)	5,121	5,277
(Charged)/credited in income statement	(381)	318	86	(813)	(790)
Credited/(charged) in other comprehensive income					
Deferred tax on remeasurement of pension scheme liability	–	–	–	403	403
Long-term corporation tax rate change	–	–	–	(365)	(365)
AT 1 JANUARY 2013	728	(168)	(381)	4,346	4,525
(Charged)/credited in income statement	(279)	168	128	(420)	(403)
(Charged) in other comprehensive income					
Deferred tax on remeasurement of pension scheme liability	–	–	–	(271)	(271)
Long-term corporation tax rate change	–	–	–	(476)	(476)
AT 31 DECEMBER 2013	449	–	(253)	3,179	3,375
2013					
DEFERRED TAX ASSET					
Due outwith one year	449	–	–	3,179	3,628
DEFERRED TAX LIABILITIES					
Due outwith one year	–	–	(253)	–	(253)
	449	–	(253)	3,179	3,375
2012					
DEFERRED TAX ASSET					
Due outwith one year	728	(168)	–	4,346	4,906
DEFERRED TAX LIABILITIES					
Due outwith one year	–	–	(381)	–	(381)
	728	(168)	(381)	4,346	4,525

The Chancellor's Autumn Statement on 5 December 2012 announced that the UK corporation tax rate will reduce to 20% by 2015. The most recent rate reductions to 23% (effective from 1 April 2013) were substantively enacted on 3 July 2012 and those reductions to 21% from April 2014 and 20% from April 2015 were substantively enacted on 2 July 2013 and have been reflected in the financial statements at 31 December 2012 and 31 December 2013 respectively.

Deferred tax has not been provided on revaluations of fixed assets. This tax will only become payable if the assets are sold and rollover relief is not obtained. The estimated tax that would become payable in these circumstances is £14,000 (2012 – £16,000).

20. SHARE CAPITAL

	NUMBER OF 25P SHARES	2013 £000	2012 £000
Authorised	200,000,000	50,000	50,000
Allotted, issued and fully paid:			
AT 1 JANUARY AND 31 DECEMBER	115,019,000	28,755	28,755

There have been no movements in share capital during the year.

The Company has one class of ordinary shares, which carry no right to fixed income. Each ordinary share carries one vote in any General Meeting of the Company.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

21. RESERVES

	REVALUATION RESERVE £000	OWN SHARES £000	TRANSLATION RESERVE £000	RETAINED EARNINGS £000 AS RESTATED (SEE NOTE 1)	TOTAL £000 AS RESTATED (SEE NOTE 1)
BALANCE AT 1 JANUARY 2012	70	(810)	246	(4,546)	(5,040)
Profit for the year	–	–	–	3,865	3,865
Dividends paid (see note 8)	–	–	–	(1,761)	(1,761)
Foreign currency translation differences – foreign operations	–	–	(63)	–	(63)
Remeasurement of pension scheme liability taken direct to equity	–	–	–	(1,776)	(1,776)
Deferred tax taken direct to equity					
Tax on remeasurement	–	–	–	403	403
Corporation tax rate change	–	–	–	(365)	(365)
BALANCE AT 1 JANUARY 2013	70	(810)	183	(4,180)	(4,737)
Profit for the year	–	–	–	3,456	3,456
Dividends paid (see note 8)	–	–	–	(1,774)	(1,774)
Foreign currency translation differences – foreign operations	–	–	40	–	40
Disposal of own shares	–	499	–	(245)	254
Remeasurement of pension scheme liability taken direct to equity	–	–	–	1,177	1,177
Deferred tax taken direct to equity					
Tax on remeasurement	–	–	–	(271)	(271)
Corporation tax rate change	–	–	–	(476)	(476)
BALANCE AT 31 DECEMBER 2013	70	(311)	223	(2,313)	(2,331)

At 31 December 2013, the Company's Employee Share Ownership Trust ("ESOT") held 551,372 (2012 – 1,436,372) ordinary shares in Macfarlane Group PLC with a market value of £189,000 (2012 – £402,000) against the future exercise of share options. The ESOT has waived its right to receive dividends on these shares. During 2013 the Company transferred 885,000 ordinary shares, previously held as own shares to its defined benefit pension scheme.

Exchange differences arising in the consolidated accounts on the retranslation at closing rates of the Group's net investments in foreign subsidiary companies are recorded as movements on the Group's translation reserve. The translation reserve at 31 December 2013 relates wholly to continuing operations.

22. NOTES TO THE CASH FLOW STATEMENT

	2013 £000	2012 £000
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS	6,251	5,834
Adjustments for:		
Amortisation of intangible assets	295	306
Depreciation of property, plant and equipment	1,036	1,020
(Gain)/loss on disposal of property, plant and equipment	(12)	1
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	7,570	7,161
Decrease in inventories	189	517
(Increase)/decrease in receivables	(809)	2,202
Increase/(decrease) in payables	765	(2,600)
Decrease in provisions	(693)	–
Pension scheme contributions	(2,493)	(2,583)
CASH GENERATED BY OPERATIONS	4,529	4,697
Income taxes paid	(678)	(917)
Interest paid	(424)	(450)
NET CASH INFLOW FROM OPERATING ACTIVITIES	3,427	3,330

22. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

	2013 £000	2012 £000
MOVEMENT IN NET DEBT		
Increase in cash and cash equivalents in the year	188	90
Decrease in bank overdrafts	595	480
Cash and cash equivalents in statement of cash flows	783	570
Cash flows from payment of finance lease liabilities	126	233
MOVEMENT IN NET DEBT IN THE YEAR	909	803
Opening net debt	(6,824)	(7,627)
CLOSING NET DEBT	(5,915)	(6,824)
NET DEBT COMPRISES:		
Cash and cash equivalents	477	289
Bank overdrafts	(359)	(954)
CASH AND CASH EQUIVALENTS IN STATEMENT OF CASH FLOWS	118	(665)
Bank loans	(6,000)	(6,000)
NET BANK DEBT	(5,882)	(6,665)
Finance lease liabilities		
Due within one year	(33)	(126)
Due outwith one year	–	(33)
CLOSING NET DEBT	(5,915)	(6,824)

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

Bank overdrafts and loans comprise £6.0 million of loans repayable within one year, the remainder being bank overdrafts repayable on demand for which there is no right of offset against cash and cash equivalents on the balance sheet. For the purposes of the cash flow statement, overdrafts are included within cash and cash equivalents. These have now been repaid as the Group put in place new longer-term facilities as set out in note 15.

23. FINANCIAL COMMITMENTS

During the year the Group made minimum lease payments under non-cancellable operating leases as follows:

	LAND AND BUILDINGS 2013 £000	OTHER 2013 £000	LAND AND BUILDINGS 2012 £000	OTHER 2012 £000
Charge for the year	4,257	2,129	4,595	1,884
Recoveries against property leases	(483)	–	(831)	–
Net charge for the year	3,774	2,129	3,764	1,884

At the balance sheet date the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due for payment as follows:

	LAND AND BUILDINGS 2013 £000	OTHER 2013 £000	LAND AND BUILDINGS 2012 £000	OTHER 2012 £000
Within one year	4,246	2,057	4,484	1,884
Within two to five years	13,677	4,570	16,015	4,382
After more than five years	7,470	421	10,868	388
	25,393	7,048	31,367	6,654

23. FINANCIAL COMMITMENTS (CONTINUED)

The majority of the 25 (2012 – 27) leases of land and buildings summarised on the previous page are subject to rent reviews. 4 (2012 – 8) of these leases are subject to sub-let arrangements or assignations with third parties to reduce the property cost to Macfarlane Group albeit 1 (2012 – 3) of these properties is vacant. At the balance sheet date there were outstanding commitments for future annual minimum lease payments receivable under non-cancellable operating leases which fall due for payment to the Group as follows:

	LAND AND BUILDINGS 2013 £000	LAND AND BUILDINGS 2012 £000
Within one year	474	487
Within two to five years	1,894	1,894
After more than five years	720	1,179
	3,088	3,560

In the event of tenants defaulting on future payments under non-cancellable operating leases for land and buildings, this would lead to increased property costs to the Group until the leases were subsequently sub-let.

Following the assignment of a property head lease at Coventry in October 2011, the Group entered into sub-leases for approximately 40% of that site to accommodate existing operations. As part of this arrangement, the Group provided guarantees for the rentals under the head lease in the event of a default by the assignee. The assignee is the UK subsidiary of a multinational business listed on the New York Stock Exchange. As a result of the assignation, there is a contingent liability of £3.2 million, (2012 – £3.6 million) the difference between head lease and sub-lease payments from 1 January 2014 until the conclusion of the head lease in November 2020.

Contractual commitments for capital expenditure for which no provision has been made in the accounts amounted to £650,000 (2012 – £Nil).

24. SHARE-BASED PAYMENTS

Equity-settled share option schemes

The Group share option plans provide for a grant price, which equates to the closing quoted market price of the Group shares on the day before the date of grant. The vesting period is generally three years and options are forfeited if the employee leaves the Group before the options vest. If the options remain unexercised after a period of ten years from the date of grant, the options lapse.

SHARE OPTIONS

The movements on share options during the year is as follows:	NUMBER OF SHARES 2013	NUMBER OF SHARES 2012
Outstanding at 1 January	1,436,372	1,797,372
Lapsed during the year	(885,000)	(361,000)
OUTSTANDING AT 31 DECEMBER	551,372	1,436,372
EXERCISABLE AT 31 DECEMBER	551,372	1,436,372

The options in existence being valued have an average exercise price of 26.0p (2012 – 27.5p).

The share options granted to employees, including Executive Directors, and outstanding at 31 December under existing share option schemes together with exercise prices and dates of exercise are as set out below:

	EXERCISE PRICE PER SHARE	EXERCISE DATE	NUMBER OF SHARES 2013	NUMBER OF SHARES 2012
The Macfarlane Group Company Share Option Plan 2000	28.5p	April 2006 – April 2013	–	393,490
The Macfarlane Group PLC Executive Share Option Scheme 2000	28.5p	April 2006 – April 2013	–	491,510
The Macfarlane Group PLC Executive Share Option Scheme 2000	26.0p	October 2007 – October 2014	551,372	551,372
TOTAL SHARE OPTIONS OUTSTANDING AT 31 DECEMBER			551,372	1,436,372

Equity-settled long-term incentive plans

The Group provided long-term incentive plans which provide for a base level share price for Total Shareholder Return ("TSR") equating to the closing quoted market price of the Group shares on the day before the date of award. The vesting period is three years and incentive plans are forfeited if the employee leaves the Group before they vest. No long-term incentive plan awards were made in 2012 or 2013. All awards have now lapsed.

25. RETIREMENT BENEFIT OBLIGATIONS

Introduction

Macfarlane Group PLC sponsors a defined benefit pension scheme for certain active and former UK employees – the Macfarlane Group PLC Pension & Life Assurance Scheme (1974) ("the scheme"). The two major trading subsidiaries, Macfarlane Group UK Limited and Macfarlane Labels Limited are the other two sponsoring employers of the scheme.

The scheme is administered by a separate Board of Trustees composed of employer nominated representatives and member nominated Trustees and is legally separate from the Group. The assets of the scheme are held separately from those of the Group in managed funds under the supervision of the Trustees. The Trustees are required by law to act in the interest of all classes of beneficiary in the scheme and are responsible for investment policy and the day-to-day administration of benefits. The scheme was closed to new entrants during 2002.

The scheme provides qualifying employees with an annual pension of 1/60 of pensionable salary for each completed year's service on attainment of a normal retirement age of 65. Pensionable salaries were frozen for the remaining active members at the levels current at 30 April 2009 with the change taking effect from 30 April 2010. As a result no further salary inflation applies for active members who elected to remain in the scheme. Active members' benefits also include life assurance cover, albeit the payment of these benefits is at the discretion of the Trustees of the scheme.

On withdrawing from active service a deferred member's pension is revalued from the time of withdrawal until the pension is drawn. Revaluation in deferment is statutory and since 2010 has been revalued on the Consumer Price Index ("CPI") measure of inflation. Revaluation of pensions in payment is a blend of fixed increases and inflationary increases depending on the relevant periods of accrual of benefit. For pensions in payment, the inflationary increase is currently based on the Retail Prices Index ("RPI") measure of inflation.

During 2012, Macfarlane Group PLC made the decision to amend benefits for pensioner, deferred and active members in the defined benefit pension scheme by making a Pension Increase Exchange ("PIE") offer to pensioner members at 1 May 2012 and providing a PIE option for deferred and active members after 1 May 2012. Details are set out in note 2 and as a result of both of these actions, a gain of £1.65 million was recorded in the first half of 2012 after charging attributable professional expenses of £0.20 million.

The Group will consider a number of further actions to reduce the deficit in 2014.

Balance sheet disclosures at 31 December 2013

The pension scheme's qualified actuary from AON Hewitt carries out triennial valuations using the Projected Unit Credit Method to determine the level of deficit. For the most recent triennial valuation at 1 May 2011, the principal assumptions adopted were that investment returns would average 6.15% per annum and that no further salary increases would apply for active members. The valuation showed that the market value of the relevant investments of the scheme was £46,959,000 and the actuarial value of these investments represented 66% of the value of benefits that had accrued to members.

The investments held by the scheme and the deficit of the scheme have been based on the results of the actuarial valuation as at 1 May 2011, updated to the year-end as shown below:

INVESTMENT CLASS	VALUATION 2013 £000	ASSET ALLOCATION	VALUATION 2012 £000	ASSET ALLOCATION	VALUATION 2011 £000	ASSET ALLOCATION
EQUITIES						
UK equities and equity funds	5,790	10.7%	7,238	14.1%	6,597	14.0%
Overseas equities funds	9,289	17.1%	7,236	14.1%	6,185	13.2%
Multi-asset diversified funds	16,414	30.2%	13,026	25.4%	12,206	26.0%
BONDS						
Government gilt funds (fixed interest)	8,128	15.0%	9,060	17.6%	8,813	18.7%
Government gilt funds (index-linked)	4,918	9.1%	2,498	4.9%	2,489	5.3%
Corporate bond fund	9,488	17.5%	11,986	23.3%	10,504	22.4%
OTHER						
Cash	211	0.4%	305	0.6%	174	0.4%
Fair value of scheme assets	54,238	100.0%	51,349	100.0%	46,968	100.0%
Present value of scheme liabilities	(70,134)		(70,247)		(67,452)	
DEFICIT IN THE SCHEME	(15,896)		(18,898)		(20,484)	

25. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The investment in equities and equity funds by the pension scheme of £7,238,000 at 31 December 2012 included a holding of 1,145,918 ordinary shares in Macfarlane Group PLC held at a value of £321,000. In April 2013 the Company transferred 885,000 shares held as own shares, with a market value of £255,000, to the Macfarlane Group PLC Pension & Life Assurance Scheme (1974). The value of these shares is included in total contributions of £2,748,000 made to the scheme in 2013. The pension scheme trustees then sold 2,130,918 shares in June 2013 for a consideration of £558,000 and no longer hold any shares in Macfarlane Group PLC.

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

Assumptions

The scheme's liabilities at 31 December 2013 were calculated on the following bases as required under IAS19:

	2013	2012	2011
Discount rate	4.50%	4.40%	4.80%
Rate of increase in salaries	0.00%	0.00%	0.00%
Rate of increase in pensions in payment	3% or 5% for fixed increases or 3.30% for LPI. 2.20% post 5 April 2006	3% or 5% for fixed increases or 2.90% for LPI. 2.10% post 5 April 2006	3% or 5% for fixed increases or 2.90% for LPI. 2.10% post 5 April 2006
Spouse's pension assumption*			
Pensioner/deferred and active members	70%/80%	70%/80%	90%/90%
Inflation assumption (RPI)	3.40%	3.00%	3.00%
Inflation assumption (CPI)	2.50%	2.30%	2.20%
Life expectancy beyond normal retirement age of 65			
Male	22.6	22.4	22.3
Female	25.1	24.6	24.6

*Actuarial assumption was changed following the 2012 PIE exercise, giving an actuarial gain of £1.65 million.

Sensitivity to key assumptions

The scheme exposes the Group to actuarial risks, such as interest rate risk, inflation risk, longevity risk and investment risk. The key assumptions used for IAS 19 are discount rate, inflation and mortality. If different assumptions were used, then this could have a material effect on the results disclosed. Assuming all other assumptions are held static then a movement in the following key assumptions would affect the level of the deficit as shown below:

Assumptions

	2013 £000	2012 £000
Discount rate movement of +0.1%	1,192	1,194
Inflation rate movement of +0.1%	(281)	(281)
Mortality movement of +0.1 year in age rating	231	232

The sensitivity information has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date and is consistent with the approach adopted in previous years.

The mortality movement of +0.1 year in age rating equates to current progressions in life expectancy tables.

This assumes that the average duration of liabilities in the scheme is seventeen years.

Funding

UK pension legislation requires that pension schemes are funded prudently. Following the 2011 actuarial valuation, the schemes trustees agreed to a recovery period of thirteen years. Macfarlane Group PLC is currently paying deficit reduction contributions of £2,748,000 per annum, which along with investment returns from return-seeking assets is expected to make good the actuarial shortfall by 2024. The estimated deficit reduction contributions in 2014 are £2,800,000.

The employer contribution rate for active members is 11.6% of pensionable salary, and the employee contribution rate is 7% of pensionable salary.

The next triennial actuarial valuation of the scheme is due at 1 May 2014.

25. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

MOVEMENT IN THE SCHEME DEFICIT IN THE YEAR	2013 £000	2012 £000 AS RESTATED (SEE NOTE 1)
At 1 January	(18,898)	(20,484)
Current service costs	(148)	(146)
Pension Increase Exchange gain (see note 2e)	–	1,855
Contributions from sponsoring companies	2,748	2,583
Net finance cost	(775)	(930)
Remeasurement of pension scheme liability in the year	1,177	(1,776)
AT 31 DECEMBER	(15,896)	(18,898)

ANALYSIS OF AMOUNTS (CHARGED)/CREDITED TO PROFIT BEFORE TAX	2013 £000	2012 £000
Current service costs	(148)	(146)
Net finance cost	(775)	(930)
Pension Increase Exchange gain	–	1,855
PENSION (EXPENSE)/INCOME (CHARGED)/CREDITED TO PROFIT BEFORE TAX	(923)	779

ANALYSIS OF THE REMEASUREMENT OF PENSION SCHEME LIABILITY AS INCLUDED IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME/(EXPENSE)	2013 £000	2012 £000
Return on scheme assets excluding amount shown in interest income	1,469	2,051
Changes in assumptions underlying the present value of scheme liabilities	(292)	(3,827)
REMEASUREMENT OF PENSION SCHEME LIABILITY RECOGNISED IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME/(EXPENSE)	1,177	(1,776)

MOVEMENT IN THE FAIR VALUE OF SCHEME ASSETS	2013 £000	2012 £000
At 1 January	51,349	46,968
Interest income	2,241	2,256
Return on scheme assets excluding amount shown in interest income	1,469	2,051
Contributions from sponsoring companies	2,748	2,583
Contribution from scheme members	70	80
Benefits paid	(3,639)	(2,589)
AT 31 DECEMBER	54,238	51,349

MOVEMENT IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS	2013 £000	2012 £000
At 1 January	(70,247)	(67,452)
Normal service costs	(148)	(146)
Pension Increase Exchange gain	–	1,855
Interest cost	(3,016)	(3,186)
Contribution from scheme members	(70)	(80)
Changes in assumptions underlying the defined benefit obligations	(292)	(3,827)
Benefits paid	3,639	2,589
AT 31 DECEMBER	(70,134)	(70,247)

The cumulative amount of actuarial losses recognised in other comprehensive income since the date of transition to IAS 19 on 1 January 2004 is £13,470,000 (2012 – £14,647,000).

25. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The history of experience adjustments and actual returns on scheme assets and scheme liabilities is as follows:

	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Present value of defined benefit obligations	(70,134)	(70,247)	(67,452)	(61,018)	(60,988)
Fair value of scheme assets	54,238	51,349	46,968	45,293	40,622
DEFICIT IN THE SCHEME	(15,896)	(18,898)	(20,484)	(15,725)	(20,366)
ACTUAL RETURN ON SCHEME ASSETS					
Amount	3,710	4,307	2,430	4,788	5,630
Percentage of scheme assets	6.8%	8.4%	5.3%	10.6%	13.9%
EXPERIENCE ADJUSTMENT ON SCHEME LIABILITIES					
Amount	(292)	(3,827)	(5,915)	(554)	(7,587)
Percentage of scheme liabilities	(1.4%)	(5.4%)	(8.8%)	(0.9%)	(12.4%)
EXPERIENCE ADJUSTMENT ON SCHEME ASSETS					
Amount	1,469	2,051	(517)	2,094	3,305
Percentage of scheme assets	2.7%	4.0%	(1.1%)	4.6%	8.1%

Defined contribution schemes

The Group also operates a number of defined contribution pension schemes, set up as Group Personal Pension Plans. The assets of these plans are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions paid by the Group to these plans and amounted to £672,000 (2012 – £756,000). Contributions from the company and employees amounting to £43,000 (2012 – £53,000) were payable to the schemes and are included in creditors at the balance sheet date. Macfarlane Group has a stakeholder pension arrangement for those employees not eligible for membership of any of the Group's contributory pension schemes.

26. RELATED PARTY TRANSACTIONS

The Group has a related party relationship with its subsidiaries (see page 71), with its Directors who comprise the Group Board and with Macfarlane Group PLC sponsored pension schemes.

Transactions between the Company and its subsidiaries are eliminated on consolidation and are not disclosed.

Key management personnel comprise the Group Board. Their remuneration is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures".

	2013 £000	2012 £000
Directors' Remuneration	745	759
Employer's national insurance contributions	98	100
	843	859

Further details of Directors' individual and collective remuneration are set out in the Report on Directors' Remuneration on page 21. Details of Directors' shareholdings in the Company are also shown on page 22. Total dividends of £31,000 were paid in respect of these shareholdings in 2013 (2012 – £31,000).

Disclosures in relation to the pension schemes are set out in note 25 including transactions in own shares.

The Directors have considered the implications of IAS24 "Related Party Disclosures" and are satisfied that there are no other related party transactions occurring during the year, which require disclosure other than those already disclosed in these financial statements.

COMPANY BALANCE SHEET
AT 31 DECEMBER 2013

26. RELATED PARTY TRANSACTIONS (CONTINUED)

	NOTE	2013 £000	2012 £000
FIXED ASSETS			
Tangible fixed assets	28	41	41
Investments	29	27,411	24,225
		27,452	24,266
CURRENT ASSETS			
Debtors – due within one year	30	3,382	3,893
– due after more than one year	30	16,371	18,290
TOTAL CURRENT ASSETS		19,753	22,183
Creditors – amounts falling due within one year	31	(9,312)	(9,810)
NET CURRENT ASSETS		10,441	12,373
TOTAL ASSETS LESS CURRENT LIABILITIES		37,893	36,639
Creditors – amounts falling due after more than one year	32	(1,541)	(601)
NET ASSETS EXCLUDING NET PENSION LIABILITY		36,352	36,038
Net pension liability	38	(5,214)	(5,966)
NET ASSETS INCLUDING NET PENSION LIABILITY		31,138	30,072
CAPITAL AND RESERVES			
Share capital	33	28,755	28,755
Own shares	34	(311)	(810)
Profit and loss account	34	2,694	2,127
SHAREHOLDERS' FUNDS	36	31,138	30,072

The accompanying notes are an integral part of this company balance sheet.

The financial statements of Macfarlane Group PLC, Company registration number SC004221, were approved by the Board of Directors on 27 February 2014 and signed on its behalf by

Peter D. Atkinson
Chief Executive

John Love
Finance Director

27. SIGNIFICANT ACCOUNTING POLICIES

The Company financial statements have been prepared on the historical cost basis and in accordance with United Kingdom Accounting Standards.

The Directors, in their consideration of going concern, have reviewed the Company and Group's future cash flow forecasts and revenue projections, which they believe are based on prudent market data and past experience. Additional details are set out on page 40. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

The principal accounting policies adopted are as noted below:

Investments

Investments held as fixed assets are stated in note 29 at cost less provision for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost. No depreciation is provided on land. Depreciation is calculated at fixed rates on a straight-line basis to write off the cost of the assets over the period of their expected useful lives. The rates of depreciation vary between 2% – 5% per annum on buildings with all plant and equipment fully written down.

Pension schemes

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out triennially and updated at each balance sheet date. Actuarial gains and losses are recognised in full, in the period in which they occur, directly in reserves.

Past service cost is recognised immediately to the extent that benefits are already vested and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

Settlement gains represent the excess of the current value of the retirement obligation extinguished over the transfer value paid to extinguish the liability. Curtailment gains, which are recognised in the profit and loss account, represent the reduction in value of the retirement obligations achieved following a change in benefits put forward by the Company but only after trustee approval to any necessary rule changes has been effected.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of the scheme assets. The obligations are measured on an actuarial basis and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme's liabilities.

Payments made to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Financial instruments

(i) Other receivables do not carry interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.
(ii) Interest-bearing bank overdrafts and loans are recorded at the proceeds received, net of direct issue costs.
(iii) Trade creditors are not interest bearing and are stated at their nominal value.

Current taxation

Provision is made for corporation tax on all profits and realised gains up to the balance sheet date, calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

The deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Cash flow statement

The Company has not presented a company only cash flow statement. It has taken advantage of the exemption contained in FRS 1 (revised 1996) "Cash Flow Statements" as Macfarlane Group PLC has included a consolidated cash flow statement within its Group accounts.

Share-based payments

The Company has adopted FRS 20 "Share-based payments." The Company issues equity-settled share-based payments to certain employees, which are measured at fair value at the date of grant. The fair value, determined at the grant date, of the share-based payments issued to employees of this Company are expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. The expense relating to employees of subsidiary companies is fully recharged to those companies with the cost increasing the investment in subsidiaries and a corresponding credit to reserves.

The fair value is determined by the use of a binomial model. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

28. TANGIBLE FIXED ASSETS

	LAND AND BUILDINGS £000	PLANT AND EQUIPMENT £000	TOTAL £000
COST			
At 1 January 2013 and 31 December 2013	15	305	320
DEPRECIATION			
At 1 January 2013 and 31 December 2013	11	268	279
NET BOOK VALUE			
At 1 January 2013 and 31 December 2013	4	37	41

The parent company had no assets held under finance leases in 2013 or in 2012.

29. INVESTMENTS

	2013 £000	2012 £000
INVESTMENT IN SUBSIDIARIES AT COST		
At 1 January	24,225	24,225
Additions	3,300	–
Disposals	(114)	–
AT 31 DECEMBER	27,411	24,225

Details of the principal operating subsidiaries are set out on page 71.

The Company subscribed £3,300,000 for additional share capital within its subsidiary Macfarlane Labels Limited during the year.

Of the investment value shown above £Nil (2012 – £114,000) related to charges to investments in subsidiary companies in respect of equity-settled share-based payments, to be settled by the parent company. As these lapsed during 2013, the investment has been written off and treated as a disposal.

30. DEBTORS

	2013 £000	2012 £000
DUE WITHIN ONE YEAR		
Amounts owed by subsidiaries	2,000	2,250
Other receivables	648	581
Prepayments and accrued income	403	432
Deferred tax asset (see below)	331	630
	3,382	3,893
DEFERRED TAX ASSET		
Corporation tax losses		
At 1 January	630	527
(Charged)/credited through profit and loss account	(299)	103
AT 31 DECEMBER	331	630

Recovery of the deferred tax asset for corporation tax losses is anticipated against future taxable profits.

	2013 £000	2012 £000
DUE AFTER MORE THAN ONE YEAR		
Amounts owed by subsidiaries	16,371	18,290

31. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013 £000	2012 £000
Bank overdrafts and loans	8,548	8,856
Trade creditors	283	384
Amounts owed to group companies	238	265
Other taxation and social security	37	36
Accruals and deferred income	206	269
	9,312	9,810

31. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR (CONTINUED)

All bank overdrafts and loans are unsecured and are repayable on demand.

The Company and certain subsidiaries have given inter-company guarantees to secure their respective overdrafts and loans. The overall credit lines for these borrowing facilities total £10,500,000 (2012 – £11,000,000) and are in place for the period to 28 February 2014.

The Group agreed a new debt facility with Lloyds Banking Group PLC with the new facility comprising a three-year committed borrowing facility of up to £20.0 million and replaces the existing facilities.

32. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2013 £000	2012 £000
Amounts owed to group companies	1,541	601

33. SHARE CAPITAL

	NUMBER OF 25P SHARES	2013 £000	2012 £000
Authorised	200,000,000	50,000	50,000
Allotted, issued and fully paid:			
At 1 January and 31 December	115,019,000	28,755	28,755

There have been no movements in share capital during the year.

The Company has one class of ordinary shares, which carry no right to fixed income. Each ordinary share carries one vote in any General Meeting of the Company.

34. RESERVES

	OWN SHARES £000	PROFIT AND LOSS ACCOUNT £000	TOTAL £000
BALANCE AT 1 JANUARY 2012	(810)	2,077	1,267
Profit for the year	–	2,166	2,166
Dividends paid (see note 8)	–	(1,761)	(1,761)
Post tax actuarial loss in pension scheme taken direct to reserves	–	(355)	(355)
BALANCE AT 1 JANUARY 2013	(810)	2,127	1,317
Disposal of own shares	499	(245)	254
Profit for the year	–	2,017	2,017
Dividends paid (see note 8)	–	(1,774)	(1,774)
Post tax actuarial gain in pension scheme taken direct to reserves	–	569	569
BALANCE AT 31 DECEMBER 2013	(311)	2,694	2,383

At 31 December 2013, the Company's Employee Share Ownership Trust ("ESOT") held 551,372 (2012 – 1,436,372) ordinary shares in Macfarlane Group PLC with a market value of £189,000 (2012 – £402,000) against the future exercise of share options. The ESOT has waived its right to receive dividends on these shares. During 2013 the Company transferred 885,000 ordinary shares, previously held as own shares to its defined benefit pension scheme.

35. OPERATING PROFIT

	2013 £000	2012 £000
OPERATING PROFIT FOR THE PARENT COMPANY HAS BEEN ARRIVED AT AFTER CHARGING:		
Auditor's remuneration		
Audit services	16	16
Non-audit services	15	78

35. OPERATING PROFIT (CONTINUED)

STAFF COSTS

THE AVERAGE MONTHLY NUMBER OF EMPLOYEES WAS:	2013 NO.	2012 NO.
Administration	11	11

THE COSTS INCURRED IN RESPECT OF THESE EMPLOYEES WERE:	2013 £000	2012 £000
Wages and salaries	956	1,011
Social security costs	125	116
Other pension costs	55	25
	1,136	1,152

36. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2013 £000	2012 £000
Profit for the year	2,017	2,166
Dividends to equity holders in the year	(1,774)	(1,761)
Post tax actuarial gain/(loss) in pension scheme taken direct to equity	569	(355)
Transfer of own shares to pension scheme	254	–
MOVEMENTS IN SHAREHOLDERS' FUNDS IN THE YEAR	1,066	50
Opening shareholders' funds	30,072	30,022
CLOSING SHAREHOLDERS' FUNDS	31,138	30,072

37. SHARE-BASED PAYMENTS

Equity-settled share option plans

Share option plans of the parent company, Macfarlane Group PLC provide for a grant price, which approximates to the average quoted market price of the Group shares on the date of grant. The vesting period is generally three years and options are forfeited if the employee leaves the Group before the options vest. If the options remain unexercised after a period of ten years from the date of grant, the options lapse.

A summary of the movements on share options during the year is as follows:	NUMBER OF SHARES 2013	NUMBER OF SHARES 2012
Outstanding at 1 January	631,372	803,372
Lapsed during the year	(80,000)	(172,000)
OUTSTANDING AT 31 DECEMBER	551,372	631,372
EXERCISABLE AT 31 DECEMBER	551,372	631,372

Options outstanding as follows:	EXERCISE DATE	EXERCISE PRICE PER SHARE	NUMBER OF SHARES 2013	NUMBER OF SHARES 2012
Grant date				
16 April 2003	April 2006 – April 2013	28.5p	–	80,000
29 October 2004	October 2007 – October 2014	26.0p	551,372	551,372
			551,372	632,372

EQUITY-SETTLED SHARE OPTION PLANS	2013	2012
Inputs to the binomial model giving rise to a charge are as follows:		
Weighted average share price	42p	42p
Weighted average exercise price	42p	42p
Expected volatility	40%	40%
Expected life	6.5 years	6.5 years
Risk free rate	4.4%	4.4%
Expected annual dividend yield	0.0%	0.0%

The options in existence, being valued, have an average exercise price of 26.0p (2012 – 27.5p).

Equity-settled long-term incentive plans

The Group provided long-term incentive plans which provide for a base level share price for Total Shareholder Return equating to the closing quoted market price of the Group shares on the day before the date of award. The vesting period is three years and incentive plans are forfeited if the employee leaves the Group before they vest. No long-term incentive plan awards were made in 2012 or 2013. All awards have now lapsed.

38. PENSIONS

Introduction

Macfarlane Group PLC sponsors a defined benefit pension scheme for certain active and former UK employees – the Macfarlane Group PLC Pension & Life Assurance Scheme (1974) ("the scheme"). The two major trading subsidiaries, Macfarlane Group UK Limited and Macfarlane Labels Limited are the other two sponsoring employers of the scheme.

The scheme is administered by a separate Board of Trustees composed of employer nominated representatives and member nominated Trustees and is legally separate from the Group. The assets of the scheme are held separately from those of the Group in managed funds under the supervision of the Trustees. The Trustees are required by law to act in the interest of all classes of beneficiary in the scheme and are responsible for investment policy and the day-to-day administration of benefits. The scheme was closed to new entrants during 2002.

The scheme provides qualifying employees with an annual pension of 1/60 of pensionable salary for each completed year's service on attainment of a normal retirement age of 65. Pensionable salaries were frozen for the remaining active members at the levels current at 30 April 2009 with the change taking effect from 30 April 2010. As a result no further salary inflation applies for active members who elected to remain in the scheme. Active members' benefits also include life assurance cover, albeit the payment of these benefits is at the discretion of the Trustees of the scheme.

On withdrawing from active service a deferred member's pension is revalued from the time of withdrawal until the pension is drawn. Revaluation in deferment is statutory and since 2010 has been revalued on the Consumer Price Index ("CPI") measure of inflation. Revaluation of pensions in payment is a blend of fixed increases and inflationary increases depending on the relevant periods of accrual of benefit. For pensions in payment, the inflationary increase is currently based on the Retail Prices Index ("RPI") measure of inflation.

During 2012, Macfarlane Group PLC made the decision to amend benefits for pensioner, deferred and active members in the defined benefit pension scheme by making a Pension Increase Exchange ("PIE") offer to pensioner members at 1 May 2012 and providing a PIE option for deferred and active members after 1 May 2012.

The scheme exposes the Group to actuarial risks, such as interest rate risk, inflation risk, longevity risk and investment risk.

The Group will consider a number of further actions to reduce the deficit in 2014.

Balance sheet disclosures at 31 December 2013

The pension scheme's qualified actuary from AON Hewitt carries out triennial valuations using the Projected Unit Credit Method to determine the level of deficit. For the most recent triennial valuation at 1 May 2011, the principal assumptions adopted were that investment returns would average 6.15% per annum and that no further salary increases would apply for active members. The valuation showed that the market value of the relevant investments of the scheme for the group as a whole was £46,959,000 and the actuarial value of these investments represented 66% of the value of benefits that had accrued to members.

The investments held by the scheme and the deficit of the scheme have been based on the results of the actuarial valuation as at 1 May 2011, updated to the year-end to reflect the amounts attributable to Macfarlane Group PLC, the parent company as shown below:

INVESTMENT CLASS	VALUATION 2013 £000	LONG-TERM EXPECTED RETURN	VALUATION 2012 £000	LONG-TERM EXPECTED RETURN	VALUATION 2011 £000	LONG-TERM EXPECTED RETURN
Equities	6,183	7.30%	5,934	7.40%	5,241	7.50%
Bonds	9,240	4.00%	9,653	3.40%	8,940	3.70%
Multi-asset diversified funds	6,729	7.30%	5,341	7.40%	5,004	7.50%
Cash	86	1.00%	125	1.00%	71	1.00%
Fair value of assets	22,238		21,053		19,256	
Present value of scheme liabilities	(28,755)		(28,801)		(27,654)	
DEFICIT IN THE SCHEME	(6,517)		(7,748)		(8,398)	
Related deferred tax asset (see below)	1,303		1,782		2,100	
NET PENSION SCHEME LIABILITY	(5,214)		(5,966)		(6,298)	

RELATED DEFERRED TAX ASSET	2013 £000	2012 £000	2011 £000
At 1 January	1,782	2,100	2,069
(Charge)/credit to reserves	(423)	(105)	28
(Charge)/credit to profit and loss account	(56)	(213)	3
AT 31 DECEMBER	1,303	1,782	2,100

38. PENSIONS (CONTINUED)

The scheme's liabilities at 31 December 2013 were calculated on the following bases as required under FRS 17:

Assumptions	2013	2012	2011
Discount rate	4.50%	4.40%	4.80%
Rate of increase in salaries	0.00%	0.00%	0.00%
Rate of increase in pensions in payment	3% or 5% for fixed increases or 3.30% for LPI. 2.20% post 5 April 2006	3% or 5% for fixed increases or 2.90% for LPI. 2.10% post 5 April 2006	3% or 5% for fixed increases or 2.90% for LPI. 2.10% post 5 April 2006
Spouse's pension assumption			
Pensioner/deferred and active members	70%/80%	70%/80%	90%/90%
Inflation assumption (RPI)	3.40%	3.00%	3.00%
Inflation assumption (CPI)	2.50%	2.30%	2.20%
Life expectancy beyond normal retirement age of 65			
Male	22.6	22.4	22.3
Female	25.1	24.6	24.6

MOVEMENT IN THE SCHEME DEFICIT IN THE YEAR	2013 £000	2012 £000
At 1 January	(7,748)	(8,398)
Normal service cost	(17)	(21)
Pension Increase Exchange gain	–	761
Contributions	329	365
Net finance cost	(73)	(205)
Actuarial gain/(loss) in the year	992	(250)
AT 31 DECEMBER	(6,517)	(7,748)

ANALYSIS OF AMOUNTS (CHARGED)/CREDITED TO OPERATING PROFIT		
Normal service cost	(17)	(21)
Pension Increase Exchange gain	–	761
AMOUNTS (CHARGED)/CREDITED TO OPERATING PROFIT	(17)	740

ANALYSIS OF AMOUNTS CHARGED TO NET FINANCE COSTS		
Interest income	1,164	1,101
Interest costs	(1,237)	(1,306)
NET FINANCE COSTS	(73)	(205)

ANALYSIS OF THE ACTUARIAL GAIN/(LOSS) INCLUDED IN THE STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES		
Return on scheme assets excluding amount shown in interest income	1,176	1,380
Changes in assumptions underlying present value of scheme liabilities	(184)	(1,630)
ACTUARIAL GAIN/(LOSS)	992	(250)

38. PENSIONS (CONTINUED)

	2013 £000	2012 £000
MOVEMENT IN THE FAIR VALUE OF SCHEME ASSETS		
At 1 January	21,053	19,256
Interest income	1,164	1,101
Return on scheme assets excluding amount shown in interest income	1,176	1,380
Contributions from sponsoring companies	329	365
Contribution from scheme members	7	11
Benefits paid	(1,491)	(1,060)
AT 31 DECEMBER	22,238	21,053
MOVEMENT IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS		
At 1 January	(28,801)	(27,654)
Current service cost	(17)	(21)
Interest cost	(1,237)	(1,306)
Pension Increase Exchange gain	–	761
Contribution from scheme members	(7)	(11)
Actuarial loss	(184)	(1,630)
Benefits paid	1,491	1,060
AT 31 DECEMBER	(28,755)	(28,801)

Cumulative actuarial gains since the transition to FRS 17 on 1 January 2004 are £3,122,000 (2012 – £2,130,000).

	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Present value of defined benefit obligations	(28,755)	(28,801)	(27,654)	(29,731)	(27,726)
Fair value of scheme assets	22,238	21,053	19,256	22,069	18,466
DEFICIT IN THE SCHEME	(6,517)	(7,748)	(8,398)	(7,662)	(9,260)
RETURN ON SCHEME ASSETS	2,340	2,481	(1,722)	4,832	3,197
Percentage of scheme assets	10.5%	11.8%	(8.9%)	21.9%	17.3%
EXPERIENCE ADJUSTMENT ON SCHEME ASSETS	1,176	1,380	(2,930)	3,519	2,140
Percentage of scheme assets	5.3%	6.6%	(15.2%)	15.9%	11.6%
EXPERIENCE ADJUSTMENT ON SCHEME LIABILITIES	(184)	(1,630)	2,205	(1,962)	(3,114)
Percentage of scheme's liabilities	(0.6%)	(5.7%)	8.0%	(6.6%)	(11.2%)

Defined contribution schemes

The Company also participated in a defined contribution scheme, the Macfarlane Group Personal Pension Plan. Contributions to the plan for the year were £4,000 (2012 – £4,000). There were no outstanding contributions from the company and employees payable to the scheme included in creditors at the balance sheet date.

39. 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 have considered the implications of FRS 8 "Related Party Transactions" and are satisfied that there are no other related party transactions occurring during the year, which require disclosure, other than those already disclosed in these financial statements.

SHAREHOLDER INFORMATION

PRINCIPAL OPERATING SUBSIDIARIES

COMPANY NAME		PRINCIPAL ACTIVITIES	COUNTRY OF REGISTRATION
MACFARLANE GROUP UK LIMITED			England
Coventry	Tel: 02476 511511	Supply and distribution of all forms of packaging materials and equipment.	
Grantham Westbury	Tel: 01476 574747 Tel: 01373 858555	Design and manufacture of specialist packaging.	
MACFARLANE LABELS LIMITED		Manufacture of high quality printed self-adhesive labels and resealable labelling solutions.	Scotland
Kilmarnock	Tel: 01563 525151		
MACFARLANE GROUP IRELAND (LABELS AND PACKAGING) LIMITED		Manufacture of high quality printed self-adhesive labels and resealable labelling solutions.	Ireland
Wicklow	Tel: 00 353 1281 0234		
MACFARLANE GROUP SWEDEN AB		Manufacture of high quality printed self-adhesive labels and resealable labelling solutions.	Sweden
Helsingborg	Tel: 00 46 42 13 75 55		

All the above subsidiaries are wholly owned either by Macfarlane Group PLC or one of its subsidiary companies and operate within their country of registration. A full list of trading and non-trading subsidiaries is available from the registered office, 21 Newton Place, Glasgow G3 7PY.

CORPORATE ADVISERS

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Registered in Scotland

COMPANY SECRETARY
Andrew Cotton

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EH1 2EG

Wright Johnston & Mackenzie LLP
302 St Vincent Street
Glasgow
G2 5RZ

STOCKBROKERS
Arden Partners plc
125 Old Broad Street
London
EC2 1AR

Speirs & Jeffrey Ltd
George House
50 George Square
Glasgow
G2 1EH

INDEPENDENT AUDITOR
KPMG Audit Plc
191 West George Street
Glasgow
G2 2LJ

REGISTRARS
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

SHAREHOLDER INFORMATION

FIVE YEAR RECORD

	2013 £000	*2012 £000	2011 £000	2010 £000	2009 £000
TURNOVER – ALL OPERATIONS	143,871	141,823	144,557	135,450	123,596
PROFIT BEFORE INTEREST, DISCONTINUED OPERATIONS, EXCEPTIONAL ITEMS AND TAX	6,251	5,834	4,689	4,518	4,406
NET INTEREST PAYABLE	(1,199)	(1,349)	(815)	(1,167)	(1,223)
PROFIT BEFORE EXCEPTIONAL ITEMS AND DISCONTINUED OPERATIONS	5,052	4,485	3,874	3,351	3,183
EXCEPTIONAL ITEMS	(336)	993	–	846	(699)
PROFIT ON DISPOSAL OF OPERATIONS	–	–	–	–	351
PROFIT BEFORE TAX	4,716	5,478	3,874	4,197	2,835
TAXATION	(1,260)	(1,613)	(455)	(1,211)	(514)
PROFIT FOR THE FINANCIAL YEAR	3,456	3,865	3,419	2,986	2,321
EARNINGS PER ORDINARY SHARE	3.03p	3.40p	3.01p	2.63p	2.06p
DIVIDENDS	1,774	1,761	1,761	1,700	1,688
DIVIDENDS PER ORDINARY SHARE	1.55p	1.55p	1.55p	1.50p	1.50p
DIVIDEND COVER	1.9	2.2	1.9	1.8	1.4

* As restated for IAS19 – see note 1 to the financial statements

This table reflects the five-year record for continuing and discontinued operations as classified at 31 December 2013.

FINANCIAL DIARY

FINANCIAL RESULTS

Interim: Announced – August
Final: Announced – February

ACCOUNTS AND ANNUAL GENERAL MEETING

Report and financial statements: Posted to shareholders on 28 March 2014
Annual General Meeting: Held in Glasgow on 6 May 2014

SHAREHOLDER ENQUIRIES

Macfarlane Group PLC's ordinary shares are classified under the "Industrial – General" section of the Industrial Sector on the London Stock Exchange.

Enquiries regarding shareholdings, dividend payments, dividend mandate instructions, lost share certificates, tax vouchers, changes of address, transfers of shares to another person and other administrative matters should be addressed to the Company's registrars:

Equiniti, Aspect House,
Spencer Road, Lancing,
West Sussex BN99 6DA

Telephone: 0871 384 2439
Fax: 0871 384 2100
www.shareview.co.uk

The Company's website, www.macfarlanegroup.com provides details of all major Stock Exchange announcements, details of the current share price and information about Macfarlane Group's business.

Our new 2014 Product Catalogue is now available.

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

Designed and produced by Tayburn

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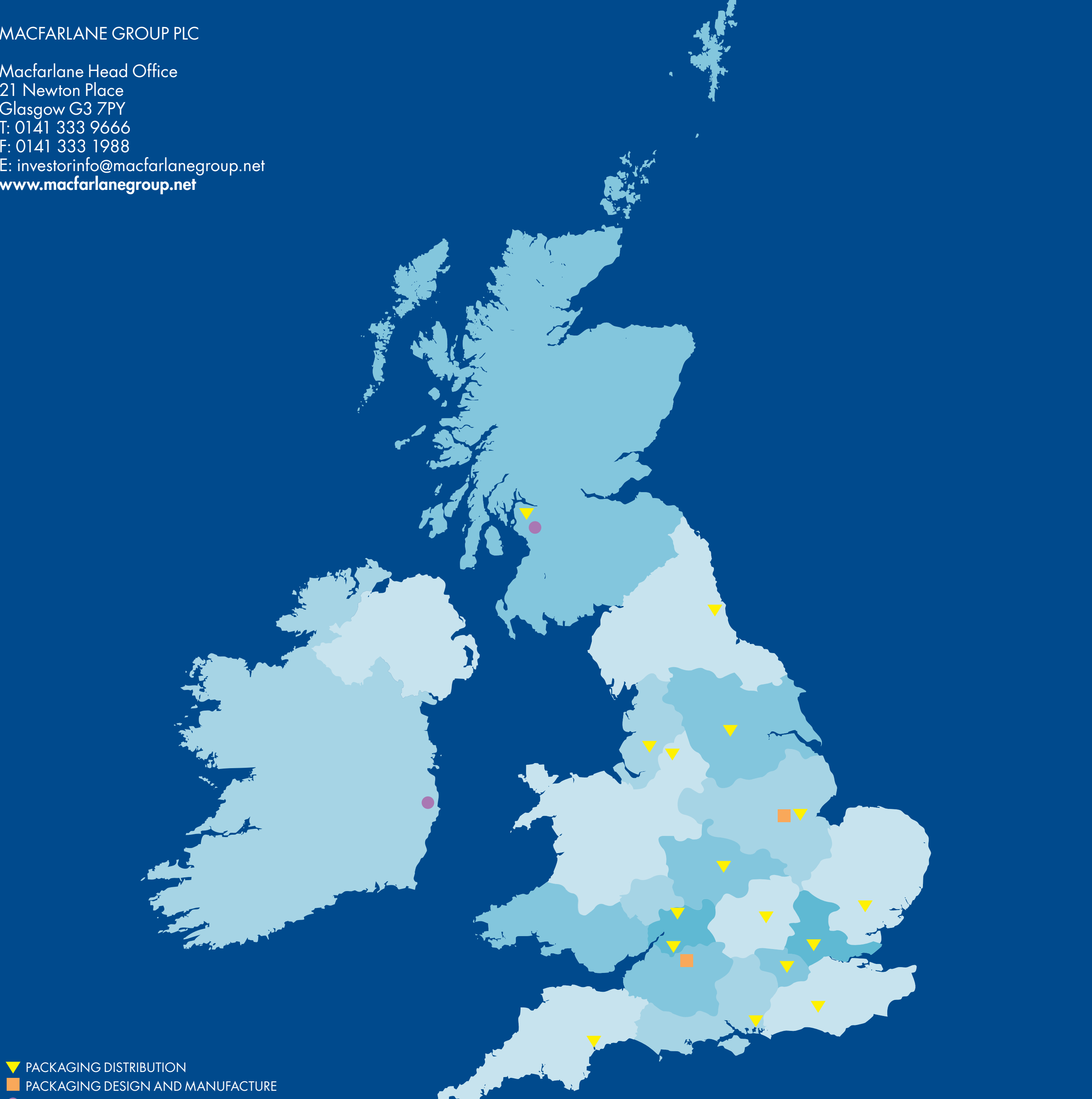

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