MACFARLANE GROUP

ANNUAL REPORT AND ACCOUNTS 2014

HEADQUARTERED IN GLASGOW, MACFARLANE GROUP PLC EMPLOYS OVER 700 PEOPLE AT 26 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.

CHAIRMAN'S STATEMENT

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MACFARLANE GROUP PLC INCREASED SALES TO £153.8 MILLION IN 2014, A 7% INCREASE ON THE PRIOR YEAR (2013: £143.9 MILLION). THE GROUP GREW PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS IN 2014 BY 11% TO £5.6 MILLION (2013: £5.1 MILLION), FUELLED BY A COMBINATION OF ORGANIC SALES GROWTH AND TARGETED ACQUISITIONS. THIS RESULT REPRESENTED A SIGNIFICANT ACHIEVEMENT FOR THE GROUP IN COMPETITIVE MARKET CONDITIONS.

TRADING

The Group's core Packaging Distribution business increased sales by 9% to £126.9 million (2013: £116.3 million). This was achieved through organic growth of 4%, with particular success in the expanding internet retail sector and increased penetration of National Accounts, and as a result of the successful acquisitions of Lane Packaging and Network Packaging in May and September respectively. This translated into a 16% increase in operating profit for the division to £5.8 million (2013: £5.0 million).

In the Group's Manufacturing division, the Packaging Design and Manufacture business reported another year of good performance. However, the widely reported challenging conditions being experienced in the UK retail sector impacted on the Group's Labels business. As a consequence, sales in the Manufacturing Division reduced marginally to £26.9 million (2013: £27.6 million), and lower gross margins in the Labels business resulted in an operating profit before exceptional items of £0.9 million (2013: £1.3 million).

DIVIDEND

The Board remains committed to providing shareholders with an appropriate return on their investment and is proposing a final dividend of 1.15 pence per share, making a full year dividend of 1.65 pence per share, a 3% increase on the prior year's dividend of 1.60 pence per share. Subject to the approval of shareholders at the Annual General Meeting on 5 May 2015, this dividend will be paid on 4 June 2015 to those shareholders on the register at 8 May 2015.

NET DEBT AND PENSION SCHEME

As a consequence of the acquisitions undertaken during the year, the Group's bank debt at 31 December 2014 increased to £10.1 million from £5.9 million at the prior year-end. As previously reported, the Group now has a new, longer term, finance facility in place.

The Board continues to take steps to reduce Macfarlane Group's pension deficit including a one-off contribution of £2.5 million in the year. This, combined with careful stewardship of the investment portfolio by the Trustees, in conjunction with the Company, helped to offset the impact of lower bond yields and at the year-end the deficit was £13.9 million (2013: £15.9 million).

OUTLOOK

The Board is confident that, with the UK economy displaying further signs of improvement and continued implementation of its strategy, Macfarlane Group will continue to succeed through its own actions coupled with improved market conditions in 2015.

This 11% increase in pre-tax profits before exceptionals represents the fifth consecutive year of profit growth for Macfarlane Group. The focus of our Packaging Distribution business on the opportunities in internet retail, third party logistics and National Accounts is producing good results for the Group. The acquisitions of Lane Packaging and Network Packaging have performed strongly and have been earnings-enhancing in 2014 and I look forward to seeing their full-year contributions feed through in 2015. The Board remains committed to seeking out further profitable expansion opportunities through carefully selected acquisitions. The positive sales trends seen in the final quarter of 2014 have continued into 2015 and the Group is well positioned for further growth in 2015.

Graeme Bissett
Chairman
26 February 2015

OUR BUSINESS MODEL

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

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

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

A SIMPLE AND FLEXIBLE BUSINESS MODEL

STRONG OPERATING COMPANIES WITH DIFFERENTIATED PROPOSITIONS

CLEAR PLANS AND TRACK RECORD OF PERFORMANCE

GOOD MARKET POSITIONS WITH GROWTH POTENTIAL

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

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 Packaging Design and Manufacture and Labels.

WHERE WE DO IT

The Group operates 18 Regional Distribution Centres ("RDCs") providing a national network to support customers on a local, regional and national basis. In addition the Group operates four manufacturing centres, two in Packaging Design and Manufacture and two in 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 Operations 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 sales erosion each year as we optimise the protective packaging usage of our customers. Therefore new business is key to Macfarlane Group's overall growth and there is specific measurement and focus on this area.

OUR STRATEGY

The overall Group objective is to grow sales volumes and achieve a return on sales of at least 5%.

The following table summarises the key strategic priorities.

STRATEGIC PRIORITIES	2014 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 introduced in Packaging Design and Manufacture in 2014. Segmentation by product type in place within Labels. Overall sales growth of 4% in 2014 but exit rate of 6% in Packaging Distribution is in line with our strategic objectives for organic growth.
Focus on key sectors with growth potential, particularly National Accounts and internet retail.	2014 growth in National Accounts was 14% and in internet retail 3% (2013 – 6%).
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. 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 maintained at 3.1% (2013 – 3.1%) of sales through use of the Paragon planning tool and driver training. Property costs reduced to 4.0% (2013 – 4.2%) of sales through constant focus on cost reduction opportunities in our property network.
Supplement organic growth with suitable acquisitions.	Two acquisitions made in 2014, Lane Packaging and Network Packaging. Both operate in the Packaging Distribution segment and have performed well since acquisition.

> “THERE WAS A STRONG FINAL QUARTER’S SALES PERFORMANCE, REFLECTING A 6% INCREASE VERSUS 2013, THROUGH THE BENEFIT OF NEW BUSINESS WINS EARLIER IN THE YEAR AND INCREASING PENETRATION OF NATIONAL ACCOUNTS.

PERFORMANCE REVIEW

The markets in which we operate remained challenging in 2014 and are highly competitive. Despite this, Macfarlane Group’s sales in 2014 were 7% above the level achieved in 2013. The good organic growth in sales was supported by two acquisitions during the year and as a result, profit before tax and exceptional items at £5.6 million, was 11% ahead of the level achieved in 2013. There were no exceptional items in 2014.

The Packaging Distribution business achieved a sales increase versus 2013 of 9% comprising 4% organic growth and 5% from acquisitions. There was a strong final quarter’s sales performance, reflecting a 6% increase versus 2013, through the benefit of new business wins earlier in the year and increasing penetration of National Accounts. 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 resulted in a slightly lower gross margin of 28.8% compared to 29.1% in 2013. Despite the increases in overheads arising from the two acquisitions, cost control remained strong with the overhead to sales ratio reducing to 24.3% compared with 24.8% in 2013.

Operating profit before tax and exceptional items in the Packaging Distribution business at £5.8 million showed growth of 16% versus 2013.

2014 was a year of contrast for our Manufacturing Operations. The focus for both our Labels and Packaging Design and Manufacture businesses in 2014 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 decreased by 3% versus 2013 mainly due to certain key customers in the self-adhesive labels sector losing market share.

Gross margins improved overall but reduced in our Labels business due to the increasingly competitive UK retail market and the cost base increase due to the relocation of our Labels facility in Ireland in 2013. The weaker performance from our Labels business was the major cause of our Manufacturing Operations recording operating profit before tax and exceptional items of £0.9 million compared with £1.3 million in 2013.

Whilst there is a modest improvement in the economic environment, our future 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 that 2015 will be another year of progress for Macfarlane Group.

GROUP PERFORMANCE

	REVENUE 2014 £000	PROFIT BEFORE EXCEPTIONAL ITEMS 2014 £000	REVENUE 2013 £000	PROFIT BEFORE EXCEPTIONAL ITEMS 2013 £000
SEGMENT				
PACKAGING DISTRIBUTION	126,907	5,758	116,280	4,960
MANUFACTURING OPERATIONS	26,860	888	27,591	1,291
REVENUE FROM CONTINUING OPERATIONS	153,767		143,871	
OPERATING PROFIT		6,646		6,251
NET FINANCE COSTS		(1,040)		(1,199)
PROFIT BEFORE TAX – CONTINUING OPERATIONS		5,606		5,052

STRATEGIC REVIEW

MACFARLANE 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 UK specialist distributor of protective packaging materials, and in what is a highly fragmented market, Macfarlane is the market leader. The business operates from 18 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.

Packaging Distribution sales grew by 9% over 2013 levels supported by our acquisition of Lane Packaging in May 2014 and Network Packaging in September 2014. Growth was particularly strong with internet retailers and National Accounts, where Macfarlane has a strongly differentiated offer for customers. Gross margin percentage reduced to 28.8% (2013 – 29.1%) due to the impact of price lead competition. Good overhead control throughout the business reduced the overhead as a percentage of sales to 24.3% (2013 – 24.8%) resulting in an increase in operating profit to £5.8 million from £5.0 million in 2013.

The 18 RDCs in our network are managed and measured as profit centres. In 2014 we had 13 of our 18 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.

PACKAGING DISTRIBUTION PERFORMANCE

	EXISTING BUSINESS £000	2014 ACQUISITIONS £000	2014 £000	2013 £000	
SALES	120,631	6,276	126,907	116,280	GROWTH 9%
COST OF SALES	(86,029)	(4,353)	(90,382)	(82,415)	
GROSS MARGIN	34,602	1,923	36,525	33,865	GROWTH 8%
OVERHEADS	(29,360)	(1,407)	(30,767)	(28,905)	GROWTH 6%
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS	5,242	516	5,758	4,960	GROWTH 16%

FUTURE PLANS

We expect general demand levels to increase modestly in 2015. Therefore our plans continue to be focused on those markets showing growth, building market share and improving operational effectiveness through the following actions:

> 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;

> Commencing the programme to integrate our recently acquired companies, following completion of the earnout periods;

> Supplementing organic growth through the identification of further suitable acquisition opportunities;

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

> Continuing to reduce operating costs 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 implementation of a warehouse best practice programme; and

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

STRATEGIC REVIEW

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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 PERFORMANCE

	2014 £000	2013 £000
SALES	26,860	27,591
COST OF SALES	(15,922)	(16,568)
GROSS MARGIN	10,938	11,023
OVERHEADS	(10,050)	(9,732)
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS	888	1,291

MANUFACTURING OPERATIONS

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

In 2014 Macfarlane’s Manufacturing Operations recorded an operating profit before exceptional items of £0.9 million (2013 – £1.3 million). The key features of the Manufacturing Operations’ performance in 2014 were:

> Sales reduced by 3% versus 2013 mainly due to key self-adhesive label customers losing UK market share;

> Gross margins increased from 40.0% to 40.7% through the focus on higher added value products and services; and

> Net overheads increased as a percentage of sales from 35.3% in 2013 to 37.4% in 2014.

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 from 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

2014 was a difficult year with sales reducing by 3% and profits were below the level achieved in 2013.

Sales of self-adhesive labels were negatively impacted by key customers losing UK market share and gross margin in this product sector remained under pressure due to the highly competitive conditions in the UK retail market.

We continued to make good progress in the development of the resealable range of labels and systems and Reseal-it in 2014 represented 39% of revenue (2013 – 36%). Competition in the resealable label sector is increasing but total sales for Reseal-it grew by 2% versus 2013. 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.

The business sustained higher costs associated with the re-location of our manufacturing activities in Ireland to a larger site in Wicklow.

Future Plans

The priorities for Labels in 2015 are:

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

> Changes to our commercial offering in the self-adhesive label market to counterbalance customer order patterns and volatility;

> Continued improvement in operational efficiencies to counterbalance competitive price pressure, maximising the returns from 2014 capital expenditure;

> 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 manufacturing facility in Ireland.

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CUSTOM-DESIGNED PACKAGING SOLUTIONS FOR CUSTOMERS REQUIRING COST-EFFECTIVE METHODS OF PROTECTING HIGH VALUE PRODUCTS IN STORAGE AND TRANSIT.

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 defence, 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

2014 external sales were 3% below those in 2013, caused by the relocation of a major customer outwith the UK. 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 2014 slightly ahead of that achieved in 2013. There was encouraging progress during 2014 in the development of new customer relationships, which should benefit the business in 2015.

Future Plans

The priorities for 2015 are:

> Accelerate sales growth, particularly in certain key sectors e.g. Defence, Aerospace and Medical;

> Identify and execute suitable acquisition opportunities;

> 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 sites.

2015 OUTLOOK

We expect general market demand in 2015 to increase modestly as the UK economy continues its recovery. There are specific market sectors such as internet retail which are forecast to show good growth and Macfarlane Group will focus on ensuring we continue to be well positioned to benefit from the growth expected in these sectors.

During 2015 we will look at further opportunities 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 2015 to be another successful year for Macfarlane Group.

Peter D. Atkinson
Chief Executive
26 February 2015

STRATEGIC REVIEW

FINANCIAL REVIEW	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
PROFIT BEFORE EXCEPTIONAL ITEMS	5,606	5,052	4,485	3,874	3,351	3,183

FINANCIAL REVIEW

2014 represents the Group's fifth consecutive year of profit growth as set out above.

TRADING

The Group saw good organic growth in sales of 3% during 2014, driven by our Packaging Distribution business. The sales line was further enhanced by strong contributions from our two acquisitions, Lane Packaging and Network Packaging, in their post-acquisition trading periods within the Group. Group sales rose to £153.8 million an increase of £9.9 million from 2013. The profit before tax for 2014 increased to £5.6 million, an increase of £0.5 million from that achieved in 2013.

There were no exceptional items recorded in 2014. During 2013 the Group incurred costs of £0.2 million to terminate the leases for surplus properties to minimise future costs and 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 were classified as exceptional items in 2013.

TAXATION

The tax charge for the year from continuing operations was £1.2 million on profit before tax of £5.6 million, a rate of 20.8%, slightly below the prevailing rate of 21.5% mainly due to the recognition of overprovisions from previous years. This compared with a tax charge of £1.3 million on the profit before tax of £4.7 million in 2013, higher than the prevailing statutory tax rates due to the exceptional costs to restructure the property portfolio not being fully tax deductible.

EARNINGS PER SHARE

Basic earnings per share from all activities totalled 3.78p per share in 2014 compared to 3.03p in 2013.

Earnings per share before exceptional items totalled 3.78p (2013 – 3.32p) an increase of 14%, reflecting the growth in profitability of 11% and the benefit from the long-term reductions in corporation tax rates in recent years.

DIVIDENDS

A dividend of 0.50p per share was paid on 16 October 2014. A further dividend of 1.15p per share is subject to approval by shareholders at the AGM in May 2015 and is not included as a liability in these financial statements.

Dividend cover has increased significantly in the year to 2.4 times. The Group continues to balance the aim to pay an attractive level of dividend against the need to retain funds in the business to finance acquisitions and capital expenditure.

CASH FLOW AND NET DEBT

The Group agreed a new debt facility with Lloyds Banking Group PLC in 2014, comprising a three-year committed borrowing facility of up to £20.0 million for the period to February 2017, 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 made 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.

This new longer-term borrowing facility was put in place to accommodate increased working capital requirements from our organic growth, finance for acquisitions and a one-off contribution to reduce the pension scheme deficit. The Group's financing requirements are met by maintaining committed borrowing facilities.

The Group had net debt of £10.7 million at 31 December 2014, an increase of £4.8 million from the previous year. The Group spent £5.1 million on acquisitions in 2014 (2013 – £nil) and £1.2 million on capital expenditure in 2014 (2013 – £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 2015, 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.

ACQUISITIONS

During 2014 Macfarlane Group PLC acquired two trading subsidiary companies as set out in note 22. In both cases an element of consideration was deferred, subject to meeting earnout targets in the trading period immediately after acquisition.

On 2 May 2014, the Group acquired Lane Packaging, for a consideration of approximately £0.9 million with borrowings of £0.5 million absorbed on acquisition. £0.7 million was paid in cash on acquisition, with the deferred consideration payable in the second quarter of 2015, subject to certain trading targets being met in the year to 30 April 2015.

On 5 September 2014, the Group acquired Network Packaging for a consideration of approximately £7.5 million. £4.3 million of the consideration was paid in cash on acquisition and £0.6 million was settled by the issue of shares. Cash balances of £0.4 million were inherited on acquisition. The deferred consideration of £2.6 million, is payable in two instalments in the final quarter of 2015 and the final quarter of 2016, subject to certain trading targets being met in the two twelve month periods ending on 5 September 2015 and 5 September 2016 respectively.

Following the acquisition of Network Packaging, the Company undertook a share placing to provide additional funds for its acquisition programme. The placing was well supported by new and existing institutional investors and following approval in General Meeting in October 2014, the Company issued 8,000,000 ordinary shares at a price of 37.50p each, raising £2.8 million, net of expenses.

MARKET CAPITALISATION AND SHARE PRICE MOVEMENTS

At the year-end the Company's market capitalisation was £45.5 million, compared with £39.4 million last year. The share price at 31 December 2014 was 36.50p, compared with 34.25p at 31 December 2013. The range of transaction prices for Macfarlane Group shares during 2014 was 33.00p to 49.50p for each ordinary share of 25p.

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 2014 and are set out in note 14 to the financial statements.

PENSION SCHEME DEFICIT

	2014 £000	2013 £000	2012 £000
FAIR VALUE OF SCHEME INVESTMENTS	67,990	54,238	51,349
PRESENT VALUE OF SCHEME LIABILITIES	(81,863)	(70,134)	(70,247)
DEFICIT AT 31 DECEMBER	(13,873)	(15,896)	(18,898)

PENSION SCHEME DEFICIT

The Group's pension scheme deficit is sensitive to movements in bond yields, inflation, longevity assumptions and investment returns. The impact of these sensitivities is set out in note 24 to the financial statements.

The Board continues to take steps to cut Macfarlane Group's pension deficit including a one-off contribution of £2.5 million in the year. This, combined with careful stewardship of the investment portfolio by the Trustees, in conjunction with the Company, helped to offset the impact of lower bond yields.

Following the triennial actuarial valuation of the scheme at 1 May 2014, the Company agreed a new schedule of contributions with the Pension Scheme Trustees, which assumed a recovery plan period of 10 years.

INTERNATIONAL FINANCIAL REPORTING STANDARDS AND ACCOUNTING POLICIES

As detailed in the 2013 Annual Report, the new International Financial Reporting Standards adopted during 2014 had no major impact on the disclosures and accounting policies in these 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 cash flow forecasts and profit projections, which are based on past experience and what they consider to be prudent market data. The Group's business activities together with the factors likely to affect its future development, performance and financial position are set out in the Chairman's Statement and the Review on pages 1 to 11.

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
26 February 2015

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 IAS 19 valuation of the Group's defined benefit pension scheme as at 31 December 2014 estimated the scheme deficit to be £13.9 million. Small changes in these assumptions could mean that the deficit increases.	Steps undertaken to reduce the deficit 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 2015.
PROPERTY Given the multi-site nature of its business, the Group has a property portfolio comprising 4 owned sites and 28 leased sites of which 4 are sublet, with 1 vacant owned site 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, sell 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.
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 £20 million committed facility, which runs until February 2017 and includes requirements to comply with specified covenants.	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.

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 three 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 2014

As a responsible organisation Macfarlane Group is committed to reducing its greenhouse gas ("GHG") emissions. This report outlines Macfarlane's GHG emissions for the year ended 31 December 2014. Using an operational approach, Macfarlane Group identified its boundaries to ensure all of the activities and facilities for which it is responsible were being recorded and reported in line with Scope 1 and 2. Relevant data was provided to an independent consultant, Carbon Clear. The validity, accuracy and completeness of the data was audited by Carbon Clear and then used to calculate the GHG for Macfarlane Group. The calculations were completed in line with the ISO14064-1: 2006 standard and give absolute and intensity factors for Group emissions. Acquisitions made during 2014 have been included in GHG reporting, an assumption has been made regarding usage based on equivalent sites within the Group. The intensity factors support the measurement of how effective the Company is being in reducing its emissions over a period of time.

Macfarlane Group used total sales (£000) as its intensity factor over the reporting period to monitor emissions. This factor was chosen because it provides the greatest degree of accuracy and is the metric best aligned to business growth.

The results show that total gross GHG emissions in the period were 6,763 tonnes of CO_2e, (2013 – 6,810 tonnes) comprised of the following:

> Direct Emissions (Scope 1)
4,099 tonnes of CO_2e
(2013 – 4,361 tonnes)
61% of the total (2013 – 64%); and

> Indirect Emissions (Scope 2)
2,664 tonnes of CO_2e
(2013 – 2,449 tonnes)
39% of the total (2013 – 36%).

Broken down by business unit the results were as follows:

> Packaging Distribution – 4,400 tonnes of CO_2e (2013 – 4,547 tonnes)
65% of the total (2013 – 67%); and

> Manufacturing Operations – 2,363 tonnes of CO_2e (2013 – 2,263 tonnes)
35% of the total (2013 – 33%).

These results are shown in tables 1 and 2 and comparing year on year emissions data for the period 2013-2014, the overall emissions have decreased by 0.7%.

The reduction in emissions stem from the decrease in consumption of LPG, Natural Gas and Gas Oil, primarily a result of property and equipment changes. The data shows an increase in emissions from electricity despite a decrease in consumption. This is due to the fact that emission factors for electricity have increased in 2014.

REFERENCES

The following source of the carbon emissions factors was used:

"2014 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

In line with our waste strategy to reduce our general landfill waste, 2014 saw further improvements such that less than 2% of the Group's reported waste is now sent to landfill.

Labels made significant progress through the Refuse Derived Fuel ("RDF") waste stream. RDF is produced from combustible components of solid waste. The waste is shredded, dried and baled, and then burned to produce electricity, thereby making good use of waste that otherwise might have ended up in landfill.

Through our partnership with Cory Environmental, our waste management advisors, the overall percentage of Group waste recycled on site, excluding 2014 acquisitions, has increased. This is in conjunction with an overall reduction in the Group's total waste tonnage compared to 2013.

A higher tonnage of corrugated waste was baled at our Grantham and Westbury facilities, however due to over capacity of waste paper within the UK market, prices for baled waste fluctuated throughout the year resulting in lower average prices. It is envisaged that this trend will revert back to previous £/tonne levels in 2015.

TABLE 1: EMISSIONS DATA

TYPE OF EMISSIONS	ACTIVITY	2014 UNITS	2013 UNITS	2014 TONNES OF CO_2E	2013 TONNES OF CO_2E
DIRECT (SCOPE 1)	NATURAL GAS (KWH)	2,241,526	3,262,182	415	600
	VEHICLE FUEL (LITRES)	1,396,409	1,406,368	3,634	3,658
	OTHER	26,398	54,158	50	103
	SUBTOTAL			4,099	4,361
INDIRECT (SCOPE 2)	PURCHASED ELECTRICITY (KWH)	5,390,508	5,496,128	2,664	2,449
TOTAL GROSS EMISSIONS (TCO_2E)				6,763	6,810

TABLE 2: INTENSITY RATIO

INTENSITY METRIC	2014	2013
TOTAL GROSS GHG EMISSIONS (TCO_2E)	6,763	6,810
TOTAL SALES (£000)	153,767	143,871
CARBON INTENSITY TCO_2E/£000	0.044	0.047

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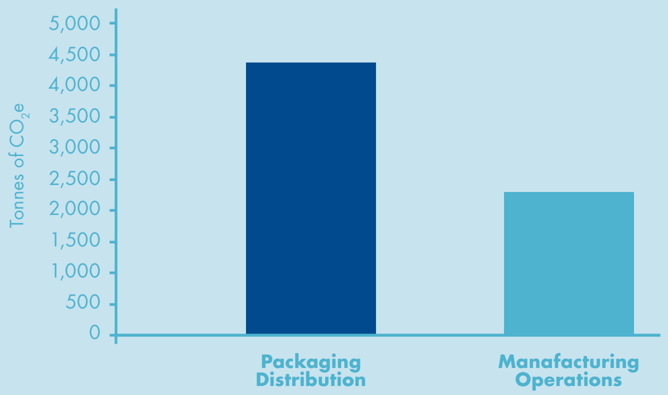
TABLE 3: EMISSIONS DATA – BUSINESS UNITS

BUSINESS UNIT	2014 TONNES OF CO_2E	2013 TONNES OF CO_2E	2014 SALES £000	2013 SALES £000	2014 TCO_2E/£000	2013 TCO_2E/£000
MANUFACTURING OPERATIONS	2,363	2,263	26,860	27,591	0.088	0.082
PACKAGING DISTRIBUTION	4,400	4,547	126,907	116,280	0.035	0.039
TOTAL	6,763	6,810	153,767	143,871	0.040	0.047

TABLE 4: EMISSIONS – BUSINESS UNITS



During 2015 we will be benchmarking Cory Environmental, ensuring recent acquisitions reporting is brought in line with the Group, establishing a more sustainable, better value solution for wood waste and continue to improve our total landfill diversion with our medium term goal to achieve zero landfill status.

ENVIRONMENTAL CARE

Macfarlane Group is committed to a continued programme of actions that focus on reducing the impact of its activities on the environment.

We engage with our customers, providing an expert, independent and tailored approach, ensuring whenever practical, our packaging products support customers' efforts to reduce their impact on the environment. We also work closely with our suppliers to use sustainable resources wherever possible.

To support our ongoing commitment to continuously improve our environmental performance, we 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 consumption of natural resources;

> To minimise noise and other nuisances; and

> To continuously assess our environmental performance.

Through an identified team, environmental information is reviewed to ensure compliance with both legal requirements and internal objectives and targets. In addition, we continue to raise the levels of environmental awareness throughout the Group with suppliers and with customers.

The Group continues to make progress in its performance against the identified CR objectives. During 2015 we will maintain the focus on our three CR programmes and implement new initiatives to ensure our performance improvement can be sustained.

REGISTRATION TO ISO 14001

With the exception of recent acquisitions, all our UK Packaging sites are registered to BSI ISO 14001 Environmental Management Standard. This is an internationally recognised standard on environmental management. Registration of this involves a process of continual assessment, providing instant market place recognition of our commitment to reducing the impact of the business on the environment.

HEALTH AND SAFETY

The health, safety and welfare of our people, including our customers and suppliers, form part of our key business objectives. We work to ensure excellence is maintained in our Health and Safety practices. We aim to achieve this through creating a safe and healthy work environment to minimise injuries, work related ill health, environmental incidents; and to prevent and minimise the impacts of our products and services. Our vision and goals for Health and Safety and how we commit to achieve them are based upon the best practice guidelines, issued by the Health and Safety Executive ("HSE"). To support our commitment to best practice Health and Safety, we have a dedicated Health and Safety Manager, who works with local Health and Safety teams to ensure knowledge and standards are effectively applied to the business on a consistent basis.

To ensure constant and consistent focus regarding 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. We also 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 important role in overseeing the operation of all Health and Safety and reviews a monthly report on Health and Safety at each meeting. This report covers reportable and non-reportable incidents. The Accident Frequency Rate ("AFR") representing the number of reportable incidents per 100,000 man-hours worked is shown below.

ACCIDENT FREQUENCY RATE

	2014	2013	2012
PACKAGING DISTRIBUTION	0.24	0.00	0.00
MANUFACTURING OPERATIONS	0.22	0.40	0.70
GROUP	0.23	0.08	0.24

THE CUSTOMER EXPERIENCE

CUSTOMER FEEDBACK

In 2014 we implemented a comprehensive customer experience programme using Net Promoter Scores ("NPS"), Mystery Shopper and online Trust Pilot reviews to continually gain feedback from our customers in order to improve our service. In addition, we survey customers in all of our businesses, on an annual basis, to evaluate our performance against a range of key service metrics.

We have continued to develop focused initiatives to meet the needs of each of our customer groups in Packaging Distribution. We are pleased that this attention to the customer groups has resulted in an improvement in our 2014 overall satisfaction rating to 87% (2013 – 86%).

Our focus on high-value products and services has contributed to continued improvement in customer satisfaction in our Packaging Design and Manufacture business, with overall customer satisfaction rating improving to 94% in 2014 (2013 – 91%).

Over 82% (2013 – 89%) of customers of Macfarlane Labels rated our service as excellent or good. We recognise that during 2014 there have been service issues to our Labels customers. In 2015, we will be working more closely with our customers to improve our overall service and meet their expectations.

SALES ORDER MANAGEMENT

Continued investment in Customer Connect, our customer online order management system, and www.macfarlanepackaging.com is contributing to improvements in productivity and meeting the needs of our customers requiring more visibility of their packaging management. In the Packaging Distribution business in 2014, orders transacted online increased to 25% (2013 – 21%).

ELECTRONIC DOCUMENTATION

The Group is continuing to encourage customers to receive documentation electronically. In 2014, 70% (2013 – 63%) 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 a major contributor in generating new leads for the business. 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 to protect their products during shipping and storage.
Lane Packaging	www.lanepackaging.com	Businesses local to Lane Packaging using packaging to protect their products during shipping and storage.
Network Packaging	www.networkpack.co.uk	Wide range of businesses using packaging to protect their products during shipping and storage.
Packaging Distribution Ireland	www.macfarlanepackaging.ie	Wide range of businesses in Ireland using packaging to protect their products during shipping and storage.
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, rewarding and retaining the very best people to ensure our business continues to run successfully. Maintaining a working environment that promotes good employee relations, safety and employee engagement at all levels is critical to every Macfarlane operation.

EMPLOYEE DEVELOPMENT

Macfarlane Group strives to make our workplace one in which individuals feel challenged, fulfilled and able to achieve their full potential. The Group invests in training in order to best equip individuals with the skills and knowledge required to provide an outstanding tailored service to our customers and fulfil their personal potential. On average, in 2014 each employee was engaged in 12 hours of formal training.

Macfarlane Group offers a wide range of training opportunities, ranging from external training and coaching to on-the-job training. This allows individuals to be stretched and challenged to achieve career objectives. The Company also provides Sponsored Further Education programmes, to support employee engagement in long-term education.

EMPLOYEE ENGAGEMENT

Employee engagement is an ongoing feature of our business. Through performance appraisals, business update sessions and informal review meetings a platform is provided for employee participation and involvement. Employee Surveys are conducted throughout the business providing a constructive method of feedback. In addition, and to support consistent employee engagement we run a number of forums, both role-specific and, business specific. These forums have worked to provide a voice for our employees, to engage in an open two-way dialogue and have their views/ideas heard.

2014 saw the launch in the Packaging Distribution business of work-based tablets. The tools and resources made available via this method of operating have provided employees with the ability to gain information, advice and provide feedback instantly, supporting the continued aim of enhancing the customer experience.

DIVERSITY

A breakdown by gender of the Directors, Senior Managers and all employees of the Group is summarised at the foot of this page.

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 an 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.

DIVERSITY

	2014		2013	
	FEMALE	MALE	FEMALE	MALE
DIRECTORS	0	6	0	6
SENIOR MANAGERS	4	13	4	13
TOTAL EMPLOYEES	260	467	263	465

BOARD OF DIRECTORS

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 his other board appointments comprise Interbulk Group plc, Black Circles Holdings Ltd, Curo Compensation Ltd and The Scottish Futures Trust Ltd. He also has pro-bono appointments including Chairman of Children 1st, the children's welfare charity.

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.

JOHN LOVE
FINANCE DIRECTOR

A member of The Institute of Chartered Accountants of Scotland, John has been with the Group for nineteen 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.

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 annual 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. He is currently a Non-Executive Director of Tullis Russell Group Ltd. Mike is a member of the Audit, Remuneration and Nominations Committees.

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.

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.

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.

REPORT OF THE DIRECTORS

THE DIRECTORS PRESENT THEIR ANNUAL REPORT AND THE AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2014. PAGES 1 TO 30 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 26 to 30 (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.

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 £5,606,000 (2013 – £4,716,000). This resulted in a profit for the year of £4,442,000 (2013 – £3,456,000).

The Directors declared an interim dividend of 0.50p per share, which was paid on 10 October 2014 (2013 – 0.50p per share). The proposed final dividend of 1.15p per share (2013 – 1.10p per share) is subject to approval by shareholders at the Annual General Meeting ("AGM") in May 2015 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 issued share capital are shown in note 19. The Company issued 9,592,360 ordinary shares during 2014. 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 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 20. 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 26 to 30.

At last year's AGM on 6 May 2014, the Directors were given authority to allot further ordinary shares, disapplying any pre-emption rights, beyond those committed to the share option schemes or long term incentive plans up to an aggregate nominal value of £1,437,738. This authority was used in 2014 to allot shares of 1,592,360 with a nominal value of £398,090 in connection with the acquisition of Network Packaging Limited. 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 £1,557,642, representing 5% of the current share capital.

At the Extraordinary General Meeting held on 1 October 2014, authority was given to allot 8,000,000 shares which brought the total issued share capital to 124,611,360.

No authority will be sought at the 2015 AGM to enable the Company to purchase its own shares.

The Directors' five year authority to allot shares under section 551 of the Companies Act 2006 expires at the conclusion of the forthcoming AGM. An ordinary resolution will be proposed seeking authority to allot shares in the Company up to an aggregate nominal amount of £10,384,280.

EMPLOYEE SHARE SCHEMES

Options previously granted over 551,372 ordinary shares were exercised during 2014. Details are set out in the Report on Directors' Remuneration on page 21. There were no remaining options outstanding under the Company's share option schemes at 31 December 2014.

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 20 to 25.

SUBSTANTIAL HOLDINGS OF SHARES IN THE COMPANY

The Company has received notification prior to 26 February 2015 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	**21,325,851**	**17.11%**
FUNDS MANAGED OR ADVISED BY MITON GROUP PLC	**16,692,637**	**13.40%**
FUNDS MANAGED OR ADVISED BY UNICORN ASSET MANAGEMENT	**8,850,362**	**7.10%**
FUNDS MANAGED BY HARGREAVE HALE LIMITED	**5,333,333**	**4.28%**

DIRECTORS

The names of the Directors in office at 31 December 2014, who served throughout the year together with short biographical details, are set out on page 17. The Board considers its three Non-Executive Directors to be independent.

Michael Arrowsmith and Stuart R. Paterson retire by rotation at the AGM in May 2015 and offer themselves for re-election. Both have letters of appointment with the Company dated 26 September 2012 with a notice period of three months.

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.

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 in relation to the disapplication of pre-emption rights over the existing unissued and uncommitted ordinary share capital. This authority is limited to a maximum nominal amount of £1,557,642.

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

There will be a resolution proposing the re-appointment of KPMG LLP as the Company's auditor at the forthcoming Annual General Meeting.

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
26 February 2015

REPORT ON DIRECTORS' REMUNERATION

REMUNERATION COMMITTEE CHAIRMAN'S SUMMARY STATEMENT

This Remuneration report has been drawn up under the provisions of the Enterprise and Regulatory Reform Act 2014. 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 and 25.

The Company has a Remuneration Committee constituted in accordance with the UK Corporate Governance Code. The Committee comprises three independent Non-Executive Directors plus the Company Chairman, Graeme Bissett. The Committee determines the remuneration for the Executive Directors and also oversees the remuneration of the Chief Executive's direct reports.

The key components of Executive remuneration are:

> Basic salary and benefits – the increase applied for 2015 is 2%, 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 2014 of £73,000 and £32,000, 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 2014 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, TSR and sales performance conditions. This Plan expires in 2016 and the Remuneration Committee will be proposing a new long-term incentive plan for approval at the 2016 AGM following an appropriate consultation process. The Remuneration Committee intends to grant a final award under the existing Performance Share Plan in 2015.

> Total Executive remuneration has increased in 2014 by 27% due to the exercise of long-standing share options in 2014. Excluding the option exercise, total Directors' remuneration increased in 2014 by 13%. The Group has made substantial progress with profit before exceptional items increasing by 11% and the share price increasing by 7% to 36.50p at 31 December 2014.

The Remuneration Committee recommend this report and I hope that you feel able to support the remuneration resolution submitted for approval at the Annual General Meeting on 5 May 2015.

Bob McLellan
Chairman of the Remuneration Committee
26 February 2015

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 LLP.

2014

	SALARIES AND FEES £000	TAXABLE BENEFITS £000	BONUS £000	OPTION AWARDS EXERCISE £000	PENSION COSTS £000	TOTAL £000
CHAIRMAN						
G. BISSETT	61	–	–	–	–	61
EXECUTIVE DIRECTORS						
P.D. ATKINSON	321	16	73	105	71	586
J. LOVE	149	5	32	–	19	205
NON-EXECUTIVE DIRECTORS						
M. ARROWSMITH	31	–	–	–	–	31
S.R. PATERSON	31	–	–	–	–	31
R. MCLELLAN	31	–	–	–	–	31
TOTAL	624	21	105	105	90	945

2013

	SALARIES AND FEES £000	TAXABLE BENEFITS £000	BONUS £000	OPTION AWARDS EXERCISE £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	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

ANNUAL BONUS FOR THE YEAR ENDED 31 DECEMBER 2014

The bonus is based on performance against financial targets and personal objectives as outlined in the policy report. The minimum financial target for 2014 was PBT before exceptional items of £5.5 million, which was achieved so a bonus of £72,000 has been awarded for this component. The Remuneration Committee has also assessed performance against personal objectives and overall, has awarded bonuses of 7.50% and 6.25% of salary, equating to £24,000 and £9,000 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 2014 was £37,000 (2013 – £35,000). The associated transfer value was £749,000 (2013 – £710,000) and has been calculated using HMRC guidelines. The scheme's normal retirement date is 65 and there is no automatic entitlement to early retirement.

SCHEME INTEREST AWARDS IN 2014

Peter Atkinson exercised options over 551,372 on 8 May 2014 for a consideration of £143,357. He then sold 442,500 ordinary shares for a consideration of £194,700 realising a profit on the disposal. As a result of these transactions, his beneficial holding in Macfarlane Group PLC increased from 745,300 ordinary shares to 854,172 ordinary shares.

REPORT ON DIRECTORS' REMUNERATION

ANNUAL REPORT ON REMUNERATION (CONTINUED)

STATEMENT OF DIRECTORS' SHAREHOLDING AND SHARE INTERESTS

DIRECTORS' SHAREHOLDINGS

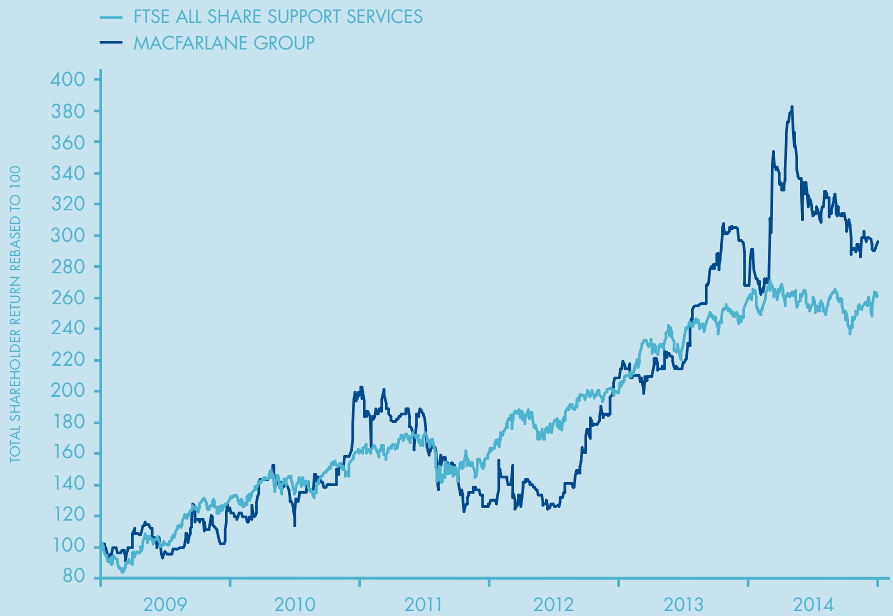
	2014 BENEFICIAL	2014 OPTION	2013 BENEFICIAL	2013 OPTION
G. BISSETT	343,750	–	343,750	–
P.D. ATKINSON	854,172	–	745,300	551,372
J. LOVE	775,000	–	725,000	–
M. ARROWSMITH	100,000	–	100,000	–
S.R. PATERSON	79,550	–	79,550	–
R. MCLELLAN	78,791	–	–	–

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 for the period since 1 January 2009. 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
2014	P.D. ATKINSON	586	46%	n/a
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

PERCENTAGE CHANGE IN REMUNERATION OF CEO AND EMPLOYEES

The following table shows the percentage change in remuneration between 2014 and 2013 for the CEO and for all employees in the Group.

% CHANGE IN	CEO	AVERAGE FOR ALL ELIGIBLE EMPLOYEES
BASE SALARY	2.0%	2.9%
BENEFITS	0.3%	5.1%
BONUS	456.3%	30.8%

RELATIVE IMPORTANCE OF SPEND ON PAY

The difference in expenditure between 2013 and 2014 on remuneration for all employees in comparison to the distribution to shareholders by way of dividend is set out below:

	2014 £000	2013 £000	% CHANGE
TOTAL EMPLOYEE PAY	21,584	19,857	+8.7%
DIVIDEND	1,888	1,774	+6.4%

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 2015 and the fees paid to the Chairman and Non-Executive Directors also increased by 2% from 1 January 2015. There are no changes to the way the remuneration policy will be implemented in the current year. The policy detailed in this report was approved at the AGM in May 2014 and remains in force.

The Remuneration Committee intends to grant a final award under the Performance Share Plan as detailed in the Remuneration Committee Chairman's report. As this plan expires in 2016 a new long term incentive plan will be proposed for approval at the AGM in 2016 following appropriate shareholder consultation.

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 28.

During 2014 the Remuneration Committee used the services of Aon Hewitt to advise on certain aspects of remuneration. Aon Hewitt 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 Aon Hewitt for the year for Remuneration Committee advice was £1,000 and the Directors consider Aon Hewitt to be independent of the Group and objective in their advice.

STATEMENT OF VOTING AT THE ANNUAL GENERAL MEETING

At the AGM held on 6 May 2014, the Directors' Remuneration Report received the following votes from shareholders.

	TOTAL NUMBER OF VOTES	% VOTES CAST
FOR	60,881,767	99.86%
AGAINST	87,609	0.14%
TOTAL VOTES CAST (FOR OR AGAINST)	60,969,376	100.00%
VOTES WITHHELD	23,900	
TOTAL	60,993,276	

At the AGM held on 6 May 2014, the Directors' Remuneration Policy received the following votes from shareholders.

	TOTAL NUMBER OF VOTES	% VOTES CAST
FOR	60,880,152	99.85%
AGAINST	93,011	0.15%
TOTAL VOTES CAST (FOR OR AGAINST)	60,973,163	100.00%
VOTES WITHHELD	20,113	
TOTAL	60,993,276	

REPORT ON DIRECTORS' REMUNERATION

REMUNERATION POLICY

The tables below summarise the main elements of the remuneration packages of Executive Directors. All components were approved at the AGM in 2014 and the full policy is available under the Corporate Governance section of the Company website (www.macfarlanegroup.com).

In addition, appropriate clawback provisions have been implemented for the annual incentive scheme covering any material misstatement of the Group results and these will be in force from 2015 onwards.

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. This review takes into account practices elsewhere in the Group.
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; and > 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. Any bonus award in respect of periods from 2015 is subject to penalty and clawback provisions covering material misstatement of Group results and is in force for 2 years following the award.
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.

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 26 to 30 and for Directors' remuneration in the Report on Directors' Remuneration on pages 21 to 25.

COMPLIANCE

The Company complied with all Code provisions during 2014. The Company's auditor, KPMG LLP, is required to review whether the above statement reflects the Company's compliance with the ten provisions of the 2012 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, illustrating their range of experience, are set out on page 17. Details of Executive Directors' service contracts are given in the Remuneration policy statement on the Company's website www.macfarlanegroup.com and both service contracts have notice periods of one year.

The current Board structure is in compliance with the Code, requiring 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 and challenge 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 2014 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 2015 AGM, Michael Arrowsmith and Stuart R. Paterson fall due to retire by rotation and, being eligible, offer themselves for re-election. Their letters of appointment will be available for shareholder review prior to the AGM on 5 May 2015.

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 met nine times during 2014 and individual attendance at those and the Board Committee meetings is set out in the table on the following page. In 2014, 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.

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

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 38, 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 31.

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 2014 was:

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)	3 (3)*	3 (3)	1 (1)
PETER ATKINSON – CHIEF EXECUTIVE	9 (9)	–	–	–
JOHN LOVE – FINANCE DIRECTOR	9 (9)	–	–	–
MIKE ARROWSMITH – SENIOR INDEPENDENT DIRECTOR	8 (9)	3 (3)	3 (3)	1 (1)
STUART PATERSON – NON-EXECUTIVE DIRECTOR	9 (9)	3 (3)	3 (3)	1 (1)
BOB MCLELLAN – NON-EXECUTIVE DIRECTOR	9 (9)	3 (3)	3 (3)	1 (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 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 three Non-Executive Directors meet annually 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 2 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 to 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. The Group also 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
Graeme Bissett (Chairman)
Mike Arrowsmith
Stuart Paterson
Bob McLellan

The Nominations Committee met once during 2014 and its terms of reference are available on the Group website (www.macfarlanegroup.com).

The principal work undertaken by the Nominations Committee in 2014 was 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 2014 to consider proposing John Love and Peter D. Atkinson for election at the AGM on 6 May 2014. Both were recommended for election and this was approved by shareholders at the 2014 AGM. No Director is involved in any decisions regarding his own appointment or re-appointment.

Following a Nominations Committee held on 25 February 2015 the Committee proposed Michael Arrowsmith and Stuart R. Paterson for re-election at the AGM on 5 May 2015.

REMUNERATION COMMITTEE

The Remuneration Committee membership was as follows:

REMUNERATION COMMITTEE MEMBERSHIP
Bob McLellan (Chairman)
Graeme Bissett
Mike Arrowsmith
Stuart Paterson

None of the members of the Remuneration Committee during 2014 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 2014 and its terms of reference are available on the Group website (www.macfarlanegroup.com).

The principal work undertaken by the Remuneration Committee in 2014 was:

(a) to review performance against 2013 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 2014 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 in 2014; 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 25.

AUDIT COMMITTEE

The Audit Committee membership was as follows:

AUDIT COMMITTEE MEMBERSHIP
Stuart Paterson (Chairman)
Mike Arrowsmith
Bob McLellan

Stuart Paterson was appointed 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 the following page.

The Audit Committee met three times during 2014 and its agenda is linked to events in the Group's financial calendar. The Committee meets privately with the external auditor, with the internal auditors and Executive Directors invited to attend meetings as required. In 2014 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.

2014 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 2014 financial statements, the Committee agrees the two 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 2014, the Group retained an allowance for doubtful trade receivables of £357,000, compared to £340,000 in 2013. Further details are set out in note 13.

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 2015 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 24 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 Group 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 24. Accordingly the Committee is comfortable with the reporting of the pension scheme deficit.

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 2014 financial statements, those other areas included:

> The basis of the accounting for acquisitions in 2014 including the amounts ascribed to other intangible assets and goodwill respectively;

> The review of the underlying assumptions and the sensitivity analysis used to confirm that no impairment charge was required against the goodwill balances in the current year;

> The level of and basis for inventory provisions at 31 December 2014;

> 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 Group's 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.

CORPORATE GOVERNANCE

AUDIT COMMITTEE (CONTINUED)

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 5 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 and systems that the external auditor 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 auditor 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 2 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 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.

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 Strategic Report, 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 applicable set of accounting standards, 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.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Peter D. Atkinson
Chief Executive
26 February 2015

John Love
Finance Director
26 February 2015

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

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 2014 set out on pages 34 to 70. 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 2014 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.

Carrying value of trade receivables £34,267,000

Refer to page 29 (Audit Committee statement), page 40 (accounting policy) and note 13 (financial disclosures).

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

> Our response – Our audit procedures included testing the design and operating effectiveness of a selection of the Group's controls over the receivables collection processes, including 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 critically assessing the assumptions made by the Group in determining the level of provision 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 retirement benefit deficit £13,873,000

Refer to page 29 (Audit Committee statement), page 39 (accounting policy) and note 24 (financial disclosures).

> The risk – Significant assumptions and estimates are made in valuing the Group's post-retirement defined benefit scheme and small changes in 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.

> Our response – Our audit procedures included, with support of our own internal actuarial specialists, challenging the appropriateness of key assumptions used in deriving the value of the scheme's liabilities, being the discount rate, life expectancy and inflation, 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.

We continue to perform audit procedures over the risk of the carrying value of goodwill. However, following the combination of certain Cash Generating Units in 2013, we have not assessed this as one of the risks that had the greatest effect on our audit and, therefore, it is not separately identified in our report this year.

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, determined with reference to a benchmark of Group profit before taxation of £5,606,000, of which it represents 7.1%.

We report to the Audit Committee any corrected and uncorrected identified misstatements exceeding £20,000, in addition to other identified misstatements that 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 insignificant component in Sweden. The audit was performed using the materiality levels set out above and covered 99% of total Group revenue, 92% 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 Corporate Governance Statement 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 38, in relation to going concern;

> the part of the Corporate Governance Statement on pages 26 and 27 relating to the company's compliance with the ten provisions of the 2012 UK Corporate Governance Code 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 31, 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/auditscopeukco2014a 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 LLP,
Statutory Auditor
Chartered Accountants
191 West George Street
Glasgow G2 2LJ

26 February 2015

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTE	2014 £000	RESULTS BEFORE EXCEPTIONAL ITEMS £000	EXCEPTIONAL ITEMS £000 SEE NOTE 1(C)	2013 £000
CONTINUING OPERATIONS					
Revenue	1	153,767	143,871	–	143,871
Cost of sales		(106,304)	(98,983)	–	(98,983)
GROSS PROFIT		47,463	44,888	–	44,888
Distribution costs		(7,432)	(7,458)	–	(7,458)
Administrative expenses		(33,385)	(31,179)	(336)	(31,515)
OPERATING PROFIT	1, 2	6,646	6,251	(336)	5,915
Net finance costs	4	(1,040)	(1,199)	–	(1,199)
PROFIT BEFORE TAX		5,606	5,052	(336)	4,716
Tax	5	(1,164)	(1,265)	5	(1,260)
PROFIT FOR THE YEAR	6, 20	4,442	3,787	(331)	3,456
EARNINGS PER SHARE	8				
Basic		3.78p	3.32p	(0.29p)	3.03p
Diluted		3.78p	3.31p	(0.29p)	3.02p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTE	2014 £000	2013 £000
Foreign currency translation differences – foreign operations	20	(102)	40
Remeasurement of pension scheme liability	24	(2,737)	1,177
Tax recognised in other comprehensive income			
Tax on remeasurement of pension scheme liability	18	548	(271)
Long-term corporation tax rate change	18	–	(476)
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR, NET OF TAX		(2,291)	470
Profit for the year		4,442	3,456
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,151	3,926

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 2014

	NOTE	SHARE CAPITAL £000	SHARE PREMIUM £000	REVALUATION RESERVE £000	OWN SHARES £000	TRANSLATION RESERVE £000	RETAINED EARNINGS £000	TOTAL £000
AT 1 JANUARY 2013		28,755	–	70	(810)	183	(4,180)	24,018
Profit for the year		–	–	–	–	–	3,456	3,456
Dividends	7	–	–	–	–	–	(1,774)	(1,774)
Foreign currency translation differences – foreign operations	20	–	–	–	–	40	–	40
Transfer of own shares to pension scheme	20	–	–	–	499	–	(245)	254
Remeasurement of pension scheme liability	24	–	–	–	–	–	1,177	1,177
Tax recognised in other comprehensive income	18	–	–	–	–	–	(271)	(271)
Tax on remeasurement of pension scheme liability	18	–	–	–	–	–	(476)	(476)
AT 31 DECEMBER 2013		28,755	–	70	(311)	223	(2,313)	26,424
Profit for the year		–	–	–	–	–	4,442	4,442
Dividends	7	–	–	–	–	–	(1,888)	(1,888)
Issue of share capital	19, 20	2,398	1,018	–	–	–	–	3,416
Exercise of share options	20	–	–	–	311	–	(168)	143
Foreign currency translation differences – foreign operations	20	–	–	–	–	(102)	–	(102)
Remeasurement of pension scheme liability	24	–	–	–	–	–	(2,737)	(2,737)
Tax on remeasurement of pension scheme liability	18	–	–	–	–	–	548	548
AT 31 DECEMBER 2014		31,153	1,018	70	–	121	(2,116)	30,246

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

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2014

	NOTE	2014 £000	2013 £000
ASSETS			
NON-CURRENT ASSETS			
Goodwill and other intangible assets	9	34,125	25,415
Property, plant and equipment	10	7,445	7,281
Trade and other receivables	13	659	1,651
Deferred tax asset	18	3,245	3,628
TOTAL NON-CURRENT ASSETS		45,474	37,975
CURRENT ASSETS			
Inventories	12	9,663	7,931
Trade and other receivables	13	39,998	35,481
Cash and cash equivalents	14	1,250	477
TOTAL CURRENT ASSETS		50,911	43,889
TOTAL ASSETS	1	96,385	81,864
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	37,566	32,346
Current tax liabilities		279	435
Provisions	16	52	82
Finance lease liabilities	17	155	33
Bank borrowings	14	11,349	6,359
TOTAL CURRENT LIABILITIES		49,401	39,255
NET CURRENT ASSETS		1,510	4,634
NON-CURRENT LIABILITIES			
Retirement benefit obligations	24	13,873	15,896
Deferred tax liabilities	18	1,019	253
Trade and other payables	15	1,368	36
Finance lease liabilities	17	478	–
TOTAL NON-CURRENT LIABILITIES		16,738	16,185
TOTAL LIABILITIES	1	66,139	55,440
NET ASSETS	1	30,246	26,424
EQUITY			
Share capital	19	31,153	28,755
Share premium	20	1,018	–
Revaluation reserve	20	70	70
Own shares	20	–	(311)
Translation reserve	20	121	223
Retained earnings	20	(2,116)	(2,313)
TOTAL EQUITY		30,246	26,424

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 26 February 2015 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 2014

	NOTE	2014 £000	2013 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	21	2,843	3,427
INVESTING ACTIVITIES			
Acquisition of subsidiary undertakings	22	(5,051)	–
Proceeds on disposal of property, plant and equipment		152	30
Purchases of property, plant and equipment		(624)	(774)
NET CASH USED IN INVESTING ACTIVITIES		(5,523)	(744)
FINANCING ACTIVITIES			
Dividends paid	7	(1,888)	(1,774)
Proceeds from issue of share capital (net of issue expenses)		2,791	–
Proceeds from sale of own shares to satisfy share options		143	–
Repayment of bank loan		(6,000)	–
Additional payment to pension scheme		(2,500)	–
Drawdown on bank borrowing facility		11,349	–
Repayments of finance lease liabilities		(83)	(126)
NET CASH GENERATED BY/(USED IN) FINANCING ACTIVITIES		3,812	(1,900)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,132	783
Cash and cash equivalents at beginning of year		118	(665)
CASH AND CASH EQUIVALENTS AT END OF YEAR	21	1,250	118

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

ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 DECEMBER 2014

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 change is included in the following notes:

Subject	Note	Area of assumptions and estimation uncertainties
Trade and Other Receivables	13	The provision for doubtful receivables is based on judgemental estimates over the recoverable amounts
Retirement Benefit Obligations	24	The valuation of the pension deficit is affected by key actuarial assumptions

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 2014 financial statements 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:

> IAS 19 (amended) Employee Benefits;

> IFRS 8 (amended) Operating segments;

> IAS 16 (amended) Property, plant and equipment;

> IAS 24 (amended) Related party disclosures;

> IFRS 2 (amended) Share-based payments;

> IFRS 13 (amended) Fair value measurement; and

> IAS 38 (amended) Intangible assets.

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 2 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.

The Group entered into a three-year committed borrowing facility of up to £20 million with Lloyds Banking Group PLC, which is 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, 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, defined as the date control is acquired. Any excess of the cost of acquisition over the fair values of the separately 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 a maximum of 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.

(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). In 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 consolidated 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. 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.

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 consolidated 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 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.

Deferred tax assets and liabilities are not discounted.

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 tangible 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% and 5% per annum on buildings and 7% and 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. They 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
Indicators are assessed for the impairment of financial assets 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 INSTRUMENTS
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
Equity instruments are any contracts evidencing 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
Derivative financial instruments were not used in the current or preceding financial year.

(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, 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. 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 and 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.

Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 25.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. 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. The Group has combined 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	2014 £000	2013 £000
Packaging Distribution	126,907	116,280
Manufacture and supply of self-adhesive labels	10,586	11,532
Manufacture and supply of resealable labels	6,743	6,469
Design, manufacture and assembly of timber, corrugated and foam-based packaging materials	9,531	9,590
EXTERNAL REVENUES FROM CONTINUING OPERATIONS	153,767	143,871

(b) Segmental information

	PACKAGING DISTRIBUTION £000	MANUFACTURING OPERATIONS £000	2014 TOTAL £000	PACKAGING DISTRIBUTION £000	MANUFACTURING OPERATIONS £000	2013 TOTAL £000
REVENUE						
Total revenue	126,907	32,358	159,265	116,280	32,180	148,460
Inter-segment revenue	–	(5,498)	(5,498)	–	(4,589)	(4,589)
External revenue	126,907	26,860	153,767	116,280	27,591	143,871
Cost of sales	(90,382)	(15,922)	(106,304)	(82,415)	(16,568)	(98,983)
GROSS PROFIT	36,525	10,938	47,463	33,865	11,023	44,888
Net operating expenses	(30,767)	(10,050)	(40,817)	(28,947)	(10,026)	(38,973)
OPERATING PROFIT	5,758	888	6,646	4,918	997	5,915
Net finance costs			(1,040)			(1,199)
PROFIT BEFORE TAX			5,606			4,716
Tax			(1,164)			(1,260)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS			4,442			3,456
CAPITAL ADDITIONS (INCLUDING ACQUISITIONS)	9,360	944	10,304	478	296	774
DEPRECIATION/AMORTISATION	1,001	447	1,448	843	488	1,331

Inter-segment revenues are charged at prevailing market prices.

	PACKAGING DISTRIBUTION £000	MANUFACTURING OPERATIONS £000	2014 TOTAL £000	PACKAGING DISTRIBUTION £000	MANUFACTURING OPERATIONS £000	2013 TOTAL £000
Segment assets	80,365	16,020	96,385	68,493	13,371	81,864
Segment liabilities	(58,189)	(7,950)	(66,139)	(48,544)	(6,896)	(55,440)
NET ASSETS	22,176	8,070	30,246	19,949	6,475	26,424

(c) Exceptional items 2013

	2013 £000
EXCEPTIONAL CHARGE	(336)

During 2013 the Group incurred costs of £0.3 million to terminate leases for surplus properties and wrote down an owned property to its realisable value.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

(d) 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 Design and Manufacture business operates primarily in the UK.

	CONTINUING OPERATIONS UK £000	CONTINUING OPERATIONS EUROPE £000	2014 TOTAL £000	CONTINUING OPERATIONS UK £000	CONTINUING OPERATIONS EUROPE £000	2013 TOTAL £000
REVENUE						
Total revenue	148,829	4,938	153,767	140,375	3,496	143,871
RESULT						
Operating result	6,202	444	6,646	6,105	(190)	5,915
NON-CURRENT ASSETS	43,603	1,871	45,474	36,119	1,856	37,975
CAPITAL ADDITIONS INCLUDING ACQUISITIONS	10,254	50	10,304	702	72	774

(e) Information about major customers
No single customer accounts for more than 5% of the Group's external revenues.

2. OPERATING PROFIT

OPERATING PROFIT HAS BEEN ARRIVED AT AFTER CHARGING:	2014 £000	2013 £000
Depreciation of property, plant and equipment (see note 10)	1,020	1,036
Amortisation of other intangible assets (see note 9)	428	295
Staff costs (see note 3)	24,435	22,524
Cost of inventories recognised as an expense	103,048	95,787

A detailed analysis of auditor's remuneration is provided below:

	2014 £000	2013 £000
AUDIT SERVICES		
Fees payable to company's auditor for the audit of the company's annual accounts	30	30
Fees payable to company's auditor for the audit of the company's subsidiaries	79	65
TOTAL AUDIT FEES	109	95
NON AUDIT SERVICES		
Audit related assurance services for review of half-year statements	16	16
Other assurance services for the audit of the Macfarlane Group PLC pension scheme	9	9
Taxation advisory services	1	3
Other non-audit services for pension related advice	7	6
TOTAL NON-AUDIT FEES	33	34
TOTAL FEES PAID TO AUDITOR	142	129

3. STAFF COSTS

THE AVERAGE MONTHLY NUMBER OF EMPLOYEES WAS:	2014 NO.	2013 NO.
Production	173	178
Sales and distribution	377	372
Administration	177	178
	727	728

THE COSTS INCURRED IN RESPECT OF THESE EMPLOYEES WERE:	2014 £000	2013 £000
Wages and salaries	21,584	19,857
Social security costs	1,931	1,847
Other pension costs	920	820
	24,435	22,524

4. NET FINANCE COSTS

	2014 £000	2013 £000
Interest on bank borrowings	(438)	(418)
Interest on obligations under finance leases	(8)	(6)
Net interest expense on retirement benefit obligation (see note 24)	(594)	(775)
NET FINANCE COSTS	(1,040)	(1,199)

5. TAX

	2014 £000	2013 £000
CURRENT TAX		
United Kingdom corporation tax	(230)	(795)
Foreign tax	(95)	(62)
CURRENT TAX CHARGE	(325)	(857)
DEFERRED TAX		
Current year charge (see note 18)	(839)	(403)
TOTAL TAX CHARGE	(1,164)	(1,260)

The standard rate of tax based on the UK average rate of corporation tax, is 21.50% (2013 – 23.25%). 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 21.50% (2013 – 23.25%) of the results as set out in the consolidated income statement for the reasons set out in the following reconciliation:

	2014 £000	2013 £000
PROFIT BEFORE TAX	5,606	4,716
TAX ON PROFIT AT 21.50% (2013 – 23.25%)	(1,205)	(1,096)
FACTORS AFFECTING TAX CHARGE FOR THE YEAR:		
Non deductible expenses	(1)	(70)
Difference on overseas tax rates	(1)	(47)
Changes in estimates related to prior years	43	16
Exceptional items	–	(63)
TAX CHARGE FOR THE YEAR	(1,164)	(1,260)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

6. 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.

7. DIVIDENDS

	2014 £000	2013 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for 2013 of 1.10p per share (2012 – 1.05p per share)	1,265	1,202
Interim dividend for 2014 of 0.50p per share (2013– 0.50p per share)	623	572
	1,888	1,774

Dividends were not payable on own shares held in the Employee Share Ownership Trust detailed in note 20.

In addition to the amounts shown above, a proposed dividend of 1.15p per share will be paid on 4 June 2015 to those shareholders on the register at 8 May 2015. This is subject to approval by shareholders at the Annual General Meeting on 5 May 2015. This has not been included as a liability in these financial statements.

8. EARNINGS PER SHARE

	2014 £000	2013 £000
FROM CONTINUING OPERATIONS		
EARNINGS Profit for the year from continuing operations	4,442	3,456

NUMBER OF SHARES IN ISSUE FOR THE PURPOSES OF CALCULATING BASIC AND DILUTED EARNINGS PER SHARE	2014 NUMBER OF SHARES '000	2013 NUMBER OF SHARES '000
Weighted average number of ordinary shares in issue for the year	117,550	115,019
Weighted average number of Own Shares in Employee Share Ownership Trust	(184)	(846)
WEIGHTED AVERAGE NUMBER OF SHARES IN ISSUE FOR THE PURPOSES OF CALCULATING BASIC EARNINGS PER SHARE	117,366	114,173
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	117,366	114,269
BASIC EARNINGS PER SHARE	3.78p	3.03p

9. GOODWILL AND OTHER INTANGIBLE ASSETS

	PACKAGING DISTRIBUTION £000	MANUFACTURING OPERATIONS £000	2014 TOTAL £000	2013 TOTAL £000
GOODWILL	27,648	1,359	29,007	24,149
OTHER INTANGIBLE ASSETS	5,118	–	5,118	1,266
GOODWILL AND OTHER INTANGIBLE ASSETS	32,766	1,359	34,125	25,415

	PACKAGING DISTRIBUTION £000	MANUFACTURING OPERATIONS £000	2014 TOTAL £000	2013 TOTAL £000
GOODWILL				
COST AT FAIR VALUE ON ACQUISITION				
At 1 January	22,790	1,359	24,149	24,149
Additions (see note 22)	4,858	–	4,858	–
AT 31 DECEMBER	27,648	1,359	29,007	24,149
AMORTISATION				
At 1 January and 31 December	–	–	–	–
CARRYING AMOUNT				
AT 31 DECEMBER 2014	27,648	1,359	29,007	
At 31 December 2013	22,790	1,359		24,149

Goodwill comprises the value arising in a business combination representing 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 CGUs expected to benefit from the synergies of the combination, for the purpose of impairment testing.

During 2014 the Group acquired Lane Packaging Limited and Network Packaging Limited, both of which gave rise to goodwill on acquisition. In both cases the goodwill was added to the Packaging Distribution CGU.

At 31 December 2014, the Group had two CGUs to which goodwill had been ascribed namely:
(i) Packaging Distribution, comprising goodwill arising on all acquisitions in this segment since 2001; and
(ii) Manufacturing Operations, comprising the goodwill arising on Labels acquisitions primarily in the Reseal-it business in 2000.

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 7.4% (2013 – 8.2%) is used for both 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 9.8% for each CGU due to the variation in local tax rates. Growth rates, 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 2015 and strategic plans for future years, and extrapolate cash flows for five years after which a terminal value is calculated assuming no inherent growth.

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 2014 no impairment charge is required against the carrying value of goodwill.

9. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

	BRAND VALUES £000	CUSTOMER RELATIONSHIPS £000	2014 TOTAL £000	2013 TOTAL £000
OTHER INTANGIBLE ASSETS				
COST AT FAIR VALUE ON ACQUISITION				
At 1 January	130	2,843	2,973	2,973
Additions (see note 22)	208	4,072	4,280	–
AT 31 DECEMBER	338	6,915	7,253	2,973
AMORTISATION				
At 1 January	130	1,577	1,707	1,412
Charge for year	20	408	428	295
AT 31 DECEMBER	150	1,985	2,135	1,707
CARRYING AMOUNT				
AT 31 DECEMBER 2014	188	4,930	5,118	
At 31 December 2013	–	1,266		1,266

Other intangible assets comprise separately identifiable intangible assets recognised on the acquisitions of subsidiary companies in Packaging Distribution between 2008 and 2014. They are recorded at fair value on acquisition less any subsequent amortisation.

These are primarily Brand Values, which are calculated on acquisition on the Relief From Royalty method and a valuation of Customer Relationships, which is calculated on acquisition on the excess earnings method, based on the net anticipated earnings stream.

Brand Values are calculated on royalty rates of 0.5%, 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 up to five years and ten years respectively.

During 2014 the Group acquired Lane Packaging Limited and Network Packaging Limited, both of which gave rise to Brand Values and Customer Relationships within Packaging Distribution.

At 31 December 2014, the Group retained Brand Values in respect of:
(i) Lane Packaging Limited, acquired in 2014; and
(ii) Network Packaging Limited, also acquired in 2014.

At 31 December 2014, the Group retained Values of Customer Relationships in respect of:
(i) Online Packaging Limited, acquired in 2008 and now trading as our Gloucester and Wakefield RDCs;
(ii) Allpoint Packaging Limited, acquired in 2008 and now trading as our Hayes RDC;
(iii) Lane Packaging Limited, acquired in 2014; and
(iv) Network Packaging Limited, also acquired in 2014.

10. PROPERTY, PLANT AND EQUIPMENT

	LAND AND BUILDINGS £000	PLANT AND EQUIPMENT £000	TOTAL £000
COST			
At 1 January 2013	5,983	21,730	27,713
Additions	77	697	774
Impairment charge (see note 1c)	(169)	–	(169)
Disposals	–	(164)	(164)
At 1 January 2014	5,891	22,263	28,154
Acquisitions	8	708	716
Additions	108	1,058	1,166
Exchange movements	(21)	(76)	(97)
Disposals	–	(2,015)	(2,015)
AT 31 DECEMBER 2014	5,986	21,938	27,924

	LAND AND BUILDINGS £000	PLANT AND EQUIPMENT £000	TOTAL £000
ACCUMULATED DEPRECIATION			
At 1 January 2013	2,475	17,520	19,995
Charge for year	138	898	1,036
Impairment charge (see note 1c)	(12)	–	(12)
Disposals	–	(146)	(146)
At 1 January 2014	2,601	18,272	20,873
Acquisitions	6	515	521
Charge for year	144	876	1,020
Exchange movements	–	(64)	(64)
Disposals	–	(1,871)	(1,871)
AT 31 DECEMBER 2014	2,751	17,728	20,479
CARRYING AMOUNT			
AT 31 DECEMBER 2014	3,235	4,210	7,445
At 31 December 2013	3,290	3,991	7,281

The main components of property, plant and equipment are:

(i) Four properties owned by the Group in our Manufacturing Operations and tenant's improvements at a number of short and medium-term operating leases in Packaging Distribution, categorised as land and buildings.

(ii) A significant investment in plant and machinery in our Manufacturing Operations, typically printing presses in our Labels' businesses and corrugated case-making machinery in our Packaging Design and Manufacture business as well as investments in an extensive IT system in the Packaging Distribution and Packaging Design and Manufacture businesses, which are categorised under the combined heading of plant and equipment.

The carrying value of £7,445,000 (2013 – £7,281,000) includes £726,000 (2013 – £393,000) of assets held under finance leases. Depreciation charged in respect of these assets is £81,000 (2013 – £49,000).

	2014 £000	2013 £000
LAND AND BUILDINGS AT NET BOOK VALUE COMPRISE:		
Freeholds	1,686	1,647
Long leaseholds	1,470	1,643
Short leaseholds	79	–
	3,235	3,290

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

11. SUBSIDIARY COMPANIES

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

12. INVENTORIES

	2014 £000	2013 £000
Raw materials and consumables	527	619
Work in progress	284	159
Finished goods and goods for resale	8,852	7,153
	9,663	7,931

Inventories represent raw materials, work in progress and finished goods held in each of the Group's businesses to respond to customers' requirements for product.

Inventories recorded in the Group's balance sheet comprise large numbers of comparatively small balances. The local teams review inventory levels, older and obsolete inventories and provide against any exposures throughout the year. The Group's Executive Management then reviews these local judgements to ensure they properly reflect movements in absolute levels, ageing of holdings and known obsolescence.

MOVEMENT IN THE PROVISIONS FOR SLOW-MOVING AND OBSOLETE INVENTORIES	2014 £000	2013 £000
At 1 January	650	682
Acquisitions	5	–
Inventory write-off recognised in the income statement	373	47
Amounts written off during the year	(310)	(79)
AT 31 DECEMBER	718	650

13. TRADE AND OTHER RECEIVABLES

	2014 £000	2013 £000
DUE WITHIN ONE YEAR		
Trade receivables	34,624	30,365
Allowance for doubtful receivables	(357)	(340)
	34,267	30,025
Other receivables	3,673	3,336
Prepayments and accrued income	2,058	2,120
	39,998	35,481
DUE AFTER MORE THAN ONE YEAR		
Other receivables	659	793
Prepayments and accrued income	–	858
	659	1,651

Trade receivables represent amounts owed by customers in respect of goods or services provided in each of the Group's businesses prior to the year-end.

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 (2013 – 59 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. There are no customers with a balance in excess of 5% of the total trade receivables balance at 31 December 2014 or 31 December 2013.

Included in the Group's trade receivables balance are debtors with a carrying amount of £9,688,000, (2013 – £9,455,000) 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 weighted average overdue age of these trade receivables is 17 days (2013 – 18 days).

AGEING OF PAST DUE BUT NOT IMPAIRED RECEIVABLES	2014 £000	2013 £000
30 – 60 days	5,046	5,155
60 – 90 days	3,605	3,222
Over 90 days	1,037	1,078
	9,688	9,455

Amounts presented in the balance sheet are net of allowances for doubtful trade receivables of £357,000 (2013 – £340,000), estimated by the Group's Executive Management based on prior experience and their assessment of the current economic environment. 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.

MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL TRADE RECEIVABLES	2014 £000	2013 £000
At 1 January	340	365
Acquisitions	8	–
Impairment losses recognised in the income statement	85	35
Amounts written off as uncollectible	(76)	(60)
AT 31 DECEMBER	357	340

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

14. 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 2014. 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 2015.

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 £20.0 million is in place for the period to 2017. The maturity profile of debt outstanding at 31 December 2014 is set out in note 17 and in 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 with further details set out in note 13.

Interest rate risk

The Group finances its business through a mixture of equity 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. It is not considered necessary to cover current interest rate exposures by the use of financial instruments.

A sensitivity analysis 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. 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 £65,000 (2013 – £47,000).

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 2014 has been to review the need to hedge exposures on a regular basis and it was not considered necessary to cover the existing currency exposures by the use of financial instruments. The Group continues 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 2014 £000	ASSETS 2013 £000	LIABILITIES 2014 £000	LIABILITIES 2013 £000
Euros	1,393	1,369	592	527
Swedish Krone	818	937	355	523
	2,211	2,306	947	1,050

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

	2014 £000	2013 £000
Euros	15	(474)
Swedish Krone	430	284
	445	(190)

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 2014 £000	RESULT 2013 £000	OTHER EQUITY 2014 £000	OTHER EQUITY 2013 £000
Euros	1	(24)	40	42
Swedish Krone	21	15	23	21
	22	(9)	63	63

14. FINANCIAL INSTRUMENTS (CONTINUED)

CASH AND CASH EQUIVALENTS	2014 £000	2013 £000
CURRENCY		
Sterling	943	15
Euros	185	416
Swedish Krone	122	46
CASH AND CASH EQUIVALENTS	1,250	477
BANK BORROWINGS AND LOANS		
Borrowings – Sterling	11,349	–
Overdraft – Sterling	–	359
Loan – Sterling	–	6,000
BANK BORROWINGS AND LOANS	11,349	6,359
NET BANK INDEBTEDNESS	10,099	5,882

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.

The Group agreed a new debt facility with Lloyds Banking Group PLC in February 2014, comprising a three-year committed borrowing facility 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.

At 31 December 2013 all bank overdrafts shown above were repayable on demand and were refinanced in February 2014. Bank loans were taken out for three-month periods with the loan at 31 December 2013 repaid on 28 February 2014.

Interest rates

All Group deposits and borrowings are held at floating rates of interest. The average effective interest rate on bank borrowings approximates to 3.4% per annum (2013 – 4.5%).

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 borrowings at 31 December 2014 all materially equate to book values.

Borrowing facilities

The Group has various committed undrawn borrowing facilities available at 31 December 2014 in respect of which all conditions precedent had been met are as follows:

	2014 £000	2013 £000
Drawn down	11,349	6,359
Undrawn	9,151	4,641
	20,500	11,000

The Group's borrowing profile is as follows:	2014 £000	2013 £000
AT AMORTISED COST		
Bank borrowing – secured	11,349	–
Bank overdrafts – unsecured	–	359
Bank loans – unsecured	–	6,000
Finance lease liabilities – secured	155	33
CURRENT BORROWINGS	11,504	6,392
Secured – at amortised cost – Non-current – finance lease liabilities	478	–
TOTAL BORROWINGS	11,982	6,392

The principal Group borrowing facility of up to £20.0 million is in place for the period to February 2017 and there are two smaller facilities totalling £0.5 million, which were inherited as part of the acquisitions completed in 2014.

The Group is currently in compliance with all conditions in relation to all of these borrowing facilities.

14. FINANCIAL INSTRUMENTS (CONTINUED)

GEARING RATIO	2014 £000	2013 £000
The gearing ratio at the year end is as follows:		
Total borrowings	11,982	6,392
Equity	30,246	26,424
NET DEBT TO EQUITY RATIO	40%	24%

15. TRADE AND OTHER PAYABLES

	2014 £000	2013 £000
DUE WITHIN ONE YEAR		
Trade payables	29,473	26,182
Other taxation and social security	2,473	2,101
Other creditors	1,524	206
Accruals and deferred income	4,096	3,857
	37,566	32,346
DUE AFTER MORE THAN ONE YEAR		
Other creditors	1,368	36

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing distribution costs and administrative expenses in all the Group's businesses. No interest is charged on trade payables.

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

16. PROVISIONS

	2014 £000	2013 £000
At 1 January	82	582
(Credited)/charged to consolidated income statement (see note 1c)	(30)	193
Paid in the year	–	(693)
AT 31 DECEMBER	52	82

The Group has four 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.

17. FINANCE LEASE LIABILITIES

	2014 £000	2013 £000
AMOUNTS PAYABLE UNDER FINANCE LEASES		
Due within one year	155	33
Due between one and two years	150	–
Due from the third to fifth years inclusive	328	–
PRESENT VALUE OF FINANCE LEASE LIABILITIES	633	33
Due for settlement within 12 months (shown within current liabilities)	(155)	(33)
Due for settlement after more than 12 months (shown as non-current liabilities)	478	–

The Group determines the need to use external arrangements to finance tangible assets, depending on the cost, availability and balance of its other funding arrangements. The Group typically uses such arrangements to finance major capital projects, but often inherits financing arrangements on acquisition of subsidiary companies.

The average lease term is five years and the average effective borrowing rate is 3.25% per annum (2013 – 4.76%). 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 10.

18. DEFERRED TAX

	TAX LOSSES £000	HELD OVER GAINS £000	OTHER INTANGIBLE ASSETS £000	RETIREMENT BENEFIT OBLIGATIONS £000	TOTAL £000
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 1 January 2014	449	–	(253)	3,179	3,375
Acquisition	(2)	–	(856)	–	(858)
Credited/(charged) in income statement	27	–	86	(952)	(839)
Credited in other comprehensive income					
Deferred tax on remeasurement of pension scheme liability	–	–	–	548	548
AT 31 DECEMBER 2014	474	–	(1,023)	2,775	2,226
2014					
DEFERRED TAX ASSET					
Due outwith one year	470	–	–	2,775	3,245
DEFERRED TAX LIABILITIES					
Due outwith one year	4	–	(1,023)	–	(1,019)
	474	–	(1,023)	2,775	2,226
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

The Chancellor's Autumn Statement on 5 December 2012 announced that the UK corporation tax rate would reduce to 20% by 2015. This was substantively enacted on 2 July 2013 and has been reflected in these financial statements.

Recovery of the deferred tax assets is anticipated against future trading profits.

19. SHARE CAPITAL

	NUMBER OF 25P SHARES	2014 £000	2013 £000
ALLOTTED, ISSUED AND FULLY PAID:			
At 1 January	115,019,000	28,755	28,755
Issued during the year	9,592,360	2,398	–
AT 31 DECEMBER	124,611,360	31,153	28,755

On 5 September 2014, the Company acquired the whole issued share capital of Network Packaging Limited. As part of the initial consideration, the Company issued 1,592,360 ordinary shares of 25p each at a value of 39.25p per share, which were admitted to the official List of the London Stock Exchange on 12 September 2014.

On 8 September 2014, the Company announced a placing of 8,000,000 ordinary shares of 25p each at a price of 37.50p per share. The placing was approved at a General Meeting of the Company on 1 October 2014 and the shares were admitted to the official List of the London Stock Exchange on 2 October 2014.

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
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20. RESERVES

	SHARE PREMIUM £000	REVALUATION RESERVE £000	OWN SHARES £000	TRANSLATION RESERVE £000	RETAINED EARNINGS £000
Balance at 1 January 2013	–	70	(810)	183	(4,180)
Profit for the year	–	–	–	–	3,456
Dividends paid (see note 7)	–	–	–	–	(1,774)
Foreign currency translation differences – foreign operations	–	–	–	40	–
Disposal of own shares	–	–	499	–	(245)
Remeasurement of pension scheme liability taken direct to equity	–	–	–	–	1,177
Deferred tax taken direct to equity					
Tax on remeasurement	–	–	–	–	(271)
Corporation tax rate change	–	–	–	–	(476)
BALANCE AT 1 JANUARY 2014	–	70	(311)	223	(2,313)
Profit for the year	–	–	–	–	4,442
Dividends paid (see note 7)	–	–	–	–	(1,888)
Foreign currency translation differences – foreign operations	–	–	–	(102)	–
Issue of new shares	1,227	–	–	–	–
Expenses of share issue	(209)	–	–	–	–
Exercise of share options	–	–	311	–	(168)
Remeasurement of pension scheme liability taken direct to equity	–	–	–	–	(2,737)
Deferred tax taken direct to equity					
Tax on remeasurement	–	–	–	–	548
BALANCE AT 31 DECEMBER 2014	1,018	70	–	121	(2,116)

The Company's Employee Share Ownership Trust ("ESOT") no longer holds any ordinary shares in Macfarlane Group PLC following the exercise of the remaining share options during 2014. At 31 December 2013, the Company's Employee Share Ownership Trust ("ESOT") held 551,372 ordinary shares in Macfarlane Group PLC with a market value of £189,000. The ESOT waived its right to receive dividends on these shares.

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 2014 relates wholly to continuing operations.

21. NOTES TO THE CASH FLOW STATEMENT

	2014 £000	2013 £000
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS	6,646	6,251
Adjustments for:		
Amortisation of intangible assets	428	295
Depreciation of property, plant and equipment	1,020	1,036
Gain on disposal of property, plant and equipment	(8)	(12)
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	8,086	7,570
(Increase)/decrease in inventories	(1,194)	189
Increase in receivables	(4,119)	(809)
Increase in payables	4,163	765
Decrease in provisions	–	(693)
Pension scheme contributions (excluding additional contribution)	(2,854)	(2,493)
CASH GENERATED BY OPERATIONS	4,082	4,529
Income taxes paid	(793)	(678)
Interest paid	(446)	(424)
NET CASH INFLOW FROM OPERATING ACTIVITIES	2,843	3,427

21. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

	2014 £000	2013 £000
MOVEMENT IN NET DEBT		
Increase in cash and cash equivalents in the year	1,132	188
Decrease in bank overdrafts	–	595
Cash and cash equivalents in statement of cash flows	1,132	783
Decrease in bank loans	6,000	–
Increase in bank borrowings	(11,349)	–
New finance lease facilities	(683)	–
Cash flows from payment of finance lease liabilities	83	126
MOVEMENT IN NET DEBT IN THE YEAR	(4,817)	909
Opening net debt	(5,915)	(6,824)
CLOSING NET DEBT	(10,732)	(5,915)
NET DEBT COMPRISES:		
Cash and cash equivalents	1,250	477
Bank overdrafts	–	(359)
CASH AND CASH EQUIVALENTS IN STATEMENT OF CASH FLOWS	1,250	118
Bank borrowings (2013 – Bank loans)	(11,349)	(6,000)
NET BANK DEBT	(10,099)	(5,882)
Finance lease liabilities		
Due within one year	(155)	(33)
Due outwith one year	(478)	–
CLOSING NET DEBT	(10,732)	(5,915)

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.

The Group agreed a new debt facility with Lloyds Banking Group PLC in February 2014 with the details set out in note 14.

At 31 December 2013, bank overdrafts and loans comprised £6.4 million, which were repaid in February 2014.

22. ACQUISITION OF SUBSIDIARY COMPANIES

During 2014 the Group acquired two trading subsidiary companies for a mixture of cash and shares.

On 2 May 2014, the Group's subsidiary, Macfarlane Group UK Limited, acquired 100% of the issued share capital of PSD Industrial Holdings Limited, the immediate parent company of Lane Packaging Limited, for a consideration of approximately £0.9 million. £0.7 million was paid in cash on acquisition, with the deferred consideration payable in the second quarter of 2015, subject to certain trading targets being met in the year to 30 April 2015. The deferred consideration is included in other creditors.

On 5 September 2014, the Group acquired 100% of the issued share capital of Network Packaging Limited for a consideration of approximately £7.5 million. £4.3 million of the consideration was paid in cash on acquisition and £0.6 million was settled by the issue of shares. The deferred consideration of £2.6 million, is payable in two instalments in the final quarter of 2015 and the final quarter of 2016, subject to certain trading targets being met in the two twelve month periods ending on 5 September 2015 and 5 September 2016 respectively. The deferred consideration is included in other creditors.

Both businesses are packaging distributors and are accounted for in the Packaging Distribution segment. Goodwill arising on these acquisitions is attributable to the anticipated future profitability of the distribution of the Group's product ranges in new geographical markets in the UK and anticipated operating synergies from the future combination of activities with the existing Packaging Distribution network.

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

	LANE PACKAGING £000	NETWORK PACKAGING £000	TOTAL £000
NET ASSETS ACQUIRED			
Other intangible assets (see note 9)	663	3,617	4,280
Property, plant and equipment	76	119	195
Inventories	72	466	538
Trade and other receivables	453	1,766	2,219
Cash and bank balances	–	432	432
Bank loans and overdrafts	(532)	–	(532)
Trade and other payables	(681)	(1,634)	(2,315)
Current tax liabilities	(16)	(296)	(312)
Finance lease liabilities	(56)	(85)	(141)
Deferred tax liabilities	(133)	(725)	(858)
NET (LIABILITIES)/ASSETS ACQUIRED	(154)	3,660	3,506
Goodwill arising on acquisition (see note 9)	1,001	3,857	4,858
TOTAL CONSIDERATION	847	7,517	8,364
SATISFIED BY:			
Cash	684	4,267	4,951
Deferred consideration	163	2,625	2,788
Shares	–	625	625
TOTAL CONSIDERATION	847	7,517	8,364
NET CASH OUTFLOW ARISING ON ACQUISITION			
Cash consideration	(684)	(4,267)	(4,951)
Cash and bank balances acquired	–	432	432
Bank loans and overdrafts assumed	(532)	–	(532)
	(1,216)	(3,835)	(5,051)

23. FINANCIAL COMMITMENTS

The Group's property portfolio in its Packaging Distribution business comprises a number of property leases for periods of between one year and ten years. In addition the Group leases all its commercial vehicles, motor vehicles, fork lift trucks and telecoms equipment on leasing arrangements, which run for periods of up to six years.

These arrangements are collectively known as operating leases.

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

	LAND AND BUILDINGS 2014 £000	OTHER 2014 £000	LAND AND BUILDINGS 2013 £000	OTHER 2013 £000
Charge for the year	4,340	2,677	4,257	2,129
Recoveries from property sub-leases	(509)	–	(483)	–
Net charge for the year	3,831	2,677	3,774	2,129

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 2014 £000	OTHER 2014 £000	LAND AND BUILDINGS 2013 £000	OTHER 2013 £000
Within one year	4,429	2,675	4,246	2,057
Within two to five years	13,014	5,396	13,677	4,570
After more than five years	6,417	137	7,470	421
	23,860	8,208	25,393	7,048

The majority of the 28 (2013 – 25) leases of land and buildings summarised above are subject to rent reviews. 4 (2013 – 4) of these leases are subject to sub-let arrangements or assignations with third parties to reduce the property cost to Macfarlane Group.

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 2014 £000	LAND AND BUILDINGS 2013 £000
Within one year	512	474
Within two to five years	1,963	1,894
After more than five years	414	720
	2,889	3,088

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 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 £2.7 million, (2013 – £3.2 million) the difference between head lease and sub-lease payments from 1 January 2015 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 £109,000 (2013 – £600,000).

NOTES TO THE FINANCIAL STATEMENTS
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24. 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"). Two trading subsidiaries, Macfarlane Group UK Limited and Macfarlane Labels Limited are also sponsoring employers of the scheme. Disclosure of the respective proportions of the Group deficit are set out in the accounts of each of the three participating employers.

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 offering a Pension Increase Exchange ("PIE") option for deferred and active members after 1 May 2012.

The Group will consider a number of further actions to reduce the deficit in 2015.

Balance sheet disclosures at 31 December 2014
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 2014, the principal assumptions adopted were that investment returns would average 0.7% per annum above the gilt yield 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 £58,676,000 and the actuarial value of these investments represented 71% 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 2014, updated to the year-end as shown below:

INVESTMENT CLASS	VALUATION 2014 £000	ASSET ALLOCATION	VALUATION 2013 £000	ASSET ALLOCATION	VALUATION 2012 £000	ASSET ALLOCATION
EQUITIES						
UK equities and equity funds	5,677	8.4%	5,790	10.7%	7,238	14.1%
Overseas equities funds	10,216	15.0%	9,289	17.1%	7,236	14.1%
Multi-asset diversified funds	18,541	27.3%	16,414	30.2%	13,026	25.4%
BONDS						
Liability-driven investment funds	22,195	32.6%	–	–	–	–
Government gilt funds (fixed interest)	–	–	8,128	15.0%	9,060	17.6%
Government gilt funds (index-linked)	–	–	4,918	9.1%	2,498	4.9%
Corporate bond funds	11,263	16.6%	9,488	17.5%	11,986	23.3%
OTHER						
Cash	98	0.1%	211	0.4%	305	0.6%
Fair value of scheme assets	67,990	100.0%	54,238	100.0%	51,349	100.0%
Present value of scheme liabilities	(81,863)		(70,134)		(70,247)	
DEFICIT IN THE SCHEME	(13,873)		(15,896)		(18,898)	

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 government gilts was transferred into a liability-driven 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.

24. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Assumptions

The scheme's liabilities at 31 December 2014 were calculated on the following bases as required under IAS 19:

	2014	2013	2012
Discount rate	3.50%	4.50%	4.40%
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 2.90% for LPI. 2.05% post 5 April 2006	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
Inflation assumption (RPI)	3.00%	3.40%	3.00%
Inflation assumption (CPI)	2.10%	2.50%	2.30%
Life expectancy beyond normal retirement age of 65			
Male	22.7	22.6	22.4
Female	25.1	25.1	24.6

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

	2014 £000	2013 £000	2012 £000
Discount rate movement of +0.1%	1,285	1,192	1,194
Inflation rate movement of +0.1%	(393)	(281)	(281)
Mortality movement of +0.1 year in age rating	(295)	(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.

It is set out in this manner to enable calculations of larger movements to be undertaken relatively easily. By way of illustration, a movement in the discount rate of 0.9% such as that which occurred in the scheme between 2012 and 2014 would correspond to a movement in the deficit of approximately £11.5 million, all else being equal.

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.

24. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Funding
UK pension legislation requires that pension schemes are funded prudently. Following the 2014 actuarial valuation, the scheme's trustees agreed to a recovery period of 10 years. Macfarlane Group PLC is currently paying deficit reduction contributions of £2,800,000 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 2015 will be £2,750,000.

The employer contribution rate for active members is 18.6% of pensionable salary, and the employee contribution rate is 7% of pensionable salary from 1 May 2014.

The next triennial actuarial valuation of the scheme is due at 1 May 2017.

	2014 £000	2013 £000
MOVEMENT IN THE SCHEME DEFICIT IN THE YEAR		
At 1 January	(15,896)	(18,898)
Current service costs	(126)	(148)
Contributions from sponsoring companies	5,480	2,748
Net finance cost	(594)	(775)
Remeasurement of pension scheme liability in the year	(2,737)	1,177
AT 31 DECEMBER	(13,873)	(15,896)
ANALYSIS OF AMOUNTS CHARGED TO PROFIT BEFORE TAX		
Current service costs	(126)	(148)
Net finance cost	(594)	(775)
PENSION EXPENSE CHARGED TO PROFIT BEFORE TAX	(720)	(923)
ANALYSIS OF THE REMEASUREMENT OF PENSION SCHEME LIABILITY AS INCLUDED IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME		
Return on scheme assets excluding amount shown in interest income	9,184	1,469
Changes in assumptions underlying the present value of scheme liabilities	(11,921)	(292)
REMEASUREMENT OF PENSION SCHEME LIABILITY RECOGNISED IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME	(2,737)	1,177
MOVEMENT IN THE FAIR VALUE OF SCHEME ASSETS		
At 1 January	54,238	51,349
Interest income	2,488	2,241
Return on scheme assets excluding amount shown in interest income	9,184	1,469
Contributions from sponsoring companies	5,480	2,748
Contribution from scheme members	79	70
Benefits paid	(3,479)	(3,639)
AT 31 DECEMBER	67,990	54,238
MOVEMENT IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS		
At 1 January	(70,134)	(70,247)
Normal service costs	(126)	(148)
Interest cost	(3,082)	(3,016)
Contribution from scheme members	(79)	(70)
Changes in assumptions underlying the defined benefit obligations	(11,921)	(292)
Benefits paid	3,479	3,639
AT 31 DECEMBER	(81,863)	(70,134)

The total of £11,921,000 set out above includes changes arising from scheme experience as well as changes in the underlying assumptions of the defined benefit obligations.

The cumulative amount of actuarial losses recognised in other comprehensive income since the date of transition to IAS 19 on 1 January 2004 is £16,207,000 (2013 – £13,470,000).

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24. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Present value of defined benefit obligations	(81,863)	(70,134)	(70,247)	(67,452)	(61,018)
Fair value of scheme assets	67,990	54,238	51,349	46,968	45,293
DEFICIT IN THE SCHEME	(13,873)	(15,896)	(18,898)	(20,484)	(15,725)
ACTUAL RETURN ON SCHEME ASSETS					
Amount	11,672	3,710	4,307	2,430	4,788
Percentage of scheme assets	17.2%	6.8%	8.4%	5.3%	10.6%
EXPERIENCE ADJUSTMENT ON SCHEME LIABILITIES					
Amount	(11,921)	(292)	(3,827)	(5,915)	(554)
Percentage of scheme liabilities	(14.6%)	(0.4%)	(5.4%)	(8.8%)	(0.9%)
EXPERIENCE ADJUSTMENT ON SCHEME ASSETS					
Amount	9,184	1,469	2,051	(517)	2,094
Percentage of scheme assets	13.5%	2.7%	4.0%	(1.1%)	4.6%

Defined contribution schemes

The Group also operates a number of defined contribution pension schemes, set up as Group Personal Pension Plans, including an Auto-enrolment plan. 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 £794,000 (2013 – £672,000). Contributions from the company and employees amounting to £61,000 (2013 – £43,000) were payable to the plans and are included in creditors at the balance sheet date.

25. SHARE-BASED PAYMENTS

Equity-settled share option schemes

SHARE OPTIONS

The movements on share options during the year is as follows:	NUMBER OF SHARES 2014	NUMBER OF SHARES 2013
Outstanding at 1 January	551,372	1,436,372
Exercised during the year	(551,372)	–
Lapsed during the year	–	(885,000)
OUTSTANDING AT 31 DECEMBER	–	551,372
EXERCISABLE AT 31 DECEMBER	–	551,372

The share option outstanding at 31 December 2013 was granted under The Macfarlane Group PLC Executive Share Option Scheme 2000 and was exercised on 8 May 2014 at a price of 26p per share. There are no remaining awards in issue at 31 December 2014.

26. RELATED PARTY TRANSACTIONS

The Group has related party relationships with its subsidiaries (see page 71), its Directors who comprise the Group Board and the Macfarlane Group PLC sponsored pension schemes (see note 24). 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".

	2014 £000	2013 £000
Directors' Remuneration	945	745
Employer's national insurance contributions	127	98
	1,072	843

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 shown on page 22 and total dividends of £34,000 were paid in respect of these shareholdings in 2014 (2013 £31,000).

Disclosures in relation to the pension schemes are set out in note 24 including transactions in own shares.

The Directors have considered the implications of IAS 24 "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 2014

	NOTE	2014 £000	2013 £000
FIXED ASSETS			
Tangible fixed assets	28	40	41
Investments	29	29,942	27,411
		29,982	27,452
CURRENT ASSETS			
Debtors – due within one year	30	4,567	3,382
– due after more than one year	30	10,674	16,371
Cash at bank and in hand		53	–
TOTAL CURRENT ASSETS		15,294	19,753
Creditors – amounts falling due within one year	31	(1,876)	(9,312)
NET CURRENT ASSETS		13,418	10,441
TOTAL ASSETS LESS CURRENT LIABILITIES		43,400	37,893
Creditors – amounts falling due after more than one year	32	(3,150)	(1,541)
NET ASSETS EXCLUDING NET PENSION LIABILITY		40,250	36,352
Net pension liability	38	(4,550)	(5,214)
NET ASSETS INCLUDING NET PENSION LIABILITY		35,700	31,138
CAPITAL AND RESERVES			
Share capital	33	31,153	28,755
Share premium	34	1,018	–
Own shares	34	–	(311)
Profit and loss account	34	3,529	2,694
SHAREHOLDERS' FUNDS	36	35,700	31,138

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 26 February 2015 and signed on its behalf by

Peter D. Atkinson
Chief Executive

John Love
Finance Director

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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 38. 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. Depreciation is calculated at fixed rates on a straight-line basis to write off the cost of the assets less their estimated residual values over the period of their expected useful lives. The rates of depreciation vary between 2% and 5% per annum on buildings.

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.

28. TANGIBLE FIXED ASSETS

	LAND AND BUILDINGS £000	PLANT AND EQUIPMENT £000	TOTAL £000
COST			
At 1 January 2014 and 31 December 2014	15	305	320
DEPRECIATION			
At 1 January 2014	11	268	279
Charge for year	1	–	1
At 31 December 2014	12	268	280
NET BOOK VALUE			
At 31 December 2014	3	37	40
At 31 December 2013	4	37	41

The parent company had no assets held under finance leases in 2014 or in 2013.

29. INVESTMENTS

	2014 £000	2013 £000
INVESTMENT IN SUBSIDIARIES AT COST		
At 1 January	27,411	24,225
Additions	7,517	3,300
Group transfers	(4,986)	–
Disposals	–	(114)
AT 31 DECEMBER	29,942	27,411

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

On 5 September 2014, the Company acquired 100% of the issued share capital of Network Packaging Limited for a consideration of £7,517,000. £4,267,000 was paid in cash on acquisition, £625,000 was settled by the issue of shares. The remainder, £2,625,000, comprises deferred consideration, which will become payable in two instalments in the final quarter of 2015 and the final quarter of 2016 and is shown in other creditors.

In 2014, the Company transferred its investment in a subsidiary company to its main trading subsidiary company, Macfarlane Group UK Limited at cost.

30. DEBTORS

	2014 £000	2013 £000
DUE WITHIN ONE YEAR		
Amounts owed by subsidiaries	3,000	2,000
Other receivables	699	648
Prepayments and accrued income	498	403
Deferred tax asset (see below)	370	331
	4,567	3,382

DEFERRED TAX ASSET		
Corporation tax losses		
At 1 January	331	630
Credited/(charged) through profit and loss account	39	(299)
AT 31 DECEMBER	370	331

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

DUE AFTER MORE THAN ONE YEAR		
Amounts owed by subsidiaries	10,674	16,371

31. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £000	2013 £000
Bank overdrafts and loans	–	8,548
Trade creditors	281	283
Amounts owed to group companies	–	238
Other taxation and social security	35	37
Other creditors	1,312	–
Accruals and deferred income	248	206
	1,876	9,312

The Group agreed a new debt facility with Lloyds Banking Group PLC in February 2014 with the new facility comprising a three-year committed borrowing facility of up to £20.0 million. The Company and certain subsidiaries have given inter-company guarantees to secure the drawdown on these facilities. The drawdown at 31 December 2014 by the subsidiary company, Macfarlane Group UK Limited amounted to £11.3 million.

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

	2014 £000	2013 £000
Other creditors	1,313	–
Amounts owed to group companies	1,837	1,541
	3,150	1,541

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

33. SHARE CAPITAL

	NUMBER OF 25P SHARES	2014 £000	2013 £000
ALLOTTED, ISSUED AND FULLY PAID:			
At 1 January	115,019,000	28,755	28,755
Issued during the year	9,592,360	2,398	–
AT 31 DECEMBER	124,611,360	31,153	28,755

On 5 September 2014, the Company acquired the whole issued share capital of Network Packaging Limited. As part of the initial consideration, the Company issued 1,592,360 ordinary shares of 25p each at a value of 39.25p per share, which were admitted to the official List of the London Stock Exchange on 12 September 2014.

On 8 September 2014, the Company announced a placing of 8,000,000 ordinary shares of 25p each at a price of 37.50p per share. The placing was approved at a General Meeting of the Company on 1 October 2014 and the shares were admitted to the official List of the London Stock Exchange on 2 October 2014.

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

	SHARE PREMIUM £000	OWN SHARES £000	PROFIT AND LOSS ACCOUNT £000	TOTAL £000
Balance at 1 January 2013	–	(810)	2,127	1,317
Profit for the year	–	–	2,017	2,017
Dividends paid (see note 7)	–	–	(1,774)	(1,774)
Disposal of own shares	–	499	(245)	254
Post tax actuarial gain in pension scheme taken direct to reserves	–	–	569	569
BALANCE AT 1 JANUARY 2014	–	(311)	2,694	2,383
Profit for the year	–	–	2,826	2,826
Dividends paid (see note 7)	–	–	(1,888)	(1,888)
Exercise of share under share option schemes	–	311	(168)	143
Issue of new shares	1,227	–	–	1,227
Expenses of share issue	(209)	–	–	(209)
Post tax actuarial gain in pension scheme taken direct to reserves	–	–	65	65
BALANCE AT 31 DECEMBER 2014	1,018	–	3,529	4,547

The Company's Employee Share Ownership Trust ("ESOT") no longer holds any ordinary shares in Macfarlane Group PLC following the exercise of the remaining share options during 2014. At 31 December 2013, the ESOT held 551,372 ordinary shares in Macfarlane Group PLC with a market value of £189,000. The ESOT waived its right to receive dividends on these shares.

35. OPERATING PROFIT

		2014 £000	2013 £000
OPERATING PROFIT FOR THE PARENT COMPANY HAS BEEN ARRIVED AT AFTER CHARGING:			
Auditor's remuneration	Audit services	16	16
	Non-audit services	14	15

	2014 NO.	2013 NO.
STAFF COSTS		
THE AVERAGE MONTHLY NUMBER OF EMPLOYEES WAS:		
Administration	11	11

	2014 £000	2013 £000
THE COSTS INCURRED IN RESPECT OF THESE EMPLOYEES WERE:		
Wages and salaries	1,000	956
Social security costs	128	125
Other pension costs	28	55
	1,156	1,136

36. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2014 £000	2013 £000
Profit for the year	2,826	2,017
Dividends to equity holders in the year	(1,888)	(1,774)
Post tax actuarial gain in pension scheme taken direct to equity	65	569
Exercise of share options	143	–
Issue of new shares (net of issue expenses)	3,416	–
Transfer of own shares to pension scheme	–	254
MOVEMENTS IN SHAREHOLDERS' FUNDS IN THE YEAR	4,562	1,066
Opening shareholders' funds	31,138	30,072
CLOSING SHAREHOLDERS' FUNDS	35,700	31,138

37. SHARE-BASED PAYMENTS

Equity-settled share option plans

	NUMBER OF SHARES 2014	NUMBER OF SHARES 2013
A summary of the movements on share options during the year is as follows:		
Outstanding at 1 January	551,372	631,372
Exercised during the year	(551,372)	–
Lapsed during the year	–	(80,000)
OUTSTANDING AT 31 DECEMBER	–	551,372
EXERCISABLE AT 31 DECEMBER	–	551,372

The share option outstanding at 31 December 2013 was granted under The Macfarlane Group PLC Executive Share Option Scheme 2000 and exercised on 8 May 2014 at a price of 26p per share. There are no remaining awards in issue at 31 December 2014.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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"). Two trading subsidiaries, Macfarlane Group UK Limited and Macfarlane Labels Limited are also 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 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 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 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 2015.

Balance sheet disclosures at 31 December 2014
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 2014, the principal assumptions adopted were that investment returns would average 0.7% per annum above the gilt yield 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 £58,676,000 and the actuarial value of these investments represented 71% 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 2014, updated to the year-end to reflect amounts attributable to Macfarlane Group PLC, the parent company as shown below:

INVESTMENT CLASS	VALUATION 2014 £000	LONG-TERM EXPECTED RETURN	VALUATION 2013 £000	LONG-TERM EXPECTED RETURN	VALUATION 2012 £000	LONG-TERM EXPECTED RETURN
Equities	6,516	6.5%	6,183	7.3%	5,934	7.4%
Bonds	4,617	3.5%	9,240	4.0%	9,653	3.4%
Liability-driven investment funds	9,100	2.2%	–	–	–	–
Multi-asset diversified funds	7,602	6.5%	6,729	7.3%	5,341	7.4%
Cash	41	1.0%	86	1.0%	125	1.0%
Fair value of scheme assets	27,876		22,238		21,053	
Present value of scheme liabilities	(33,564)		(28,755)		(28,801)	
DEFICIT IN THE SCHEME	(5,688)		(6,517)		(7,748)	
Related deferred tax asset	1,138		1,303		1,782	
NET PENSION LIABILITY	(4,550)		(5,214)		(5,966)	

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 government gilts was transferred into a liability-driven 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.

RELATED DEFERRED TAX ASSET	2014 £000	2013 £000	2012 £000
At 1 January	1,303	1,782	2,100
Charge to reserves	(16)	(423)	(105)
Charge to profit and loss account	(149)	(56)	(213)
AT 31 DECEMBER	1,138	1,303	1,782

38. PENSIONS (CONTINUED)

The scheme's liabilities at 31 December 2014 were calculated on the following bases as required under FRS 17:

Assumptions	2014	2013	2012
Discount rate	3.50%	4.50%	4.40%
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 2.90% for LPI. 2.05% post 5 April 2006	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
Inflation assumption (RPI)	3.00%	3.40%	3.00%
Inflation assumption (CPI)	2.10%	2.50%	2.30%
Life expectancy beyond normal retirement age of 65			
Male	22.7	22.6	22.4
Female	25.1	25.1	24.6

MOVEMENT IN THE SCHEME DEFICIT IN THE YEAR	2014 £000	2013 £000
At 1 January	(6,517)	(7,748)
Normal service cost	(15)	(17)
Contributions	713	329
Net finance cost	50	(73)
Actuarial gain in the year	81	992
AT 31 DECEMBER	(5,688)	(6,517)

ANALYSIS OF AMOUNTS CHARGED TO OPERATING PROFIT	2014 £000	2013 £000
Normal service cost	(15)	(17)

ANALYSIS OF AMOUNTS CREDITED/(CHARGED) TO NET FINANCE INCOME/(COSTS)	2014 £000	2013 £000
Interest income (expected return on assets)	1,314	1,164
Interest costs	(1,264)	(1,237)
NET FINANCE INCOME/(COSTS)	50	(73)

ANALYSIS OF THE ACTUARIAL GAIN/(LOSS) INCLUDED IN THE STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	2014 £000	2013 £000
Return on scheme assets excluding amount shown in interest income	5,027	1,176
Changes in assumptions underlying present value of scheme liabilities	(4,946)	(184)
ACTUARIAL GAIN	81	992

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

38. PENSIONS (CONTINUED)

	2014 £000	2013 £000
MOVEMENT IN THE FAIR VALUE OF SCHEME ASSETS		
At 1 January	22,238	21,053
Interest income	1,314	1,164
Return on scheme assets excluding amount shown in interest income	5,027	1,176
Contributions from sponsoring companies	713	329
Contribution from scheme members	15	7
Benefits paid	(1,431)	(1,491)
AT 31 DECEMBER	27,876	22,238
MOVEMENT IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS		
At 1 January	(28,755)	(28,801)
Current service cost	(15)	(17)
Interest cost	(1,264)	(1,237)
Contribution from scheme members	(15)	(7)
Actuarial loss	(4,946)	(184)
Benefits paid	1,431	1,491
AT 31 DECEMBER	(33,564)	(28,755)

Cumulative actuarial gains since the transition to FRS 17 on 1 January 2004 are £3,203,000 (2013 – £3,122,000).

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Present value of defined benefit obligations	(33,564)	(28,755)	(28,801)	(27,654)	(29,731)
Fair value of scheme assets	27,876	22,238	21,053	19,256	22,069
DEFICIT IN THE SCHEME	(5,688)	(6,517)	(7,748)	(8,398)	(7,662)
RETURN ON SCHEME ASSETS	6,341	2,340	2,481	(1,722)	4,832
Percentage of scheme assets	22.7%	10.5%	11.8%	(8.9%)	21.9%
EXPERIENCE ADJUSTMENT ON SCHEME ASSETS	5,027	1,176	1,380	(2,930)	3,519
Percentage of scheme assets	18.0%	5.3%	6.6%	(15.2%)	15.9%
EXPERIENCE ADJUSTMENT ON SCHEME LIABILITIES	(4,946)	(184)	(1,630)	2,205	(1,962)
Percentage of scheme liabilities	(14.7%)	(0.6%)	(5.7%)	8.0%	(6.6%)

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 (2013 – £4,000) with no contributions from the company and employees payable to the plan 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.	
LANE PACKAGING LIMITED		Supply and distribution of all forms of packaging materials and equipment.	England
Reading	Tel: 0118 944 2425		
NETWORK PACKAGING LIMITED		Supply and distribution of all forms of packaging materials and equipment.	England
Wolverhampton	Tel: 01902 496 666		
MACFARLANE LABELS LIMITED		Manufacture of high quality printed self-adhesive labels and resealable labelling solutions.	Scotland
Kilmarnock	Tel: 01563 525151		
MACFARLANE GROUP IRELAND (LABELS & PACKAGING) LIMITED		Manufacture of high quality printed self-adhesive labels and resealable labelling solutions.	Ireland
Wicklow	Tel: 00 353 (1) 281 0234		
MACFARLANE GROUP SWEDEN AB		Supply of resealable labelling machinery and labelling solutions.	Sweden
Helsingborg	Tel: 00 46 (0) 4213 7555		

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

REGISTRATION NUMBER
No. SC004221
Registered in Scotland

COMPANY SECRETARY
Andrew Cotton

REGISTERED OFFICE
21 Newton Place
Glasgow
G3 7PY
T: 0141 333 9666
F: 0141 333 1988

PRINCIPAL BANKERS
Lloyds Banking Group PLC
110 St. Vincent Street
Glasgow
G2 5ER

SOLICITORS
CMS Cameron McKenna LLP
Saltire Court
20 Castle Terrace
Edinburgh
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 LLP
191 West George Street
Glasgow
G2 2LJ

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

SHAREHOLDER INFORMATION

FIVE YEAR RECORD

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
TURNOVER – ALL OPERATIONS	153,767	143,871	141,823	144,557	135,450
PROFIT BEFORE INTEREST, EXCEPTIONAL ITEMS AND TAX	6,646	6,251	5,834	4,689	4,518
NET INTEREST PAYABLE	(1,040)	(1,199)	(1,349)	(815)	(1,167)
PROFIT BEFORE EXCEPTIONAL ITEMS	5,606	5,052	4,485	3,874	3,351
EXCEPTIONAL ITEMS	–	(336)	993	–	846
PROFIT BEFORE TAX	5,606	4,716	5,478	3,874	4,197
TAXATION	(1,164)	(1,260)	(1,613)	(455)	(1,211)
PROFIT FOR THE FINANCIAL YEAR	4,442	3,456	3,865	3,419	2,986
BASIC EARNINGS PER ORDINARY SHARE	3.78p	3.03p	3.40p	3.01p	2.63p
DIVIDENDS	1,888	1,774	1,761	1,761	1,700
DIVIDENDS PER ORDINARY SHARE	1.60p	1.55p	1.55p	1.55p	1.50p
DIVIDEND COVER	2.4	1.9	2.2	1.9	1.8

This table reflects the five-year record for continuing operations as classified at 31 December 2014.

FINANCIAL DIARY

FINANCIAL RESULTS

Interim: Announced – August
Final: Announced – February

ACCOUNTS AND ANNUAL GENERAL MEETING

Report and financial statements: Posted to shareholders on 27 March 2015
Annual General Meeting: Held in Glasgow on 5 May 2015

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
Website: 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.

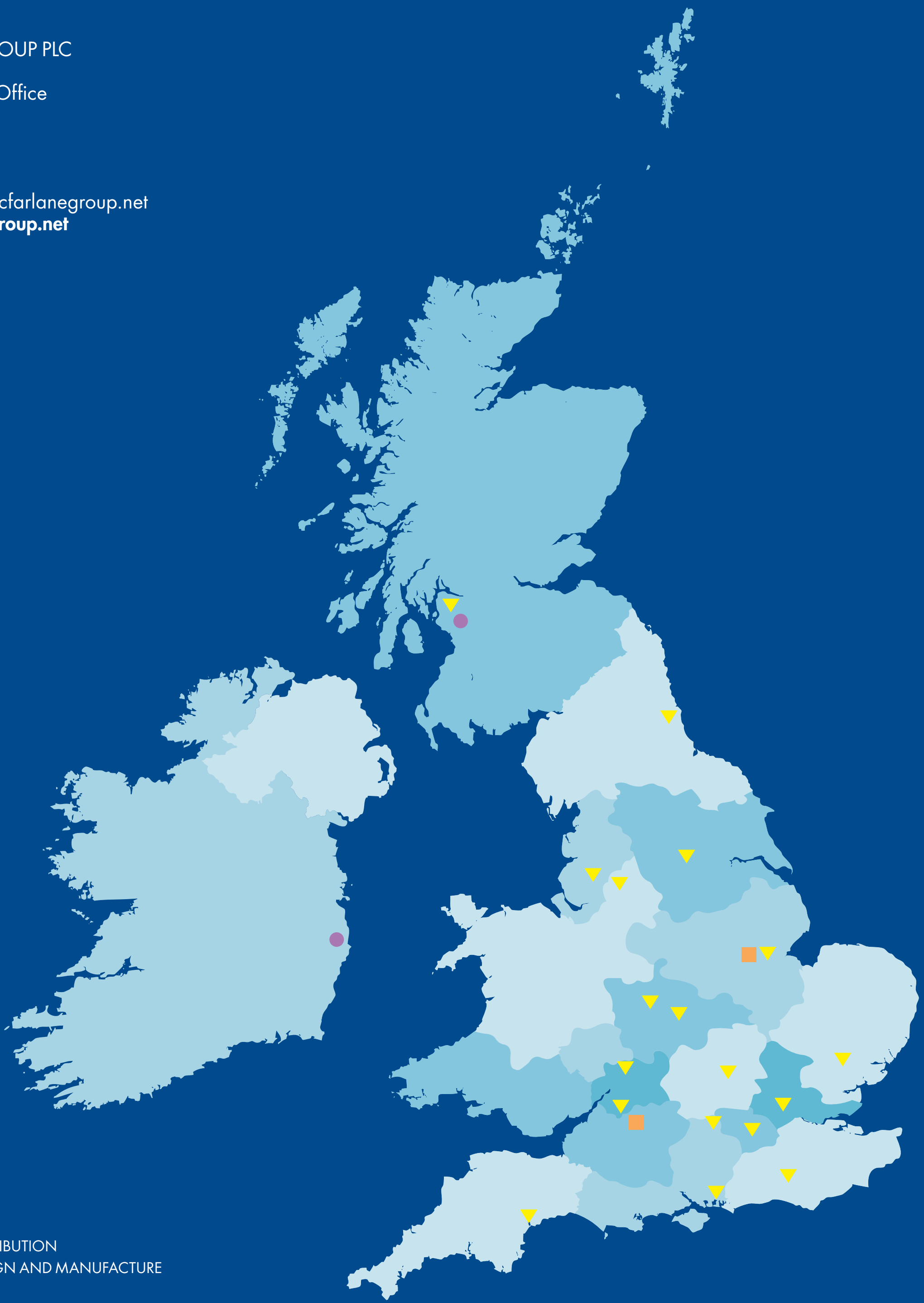
Our new Product Catalogue
is now available.

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

Report designed and produced by Tayburn

MACFARLANE GROUP PLC

Macfarlane Head Office
21 Newton Place
Glasgow G3 7PY
T: 0141 333 9666
F: 0141 333 1988
E: investorinfo@macfarlanegroup.net
www.macfarlanegroup.net



▼ PACKAGING DISTRIBUTION
■ PACKAGING DESIGN AND MANUFACTURE
● LABELS

LOCAL DIRECTORY

▼ **BRISTOL**
T 0844 770 1401
E bristol@macfarlanepackaging.com

▼ **COVENTRY**
T 0844 770 1407
E coventry@macfarlanepackaging.com

▼ **ENFIELD**
T 0844 770 1409
E enfield@macfarlanepackaging.com

▼ **EXETER**
T 0844 770 1411
E exeter@macfarlanepackaging.com

▼ **FAREHAM**
T 0844 770 1413
E fareham@macfarlanepackaging.com

▼ **GLASGOW**
T 0844 770 1421
E glasgow@macfarlanepackaging.com

▼ **GLOUCESTER**
T 0145 255 5550
E gloucester@macfarlanepackaging.com

▼ **GRANTHAM**
T 0844 770 1415
E grantham@macfarlanepackaging.com

▼ **HAYES**
T 0208 813 5322
E hayes@macfarlanepackaging.com

▼ **HORSHAM**
T 0844 770 1419
E horsham@macfarlanepackaging.com

▼ **MANCHESTER**
T 0844 770 1423
E manchester@macfarlanepackaging.com

▼ **MILTON KEYNES**
T 0844 770 1425
E miltonkeynes@macfarlanepackaging.com

▼ **NEWCASTLE**
T 0844 770 1427
E newcastle@macfarlanepackaging.com

▼ **READING**
T 0118 944 2425
E info@lanepackaging.com

▼ **SUDBURY**
T 0844 770 1429
E sudbury@macfarlanepackaging.com

▼ **WAKEFIELD**
T 0844 770 1433
E wakefield@macfarlanepackaging.com

▼ **WIGAN**
T 0844 770 1437
E wigan@macfarlanepackaging.com

▼ **WOLVERHAMPTON**
T 01902 496 666
E sales@networkpack.co.uk

■ **GRANTHAM**
T 0844 770 1417
E granthamsales@macfarlanepackaging.com

■ **WESTBURY**
T 0844 770 1435
E westburysales@macfarlanepackaging.com

● **WICKLOW**
T 00 353 (1) 281 0234
E sales@macfarlanelabels.com

● **KILMARNOCK**
T 01563 525151
E sales@macfarlanelabels.com

● **SWEDEN**
T 00 46 (0) 4213 7555
E info@reseal-it.se