MACFARLANE GROUP

Annual Report and Accounts 2015

MACFARLANE GROUP

Group operating and financial results 2015

- 2015 profit in line with market expectation
- Continuing strong organic sales growth
- Recent acquisitions performing well
- Full year dividend of 1.82p per share
- Bank facilities extended to June 2019
- Pension deficit reduces to £11.5m


10%
sales growth
£9.7m
EBITDA
21%
growth in PBT
4.6%
Operating profit
4.35p
fully-diluted EPS

Macfarlane Group business model

MACFARLANE GROUP

Headquartered in Glasgow, Macfarlane Group PLC employs over 750 people at 27 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.

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

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

MACFARLANE PACKAGING

Macfarlane Packaging Distribution is the UK market leader in the distribution of protective packaging products and contributes 82% of Group Revenue.

Market sectors served
- Internet retail
- Third party logistics (3PL)
- Electronics
- Aerospace
- Automotive

MACFARLANE PACKAGING DESIGN AND MANUFACTURE

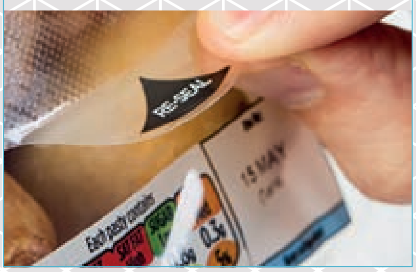
Macfarlane Packaging Design and Manufacture provides a bespoke service to support major manufacturing customers to cost-effectively protect their high-value products in storage and transit and contributes 7% of Group Revenue.

Market sectors served
- Electronics
- Aerospace
- Automotive

MACFARLANE LABELS

Macfarlane Labels enables FMCG customers to attractively display and accurately identify their products at the point of purchase or sale and contributes 11% of Group Revenue.

Market sectors served
- Health and beauty
- Food
- Household goods
- Pharmaceuticals

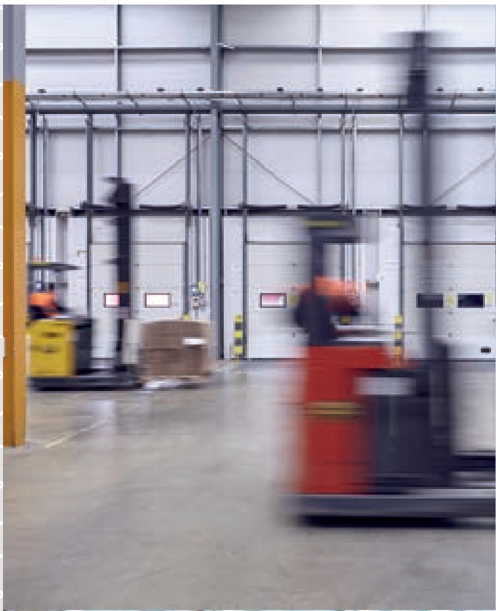


Our strategy

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

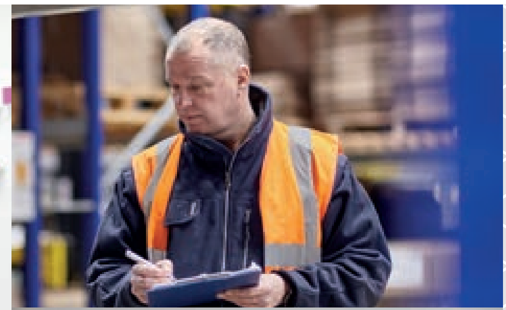
Strategic priorities	2015 progress
1 Implementation of a segmental sales strategy to improve customer retention levels, increase product penetration and accelerate new business.	Continuing with our segmented approach has provided increased customer focus within Packaging Distribution. New Customer Service Centre established to enhance support of smaller local customers. Segmentation introduced in Packaging Design and Manufacture in 2015. Segmentation by product type in place within Labels. Overall sales growth of 10% in 2015 reflects the success of our strategy.
2 Focus on key sectors with growth potential, particularly National Accounts and internet retail.	2015 sales growth in National Accounts was 15% and in internet retail was 13%.
3 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 sales of resealable labels. Strategic and tactical purchasing programmes are in place to improve our sourcing capability.
4 Ensure operational effectiveness is maximised through efficiencies in logistics and optimising the costs associated with the physical infrastructure.	Logistics costs reduced to 2.9% (2014 – 3.1%) of sales through use of the Paragon planning tool and driver training. Property costs reduced to 3.9% (2014 – 4.0%) of sales through constant focus on cost reduction opportunities in our property network.
5 Supplement organic growth with suitable acquisitions.	We completed the acquisition of One Packaging Limited in August 2015 and have a pipeline of potential acquisition opportunities for 2016.

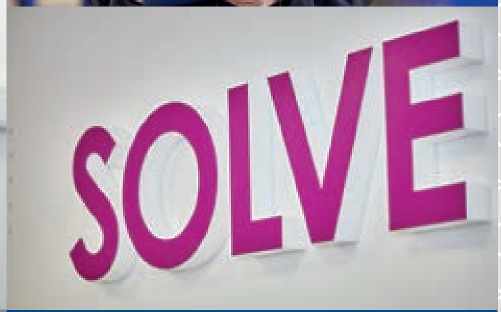
Our business in action



15 million metres^2

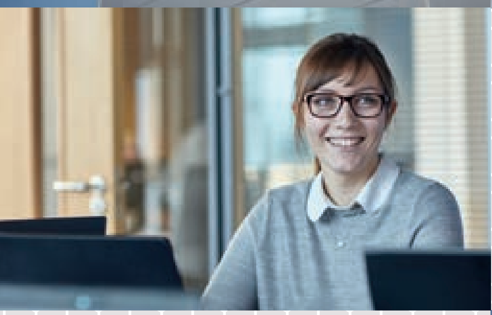
of labels produced in 2015

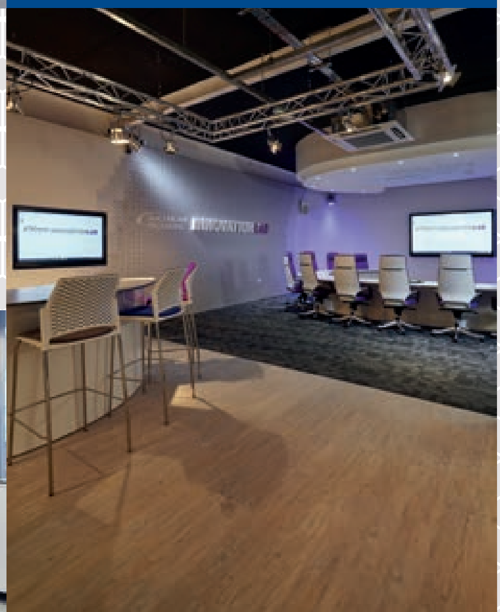


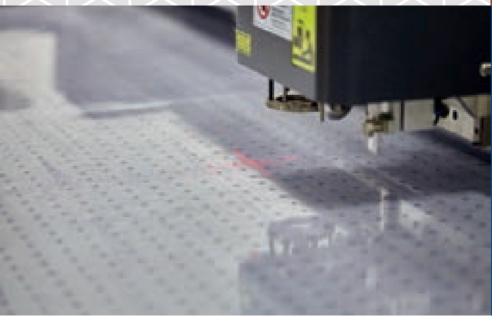


1,200

bespoke designs in 2015







20,000

distribution customers

Chairman's statement

Macfarlane Group PLC **delivered strong growth in 2015** with sales of £169.1m (2014: £153.8m) **up 10%** on the previous year and profit before tax of £6.8m (2014: £5.6m), 21% up on the previous year. The **strong trading performance**, which maintained the positive trends achieved in recent years, was achieved through good organic sales growth, **the contribution from recent acquisitions**, an improved gross margin and effective control of costs.

Graeme Bissett
Chairman

Peter D. Atkinson
Chief Executive

Trading

The Packaging Distribution business increased sales by 13% to £143.0m (2014: £126.9m). This was achieved through organic growth of 6%, with particular success in the expanding internet retail sector and increased penetration of National Accounts. The good organic sales growth was enhanced by the contributions from One Packaging, acquired in August 2015, and the full year contribution from the acquisitions of Lane Packaging and Network Packaging, concluded in 2014. The growth in sales, combined with an improved gross margin, translated into Packaging Distribution achieving a 17% increase in operating profit to £6.8m (2014: £5.8m).

Sales in our Manufacturing Operations at £26.1m (2014: £26.9m) were 3% down on the previous year. This was partly due to management actions to rebalance the mix of products in our Labels business and the impact of exchange rates and demand weakness, particularly in export markets, in our Packaging Design and Manufacture business. Despite the lower sales, the Division increased operating profit to £1.0m (2014: £0.9m) through the benefits of the better balanced product portfolio and improvements in operational efficiency. The Group profit before tax amounted to £6.8m (2014: £5.6m).

Dividend

The Board remains committed to providing shareholders with an appropriate return on investment and is proposing a final dividend of 1.29 pence per share, making a full year dividend of 1.82 pence per share, a 10% increase on the prior year's dividend of 1.65 pence per share. Subject to the approval of shareholders at the Annual General Meeting on 10 May 2016, this dividend will be paid on 9 June 2016 to those shareholders on the register at 13 May 2016.

Net Debt and Pension Scheme

As a consequence of the acquisition undertaken during 2015, the Group's net bank debt at 31 December 2015 increased to £11.6m from £10.1m at the prior year-end. The Group's existing bank facilities with Lloyds Banking Group have been extended until June 2019 and have been increased to £25.0m which will accommodate normal working capital requirements and support acquisition funding. A further option is available to extend the facilities to £30.0m in the period to June 2019.

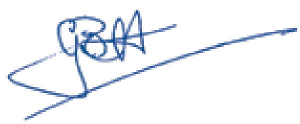
The Group's pension deficit reduced broadly in line with the deficit reduction contributions made in the year. At 31 December 2015, the deficit was £11.5m, a reduction of £2.4m from the previous year (2014: £13.9m).

Outlook

The Board is confident that our strategy to position the business to serve key growth markets continues to be effective.

The 21% increase in pre-tax profits represents the sixth consecutive year of profit growth for Macfarlane Group. We will continue to focus on opportunities in sectors with strong growth prospects, including internet retail, third party logistics and National Accounts and deliver high standards of service to all customers. We will also maintain our programme of acquiring good quality businesses to augment organic growth. This strategy has served all stakeholders in our business well in recent years and will continue to do so.

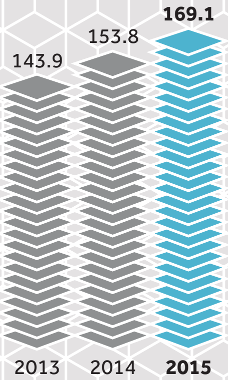
The positive trends seen in 2015 have been sustained in the early part of 2016 and Macfarlane Group has started the year well.



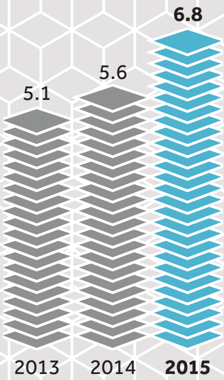
Graeme Bissett
Chairman

Group performance

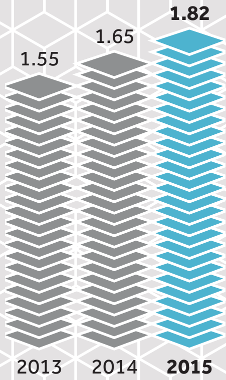
Revenue (£m)



Profit before tax (£m)



Dividend (p)



Chief Executive's review – 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 Regional Distribution Centres (RDCs) supplying customers with a comprehensive range of protective packaging materials and services on a local, regional and national basis.

Competition in the distribution market is from local and regional protective packaging specialist companies and national distribution generalists who supply a range of products, including protective packaging materials. Macfarlane competes effectively on a local basis through its strong focus on and regular monitoring of customer service, its breadth and depth of product offer and through the recruitment and retention of staff with good local market knowledge. On a national basis Macfarlane Packaging 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.

2015 trading

Macfarlane Packaging Distribution achieved a sales increase of 13% over 2014 comprising 6% organic growth in the base business and 7% from the full year contribution of the 2014 acquisitions as well as the part year contribution from the acquisition of One Packaging. The business achieved particularly strong growth in the supply of protective packaging to internet retailers both directly and through our partnerships with major Third Party Logistics (3PL) customers. Against the backdrop of a competitive environment, gross margin increased to 29.5% compared to 28.8% in 2014 through more effective sourcing and customer mix changes.

Overheads increased as a result of the full year impact of the two 2014 acquisitions, but cost control remained strong with the overhead to sales ratio at 24.8% compared with 24.2% in 2014. Operating profit in the Packaging Distribution business at £6.8 million grew by 17% versus 2014.

RDC performance

The 18 RDCs currently in our network are managed and measured as profit centres. In 2015 we had 15 of our 18 RDCs performing above the target return on sales level of 5%. The three remaining RDCs continue to demonstrate improvements that confirm their ability to achieve the target return on sales in the medium term.

Future plans

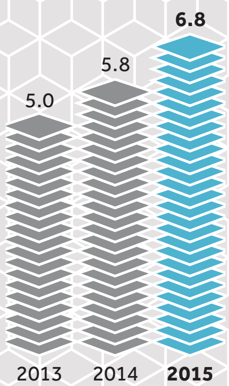
We expect general demand levels to remain stable in 2016. Therefore our plans continue to be focused on those markets showing growth, building market share and improving profitability through the following actions:

- Building competitive differentiation to increase our sales penetration of the growing internet retail sector both directly and through our partnerships with key 3PL organisations;

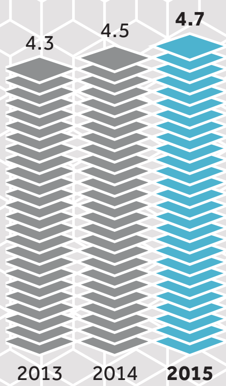
Distribution performance

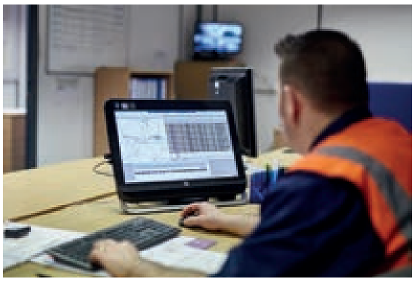
Sales (£m)

Operating profit (£m)



Return on sales (%)





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Macfarlane Group acquired One Packaging in 2015.

Macfarlane operates from 18 RDCs nationwide.

Paragon software usage will help reduce our logistic costs.

- Expanding our focus in industry sectors which will clearly benefit from Macfarlane's national coverage through our specialist National Account sales team;
- Continuing to develop our web-based presence through macfarlanepackaging.com to improve online visibility and provide customers with access to our full range of products and services;
- Commencing programmes to integrate our recently acquired companies following the completion of the respective earn-out periods;
- Supplementing organic growth through the identification and execution 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;
- Reducing operating costs by evaluating alternatives to the existing property footprint, including the delivery of anticipated benefits from the recently announced closure of our Hayes RDC;
- Implementing further operational savings in logistics through expanded use of the Paragon vehicle management system and implementation of our warehouse best practice programme; and
- Maintaining the focus on working capital management to reduce borrowing levels.

Distribution

	Base business £000	Acquisition impact £000	2015 £000	2014 £000
Sales	133,907	9,128	**143,035**	126,907
Cost of sales	(94,468)	(6,349)	**(100,817)**	(90,382)
Gross margin	39,439	2,779	**42,218**	36,525
Overheads	(33,077)	(2,390)	**(35,467)**	(30,767)
Operating profit	6,362	389	**6,751**	5,758

Key competitive advantages

- 18 nationwide strategically located distribution centres
- Independent expertise in packaging and the packing process
- Strategic supplier relationships
- Breadth of product range
- Flexibility of supply and service
- Internet retail, 3PL specialism and national accounts
- Experience in a wide range of industries
- Multi-channel approach to market

Chief Executive's review – Manufacturing Operations

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

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 directly to customers and also through the RDC network of the Packaging Distribution business.

Its key market sectors 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.

Manufacturing Operations

	2015 £000	2014 £000
Sales	**26,097**	26,860
Cost of sales	**(15,094)**	(15,922)
Gross margin	**11,003**	10,938
Overheads	**(10,052)**	(10,050)
Operating profit	**951**	888

2015 trading

2015 external sales were 3% below those in 2014 caused by a number of key customers experiencing a slowdown in their levels of export activity and the impact of weak demand in certain market sectors. Management continued to change the mix of products and services towards those with higher added value but the lower level of sales in 2015 resulted in profitability below that achieved in 2014. The sales slowdown in the existing customer base required us to increase our focus on new business in 2015 and as a result, the business has maintained its investment in sales to create a strong pipeline of new customer relationships, which should benefit the business in 2016.

Future plans

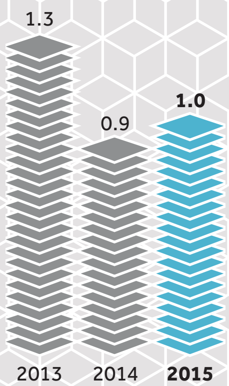
The priorities for 2016 are:

- Accelerate sales growth, particularly in certain key sectors e.g. Defence, Aerospace and Medical;
- Identify and execute suitable acquisition opportunities;
- Prioritise sales activity on the higher added-value bespoke composite pack product range; and
- Continue to strengthen the relationship between our Packaging Design and Manufacture operations and our Packaging Distribution business to create both sales and cost synergies.

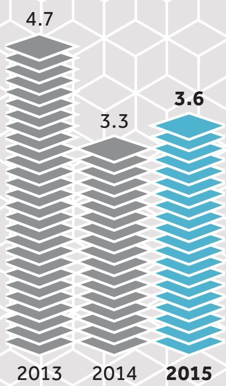
Manufacturing Operations performance

Sales (£m)

Operating profit (£m)



Return on sales (%)



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Design, manufacture and assembly of custom-designed packaging solutions.

Greene Farm Foods has seen the benefits of using Reseal-it.

Self-adhesive labels for major FMCG customers.

Labels

Our Labels business designs and prints self-adhesive labels for major FMCG customers in the UK and Europe and resealable labels for major customers in the UK, Europe and the USA.

The business operates from production sites in Kilmarnock and Wicklow and a sales and design office in Sweden, which focuses on the development and growth of our resealable labels business, Reseal-it.

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

Although sales in 2015 were 2% down on 2014, this was in line with our plans as we continued to rebalance sales between our resealable and self-adhesive label ranges. As the issues of food waste and easy to open packs become higher profile, the demand for resealable packaging is growing and is creating growth opportunities for the Macfarlane Labels' Reseal-it range. The focus on Reseal-it helps offset the highly competitive nature of the self-adhesive label market in the UK, which is being impacted by downward pricing pressure from both manufacturers and retailers. The benefit of the improved contribution from our resealable labels range and the impact of improved production efficiencies resulted in Labels' profitability showing an encouraging improvement over 2014.

Future plans

The priorities for 2016 are:

- Maintenance of the strategic focus on higher added value products and services;
- Changing our commercial offering in the self-adhesive label market to counterbalance customer order patterns and volatility;
- Continued improvement in operational efficiency to mitigate sales price pressure; and
- Further development of the Reseal-it product in the US through the Printpack partnership, in Europe through new business wins and in the UK through improved penetration with key retailers.

2016 Outlook

Despite the wider macroeconomic concerns, we expect general market demand in 2016 to remain stable. There are specific market sectors such as internet retail which are forecast to show good growth and Macfarlane Group will focus on ensuring that we continue to be well positioned to benefit from growth in these sectors.

During 2016 we will look at further opportunities for sales growth through the acquisition of good 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.

Whilst the economic environment is showing stability, 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 2016 will be another year of progress for Macfarlane Group.

Peter D. Atkinson
Chief Executive

Financial review

	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Profit before exceptional items	**6,767**	5,606	5,052	4,485	3,874	3,351

2015 represents the Group's sixth consecutive year of profit growth.

Trading

The Group saw organic growth in sales of 10% during 2015, driven by our Packaging Distribution business. The sales line was further enhanced by strong contributions from our acquisition of One Packaging in its post-acquisition trading period within the Group. Group sales rose to £169.1 million an increase of £15.3 million from 2014. Profit before tax for 2015 increased to £6.8 million, an increase of £1.2 million from that achieved in 2014.

Taxation

The tax charge for the year from continuing operations was £1.3 million on profit before tax of £6.8 million, a rate of 19.50%, slightly below the prevailing rate of 20.25% mainly due to the recognition of overprovisions from previous years. This compared with a tax charge of £1.2 million on the profit before tax of £5.6 million in 2014 and a tax rate of 20.74%.

Earnings per share

Diluted earnings per share totalled 4.35p (2014 – 3.78p) an increase of 15%, reflecting the growth in profitability and the benefit from the long-term reductions in corporation tax rates in recent years.

Dividends

A dividend of 0.53p per share was paid on 15 October 2015. A further dividend of 1.29p per share is subject to approval by shareholders at the AGM in May 2016 and is not included as a liability in these financial statements.

Dividend cover has increased significantly in the year to 2.6 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's debt facilities with Lloyds Banking Group PLC agreed in 2015, comprise three-year committed borrowing facilities of up to £20.0 million for the period to February 2017, secured over part of Macfarlane Group's trade receivables. The facilities bear interest at normal commercial rates and carry standard financial covenants in relation to interest cover and levels of headroom over trade receivables.

These facilities were increased to £25.0 million in February 2016 with an additional option to increase them further to £30.0 million. The facilities are now available until June 2019 and will accommodate increased working capital requirements from our organic growth as well as finance for acquisitions. The Group's financing requirements are met by maintaining committed borrowing facilities.

The Group had net debt of £12.8 million at 31 December 2015, an increase of £2.1 million from the previous year. The Group spent £3.9 million on acquisitions in 2015 (2014 – £5.1 million) and £1.6 million on capital expenditure in 2015 (2014 – £1.2 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 2016, 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 2015 Macfarlane Group PLC acquired One Packaging Limited as set out in note 22. An element of the consideration was deferred, subject to meeting earnout targets in the trading period immediately after acquisition.

In June 2015, the maximum earnout value was paid to the former shareholders of Lane Packaging Limited, following the conclusion of the earnout period twelve months after the acquisition in 2014.

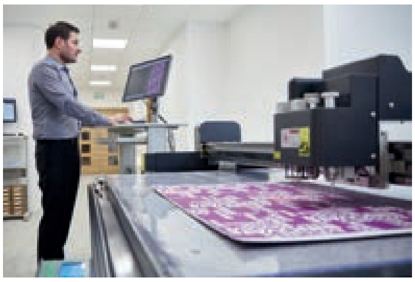
The maximum earnout value was also paid to the former shareholders of Network Packaging Limited in September 2015, following the conclusion of their first earnout year after the acquisition in 2014. Our current expectation is to pay the maximum earnout value for the second earnout period which concludes in September 2016.

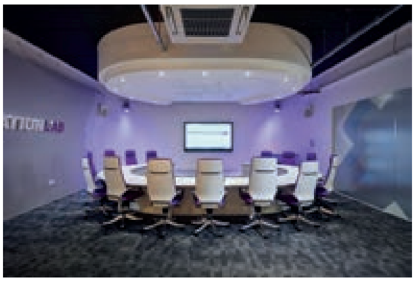
Market capitalisation and share price movements

At the year-end the Company's market capitalisation was £70.7 million, compared with £45.5 million last year. The share price at 31 December 2015 was 56.75p, compared with 36.50p at 31 December 2014. The range of transaction prices for Macfarlane Group shares during 2015 was 35.50p to 57.50p 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 and contingent consideration arising from acquisitions. The main purpose of any financial instruments





All images

Our Innovation Lab in Milton Keynes demonstrates the range of our capabilities to customers.

Pension scheme deficit

	2015 £000	2014 £000	2013 £000
Fair value of scheme investments	**67,793**	67,990	54,238
Present value of scheme liabilities	**(79,311)**	(81,863)	(70,134)
Deficit at 31 December	**(11,518)**	(13,873)	(15,896)

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 2015 and are set out in note 14 to the financial statements.

Pension scheme deficit

The Group's pension scheme deficit is sensitive to movements in bond yields, inflation, longevity assumptions and investment returns. 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 regular deficit reduction contributions each year. This, combined with careful stewardship of the investment portfolio by the Trustees, in conjunction with the Company, has helped better match the investments with the scheme's liability profile.

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 2014 Annual Report, the new International Financial Reporting Standards adopted during 2015 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 a prudent assessment of the market. 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 Chief Executive's review on pages 6 to 15.

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

John Love
Finance Director
25 February 2016

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group and the factors mitigating these risks are detailed on this page and the following page.

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 on pages 14 and 15 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

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.

Funding 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 and mortality assumptions. The IAS 19 valuation of the Group's defined benefit pension scheme as at 31 December 2015 estimated the scheme deficit to be £11.5m, a reduction of £2.4m during 2015. Small changes in these assumptions could mean that the deficit increases.

Property

Given the multi-site nature of its business, the Group has a property portfolio comprising 3 owned sites and 28 leased sites of which 4 are sublet. This portfolio gives rise to risks in relation to ongoing lease costs, dilapidations and fluctuations in value.

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 funds or that such funds will only be available on unfavourable terms. The Group's borrowing facilities now comprise a committed facility of up to £25.0 million, with an option to increase these further to £30.0 million, including requirements to comply with specified covenants, with a breach potentially resulting in Group borrowings being subject to more onerous conditions.

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.

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.

Mitigating factors

- 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.

- The scheme was closed to new members in 2002.
- Benefits for active members were amended by freezing pensionable salaries at 30 April 2009 levels.
- Revaluation of deferred members' benefits has reflected Consumer Prices Index as the inflation measure since 2010.
- A Pension Increase Exchange option is available to offer flexibility to pensioners in the current level of pension benefits and the rate of future increases.
- The investment profile is constantly reviewed to ensure a more accurate matching of investments and the liability profile of the scheme. As a result, in 2014 the scheme's fixed interest bonds were switched into Liability-Driven Investments.

- 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.

- 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 covenant compliance.
- The existing facilities have been extended to June 2019.

- A comprehensive management information system is maintained with key performance indicators monitored consistently and regularly with actions taken when required.

- Credit risk is controlled by applying rigour to the management of trade receivables by our credit control team, managed by a Credit Manager and subject to additional scrutiny from the Group 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.

Viability statement

The Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years to December 2018. The Directors' assessment has been made with reference to the resilience of the Group and the strength of its financial position, the Group's current strategy, the Board's risk appetite and the Group's principal risks and how these are managed as set out on the current and previous page.

The Group has a broad spread of customers across a range of different sectors, with some longer term contracts in place.

The assessment period of three years has been chosen as it is consistent with the Board's review of the Group's strategy, at which the prospects of each business for the forthcoming three year period are discussed, assumptions are made regarding future growth rates for existing businesses and acceptable levels of performance in that period. A robust financial model of the Group is built for each business covering the three year period. The model is subject to sensitivity analysis which includes flexing a number of the main assumptions, namely: future revenue growth, gross margins, operating costs and working capital management. The results of flexing these assumptions, both individually and in aggregate, are used to determine whether additional bank facilities will be required during the three year period.

The review and analysis also considers the principal risks facing the Group as described here and the potential impact these risks could have on the Group's business model, future performance, solvency and liquidity.

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 2015

Macfarlane Group is committed to reducing its greenhouse gas (GHG) emissions. This report outlines Macfarlane's GHG emissions for the year ended 31 December 2015.

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 of the Mandatory Greenhouse Gas Reporting regulation. 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 accordance with the main requirements of ISO-14064-1:2006 standard and deliver both absolute values and an intensity ratio for Macfarlane's emissions. Acquisitions made during 2015 have been included in GHG reporting, an assumption has been made regarding usage based on equivalent sites within the Group.

Macfarlane Group uses total turnover (£000) in the reporting period to calculate the intensity ratio, as this allows emissions to be monitored over time taking into account changes in the size of the company. 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 6,848 tonnes of CO_2e, (2014 – 6,763 tonnes) comprised of the following;

- **Direct Emissions (Scope 1)**
  4,315 tonnes of CO_2e – 63%
  (2014 – 4,099 tonnes – 61%)
- **Indirect Emissions (Scope 2)**
  2,533 tonnes of CO_2e – 37%
  (2014 – 2,664 tonnes – 39%)

Broken down by business unit the results were as follows;

- **Distribution**
  4,707 tonnes of CO_2e – 69%
  (2014 – 4,400 tonnes – 65%)
- **Manufacturing Operations**
  2,141 tonnes of CO_2e – 31%
  (2014 – 2,363 tonnes – 35%)

These results are shown in tables 1 and 2 and comparing year on year emissions data for the two years 2014 and 2015, overall emissions have increased by 85 tonnes which equates to an increase of 1.3%. The increase in emissions in 2015 has arisen primarily from the increase in Vehicle Fuel and Natural Gas consumption.

Table 1: emissions data

Type of emissions	Activity	2015 Units	2014 Units	2015 Tonnes of CO_2e	2014 Tonnes of CO_2e
Direct (scope 1)	Natural gas (kWh)	**2,365,340**	2,241,526	**436**	415
	Vehicle fuel (litres)	**1,482,963**	1,396,409	**3,832**	3,634
	Other	**30,263**	26,398	**47**	50
	Subtotal			**4,315**	4,099
Indirect (scope 2)	Purchased electricity (kWh)	**5,480,258**	5,390,508	**2,533**	2,664
Total gross emissions (tCO_2e)				**6,848**	6,763

Table 2: intensity ratio

Intensity metric	2015	2014
Total gross GHG emissions (tCO_2e)	**6,848**	6,763
Total Sales (£000)	**169,132**	153,767
Carbon Intensity tCO_2e/£000	**0.040**	0.044

Table 3: emissions data – business units

Business unit	2015 Tonnes of CO_2e	2014 Tonnes of CO_2e	2015 Sales £000	2014 Sales £000	2015 tCO_2e/£000	2014 tCO_2e/£000
Packaging Distribution	4,707	4,400	143,035	126,907	0.033	0.035
Manufacturing Operations	2,141	2,363	26,097	26,860	0.082	0.088
Total	**6,848**	**6,763**	**169,132**	**153,767**	**0.040**	**0.040**

References The following source of the carbon emissions factors was used:
"2015 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

Landfill avoidance is our key waste objective and further improved across all sites during 2015 with the biggest improvement being across our Distribution business. Recycling rates on site were in line with our waste strategy and comparable to last year.

Costs were marginally higher in 2015 due to additional services being added and increased volumes however a proportion of these costs are offset by revenues generated by baled corrugated waste through collections.

As a business we baled more corrugated waste compared to previous years and this now accounts for 40% of our overall total waste tonnage the value of which is linked to waste paper and raw material indices which remained stable throughout 2015.

Our goals for 2016 are as follows:

- Work towards achieving a zero to landfill status;
- Continue to work towards reducing wood costs by further segregation of grades, finding economical solutions to specific waste streams identified through the ESOS audit;
- Increase the recycling rates in the Distribution business by introducing an increased upstream approach to removing recyclable materials;
- Introduce a programme of new site audits to explore and drive through these objectives; and
- Audit our waste provider, Cory Environmental.

Environmental care

Macfarlane Group works in partnership with its customers and suppliers to ensure, at every opportunity, we provide an expert, independent and tailored approach, so that the products and services we provide take into consideration the impact on the environment.

One approach we take in order to achieve this is through an Environmental Product Matrix, produced in conjunction with our suppliers, which is consistent with the underlying need to ensure products are effectively protected in storage and transit. This Matrix enables our customers to choose packaging, which is fit for purpose; whilst ensuring they still embrace the Reduce, Re-use, and Recycle ethos.

Corporate responsibility (continued)

Environmental care (continued)

To support our ongoing commitment to 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 the consumption of natural resources;
- To minimise noise and other nuisances; and
- To continuously assess our environmental performance.

Environmental information is recorded, reviewed and analysed, by an identified team of individuals to ensure compliance with the Company's legal obligations and achievement of internal objectives and targets.

The Group continues to make progress in its performance against the identified CR objectives. During 2016 we will maintain the focus on our CR programmes implementing new initiatives to ensure our performance improvement is sustained.

Accident frequency rate

Business unit	2015	2014	2013
Packaging Distribution	**0.34**	0.24	0.00
Manufacturing Operations	**0.46**	0.22	0.40
Group	**0.38**	0.23	0.08

Registration to ISO 14001

With the exception of recent acquisitions, all our UK packaging sites are registered to BSI ISO 14001 Environmental Management Standard. As an internationally recognised standard on environmental management, registration involves a process of continual assessment of our environmental standards and processes.

Health and safety

The health, safety and welfare of our people, including colleagues, customers and suppliers, forms a critical part of Macfarlane Group's business objectives. We aim to achieve a positive health and safety culture through the creation of a safe and healthy work environment, preventing and minimising risks. 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 ensure we adhere to and abide by best health and safety practices we have dedicated Health and Safety Managers in the business, who work with local Health and Safety teams to ensure knowledge and standards are effectively applied to the business on a consistent basis throughout all the health and safety disciplines.

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 operating sites in the Group are internally assessed and graded on their Health and Safety performance.

The Group Board plays a pivotal role in overseeing the operation of all Health and Safety. The Group Board reviews a monthly report on Health and Safety at each meeting. This report covers incidents, near misses, reportable and non-reportable incidents. The Accident Frequency Rate (AFR) representing the number of reportable incidents per 100,000 man-hours worked is shown above.

In 2015, we experienced an increase in AFR vs. 2014. This represented five reportable incidents compared to three in 2014. All reportable incidents are investigated thoroughly by our Health & Safety team and changes to working practices implemented if required.

Annual customer satisfaction scores

Business unit	2015	2014
Packaging Distribution	**87%**	87%
Packaging Design and Manufacture	**94%**	94%
Labels	**90%**	82%

The customer experience

Customer feedback

To continually improve our service to our customers, we use a range of metrics to evaluate our performance on an annual basis. In Packaging Distribution, we gain regular feedback from our customers throughout the year through Net Promoter Score (NPS) Surveys, Mystery Shopper and online Trust Pilot reviews. This insight is then used to improve products, processes and systems that interact with our customers. In addition, we continue to survey our customers in all of our businesses, on an annual basis, to evaluate our performance against a range of key service metrics.

Sales order management

Our online customer order management system, Customer Connect, and www.macfarlanepackaging.com is contributing to improvements in productivity as well as meeting the needs of our customers requiring more visibility of their packaging management. In Packaging Distribution in 2015, orders transacted online increased to 26% vs. 25% in 2014.

Electronic documentation

In 2015, 75% (2014 – 70%) of invoices to our customers were delivered electronically, further reducing our paper usage. The Group is continuing to encourage customers to receive documentation electronically.

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.

Macfarlane Group websites

Business	Website domain	Target market/audience
Packaging Distribution	www.macfarlanepackaging.com	Wide range of businesses using packaging that need to protect their products during shipping and storage.
Network Packaging	www.networkpack.co.uk	Wide range of businesses using packaging that need to protect their products during shipping and storage.
One Packaging	www.onepack.co.uk	Businesses local to One Packaging using packaging that need to protect their products during shipping and storage.
Packaging Distribution Ireland	www.macfarlanepackaging.ie	Wide range of businesses in Ireland that need 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.
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 (continued)

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 2015 each employee was engaged in 13 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.

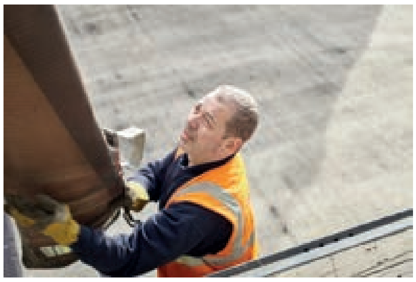
Employee engagement

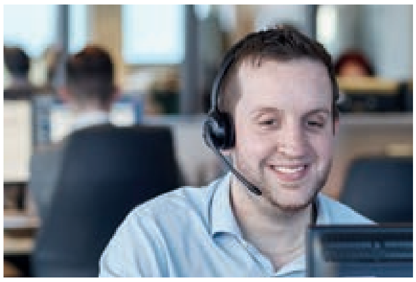
Employee engagement is an ongoing feature of our business. Through performance appraisals, business update sessions and informal review meetings a platform is provided for employee participation and involvement. Employee Surveys are conducted throughout the business providing a constructive method of 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.

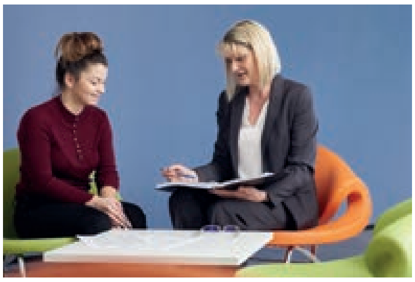
Macfarlane Group provides interactive tools and resources to employees via mechanisms such as iPads providing employees with the ability to gain information, advise and provide feedback instantly, supporting the continued aim of enhancing the customer experience.

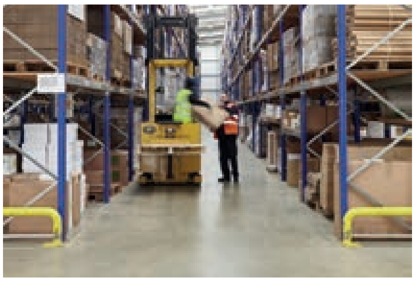
Macfarlane Group encourages employees to engage with their local communities, supporting charities and activities that are having a positive impact in their region. During 2015 a number of Macfarlane teams engaged in events, providing support from both a resource and financial perspective.

Each year Macfarlane Group makes a one off donation to a charity chosen by the workforce; for 2015 this was Alzheimer's Society.









Diversity

	2015		2014	
	Female	Male	Female	Male
Directors	**0**	**6**	0	6
Senior Managers	**4**	**13**	4	13
Total employees	**278**	**463**	260	467

Diversity
A breakdown by gender of the Directors, Senior Managers and all employees of the Group at 31 December 2015 is summarised above.

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 earlier.
- Anti-bribery and corruption – Macfarlane Group has an anti-bribery and corruption policy, which is supplemented by a gift register and an associated policy on accepting gifts.
- Whistleblowing policy – there is provision for employees to use an independent service if they are not comfortable speaking to anyone within Macfarlane Group with regard to any matters which give them concern. This service is promoted throughout the Group.

Board of Directors

1 Graeme Bissett
Chairman

Graeme Bissett joined the Board on 11 May 2004 as a non-executive director, becoming Chairman on 8 May 2012. He is Chairman of the Nominations Committee and a member of the Remuneration Committee. Graeme has previously served as finance director of international groups and as a partner with Arthur Andersen. His other board appointments comprise Interbulk Group plc, Anderson Strathern, 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 and as a member of the Court of the University of Glasgow.

2 Peter Atkinson
Chief Executive

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

3 John Love
Finance Director and Company Secretary

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.

4 Mike Arrowsmith
Non-executive Director
(Senior Independent Director)

Mike joined the Board on 26 September 2012. He was Group Chief Executive of Linpac Group Ltd, a market-leading international food and consumer packaging company with 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 and Chairman of Jas. Bowman & Sons Limited. Mike is a member of the Audit, Remuneration and Nominations Committees.

5 Bob McLellan
Non-executive Director

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

6 Stuart Paterson
Non-executive Director

Stuart Paterson joined the Board on 1 January 2013 as a non-executive director. He is a Chartered Accountant and is currently Chief Financial Officer at Forth Ports Limited, joining in March 2011 when it was listed on the London Stock Exchange. The company was acquired by Arcus Infrastructure Partners in June 2011. 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 is also a trustee of the Royal Yacht Britannia and a member of their Audit, Risk and Remuneration Committee. He succeeded Graeme Bissett as Chairman of the Audit Committee on 1 January 2013 and is also a member of the Remuneration and Nominations Committees.

Corporate advisers

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Report of the Directors

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2015. Pages 1 to 40 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 34 to 40 (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 pages 6 and 7 and the Strategic Review on pages 8 to 21 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 £6,767,000 (2014 – £5,606,000). This resulted in a profit for the year of £5,450,000 (2014 – £4,442,000).

The Directors declared an interim dividend of 0.53p per share, which was paid on 15 October 2015 (2014 – 0.50p per share). The proposed final dividend of 1.29p per share (2014 – 1.15p per share) is subject to approval by shareholders at the Annual General Meeting (AGM) in May 2016 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 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.

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 34 to 40.

The Directors will propose an ordinary resolution at the 2016 AGM seeking authority to allot shares in the Company under section 551 of the Companies Act 2006 up to an aggregate nominal amount of £10,384,280.

At last year's AGM on 6 May 2015, 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 £1,557,642. 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. The resolution will increase the maximum nominal amount to be renewed to £3,115,284, representing 10% of the current share capital.

No authority will be sought at the 2016 AGM to enable the Company to purchase its own shares.

Substantial holdings

Business unit	Number of shares held	Percentage
Funds managed or advised by Discretionary Unit Fund Managers Limited	20,825,851	16.71%
Funds managed or advised by Miton Group PLC	16,342,637	13.12%
Funds managed by Hargreave Hale Limited	10,005,608	8.03%
Funds managed or advised by Unicorn Asset Management	7,662,362	6.15%

Employee share schemes

On 8 May 2015, Peter Atkinson and John Love were granted option awards over 775,254 and 360,026 ordinary shares respectively under the Macfarlane Group PLC Long Term Incentive Plan. Details are set out in the Report on Directors' Remuneration on page 27. The remaining option awards outstanding under the Company's Long Term Incentive Plan at 31 December 2015 are set out in note 25.

The Remuneration Committee supervises the grant of share incentives, which are only capable of being exercised if the performance conditions to which they are subject have been satisfied. The Remuneration Committee will specify the performance conditions 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.

The existing Macfarlane Group PLC Long Term Incentive Plan expires in 2016. As a result, a new Long Term Incentive Plan will be presented for shareholder approval at the 2016 AGM.

Further detail is given in the Report on Directors' Remuneration on pages 26 to 33.

Substantial holdings of shares in the company

The Company has received notification prior to 25 February 2016 in accordance with Chapter 5 of the Disclosure and Transparency Rules of the following voting rights as a shareholder of the Company set out above.

Directors

The names of the Directors in office at 31 December 2015, who served throughout the year together with short biographical details, are set out on pages 22 and 23. The Board considers its three Non-executive Directors to be independent.

Bob McLellan and John Love retire by rotation at the AGM in May 2016 and offer themselves for re-election. Bob McLellan has a letter of appointment with the Company dated 5 March 2013 with a notice period of three months. John Love has a service contract with the Company dated 11 October 1999 with a notice period of twelve 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 28.

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 £3,115,284.

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.

John Love
Company Secretary
25 February 2016

Remuneration report

Remuneration Committee Chairman's summary statement

This Remuneration report has been drawn up under the provisions of the Enterprise and Regulatory Reform Act 2015. In addition to this statement the report includes two further sections detailing the Annual Report on Remuneration on pages 27 to 29 and the proposed Remuneration Policy, which will be presented at the forthcoming AGM (pages 30 to 33).

The current Macfarlane Group PLC Long Term Incentive Plan expires in 2016 and the Board will propose a new long-term incentive plan ("the new Plan") for approval at the 2016 AGM following an appropriate consultation process. The new Plan is intended to be similar in construct to the expiring current LTIP and details are set out in the annual report on remuneration on page 29.

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 2016 is 2%, consistent with all eligible employees, with the exception of the Finance Director, who has been awarded an increase of 9% to align his basic salary with market rates established in a benchmarking exercise.
- Annual 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 2015 of £92,000 and £38,000, were awarded to Peter Atkinson and John Love respectively. The basis for this is detailed in the annual report on remuneration on page 27. These bonuses are paid in cash, following Board approval of the 2015 Annual Report and Accounts. The new policy will allow a bonus of up to 100% of salary, although the maximum for 2016 will remain at 50%.
- 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. On 8 May 2015, Peter Atkinson and John Love were granted option awards over 775,254 and 360,026 ordinary shares respectively under the Macfarlane Group PLC Long Term Incentive Plan. The performance conditions attached to these awards are set out in the annual report on remuneration on page 27.
- Excluding the option exercise in 2014, total Directors' remuneration increased in 2015 by 5%. The Group has made substantial progress in 2015 with profit before tax increasing by 21% and the share price increasing by 55% to 56.75p at 31 December 2015.

The Remuneration Committee recommends this report and I hope that you will feel able to support the remuneration resolutions, which will be proposed for approval at the Annual General Meeting on 10 May 2016, including a resolution to establish the new Plan and revisions to our policy to allow the new Plan to be operated.

Bob McLellan
Chairman of the Remuneration Committee
25 February 2016

Annual report on remuneration

Single total figure of remuneration for each Director

The details set out on pages 27 and 28 of this report, up to and including the Statement of Directors' shareholdings and share interests, have been audited by KPMG LLP.

2015	Salary and fees £000	Taxable benefits £000	Bonus £000	Option awards exercise £000	Pension costs £000	Total £000
Chairman						
G. Bissett	**62**	**–**	**–**	**–**	**–**	**62**
Executive Directors						
P.D. Atkinson	**328**	**16**	**92**	**–**	**72**	**508**
J. Love	**152**	**6**	**38**	**–**	**20**	**216**
Non-executive Directors						
M. Arrowsmith	**31**	**–**	**–**	**–**	**–**	**31**
S.R. Paterson	**31**	**–**	**–**	**–**	**–**	**31**
R. McLellan	**31**	**–**	**–**	**–**	**–**	**31**
Total	**635**	**22**	**130**	**–**	**92**	**879**

2014	Salary 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

Annual bonus for the year ended 31 December 2015

The bonus is based on performance against financial targets and personal objectives as outlined in the policy report. The minimum financial target for 2015 was PBT of £6.5 million, which was achieved so a total bonus of £97,000 has been awarded for this component. The Remuneration Committee has also assessed performance against personal objectives and overall, has awarded bonuses of 8% and 5% of salary, equating to £26,000 and £7,000 to Peter Atkinson and John Love respectively. These bonuses are paid in cash following Board approval of the Group Accounts each year.

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 2015 was £39,000 (2014 – £37,000). The associated transfer value was £788,000 (2014 – £749,000) calculated using HMRC guidelines. The scheme's normal retirement date is 65 with no automatic entitlement to early retirement.

Scheme interest awards in 2015

On 8 May 2015, Peter Atkinson and John Love were granted option awards over 775,254 and 360,026 ordinary shares respectively under the Macfarlane Group PLC Long Term Incentive Plan. These awards are based on targets as follows:

(i) Total Shareholder Return, which is positive in the three years ending 7 May 2018;
(ii) Sales for calendar year 2017 of at least £154 million; and
(iii) Earnings per share of between 5.75p and 6.53p in calendar year 2017 for vesting of between 25% and 100% of the award, calculated on a sliding scale.

Remuneration report (continued)

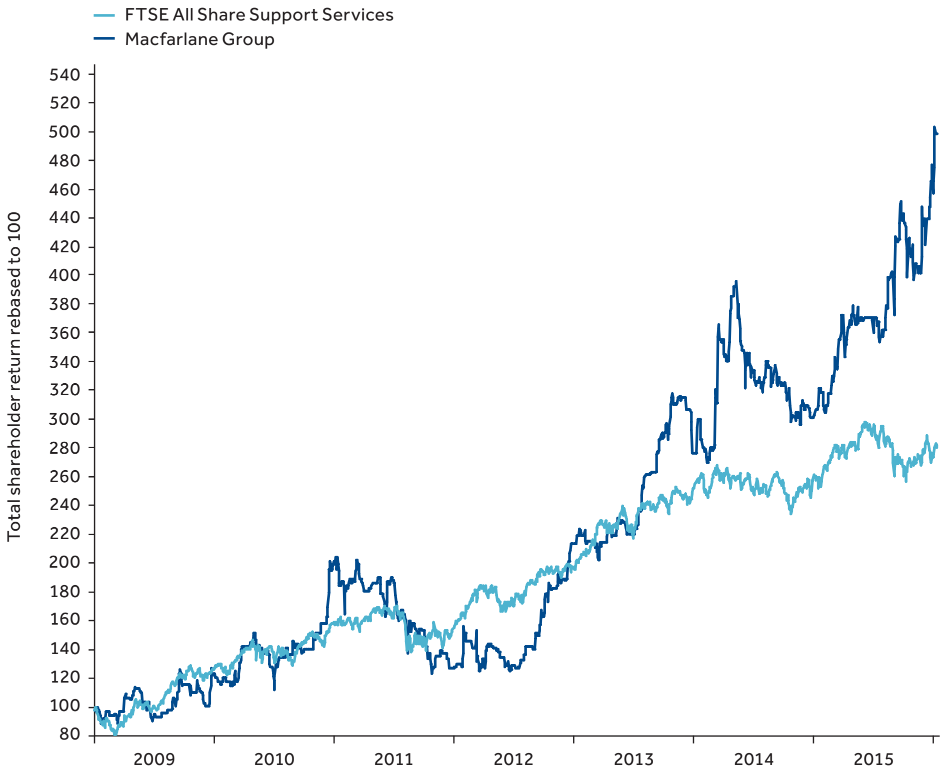
Statement of Directors' shareholding and share interests

	2015 Beneficial	2015 Option	2014 Beneficial	2014 Option
G. Bissett	**343,750**	**–**	343,750	–
P.D. Atkinson	**854,172**	**775,254**	854,172	–
J. Love	**775,000**	**360,026**	775,000	–
M. Arrowsmith	**100,000**	**–**	100,000	–
S.R. Paterson	**100,000**	**–**	79,550	–
R. McLellan	**78,791**	**–**	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.



CEO single figure

		Single figure of total remuneration	Annual variable element award vs. maximum opportunity	Long term incentive vesting against maximum opportunity
2015	**P.D. Atkinson**	**508**	**56%**	**n/a**
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

Percentage change in remuneration of CEO and employees

The following table shows the percentage change in remuneration between 2015 and 2014 for the CEO and for all employees in the Group.

% change in	CEO	Average for all eligible employees
Base salary	2.0%	2.0%
Benefits	0.0%	0.0%
Bonus	26.0%	72.0%

Relative importance of spend on pay

The difference in expenditure between 2014 and 2015 on remuneration for all employees in comparison to the distribution to shareholders by way of dividend is set out below:

	2015 £000	2014 £000	% change
Total employee pay	**23,994**	21,584	+11.2%
Dividend	**2,094**	1,888	+10.9%

Statement of implementation of remuneration policy in the current financial year

The salary of the Chief Executive was increased by 2% with effect from 1 January 2016 and the salary of the Finance Director was increased by 9% to align his basic salary with market rates established in a benchmarking exercise. The fees paid to the Chairman and Non-executive Directors also increased by 2% from 1 January 2016.

The Remuneration Committee granted a final award under the Performance Share Plan as detailed on page 27.

As this plan expires in 2016 a new long term incentive plan is being proposed for approval at the AGM in 2016 following appropriate shareholder consultation.

The recommended plan is a Performance Share Plan (PSP) based on the following principles:

- A normal maximum award of 100% of salary each year;
- A fixed 3 year performance period (with no re-setting); and
- A performance condition based on Earnings per share, Total Shareholder Return and sales levels.

The intention is for the new PSP to replace the Company's existing Performance Share Plan. Further details will be set out in the documentation accompanying the notice of the 2016 Annual General Meeting.

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 37.

The Remuneration Committee used the services of FIT Remuneration Consultants LLP to advise on certain aspects of remuneration during 2015. The total fees charged for the year for Remuneration Committee advice was £3,000 and the Directors consider FIT Remuneration Consultants LLP to be independent of the Group and objective in their advice.

Statement of voting at the Annual General Meeting

At the AGM held on 5 May 2015, the Directors' Remuneration Report received the following votes from shareholders.

	Total number of votes	% votes cast
For	**59,794,732**	99.88%
Against	**74,379**	0.12%
Total votes cast (for or against)	**59,869,111**	100.00%
Votes withheld	**353,401**	
Total	**60,222,512**	

Remuneration policy

The tables below summarise the main elements of the remuneration packages of Executive Directors. The full policy is available under the Corporate Governance section of the Company website (www.macfarlanegroup.com). The policy will take effect from the date of the AGM on 10 May 2016 and will therefore replace the existing policy that has been in place since the 2014 AGM.

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, permanent health insurance and other benefits.
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 capped at 100% of basic salary but will remain at 50% for 2016.
Performance measure	The performance measures applied may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate. The annual bonus plan remains a discretionary arrangement and the Committee retains a standard power to apply its judgement to adjust the outcome of the annual bonus plan for any performance measure (from zero to any cap) should it consider that to be appropriate.

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. The Committee may set such performance conditions on PSP awards as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual). Performance conditions are for a fixed three-year period and there is no re-setting. Executive Directors are expected to build up a prescribed level of shareholding equivalent to 100% of basic salary. If the prescribed shareholding has not been reached, Executive Directors will be expected to retain a proportion of the shares vesting under the Company's PSP until the guideline is met.
Opportunity	Any award is capped at 100% of basic salary in normal circumstances (200% in exceptional circumstances).
Performance measure	Conditional awards will vest based on three-year performance against challenging financial and/or other targets set and assessed by the Committee in its discretion.

All Employee Share Plans

Link to strategy	To encourage share ownership by employees, thereby allowing them to share in the long-term success of the Group and align their interests with those of the shareholders.
Operation	Company may in the future operate a Sharesave scheme and/or Share Incentive Plan. These are all-employee share plans established under HMRC tax-advantaged regimes and follow the usual form for such plans. Executive Directors would be able to participate in all-employee share plans on the same terms as other Group employees.
Opportunity	The maximum participation levels for all-employee share plans will be the limits for such plans set by HMRC from time to time.
Performance	Consistent with normal practice, such awards would not subject to performance conditions.

Clawback/malus in both the new LTIP and bonus

Provisions are in place in both the annual bonus and new LTIP to operate malus and/or clawback in certain exceptional circumstances.

Consideration of employment conditions elsewhere in the Group

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

Consideration of shareholder views

The Remuneration Committee considers shareholder feedback received as part of any dialogue with shareholders via the Chairman, executive management or the Company's brokers. Where necessary the Remuneration Committee Chairman will engage pro-actively with shareholders such as during the ongoing proposed renewal of the Performance Share Plan.

Differences between the policy on remuneration for Directors from the policy on remuneration of other employees

While the appropriate benchmarks vary by role, the Company seeks to apply the philosophy behind this policy across the Company as a whole. Where the Company's pay policy for Directors differs from its pay policies for groups of employees, this reflects the appropriate market rate position and/or typical practice for the relevant roles. The Company takes into account pay levels, bonus opportunity and share awards applied across the Group as a whole when setting the Executive Directors' Remuneration Policy.

Remuneration policy (continued)

Approach to recruitment remuneration

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

Service contracts and letters of appointment

Executive service contracts have a standard notice period of 12 months. The Committee reserves flexibility to alter these principles if necessary to secure the appointment of an appropriate candidate and if appropriate introduce a longer initial notice period (of up to two years) reducing over time. Executive Directors are entitled to accept appointments outside the Company provided the Board's permission is obtained. The Board may require the fees from such appointments to be accounted for to the Company. Neither P.D. Atkinson nor J. Love held any external appointments during the year.

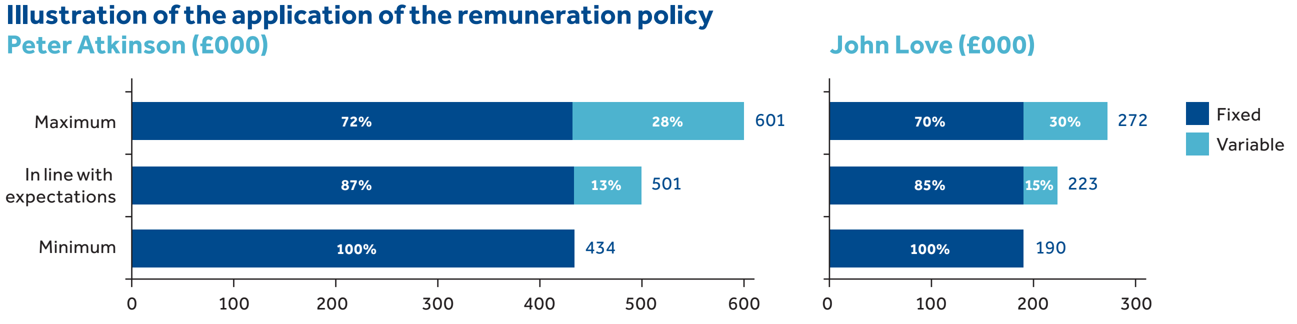
Chairman and Non-executive Director appointments are through letters of appointment for periods not exceeding three years subject to re-election at the AGM and contain notice periods of six months and three months respectively.

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

Executive Directors	Contract commencement date	Notice period
P.D. Atkinson	6 October 2003	12 months
J. Love	11 October 1999	12 months

Non-executive Directors	Letter of appointment commencement date	Notice period
G. Bissett	4 May 2015	6 months
M. Arrowsmith	10 December 2015	3 months
S.R. Paterson	10 December 2015	3 months
R. McLellan	5 March 2013	3 months

Illustration of the application of the remuneration policy



The fixed component includes basic salary, pension contributions and benefits in kind and the variable component includes annual bonus.

The performance in line with expectations is based on the current 2016 market expectation of PBT of £7.4 million and full achievement of personal objectives. The PBT target for maximum award has not been disclosed due to commercial sensitivity.

Payment for loss of office

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

The policy is that the departing Director may work or be placed on garden leave for all or part of their notice period or receive payment in lieu of notice in accordance with the service agreement. The Committee supports the principle of mitigation and phased payments relative to any settlement and will take legal advice in relation to any settlements to be proposed. Any share-based entitlements granted to an Executive Director will be determined based on the relevant rule plans as previously approved by shareholders.

Chairman

Link to strategy	To attract and retain a high calibre Board Chairman by offering a market competitive fee level.
Operation	The Board Chairman is paid a single fee for all his responsibilities. The level of fee is reviewed periodically by the Remuneration Committee with reference to other comparable companies.
Opportunity	The current fee is £63,678 subject to periodic change under this policy. There is no maximum fee level.

Non-executive Directors

Link to strategy	To attract and retain high calibre Non-executive Directors by offering a market competitive fee level.
Operation	Non-executive Directors are paid a basic fee. The Committee Chairmen may be paid a supplement to reflect their additional responsibilities. The fee levels are reviewed periodically by the Chairman and Executive Directors with reference to other comparable companies.
Opportunity	The current basic fee is £31,839 subject to periodic change under this policy. There are currently no supplementary fees and there is no maximum fee level.

Committee discretions

The Committee will operate the annual bonus plan and PSP according to their respective rules and the policy tables set out earlier. The Committee retains discretion, consistent with market practice, in a number of respects, in relation to the operation and administration of these plans.

These discretions include, but are not limited to, the following:

- The selection of participants;
- The timing of grant of an award/bonus opportunity;
- The size of an award/bonus opportunity subject to the maximum limits set out in the policy table;
- The determination of performance against targets and resultant vesting/bonus pay-outs;
- Discretion required when dealing with a change of control or restructuring of the group;
- Determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen;
- Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends); and
- The annual review of performance measures, weightings and targets from year to year.

In addition, while performance measures and targets used in the annual bonus plan and PSP will generally remain unaltered, if events occur which, in the Committee's opinion, would make a different or amended target a fairer measure of performance, such amended or different target can be set provided that it is not materially more or less difficult to satisfy (having regard to the event in question).

Any use of these discretions would, where relevant, be explained in the Directors' Remuneration Report and may, where appropriate and practicable, be the subject of consultation with the Company's major shareholders. In addition, for the avoidance of doubt, in approving this policy report, authority is given to the Company to honour any commitments entered into with current or former Directors prior to the adoption of this policy.

The Committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Corporate governance

Introduction

The Company is committed to the principles of corporate governance contained in the UK Corporate Governance Code issued in September 2014 ("the Code") by the Financial Reporting Council (FRC). The Company's compliance is set out in the narrative statement on pages 34 to 40 and for Directors' remuneration in the Report on Directors' Remuneration on pages 26 to 33.

Compliance

The Company complied with all Code provisions during 2015. The Company's auditor, KPMG LLP, is required to review whether the above statement reflects the Company's compliance with the eleven provisions of the 2014 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 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 pages 22 and 23. 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 2015 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 22. 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, Graeme Bissett, is responsible for running the Board, ensuring that all Directors receive sufficient and relevant information on financial, business and corporate issues prior to meetings to allow the 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 implementing 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 2016 AGM, Bob McLellan and John Love fall due to retire by rotation and, being eligible, offer themselves for re-election. Bob McLellan's letter of appointment and John Love's service contract will be available for shareholder review prior to the AGM on 10 May 2016.

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

John Love, 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 seven times during 2015 and individual attendance at those and the Board Committee meetings is set out in the table on the following page. In 2015, three 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 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 48, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least the next twelve months. 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 41.

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.

Corporate governance (continued)

Board and Committee Meetings

Attendance by Directors at Board and Committee Meetings

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Graeme Bissett – Chairman	7 (7)	3 (3)*	3 (3)	1 (1)
Peter Atkinson – Chief Executive	7 (7)	–	–	–
John Love – Finance Director	7 (7)	–	–	–
Mike Arrowsmith – Senior Independent Director	7 (7)	3 (3)	3 (3)	1 (1)
Stuart Paterson – Non-executive Director	7 (7)	3 (3)	3 (3)	1 (1)
Bob Mclellan – Non-executive Director	7 (7)	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 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 8 to 21 of this report. The Board uses this together with the Chairman's Statement on pages 6 and 7, and the remainder of the Report of the Directors on pages 24 to 25 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 preliminary 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.

Nominations Committee

The Nominations Committee membership was as follows:

Graeme Bissett (Chairman)
Mike Arrowsmith
Stuart Paterson
Bob McLellan

The Nominations Committee met once during 2015 and its terms of reference are available on the Group website (www.macfarlanegroup.com).

The principal work undertaken by the Nominations Committee in 2015 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 2015 to consider proposing Michael Arrowsmith and Stuart R. Paterson for election at the AGM on 5 May 2015. Both were recommended for election and this was approved by shareholders at the 2015 AGM. No Director is involved in any decisions regarding his own appointment or re-appointment.

Following a Nominations Committee held on 24 February 2016 the Committee proposed Bob McLellan and John Love for re-election at the AGM on 10 May 2016.

Remuneration Committee

The Remuneration Committee membership was as follows:

Bob McLellan (Chairman)
Graeme Bissett
Mike Arrowsmith
Stuart Paterson

None of the members of the Remuneration Committee during 2015 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 2015 and its terms of reference are available on the Group website (www.macfarlanegroup.com).

The principal work undertaken by the Remuneration Committee in 2015 was:

(a) To review performance against 2015 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 2016 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; 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 26 to 29.

Audit Committee

Throughout 2015 the Audit Committee comprised:

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 their biographical details on pages 22 and 23.

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.

Corporate governance (continued)

Audit Committee (continued)

- **Viability statement**
  The Board has carried out a robust assessment of the principal risks facing the Company and how these risks affect the prospects of the Company. Pages 14 and 15 give information on these risks and uncertainties and the mitigating actions being taken to address them. The viability statement set out on page 15 includes scenario testing of the key risks in order to determine their potential impact on the prospects of the Company. The overall responsibility for the systems of internal control and for reviewing their effectiveness rests with the Board. The review of the effectiveness of the systems of internal control is carried out by the Audit Committee as set out above.

- **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 pages.

The Audit Committee met three times during 2015 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 2015 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.

2015 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 2015 financial statements, the Committee considers the two most significant areas of judgement to be:

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 2015, the Group retained an allowance for doubtful trade receivables of £386,000, compared to £357,000 in 2014. 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 2016 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 defined benefit 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 2015 financial statements, those other areas included:

- The basis of the accounting for the acquisition in 2015 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 2015;
- A review of the viability statement; 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. Details are included on the Group website (www.macfarlanegroup.com). All concerns will continue to be investigated at the earliest opportunity and the employee's anonymity is preserved wherever possible.

Relationship with external audit

The Audit Committee is responsible for the development, implementation and monitoring of the Group's position on external audit. The Committee's terms of reference assign oversight responsibility for monitoring the independence, objectivity and compliance with ethical and regulatory requirements to the Audit Committee, and day-to-day responsibility to the 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.

Corporate governance (continued)

The Audit Committee monitors 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 to ensure the independence and objectivity of the external auditor, taking account of relevant professional and regulatory requirements. All non-audit work over a certain level to be undertaken by the external auditor has to be approved by the Audit Committee. Details of amounts paid to the external auditor during 2015 for audit and other services are set out in note 2 to the financial statements.

The Audit 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 robust 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's risk register is kept under review during regular review meetings in each business. The Board considers the risk register every six months to maintain an overview of risks facing the Group and ensure that 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.

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

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, including FRS 101 *Reduced Disclosure Framework*.

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 of the Directors in respect of the annual financial report

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 issuer 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
25 February 2016

John Love
Finance Director
25 February 2016

Independent Auditor's report to the Members of Macfarlane Group PLC only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Macfarlane Group PLC for the year ended 31 December 2015 set out on pages 44 to 86. 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 2015 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 including FRS 101 *Reduced Disclosure Framework*; 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.

2. 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 £37,135,000

Refer to page 38 (Audit Committee statement), page 48 (accounting policy) and note 13 (financial disclosures)

- The risk – The Group has significant trade receivables, comprised of a high volume of individual balances, of which a number are material to the financial statements. These factors, together with the potential for customer insolvency, result in a 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 along with an assessment of the level of post balance sheet cash receipts. 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 £11,518,000

Refer to page 39 (Audit Committee statement), page 48 (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.

3. 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 £450,000, determined with reference to a benchmark of Group profit before taxation of £6,767,000, of which it represents 6.6%.

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, 97% of Group profit before taxation, and 99% of total Group assets.

4. 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.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during out audit, we have nothing material to add or draw attention to in relation to:

- the directors' Strategic Review on pages 14 to 15, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the 3 years to 2018; or;
- the disclosures in note (a) of the Summary of Accounting Policies set out on page 48 concerning the use of the going concern basis of accounting.

6. 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 15, in relation to going concern and longer-term viability;
- the part of the Corporate Governance Statement on pages 34 to 40 relating to the company's compliance with the eleven 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 41, 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/auditscopeukco2015a, 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

Consolidated income statement

For the year ended 31 December 2015

	Note	2015 £000	2014 £000
Continuing Operations			
Revenue	1	**169,132**	153,767
Cost of sales		**(115,911)**	(106,304)
Gross profit		**53,221**	47,463
Distribution costs		**(7,587)**	(7,432)
Administrative expenses		**(37,932)**	(33,385)
Operating profit	1, 2	**7,702**	6,646
Net finance costs	4	**(935)**	(1,040)
Profit before tax		**6,767**	5,606
Tax	5	**(1,317)**	(1,164)
Profit for the year	6, 20	**5,450**	4,442
Earnings per share	8		
Basic		**4.37p**	3.78p
Diluted		**4.35p**	3.78p

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

Consolidated statement of comprehensive income

For the year ended 31 December 2015

	Note	2015 £000	2014 £000
Items that will be or have been reclassified to profit or loss			
Foreign currency translation differences – foreign operations	20	**(62)**	(102)
Items that will not be reclassified to profit or loss			
Remeasurement of pension scheme liability	24	**111**	(2,737)
Tax recognised in other comprehensive income			
Tax on remeasurement of pension scheme liability	18	**(22)**	548
Long-term corporation tax rate change	18	**(229)**	–
Other comprehensive expense for the year, net of tax		**(202)**	(2,291)
Profit for the year		**5,450**	4,442
Total comprehensive income for the year		**5,248**	2,151

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 2015

	Note	Share Capital £000	Share Premium £000	Revaluation Reserve £000	Own Shares £000	Translation Reserve £000	Retained Earnings £000	Total £000
At 1 January 2014		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 difference – 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
Profit for the year		**–**	**–**	**–**	**–**	**–**	**5,450**	**5,450**
Dividends	7	**–**	**–**	**–**	**–**	**–**	**(2,094)**	**(2,094)**
Foreign currency translation difference – foreign operations	20	**–**	**–**	**–**	**–**	**(62)**	**–**	**(62)**
Remeasurement of pension scheme liability	24	**–**	**–**	**–**	**–**	**–**	**111**	**111**
Tax on remeasurement of pension scheme liability	18	**–**	**–**	**–**	**–**	**–**	**(22)**	**(22)**
Long-term corporation tax rate change	18	**–**	**–**	**–**	**–**	**–**	**(229)**	**(229)**
Credit for share-based payments	25	**–**	**–**	**–**	**–**	**–**	**72**	**72**
At 31 December 2015		**31,153**	**1,018**	**70**	**–**	**59**	**1,172**	**33,472**

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

Consolidated balance sheet

At 31 December 2015

	Note	2015 £000	2014 £000
Assets			
Non-current assets			
Goodwill and other intangible assets	9	**36,181**	34,125
Property, plant and equipment	10	**7,691**	7,445
Trade and other receivables	13	**559**	659
Deferred tax assets	18	**2,499**	3,245
Total non-current assets		**46,930**	45,474
Current assets			
Inventories	12	**10,559**	9,663
Trade and other receivables	13	**43,238**	39,998
Cash and cash equivalents	14	**1,407**	1,250
Total current assets		**55,204**	50,911
Total assets	1	**102,134**	96,385
Liabilities			
Current liabilities			
Trade and other payables	15	**41,297**	37,566
Current tax liabilities		**654**	279
Provisions	16	**–**	52
Finance lease liabilities	17	**388**	155
Bank borrowings	14	**13,039**	11,349
Total current liabilities		**55,378**	49,401
Net current (liabilities)/assets		**(174)**	1,510
Non-current liabilities			
Retirement benefit obligations	24	**11,518**	13,873
Deferred tax liabilities	18	**988**	1,019
Trade and other payables	15	**40**	1,368
Finance lease liabilities	17	**738**	478
Total non-current liabilities		**13,284**	16,738
Total liabilities	1	**68,662**	66,139
Net assets	1	**33,472**	30,246
Equity			
Share capital	19	**31,153**	31,153
Share premium	20	**1,018**	1,018
Revaluation reserve	20	**70**	70
Translation reserve	20	**59**	121
Retained earnings	20	**1,172**	(2,116)
Total equity		**33,472**	30,246

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 25 February 2016 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 2015

	Note	2015 £000	2014 £000
Net cash inflow from operating activities	21	**5,368**	2,843
Investing activities			
Acquisition of subsidiary undertakings	22	**(3,941)**	(5,051)
Proceeds from disposal of property, plant and equipment		**263**	152
Acquisition of property, plant and equipment		**(809)**	(624)
Net cash used in investing activities		**(4,487)**	(5,523)
Financing activities			
Dividends paid	7	**(2,094)**	(1,888)
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		**1,690**	11,349
Repayment of finance lease liabilities		**(320)**	(83)
Net cash (used in)/generated by financing activities		**(724)**	3,812
Net increase in cash and cash equivalents		**157**	1,132
Cash and cash equivalents at beginning of year		**1,250**	118
Cash and cash equivalents at end of year	21	**1,407**	1,250

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

Accounting policies

For the year ended 31 December 2015

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 small movements in 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 2015 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:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases

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 2016. 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 a prudent assessment of the market 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 8 to 21.

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, in place until February 2017. These facilities have now been increased to £25.0 million with an additional option to increase them further to £30.0 million. The facilities are now available until June 2019. The facilities bear interest at normal commercial rates and carry 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 profit projections, which they believe are based on prudent assessment of the market 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 at least the next twelve months. 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 amortisation and 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 up to 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

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the consolidated income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

Accounting policies (continued)

For the year ended 31 December 2015

(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.

(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 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, 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.

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 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 are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

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 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 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 are 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.

(n) Business combinations

The acquisition of subsidiaries is accounted for under the purchase method. The acquired business is measured at the date of acquisition as the aggregate fair value of assets, liabilities and contingent liabilities as required under IFRS 3 Business Combinations. The excess of the cost of acquisition over the fair value of the acquired business is represented as goodwill. Contingent consideration classified as a liability will be subsequently re-measured through the consolidated income statement under the requirements of the revised IFRS 3.

Notes to the financial statements

For the year ended 31 December 2015

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 design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK, the design, manufacture and supply of self-adhesive labels to a variety of FMCG customers in the UK & Europe and the design, manufacture and supply of resealable labels to a variety of FMCG customers in the UK, Europe and the USA 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	2015 £000	2014 £000
Packaging Distribution	**143,035**	126,907
Design, manufacture and assembly of timber, corrugated and foam-based packaging materials	**8,953**	9,531
Manufacture and supply of self-adhesive labels	**10,861**	10,586
Manufacture and supply of resealable labels and related machinery	**6,283**	6,743
External revenues from continuing operations	**169,132**	153,767

(b) Segmental information

	Packaging Distribution £000	Manufacturing Operations £000	2015 Total £000	Packaging Distribution £000	Manufacturing Operations £000	2014 Total £000
Revenue						
Total revenue	143,265	31,017	**174,282**	126,907	32,358	159,265
Inter-segment revenue	(230)	(4,920)	**(5,150)**	–	(5,498)	(5,498)
External revenue	143,035	26,097	**169,132**	126,907	26,860	153,767
Cost of sales	(100,817)	(15,094)	**(115,911)**	(90,382)	(15,922)	(106,304)
Gross profit	42,218	11,003	**53,221**	36,525	10,938	47,463
Net operating expenses	(35,467)	(10,052)	**(45,519)**	(30,767)	(10,050)	(40,817)
Operating profit	6,751	951	**7,702**	5,758	888	6,646
Net finance costs			**(935)**			(1,040)
Profit before tax			**6,767**			5,606
Tax			**(1,317)**			(1,164)
Profit for the year from continuing operations			**5,450**			4,442

Inter-segment revenues are charged at prevailing market prices.

	Packaging Distribution £000	Manufacturing Operations £000	2015 Total £000	Packaging Distribution £000	Manufacturing Operations £000	2014 Total £000
Capital additions	4,045	400	**4,445**	9,360	944	10,304
Depreciation/amortisation	1,496	481	**1,977**	1,001	447	1,448
Segment assets	87,590	14,544	**102,134**	80,365	16,020	96,385
Segment liabilities	(61,625)	(7,037)	**(68,662)**	(58,189)	(7,950)	(66,139)
Net assets	25,965	7,507	**33,472**	22,176	8,070	30,246

(c) 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	Europe £000	2015 Total £000	Continuing Operations UK £000	Europe £000	2014 Total £000
Revenue						
Total revenue	164,427	4,705	**169,132**	148,829	4,938	153,767
Result						
Operating result	7,308	394	**7,702**	6,202	444	6,646
Non-current assets	45,265	1,665	**46,930**	43,603	1,871	45,474
Capital additions	4,302	143	**4,445**	10,254	50	10,304

(d) 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:	2015 £000	2014 £000
Depreciation of property, plant and equipment (see note 10)	**1,151**	1,020
Amortisation of other intangible assets (see note 9)	**826**	428
Staff costs (see note 3)	**27,239**	24,435
Cost of inventories recognised as an expense	**112,067**	103,048

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

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**	79
Total audit fees	**109**	109
Non audit services		
Audit related assurance services for review of half-year statements	**16**	16
Other assurance services for the audit of Macfarlane Group PLC pension scheme	**9**	9
Taxation advisory services	**6**	1
IT advisory services	**9**	–
Other non-audit services for pension related advice	**–**	7
All other services	**95**	–
Total non-audit fees	**135**	33
Total fees paid to auditor	**244**	142

In January 2015, our auditors KPMG acquired Crimsonwing, a business providing IT services to the Group. Macfarlane Group first entered into a contractual relationship with Crimsonwing in 2010 and paid fees totalling £95,000 for services in the period from January 2015 to December 2015, which are classified as all other services above.

Notes to the financial statements (continued)

For the year ended 31 December 2015

3. Staff costs

The average monthly number of employees was:	2015 No.	2014 No.
Production	**172**	173
Sales and distribution	**389**	377
Administration	**187**	177
	748	727

The costs incurred in respect of these employees were:	2015 £000	2014 £000
Wages and salaries	**23,994**	21,584
Social security costs	**2,173**	1,931
Other pension costs	**1,072**	920
	27,239	24,435

4. Net finance costs

	2015 £000	2014 £000
Interest on bank borrowings	**(460)**	(438)
Interest on obligations under finance leases	**(37)**	(8)
Net interest expense on retirement benefit obligation (see note 24)	**(438)**	(594)
Net finance costs	**(935)**	(1,040)

5. Tax

	2015 £000	2014 £000
Current tax		
United Kingdom corporation tax	**(1,134)**	(273)
Foreign tax	**(48)**	(95)
Prior period adjustments	**80**	43
Current tax charge	**(1,102)**	(325)
Deferred tax		
Current year charge (see note 18)	**(215)**	(839)
Total tax charge	**(1,317)**	(1,164)

The standard rate of tax based on the UK average rate of corporation tax, is 20.25% (2014 – 21.50%). Taxation for other jurisdictions is calculated at the rates prevailing in these jurisdictions. The actual tax charge for the current and previous year varies from 20.25% (2014 – 21.50%) of the results as set out in the consolidated income statement for the reasons set out in the following reconciliation:

	2015 £000	2014 £000
Profit before tax	**6,767**	5,606
Tax on profit at 20.25% (2014 – 21.50%)	**(1,370)**	(1,205)
Factors affecting tax charge for the year:		
Non deductible expenses	**(37)**	(1)
Difference on overseas tax rates	**10**	(1)
Changes in estimates related to prior years	**80**	43
Tax charge for the year	**(1,317)**	(1,164)

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 35 to these financial statements.

7. Dividends

	2015 £000	2014 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for 2014 of 1.15p per share (2013 – 1.10p per share)	**1,433**	1,265
Interim dividend for 2015 of 0.53p per share (2014 – 0.50p per share)	**661**	623
	2,094	1,888

In addition to the amounts shown above, a proposed dividend of 1.29p per share will be paid on 9 June 2016 to those shareholders on the register at 13 May 2016. This is subject to approval by shareholders at the Annual General Meeting on 10 May 2016. This has not been included as a liability in these financial statements.

8. Earnings per share

	2015 £000	2014 £000
Earnings for the purposes of calculating earnings per share		
Profit for the year from continuing operations	**5,450**	4,442

Number of shares in issue for the purposes of calculating basic and diluted earnings per share	2015 Number of Shares '000	2014 Number of Shares '000
Weighted average number of ordinary shares in issue for the year	**124,611**	117,550
Weighted average number of Own Shares in Employee Share Ownership Trust	**–**	(184)
Weighted average number of shares in issue for the purposes of calculating basic earnings per share	**124,611**	117,366
Effect of dilutive potential ordinary shares due to share options	**576**	–
Weighted average number of shares in issue for the purposes of calculating diluted earnings per share	**125,187**	117,366
Basic earnings per share	**4.37p**	3.78p
Diluted earnings per share	**4.35p**	3.78p

Notes to the financial statements (continued)

For the year ended 31 December 2015

9. Goodwill and other intangible assets

	Packaging Distribution £000	Manufacturing Operations £000	2015 Total £000	2014 Total £000
Goodwill	**29,292**	**1,359**	**30,651**	29,007
Other intangible assets	**5,530**	**–**	**5,530**	5,118
Goodwill and other intangible assets	**34,822**	**1,359**	**36,181**	34,125
Goodwill				
Cost at fair value on acquisition				
At 1 January	**27,648**	**1,359**	**29,007**	24,149
Additions (see note 22)	**1,644**	**–**	**1,644**	4,858
At 31 December	**29,292**	**1,359**	**30,651**	29,007
Amortisation				
At 1 January and 31 December	**–**	**–**	**–**	–
Carrying amount				
At 31 December 2015	**29,292**	**1,359**	**30,651**	
At 31 December 2014	27,648	1,359		29,007

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 2015 the Group acquired One Packaging Limited, giving rise to goodwill on acquisition, which was added to the Packaging Distribution CGU.

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 2015, 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 7.0% (2014 – 7.4%) is used for both CGU's reflecting the Group's weighted average cost of capital adjusted for appropriate market risk, 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. The pre-tax discount rate is 8.8% (2014 – 9.8%) for each CGU. Growth rates of 1%, 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 2016 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 2015 no impairment charge is required against the carrying value of goodwill.

	Brand Values £000	Customer Relationships £000	2015 Total £000	2014 Total £000
Other intangible assets				
Cost at fair value on acquisition				
At 1 January	**338**	**6,915**	**7,253**	2,973
Additions (see note 22)	**89**	**1,149**	**1,238**	4,280
At 31 December	**427**	**8,064**	**8,491**	7,253
Amortisation				
At 1 January	**150**	**1,985**	**2,135**	1,707
Charge for year	**57**	**769**	**826**	428
At 31 December	**207**	**2,754**	**2,961**	2,135
Carrying amount				
At 31 December 2015	**220**	**5,310**	**5,530**	
At 31 December 2014	188	4,930		5,118

Other intangible assets comprise separately identifiable intangible assets recognised on the acquisitions of subsidiary companies in Packaging Distribution between 2008 and 2015. They are recorded at fair value on acquisition less 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 2015 the Group acquired One Packaging Limited which gave rise to values for Brand Values and Customer Relationships within Packaging Distribution.

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

At 31 December 2015, the Group retained Brand Values in respect of:

(i) One Packaging Limited, acquired in 2015;
(ii) Lane Packaging Limited, acquired in 2014; and
(iii) Network Packaging Limited, also acquired in 2014.

At 31 December 2015, 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;
(iii) Lane Packaging Limited, acquired in 2014, and now trading as our Reading RDC;
(iv) Network Packaging Limited, also acquired in 2014; and
(v) One Packaging Limited, acquired in 2015.

Notes to the financial statements (continued)

For the year ended 31 December 2015

10. Property, plant and equipment

	Land and Buildings £000	Plant and Equipment £000	Total £000
Cost			
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 1 January 2015	**5,986**	**21,938**	**27,924**
Acquisitions	**35**	**382**	**417**
Additions	**183**	**1,380**	**1,563**
Exchange movements	**–**	**(72)**	**(72)**
Disposals	**(295)**	**(82)**	**(377)**
At 31 December 2015	**5,909**	**23,546**	**29,455**
Accumulated depreciation			
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 1 January 2015	**2,751**	**17,728**	**20,479**
Acquisitions	**3**	**246**	**249**
Charge for year	**164**	**987**	**1,151**
Exchange movements	**–**	**(35)**	**(35)**
Disposals	**–**	**(80)**	**(80)**
At 31 December 2015	**2,918**	**18,846**	**21,764**
Carrying amount			
At 31 December 2015	**2,991**	**4,700**	**7,691**
At 31 December 2014	3,235	4,210	7,445

The main components of property, plant and equipment are:

(i) Three 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 all categorised under the combined heading of plant and equipment.

The carrying value of £7,691,000 (2014 – £7,445,000) includes £1,410,000 (2014 – £726,000) of assets held under finance leases. Depreciation charged in respect of these assets is £123,000 (2014 – £81,000).

	2015 £000	2014 £000
Land and buildings at net book value comprise:		
Freeholds	**1,664**	1,686
Long leaseholds	**1,219**	1,470
Short leaseholds	**108**	79
	2,991	3,235

11. Subsidiary companies

A list of principal operating subsidiaries, including names and countries of incorporation is given on page 87.

12. Inventories

	2015 £000	2014 £000
Raw materials and consumables	**399**	527
Work in progress	**181**	284
Finished goods and goods for resale	**9,979**	8,852
	10,559	9,663

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	2015 £000	2014 £000
At 1 January	**718**	650
Acquisitions	**2**	5
Inventory write offs recognised in the income statement	**56**	373
Amounts written off during the year	**(67)**	(310)
At 31 December	**709**	718

13. Trade and other receivables

	2015 £000	2014 £000
Current		
Trade receivables	**37,521**	34,624
Allowance for doubtful receivables	**(386)**	(357)
	37,135	34,267
Other receivables	**3,921**	3,673
Prepayments and accrued income	**2,182**	2,058
	43,238	39,998
Non-current		
Other receivables	**559**	659

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 (2014 – 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 2015 or 31 December 2014.

Notes to the financial statements (continued)

For the year ended 31 December 2015

13. Trade and other receivables (continued)

Included in the Group's trade receivables balance are debtors with a carrying amount of £11,153,000, (2014 – £9,688,000) 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 18 days (2014 – 17 days).

Ageing of past due but not impaired receivables	2015 £000	2014 £000
30 – 60 days	**6,058**	5,046
60 – 90 days	**3,936**	3,605
Over 90 days	**1,159**	1,037
	11,153	9,688

Amounts presented in the balance sheet are net of allowances for doubtful trade receivables of £386,000 (2014 – £357,000), 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	2015 £000	2014 £000
At 1 January	**357**	340
Acquisitions	**15**	8
Impairment losses recognised in the income statement	**155**	85
Amounts written off as uncollectible	**(141)**	(76)
At 31 December	**386**	357

The Directors consider that the carrying amount 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 objective is to achieve a capital structure with an appropriate cost of capital whilst providing flexibility in immediate and medium-term funding 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 2015. 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 liquidity requirements are met by ensuring adequate access to funds by maintaining appropriate levels of committed banking facilities, which are then reviewed on a regular basis. The Group bank borrowing facilities with Lloyds Banking Group PLC have now been increased to £25.0 million with an additional option to increase them further to £30.0 million. The facilities are now available until June 2019. The facilities bear interest at normal commercial rates and carry standard financial covenants in relation to interest cover and levels of headroom over the trade receivables of the Company. The maturity profile of debt outstanding at 31 December 2015 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. It was not considered necessary to cover current interest rate exposures by the use of financial instruments during 2015.

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 £70,000 (2014 – £65,000).

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 2015 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 Sterling value of foreign currency denominated assets and liabilities at the reporting date is as follows:

	Assets 2015 £000	Assets 2014 £000	Liabilities 2015 £000	Liabilities 2014 £000
Euros	**1,439**	1,393	**505**	592
Swedish Krone	**615**	818	**227**	355
	2,054	2,211	**732**	947

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

	2015 £000	2014 £000
Euros	**173**	15
Swedish Krone	**225**	430
	398	445

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 2015 £000	Result 2014 £000	Other Equity 2015 £000	Other Equity 2014 £000
Euros	**9**	1	**47**	40
Swedish Krone	**11**	21	**19**	23
	20	22	**66**	63

Cash and cash equivalents	2015 £000	2014 £000
Currency		
Sterling	**955**	943
Euros	**444**	185
Swedish Krone	**8**	122
Cash and cash equivalents	**1,407**	1,250
Bank borrowings and loans		
Borrowings – Sterling	**13,039**	11,349
Bank borrowings and loans	**13,039**	11,349
Net bank indebtedness	**11,632**	10,099

Notes to the financial statements (continued)

For the year ended 31 December 2015

14. Financial instruments (continued)

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.

In February 2014, the Group bank borrowing arrangement with Lloyds Banking Group PLC, which comprises a three-year committed borrowing facility of up to £20 million, was put in place until February 2017. These facilities have now been increased to £25.0 million with an additional option to increase them further to £30.0 million. The facilities are now available until June 2019. The facilities bear interest at normal commercial rates and carry standard financial covenants in relation to interest cover and levels of headroom over the trade debtors of the Company.

Interest rates

All Group deposits and borrowings are held at floating rates of interest. The average effective interest rate on bank borrowings approximates to 3.3% per annum (2014 – 3.4%).

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 2015 all materially equate to book values.

Borrowing facilities

The Group has various committed undrawn borrowing facilities available at 31 December 2015, in respect of which all conditions precedent had been met, as follows:

	2015 £000	2014 £000
Drawn down	**13,039**	11,349
Undrawn	**7,861**	9,151
	20,900	20,500

The Group's borrowing profile is as follows:	2015 £000	2014 £000
At Amortised cost		
Bank borrowings – secured	**13,039**	11,349
Finance lease liabilities – secured	**388**	155
Current borrowings	**13,427**	11,504
Non-current – finance lease liabilities – secured	**738**	478
Total borrowings	**14,165**	11,982

The principal Group borrowing facilities of £20.0 million at 31 December 2015 are with Lloyds Banking Group PLC and there are two smaller facilities totalling £0.9 million, inherited as part of the acquisitions completed in 2014 and 2015.

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

Gearing ratio	2015 £000	2014 £000
Total borrowings (as defined above)	**14,165**	11,982
Equity	**33,472**	30,246
Net debt to equity ratio	**42%**	40%

Financial instruments carried at fair value

IFRS 7 requires that all financial instruments carried at fair value be analysed under certain levels. The table below analyses financial instruments, into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

Financial assets designated as fair value through profit or loss (note 15)	Carrying Amount 2015 £000	Fair Value 2015 £000	Level 1 2015 £000	Level 2 2015 £000	Level 3 2015 £000	Carrying Amount 2014 £000	Fair Value 2014 £000	Level 1 2014 £000	Level 2 2014 £000	Level 3 2014 £000
Contingent consideration	**2,063**	**2,063**	**–**	**–**	**2,063**	2,812	2,812	–	–	2,812

The following table shows the valuation techniques used for Level 3 fair values, as well as the significant unobservable inputs used for Level 3 items:

Financial instruments measured at fair value	Valuation technique	Significant unobservable inputs (Level 3 only)
Contingent consideration	The expected payment reflects the calculated cash out flows under possible earn out scenarios and is not discounted	Trading performance of acquired businesses

15. Trade and other payables

	2015 £000	2014 £000
Due within one year		
Trade payables	**30,690**	29,473
Other taxation and social security	**2,845**	2,473
Contingent consideration	**2,063**	1,487
Other creditors	**226**	37
Accruals and deferred income	**5,473**	4,096
	41,297	37,566
Due after more than one year		
Contingent consideration	**–**	1,325
Other creditors	**40**	43
	40	1,368

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

	2015 £000	2014 £000
Due within one year		
At 1 January	**52**	82
Credited to consolidated income statement	**(20)**	(30)
Paid in the year	**(32)**	–
At 31 December	**–**	52

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.

Notes to the financial statements (continued)

For the year ended 31 December 2015

17. Finance lease liabilities

	2015 £000	2014 £000
Amounts payable under finance leases		
Due within one year	**388**	155
Due between one and two years	**432**	150
Due from the third to fifth years inclusive	**306**	328
Present value of finance lease liabilities	**1,126**	633
Due for settlement within 12 months (shown within current liabilities)	**(388)**	(155)
Due for settlement after more than 12 months (shown as non-current liabilities)	**738**	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 three years and the average effective borrowing rate is 2.50% per annum (2014 – 3.25%). 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	Other Intangible Assets £000	Retirement Benefit Obligations £000	Total £000
At 1 January 2014	449	(253)	3,179	3,375
Acquisition (see note 22)	(2)	(856)	–	(858)
(Charged)/credited in income statement	27	86	(952)	(839)
Credited in other comprehensive income				
Deferred tax on remeasurement of pension scheme liability	–	–	548	548
At 1 January 2015	**474**	**(1,023)**	**2,775**	**2,226**
Acquisition (see note 22)	**–**	**(249)**	**–**	**(249)**
Credited/(charged) in income statement	**(41)**	**277**	**(451)**	**(215)**
(Charged) in other comprehensive income				
Deferred tax on remeasurement of pension scheme liability	**–**	**–**	**(22)**	**(22)**
Long-term corporation tax rate change	**–**	**–**	**(229)**	**(229)**
At 31 December 2015	**433**	**(995)**	**2,073**	**1,511**
2015				
Deferred tax asset				
Due outwith one year	**426**	**–**	**2,073**	**2,499**
Deferred tax liabilities				
Due outwith one year	**7**	**(995)**	**–**	**(988)**
	433	**(995)**	**2,073**	**1,511**
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

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2015 has been calculated based on these rates.

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

19. Share capital

	Number of 25p Shares	2015 £000	2014 £000
Allotted, issued and fully paid:			
At 1 January	124,611,360	**31,153**	28,755
Issued during the year	–	**–**	2,398
At 31 December	124,611,360	**31,153**	31,153

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.

20. Reserves

	Share Premium £000	Revaluation Reserve £000	Own Shares £000	Translation Reserve £000	Retained Earnings £000
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 1 January 2015	**1,018**	**70**	**–**	**121**	**(2,116)**
Profit for the year	**–**	**–**	**–**	**–**	**5,450**
Dividends paid (see note 7)	**–**	**–**	**–**	**–**	**(2,094)**
Foreign currency translation differences – foreign operations	**–**	**–**	**–**	**(62)**	**–**
Credit for share-based payments	**–**	**–**	**–**	**–**	**72**
Remeasurement of pension scheme liability taken direct to equity	**–**	**–**	**–**	**–**	**111**
Deferred tax taken direct to equity	**–**	**–**	**–**	**–**	**(22)**
Tax on remeasurement					
Long-term Corporation tax rate change	**–**	**–**	**–**	**–**	**(229)**
Balance at 31 December 2015	**1,018**	**70**	**–**	**59**	**1,172**

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 2015 relates wholly to continuing operations.

Notes to the financial statements (continued)

For the year ended 31 December 2015

21. Notes to the cash flow statement

	2015 £000	2014 £000
Operating profit before exceptional items	**7,702**	6,646
Adjustments for:		
Amortisation of intangible assets	**826**	428
Depreciation of property, plant and equipment	**1,151**	1,020
Loss/(gain) on disposal of property, plant and equipment	**34**	(8)
Operating cash flows before movements in working capital	**9,713**	8,086
Increase in inventories	**(546)**	(1,194)
Increase in receivables	**(2,042)**	(4,119)
Increase in payables	**2,178**	4,163
Decrease in provisions	**(32)**	–
Pension scheme contributions (excluding additional contribution in 2014)	**(2,682)**	(2,854)
Cash generated by operations	**6,589**	4,082
Income taxes paid	**(724)**	(793)
Interest paid	**(497)**	(446)
Net cash inflow from operating activities	**5,368**	2,843

	2015 £000	2014 £000
Movement in net debt		
Increase in cash and cash equivalents in the year	**157**	1,132
Decrease in bank loans	**–**	6,000
Increase in bank borrowings	**(1,690)**	(11,349)
New finance lease facilities	**(813)**	(683)
Cash flows from payment of finance lease liabilities	**320**	83
Movement in net debt in the year	**(2,026)**	(4,817)
Opening net debt	**(10,732)**	(5,915)
Closing net debt	**(12,758)**	(10,732)
Net debt comprises:		
Cash and cash equivalents in statement of cash flows	**1,407**	1,250
Bank borrowings	**(13,039)**	(11,349)
Net bank debt	**(11,632)**	(10,099)
Finance lease liabilities		
Due within one year	**(388)**	(155)
Due outwith one year	**(738)**	(478)
Closing net debt	**(12,758)**	(10,732)

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.

22. Acquisition of subsidiary companies

On 5 August 2015, the Group acquired 100% of the issued share capital of One Packaging Limited, a packaging distributor, for a consideration of approximately £2,730k. £1,980k was paid in cash on acquisition, with contingent consideration payable in the final quarter of 2016, subject to certain trading targets being met in the year to 31 July 2016. The contingent consideration is recognised as a liability at the balance sheet date and is remeasured to fair value at the balance sheet date on a range of outcomes between £Nil and £750k.

During 2014 the Group acquired 100% of the issued share capital of PSD Industrial Holdings Limited, the immediate parent company of Lane Packaging Limited and 100% of the issued share capital of Network Packaging Limited. The final earnout payment of £246k for Lane Packaging was made in the first half of 2015, with an additional £83k of goodwill paid. The full earnout of £1,312k for the first of the two earnout years for Network Packaging was paid in the final quarter of 2015.

All three 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:

	2015 Total £000	2014 Total £000	Lane Packaging £000	Network Packaging £000
Net assets acquired				
Other intangible assets (note 9)	**1,238**	4,280	663	3,617
Property, plant and equipment	**168**	195	76	119
Inventories	**350**	538	72	466
Trade and other receivables	**1,098**	2,219	453	1,766
Cash and bank balances	**–**	432	–	432
Bank loans and overdrafts	**(403)**	(532)	(532)	–
Trade and other payables	**(974)**	(2,315)	(681)	(1,634)
Current tax liabilities	**–**	(312)	(16)	(296)
Finance lease liabilities	**(59)**	(141)	(56)	(85)
Deferred tax liabilities	**(249)**	(858)	(133)	(725)
Net assets/(liabilities) acquired	**1,169**	3,506	(154)	3,660
Goodwill arising on acquisition (note 9)	**1,644**	4,858	1,001	3,857
Total consideration	**2,813**	8,364	847	7,517
Satisfied by:				
Cash	**3,538**	4,951	684	4,267
Deferred consideration 2015 acquisition	**750**	–	–	–
Deferred consideration 2014 acquisitions	**(1,475)**	2,788	163	2,625
Shares	**–**	625	–	625
Total consideration	**2,813**	8,364	847	7,517
Net cash outflow arising on acquisition				
Cash consideration	**(3,538)**	(4,951)	(684)	(4,267)
Cash and bank balances acquired	**–**	432	–	432
Bank loans and overdrafts assumed	**(403)**	(532)	(532)	–
	(3,941)	(5,051)	(1,216)	(3,835)

Notes to the financial statements (continued)

For the year ended 31 December 2015

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 most of 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 2015 £000	Other 2015 £000	Land and Buildings 2014 £000	Other 2014 £000
Charge for the year	**4,277**	**2,755**	4,340	2,677
Recoveries from property sub-leases	**(548)**	**–**	(509)	–
Net charge for the year	**3,729**	**2,755**	3,831	2,677

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 2015 £000	Other 2015 £000	Land and Buildings 2014 £000	Other 2014 £000
Within one year	**4,341**	**2,750**	4,429	2,675
Between one and five years	**11,599**	**4,663**	13,014	5,396
After more than five years	**5,217**	**37**	6,417	137
	21,157	**7,450**	23,860	8,208

The majority of the 28 (2014 – 28) leases of land and buildings summarised above are subject to rent reviews. 4 (2014 – 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 2015 £000	Land and Buildings 2014 £000
Within one year	**538**	512
Between one and five years	**1,684**	1,963
After more than five years	**10**	414
	2,232	2,889

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 £2.3 million, (2014 – £2.7 million) being the difference between head lease and sub-lease payments from 1 January 2016 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 £Nil (2014 – £109,000).

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 or based on Limited Price Indexation (LPI) for certain defined periods of service.

During 2012, Macfarlane Group PLC agreed with the Board of Trustees 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 2016.

Balance sheet disclosures at 31 December 2015

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 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 2015 £000	Asset Allocation	Valuation 2014 £000	Asset Allocation	Valuation 2013 £000	Asset Allocation
Equities						
UK equities and equity funds	**6,030**	8.9%	5,677	8.4%	5,790	10.7%
Overseas equities funds	**10,758**	15.9%	10,216	15.0%	9,289	17.1%
Multi-asset diversified funds	**25,476**	37.6%	18,541	27.3%	16,414	30.3%
Bonds						
Liability-driven investment funds	**14,107**	20.8%	22,195	32.6%	–	–
Government gilt funds	**–**	–	–	–	13,046	24.0%
Corporate bond funds	**11,119**	16.4%	11,263	16.6%	9,488	17.5%
Other						
Cash	**303**	0.4%	98	0.1%	211	0.4%
Fair value of scheme assets	**67,793**	100.0%	67,990	100.0%	54,238	100.0%
Present value of scheme liabilities	**(79,311)**		(81,863)		(70,134)	
Deficit in the scheme	**(11,518)**		(13,873)		(15,896)	

Notes to the financial statements (continued)

For the year ended 31 December 2015

24. Retirement benefit obligations (continued)

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.

Assumptions

The scheme's liabilities at 31 December 2015 were calculated on the following bases as required under IAS 19:

	2015	2014	2013
Discount rate	**3.70%**	3.50%	4.50%
Rate of increase in salaries	**0.00%**	0.00%	0.00%
Rate of increase in pensions in payment	**3% or 5% for fixed increases or 3.00% for LPI. 2.10% post 5 April 2006**	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
Inflation assumption (RPI)	**3.10%**	3.00%	3.40%
Inflation assumption (CPI)	**2.10%**	2.10%	2.50%
Life expectancy beyond normal retirement age of 65			
Male	**22.7**	22.7	22.6
Female	**25.3**	25.1	25.1

Sensitivity to significant assumptions

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

	2015 £000	2014 £000	2013 £000
Discount rate movement of +0.1%	**1,142**	1,285	1,192
Inflation rate movement of +0.1%	**(404)**	(393)	(281)
Mortality movement of +0.1 year in age rating	**214**	295	231

Positive figures reflect a reduction in the scheme liabilities and therefore a reduction in the scheme deficit.

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

It is set out in this manner to enable calculations of larger movements to be undertaken relatively easily.

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

All of the sensitivity information assumes that the average duration of liabilities in the scheme is seventeen years.

Funding

UK pension legislation requires that pension schemes are funded prudently. Following the 2014 actuarial valuation, the scheme's trustees agreed to a deficit recovery period of 10 years. Macfarlane Group PLC is currently paying deficit reduction contributions of £2,650,000 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 2016 will be £2,800,000.

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.

Movement in the scheme deficit in the year	2015 £000	2014 £000
At 1 January	**(13,873)**	(15,896)
Current service costs	**(152)**	(126)
Contributions from sponsoring companies	**2,834**	5,480
Net finance cost	**(438)**	(594)
Remeasurement of pension scheme liability in the year	**111**	(2,737)
At 31 December	**(11,518)**	(13,873)
Analysis of amounts charged to profit before tax		
Current service costs	**(152)**	(126)
Net finance cost	**(438)**	(594)
Pension expense charged to profit before tax	**(590)**	(720)

Analysis of the remeasurement of pension scheme liability as included in the statement of other comprehensive income	2015 £000	2014 £000
Return on scheme assets excluding amount shown in interest income	**(1,658)**	9,184
Changes in assumptions underlying the present value of scheme liabilities	**1,769**	(11,921)
Remeasurement of pension scheme liability recognised in the statement of other comprehensive income	**111**	(2,737)
Movement in the fair value of scheme assets		
At 1 January	**67,990**	54,238
Interest income	**2,364**	2,488
Return on scheme assets excluding amount shown in interest income	**(1,658)**	9,184
Contributions from sponsoring companies	**2,834**	5,480
Contribution from scheme members	**84**	79
Benefits paid	**(3,821)**	(3,479)
At 31 December	**67,793**	67,990
Movement in the present value of defined benefit obligations		
At 1 January	**(81,863)**	(70,134)
Normal service costs	**(152)**	(126)
Interest cost	**(2,802)**	(3,082)
Contribution from scheme members	**(84)**	(79)
Changes in assumptions underlying the defined benefit obligations	**1,769**	(11,921)
Benefits paid	**3,821**	3,479
At 31 December	**(79,311)**	(81,863)

The total of £1,769,000, (2014 – £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 £16,096,000 (2014 – £16,207,000).

Notes to the financial statements (continued)

For the year ended 31 December 2015

24. Retirement benefit obligations (continued)

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

	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Present value of defined benefit obligations	**(79,311)**	(81,863)	(70,134)	(70,247)	(67,452)
Fair value of scheme assets	**67,793**	67,990	54,238	51,349	46,968
Deficit in the scheme	**(11,518)**	(13,873)	(15,896)	(18,898)	(20,484)
Actual return on scheme assets					
Amount	**706**	11,672	3,710	4,307	2,430
Percentage of scheme assets	**1.0%**	17.2%	6.8%	8.4%	5.3%
Experience adjustment on scheme liabilities					
Amount	**1,769**	(11,921)	(292)	(3,827)	(5,915)
Percentage of scheme liabilities	**2.2%**	(14.6%)	(0.4%)	(5.4%)	(8.8%)
Experience adjustment on scheme assets					
Amount	**(1,658)**	9,184	1,469	2,051	(517)
Percentage of scheme assets	**(2.4%)**	13.5%	2.7%	4.0%	(1.1%)

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 £920,000 (2014 – £794,000). Contributions from the company and employees amounting to £58,000 (2014 – £61,000) were payable to the plans and are included in creditors at the balance sheet date.

25. Share-based payments

Equity-settled long-term incentive plans

The Group provides long-term incentive plans under The Macfarlane Group PLC Long Term Incentive Plan.

Long Term Incentive Plan Awards Movements during the year:	Exercise Date	Number of Shares 2015
Granted during the year	**7 May 2018**	1,135,280
Outstanding at 31 December		1,135,280

A nominal-cost option award was granted under The Macfarlane Group PLC Long Term Incentive Plan on 8 May 2015 based on 100% of salary. The performance condition requires EPS in 2017 to be 5.75p – 6.53p for 25% – 100% of this part of the award to vest, working on a straight-line basis. The awards are also subject to positive Total Shareholder Return and the achievement of certain sales levels over the performance period. No re-setting of the award is allowed.

The vesting period is three years and no awards were exercisable at 31 December 2015. Awards are forfeited if the employee leaves the Group before they vest.

The Group recognised an expense of £72,000 (2014 – £Nil) in 2015 relating to equity-settled long-term incentive plan awards. The fair value at 31 December 2015 was £72,000 (2014 – £Nil).

Inputs to the binomial model giving rise to a charge are as follows:	2015
Weighted average share price	**29.43p**
Weighted average exercise price	**Nil**
Expected volatility	**23.50%**
Risk free rate	**0.79%**
Expected annual dividend yield	**3.86%**

2014 Share options

The movements on share options during the year are as follows:	Number of Shares 2014
Outstanding at 1 January	551,372
Exercised during the year	(551,372)
Outstanding at 31 December	–

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.

26. Related party transactions

The Group has related party relationships with

(i) its subsidiaries (see page 87);
(ii) its Directors who comprise the Group Board; and
(iii) 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".

	2015 £000	2014 £000
Directors' Remuneration	**879**	945
Employer's national insurance contributions	**121**	127
	1,000	1,072

Further details of Directors' individual and collective remuneration are set out in the Report on Directors' Remuneration on page 27. Details of Directors' shareholdings in the Company are also shown on page 28 and total dividends of £38,000 were paid in respect of these shareholdings in 2015 (2014 £34,000).

Disclosures in relation to the pension schemes are set out in note 24.

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

Company balance sheet

at 31 December 2015

	Note	2015 £000	2014 £000
Non-current assets			
Tangible fixed assets	28	**39**	40
Investments	29	**32,394**	29,942
Deferred tax asset	30	**829**	1,138
Debtors	31	**8,381**	10,674
		41,643	41,794
Current assets			
Debtors	31	**4,348**	4,567
Cash at bank and in hand		**3**	53
Total current assets		**4,351**	4,620
Creditors – amounts falling due within one year	32	**(3,272)**	(1,876)
Net current assets		**1,079**	2,744
Total assets less current liabilities		**42,722**	44,538
Creditors – amounts falling due after more than one year	33	**(940)**	(3,150)
Net assets excluding pension liability		**41,782**	41,388
Pension liability	39	**(4,607)**	(5,688)
Net assets		**37,175**	35,700
Capital and reserves			
Share capital	34	**31,153**	31,153
Share premium	35	**1,018**	1,018
Profit and loss account	35	**5,004**	3,529
Shareholders' funds	36	**37,175**	35,700

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 25 February 2016 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 2015

27. Significant accounting policies

Macfarlane Group PLC is a company incorporated and domiciled in the UK.

These accounts are the first set of accounts prepared by the company in compliance with FRS 101. In the transition from UK GAAP to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position and the financial performance of the Company is provided in note 40 on pages 84 to 86.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemption has been taken in these financial statements:

(i) Fair value or revaluation as deemed cost – At 1 January 2014, fair value has been used as deemed cost for properties previously measured at fair value.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

(i) Cash flow statement and related notes;
(ii) Comparative period reconciliations for share capital and tangible fixed assets;
(iii) Disclosures in respect of transactions with wholly owned subsidiaries;
(iv) The effects of new but not yet effective IFRSs; and
(v) Disclosures in respect of the compensation of Key Management Personnel.

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 a prudent assessment of the market and past experience. Additional details are set out on page 48. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the next twelve months. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Application of accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the preparation of these financial statements and in preparing an opening FRS 101 balance sheet at 1 January 2014 for the purposes of transition to FRS 101.

The financial statements are prepared on the historical cost basis except that certain of the following assets and liabilities are stated at their fair value.

Tangible fixed assets

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. No depreciation is provided on land. Depreciation is calculated at fixed rates on a straight-line basis to write off the cost or valuation of the assets to their estimated residual values over the period of their expected useful lives. The rates of depreciation vary between 2% – 5% per annum on property and 7% – 25% 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.

Investments

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

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

Notes to the Company financial statements (continued)

For the year ended 31 December 2015

27. Significant accounting policies (continued)

Leases

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.

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the term of the relevant lease.

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 Company 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 Company.

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, 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 income statement, which are initially measured at fair value.

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

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 and other debtors 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.

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 are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

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 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 were not used in the current or preceding financial year.

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 profit and loss account 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 profit and loss account, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also recorded in the statement of other comprehensive income.

Deferred tax assets and liabilities are not discounted.

Retirement benefit costs

The Company is a member of the Group's defined contribution pension plans, which are available to all staff. It also has a defined benefit scheme, which has been closed to new members since 2002.

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed rate contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The amount recognised as an expense in the profit and loss account represents the contributions payable to the plans in respect of the accounting period. The assets of the plans are held separately from those of the Group in an independently administered fund.

Defined benefit scheme

The Company is a member of the Group's defined benefit scheme which provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group.

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. Gains and losses on remeasurement are recognised in full in the period in which they occur in the statement of comprehensive income.

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 estimated average period until the benefits become vested.

IAS19 "Retirement Benefits" has been adopted in full in these financial statements. 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.

28. Tangible fixed assets

	Land and Buildings £000	Plant and Equipment £000	Total £000
Cost			
At 1 January 2015 and 31 December 2015	**15**	**305**	**320**
Depreciation			
At 1 January 2015	**12**	**268**	**280**
Charge for year	**1**	**–**	**1**
At 31 December 2015	**13**	**268**	**281**
Net book value			
At 31 December 2015	**2**	**37**	**39**
At 31 December 2014	3	37	40

The parent company had no assets held under finance leases in 2015 or in 2014.

Notes to the Company financial statements (continued)

For the year ended 31 December 2015

29. Investments

	2015 £000	2014 £000
Investment in subsidiaries at cost		
At 1 January	**29,942**	27,411
Additions	**2,732**	7,517
Disposals	**(280)**	–
Group transfers	**–**	(4,986)
At 31 December	**32,394**	29,942

Details of the principal operating subsidiaries are set out on page 87.

On 5 August 2015, the Company acquired 100% of the issued share capital of One Packaging Limited for a consideration of £2,732,000. £1,982,000 was paid in cash on acquisition. The remainder, £750,000, comprises contingent consideration, which will become payable in the final quarter of 2016 and is shown in creditors.

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. Of the contingent consideration of £2,625,000, one half was paid in September 2015 and the remainder is payable in the final quarter of 2016 and is shown in creditors.

During 2015, the Company made applications to strike off two of its long-standing, dormant subsidiary companies, which were treated as disposals in the year.

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

30. Deferred tax asset

	2015 £000	2014 £000
Deferred tax on pension scheme deficit		
At 1 January	**1,138**	1,303
Charged to reserves	**(269)**	(16)
Charged to profit and loss account	**(40)**	(149)
At 31 December	**829**	1,138

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

31. Debtors

	2015 £000	2014 £000
Due within one year		
Amounts owed by subsidiary undertakings	**3,000**	3,000
Other receivables	**577**	699
Prepayments and accrued income	**438**	498
Deferred tax asset (see below)	**333**	370
	4,348	4,567
Deferred tax asset		
Corporation tax losses		
At 1 January	**370**	331
(Charged)/credited to profit and loss account	**(37)**	39
At 31 December	**333**	370

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

	2015 £000	2014 £000
Due after more than one year		
Amounts owed by subsidiary undertakings	**8,381**	10,674

32. Creditors – amounts falling due within one year

	2015 £000	2014 £000
Bank borrowings	**445**	–
Trade creditors	**298**	281
Other taxation and social security	**37**	35
Contingent consideration	**2,063**	1,312
Corporation tax	**146**	–
Accruals and deferred income	**283**	248
	3,272	1,876

In February 2014, the Company became a party to the Group bank borrowing facilities with Lloyds Banking Group PLC, which comprised a three-year committed borrowing facility of up to £20 million, in place until February 2017. These facilities have now been increased to £25.0 million with an additional option to increase them further to £30.0 million. The facilities are now available until June 2019, bear interest at normal commercial rates and carry standard financial covenants in relation to interest cover and levels of headroom over the trade debtors of the Company.

The Company and certain subsidiaries have given inter-company guarantees to secure the drawdown on these facilities. The drawdown at 31 December 2015 by the subsidiary company, Macfarlane Group UK Limited amounted to £12.5 million.

33. Creditors – amounts falling due after more than one year

	2015 £000	2014 £000
Contingent consideration	**–**	1,313
Amounts owed to subsidiary undertakings	**940**	1,837
	940	3,150

34. Share capital

	Number of 25p Shares	2015 £000	2014 £000
Allotted, issued and fully paid:			
At 1 January	124,611,360	**31,153**	28,755
Issued during the year	–	**–**	2,398
At 31 December	124,611,360	**31,153**	31,153

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 Company financial statements (continued)

For the year ended 31 December 2015

35. Reserves

	Share Premium £000	Own Shares £000	Profit and Loss Account £000	Total £000
Balance at 1 January 2015	–	(311)	2,694	2,383
Profit for the year	–	–	2,591	2,591
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	–	–	300	300
Balance at 1 January 2015	**1,018**	**–**	**3,529**	**4,547**
Profit for the year	**–**	**–**	**2,887**	**2,887**
Dividends paid (see note 7)	**–**	**–**	**(2,094)**	**(2,094)**
Credit for share-based payments (see note 38)	**–**	**–**	**72**	**72**
Post tax actuarial gain in pension scheme taken direct to reserves	**–**	**–**	**610**	**610**
Balance at 31 December 2015	**1,018**	**–**	**5,004**	**6,022**

The Company's Employee Share Ownership Trust (ESOT) no longer holds any ordinary shares in Macfarlane Group PLC following the exercise of the share option during 2014.

36. Reconciliation of movements in shareholders' funds

	2015 £000	2014 £000
Profit for the year	**2,887**	2,591
Dividends to equity holders in the year	**(2,094)**	(1,888)
Post tax actuarial gain in pension scheme taken direct to equity	**610**	300
Credit for share-based payments	**72**	–
Exercise of share options	**–**	143
Issue of new shares (net of issue expenses)	**–**	3,416
Movements in shareholders' funds in the year	**1,475**	4,562
Opening shareholders' funds	**35,700**	31,138
Closing shareholders' funds	**37,175**	35,700

37. Operating profit

		2015 £000	2014 £000
Operating profit for the parent company has been arrived at after charging:			
Auditor's remuneration	Audit services	**13**	16
	Non-audit services	**15**	14

	2015 No.	2014 No.
Staff costs		
The average monthly number of employees was:		
Administration	**11**	11

	2015 £000	2014 £000
The costs incurred in respect of these employees were:		
Wages and salaries	**1,098**	1,000
Social security costs	**141**	128
Other pension costs	**28**	28
	1,267	1,156

38. Share-based payments

Equity-settled long-term incentive plans

The Group provides long-term incentive plans under The Macfarlane Group PLC Long Term Incentive Plan.

Long Term Incentive Plan Awards Movements during the year:	Exercise Date	Number of Shares 2015
Granted during the year	**7 May 2018**	1,135,280
Outstanding at 31 December		1,135,280

A nominal-cost option award was granted under The Macfarlane Group PLC Long Term Incentive Plan on 8 May 2015 based on 100% of salary. The performance condition requires EPS in 2017 to be 5.75p – 6.53p for 25% – 100% of this part of the award to vest, working on a straight-line basis. The awards are also subject to positive Total Shareholder Return and the achievement of certain sales levels over the performance period. No re-setting of the award is allowed.

The vesting period is three years and no awards were exercisable at 31 December 2015. Awards are forfeited if the employee leaves the Group before they vest.

The Group recognised an expense of £72,000 (2014 – £Nil) in 2015 relating to equity-settled long-term incentive plan awards. The fair value at 31 December 2015 was £72,000 (2014 – £Nil).

Inputs to the binomial model giving rise to a charge are as follows:	2015
Weighted average share price	**29.43p**
Weighted average exercise price	**Nil**
Expected volatility	**23.50%**
Risk free rate	**0.79%**
Expected annual dividend yield	**3.86%**

Equity-settled share option schemes

2014 Share options

The movements on share options during the year are as follows:	Number of Shares 2014
Outstanding at 1 January	551,372
Exercised during the year	(551,372)
Outstanding at 31 December	–

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.

Notes to the Company financial statements (continued)

For the year ended 31 December 2015

39. Pension liability

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 or based on Limited Price Indexation (LPI) for certain defined periods of service.

During 2012, Macfarlane Group PLC agreed with the Board of Trustees 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 2016.

Balance sheet disclosures at 31 December 2015

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 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 2015 £000	Valuation 2014 £000	Valuation 2013 £000
Equities	**6,716**	6,516	6,183
Bonds	**4,448**	4,617	9,240
Liability-driven investment funds	**5,642**	9,100	–
Multi-asset diversified funds	**10,190**	7,602	6,729
Cash	**122**	41	86
Fair value of scheme assets	**27,118**	27,876	22,238
Present value of scheme liabilities	**(31,725)**	(33,564)	(28,755)
Deficit in the scheme	**(4,607)**	(5,688)	(6,517)

The scheme's liabilities at 31 December 2015 were calculated on the following bases as required under FRS17:

Assumptions	2015	2014	2013
Discount rate	**3.70%**	3.50%	4.50%
Rate of increase in salaries	**0.00%**	0.00%	0.00%
Rate of increase in pensions in payment	**3% or 5% for fixed increases or 3.00% for LPI. 2.10% post 5 April 2006**	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
Inflation assumption (RPI)	**3.10%**	3.00%	3.40%
Inflation assumption (CPI)	**2.10%**	2.10%	2.50%
Life expectancy beyond normal retirement age of 65			
Male	**22.7**	22.7	22.6
Female	**25.3**	25.1	25.1

Movement in The scheme deficit in the year	2015 £000	2014 £000
At 1 January	**(5,688)**	(6,517)
Current service cost	**(20)**	(15)
Contributions	**397**	713
Other financial charges	**(175)**	(243)
Remeasurement of pension scheme liability in the year	**879**	374
At 31 December	**(4,607)**	(5,688)
Analysis of amounts charged to operating profit		
Current service cost	**(20)**	(15)
Analysis of amounts charged to net finance costs		
Expected return on pension scheme assets	**946**	1,021
Interest cost of pension scheme liabilities	**(1,121)**	(1,264)
Other financial charges	**(175)**	(243)
Analysis of the remeasurement of the pension scheme liability		
Actual return less expected return on scheme assets	**(585)**	5,320
Changes in assumptions underlying the present value of the scheme's liabilities	**1,464**	(4,946)
Remeasurement of pension scheme liability	**879**	374

	2015 £000	2014 £000
Movement in the fair value of scheme assets		
At 1 January	**27,876**	22,238
Expected return on scheme assets	**946**	1,021
Actual return less expected return on scheme assets	**(585)**	5,320
Contributions paid by Company	**397**	713
Contribution from scheme members	**12**	15
Benefits paid	**(1,528)**	(1,431)
At 31 December	**27,118**	27,876
Movement in the present value of defined benefit obligations		
At 1 January	**(33,564)**	(28,755)
Service costs	**(20)**	(15)
Interest costs	**(1,121)**	(1,264)
Contribution from scheme members	**(12)**	(15)
Actuarial gain/(loss) in the year	**1,464**	(4,946)
Benefits paid	**1,528**	1,431
At 31 December	**(31,725)**	(33,564)

Notes to the Company financial statements (continued)

For the year ended 31 December 2015

39. Pension liability (continued)

The cumulative remeasurement of the pension liability applied against reserves since the transition to IAS 19 on 1 January 2004 is £2,324,000 (2014 – £3,203,000).

	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Present value of defined benefit obligations	**(31,725)**	(33,564)	(28,755)	(28,801)	(27,654)
Fair value of scheme assets	**27,118**	27,876	22,238	21,053	19,256
Deficit in the scheme	**(4,607)**	(5,688)	(6,517)	(7,748)	(8,398)
Return on scheme assets	**361**	6,341	2,340	2,481	(1,722)
Percentage of scheme assets	**1.3%**	22.7%	10.5%	11.8%	(8.9%)
Experience adjustment on scheme assets	**(585)**	5,320	1,176	1,380	(2,930)
Percentage of scheme assets	**(2.2%)**	19.0%	5.3%	6.6%	(15.2%)
Experience adjustment on scheme liabilities	**1,464**	(4,946)	(184)	(1,630)	2,205
Percentage of scheme liabilities	**4.6%**	(14.7%)	(0.6%)	(5.7%)	8.0%

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 £3,000 (2014 – £4,000) with no contributions from the company and employees payable to the plan at the balance sheet date.

40. Explanation of transition to FRS 101

This is the first year that the Group has presented the Company financial statements under FRS 101. The following disclosures are required in the year of transition.

The last financial statements under UK GAAP were for the year ended 31 December 2014 and the date of transition was therefore 1 January 2014. The only major impact on the reported results is described below.

The application of IAS19 (R) impacts the measurement of the various components of the movements in the pension liability and associated disclosures, but not the Company's total pension liability. Following the replacement of expected returns on pension scheme assets with a net finance cost in the profit and loss account, the profit for the year ended 31 December 2014 reduces and accordingly other comprehensive income increases.

In 2014, the effect is to increase the interest expense on retirement benefit obligations by £293,000 and reduce the related deferred tax charge recognised in the profit and loss account by £58,000 and to reduce the remeasurement of the pension scheme liability recognised in the reconciliation of changes in equity by the same net amount of £235,000 as set out in table (ii) below.

The only impact on the balance sheet was to separately disclose the pension liability and the related deferred tax asset on the face of the balance sheet rather than show a net position by offsetting the deferred tax asset against the pension liability. Accordingly the retirement benefit obligations and the deferred tax asset both increase by £1,138,000 (1 January 2014 – £1,303,000).

There is no change to the net asset position in the balance sheet at 31 December 2013 or 31 December 2014.

(i) Reconciliation of shareholders' funds at 1 January 2014 (date of transition to FRS 101)

	UK GAAP £000	IAS 19 Employee Benefits £000	FRS 101 £000
Non-current assets			
Tangible assets	41	–	**41**
Investments	27,411	–	**27,411**
Deferred tax asset	–	1,303	**1,303**
Debtors	16,371	–	**16,371**
Total non-current assets	43,823	1,303	**45,126**
Current assets			
Debtors	3,382	–	**3,382**
Creditors: amounts falling due within one year	(9,312)	–	**(9,312)**
Net current assets	(5,930)	–	**(5,930)**
Total assets less current liabilities	37,893	1,303	**39,196**
Creditors: amounts falling due after more than one year	(1,541)	–	**(1,541)**
Pension liability	(5,214)	(1,303)	**(6,517)**
Net assets	31,138	–	**31,138**
Capital and reserves			
Called up share capital	28,755	–	**28,755**
Own shares	(311)	–	**(311)**
Profit and loss account	2,694	–	**2,694**
Shareholders' funds	31,138	–	**31,138**

(ii) Reconciliation of changes in equity for the year to 31 December 2014

	UK GAAP £000	IAS 19 Employee Benefits £000	FRS 101 £000
Profit for the financial year	2,826	(235)	**2,591**
Dividends to equity holders in the year	(1,888)	–	**(1,888)**
Remeasurement of pension scheme liability	65	235	**300**
Exercise of share options	143	–	**143**
Issue of new shares (net of issue expenses)	3,416	–	**3,416**
Net movement in shareholders' funds	4,562	–	**4,562**
Opening shareholders' funds	31,138	–	**31,138**
Closing shareholders' funds	35,700	–	**35,700**

Notes to the Company financial statements (continued)

For the year ended 31 December 2015

40. Explanation of transition to FRS 101 (continued)

(iii) Reconciliation of shareholders' funds at 31 December 2014

	UK GAAP £000	IAS 19 Employee Benefits £000	FRS 101 £000
Non-current assets			
Tangible assets	40	–	**40**
Investments	29,942	–	**29,942**
Deferred tax asset	–	1,138	**1,138**
Debtors	10,674	–	**10,674**
Total non-current assets	40,656	1,138	**41,794**
Current assets			
Debtors	4,567	–	**4,567**
Cash at bank and in hand	53	–	**53**
	4,620	–	**4,620**
Creditors: amounts falling due within one year	(1,876)	–	**(1,876)**
Net current assets	2,744	–	**2,744**
Total assets less current liabilities	43,400	1,138	**44,538**
Creditors: amounts falling due after more than one year	(3,150)	–	**(3,150)**
Pension liability	(4,550)	(1,138)	**(5,688)**
Net assets	35,700	–	**35,700**
Capital and reserves			
Called up share capital	31,153	–	**31,153**
Share premium	1,018	–	**1,018**
Profit and loss account	3,529	–	**3,529**
Shareholders' funds	35,700	–	**35,700**

41. 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.

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	Tel: 01476 574747	Design and manufacture of specialist packaging.	
Westbury	Tel: 01373 858555		
Network Packaging Limited		Supply and distribution of all forms of packaging materials and equipment.	England
Wolverhampton	Tel: 01902 496 666		
One Packaging Limited		Supply and distribution of all forms of packaging materials and equipment.	England
Bingham	Tel: 01949 837666		
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 and supply and distribution of all forms of packaging materials and equipment.	Ireland
Wicklow	Tel: 00 353 (1) 281 0234		
Macfarlane Group Sweden AB		Provision of high quality printed self-adhesive labels and resealable 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. The Company controls 100% of the ordinary share capital of each principal operating subsidiary.

Dormant subsidiaries

The Company's other related undertakings are the dormant subsidiary undertakings disclosed below.
In all cases the Company listed as owner controls 100% of the issued share capital of the subsidiary undertaking.

Company name	Company number	Country of registration
Owned By Macfarlane Group Plc		
Centurion Packaging (Holdings) Limited	02355761	England
National Packaging Group Limited	01355867	England
Adhesive Labels Limited	00723320	England
Owned by Macfarlane Group UK Limited		
PSD Industrial Holdings Limited	03936301	England
Lane Packaging Limited	02014518	England
Online Packaging Limited	02903657	England
Allpoint Packaging Limited	03930806	England
Bloomfield Supplies Limited	02253938	England
Macfarlane Packaging Limited	SC041678	Scotland
Macfarlane Merchanting Limited	00372831	England
Abbott's Packaging Limited	01385800	England
Mitchell Packaging Limited	00535311	England
Owned by Network Packaging Limited		
Network Display Products Limited	07185175	England
Networkpack Limited	07076349	England
Owned by Macfarlane Group Sweden AB		
ReSeal-it Scandinavia		Sweden
Regath HB		Sweden

Five year record

	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Turnover – all operations	**169,132**	153,767	143,871	141,823	144,557
Profit before interest, exceptional items and tax	**7,702**	6,646	6,251	5,834	4,689
Net interest payable	**(935)**	(1,040)	(1,199)	(1,349)	(815)
Profit before exceptional items	**6,767**	5,606	5,052	4,485	3,874
Exceptional items	**–**	–	(336)	993	–
Profit before tax	**6,767**	5,606	4,716	5,478	3,874
Taxation	**(1,317)**	(1,164)	(1,260)	(1,613)	(455)
Profit for the financial year	**5,450**	4,442	3,456	3,865	3,419
Diluted Earnings per ordinary share	**4.35p**	3.78p	3.03p	3.40p	3.01p
Dividends	**2,094**	1,888	1,774	1,761	1,761
Dividends per ordinary share	**1.68p**	1.60p	1.55p	1.55p	1.55p
Dividend cover	**2.6**	2.4	1.9	2.2	1.9

This table reflects the five-year record for continuing operations as classified at 31 December 2015.

Financial diary

Financial results
Interim: Announced – August
Final: Announced – February

Accounts and annual general meeting
Report and financial statements – Posted to shareholders on 31 March 2016
Annual General Meeting – Held in Glasgow on 10 May 2016

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

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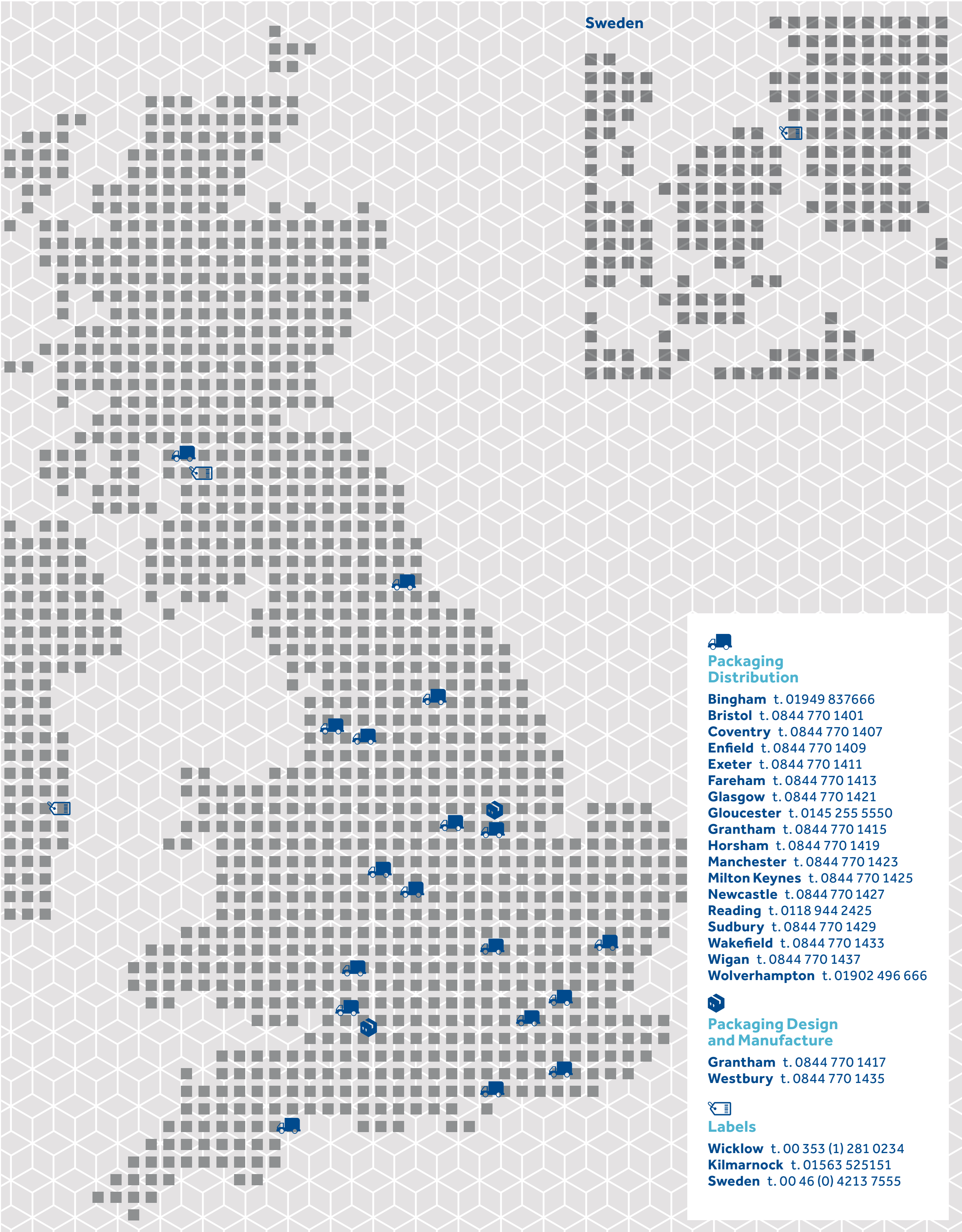

Packaging Distribution

Bingham t. 01949 837666
Bristol t. 0844 770 1401
Coventry t. 0844 770 1407
Enfield t. 0844 770 1409
Exeter t. 0844 770 1411
Fareham t. 0844 770 1413
Glasgow t. 0844 770 1421
Gloucester t. 0145 255 5550
Grantham t. 0844 770 1415
Horsham t. 0844 770 1419
Manchester t. 0844 770 1423
Milton Keynes t. 0844 770 1425
Newcastle t. 0844 770 1427
Reading t. 0118 944 2425
Sudbury t. 0844 770 1429
Wakefield t. 0844 770 1433
Wigan t. 0844 770 1437
Wolverhampton t. 01902 496 666

Packaging Design and Manufacture

Grantham t. 0844 770 1417
Westbury t. 0844 770 1435

Labels

Wicklow t. 00 353 (1) 281 0234
Kilmarnock t. 01563 525151
Sweden t. 00 46 (0) 4213 7555