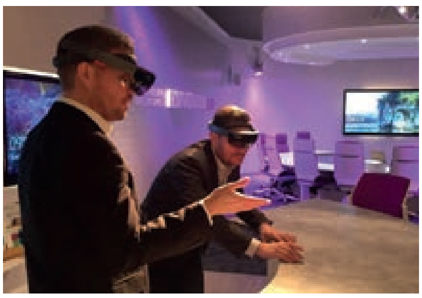
MACFARLANE GROUP

Annual Report and Accounts 2018

MACFARLANE
GROUP



Financial and operational highlights 2018

Headquartered in Glasgow, Macfarlane Group PLC employs over 900 people at 31 sites in the UK, one in Ireland and one in Sweden and services more than 20,000 customers in a wide range of sectors.

20%
Growth in PBT before exceptional item

5.5%
Operating profit

£15.5m
EBITDA

10%
Increase in dividends

11%
Sales growth

250,000
Deliveries

275,000
Reseal-it labels pre-applied in 2018

1,500
Bespoke designs in 2018

Contents

Chairman's statement

Macfarlane Group PLC achieved another year of significant growth in 2018 with sales of £217.3 million, (2017: £196.0 million) 11% ahead of 2017 and profit before tax and exceptional items of £11.2 million (2017: £9.3 million), 20% ahead of 2017.

Trading

The trading performance continued the positive trends of recent years and the results were in line with market expectations.

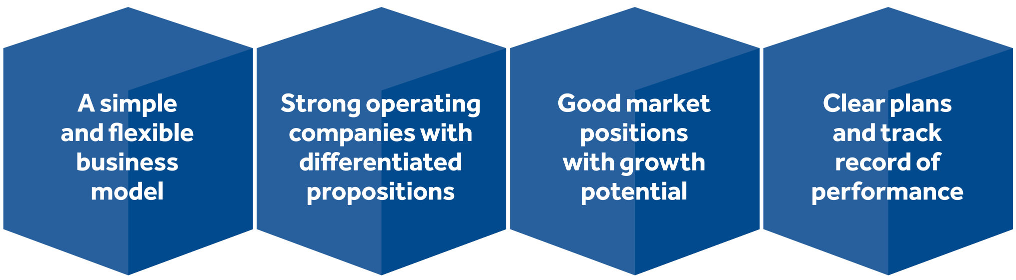
Following the High Court judgement involving Lloyds Banking Group pension schemes on 26 October 2018, we have made a charge against the 2018 results as an exceptional item. This charge of £330k represents past service cost in respect of the equalisation of Guaranteed Minimum Pensions ('GMP') benefits between 1990 and 1997. When the commentary on the following pages refers to items before exceptional items, it excludes these charges. We believe this information, provides a more meaningful basis for measuring our financial performance in 2018.

Packaging Distribution increased sales by 11% to £189.8 million (2017: £171.8 million) with 4% achieved from organic growth and 7% from acquisitions, both the new acquisitions in 2018 and the full year benefit from those completed in 2017, all of which continue to perform well. Gross margin in Packaging Distribution rose to 29.5%, (2017: 29.4%) reflecting the effective management of input price increases in the second quarter as well as a full year contribution from the Greenwoods' business acquired in 2017. The acquisitions of Tyler Packaging (Leicester) Limited ('Tyler') and Harrisons Packaging Limited ('Harrisons') were both concluded in the second half of 2018 and have contributed as expected since acquisition. The growth in sales and gross margin, combined with good cost control, resulted in Packaging Distribution achieving a 19% increase in operating profit before exceptional items to £11.2 million (2017: £9.4 million).

Sales in our Manufacturing Operations at £27.5 million (2017: £24.2 million) grew by 14% on the previous year. Gross margin reduced from 40.7% in 2017 to 38.4% in 2018, mainly due to first half operational pressures in Packaging Design and Manufacture and an adverse sales mix in our Labels business. Despite this, the overall Manufacturing Division operating profit before exceptional items in 2018 was £0.9 million, £0.2 million above the 2017 result.

After charging interest of £0.8 million (2017: £0.8 million), Group profit before tax and exceptional items totalled £11.2 million an increase of 20% on 2017. Basic and diluted earnings per share for 2018 before exceptional items were 5.72p (2017: 5.22p).

Macfarlane investment case



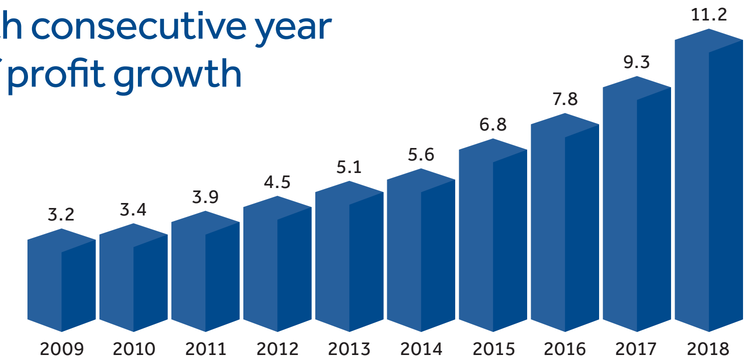
Dividend
The Board is proposing a final dividend of 1.65 pence per share, amounting to a full year dividend of 2.30 pence per share, a 10% increase on the prior year's dividend of 2.10 pence per share. Subject to the approval of shareholders at the Annual General Meeting on Tuesday 14 May 2019, this dividend will be paid on Thursday 6 June 2019 to those shareholders on the register at Friday 17 May 2019.

Net bank debt
The Group's net bank borrowing at 31 December 2018 decreased by £1.1 million to £13.2 million from £14.3 million at the prior year-end. The Group's bank facility of £30.0 million with Lloyds Banking Group is available until June 2022 and accommodates normal working capital requirements as well as supporting acquisition funding.

Pension scheme
The Group's pension deficit at 31 December 2018 decreased by £2.0 million to £9.8 million, (2017: £11.8 million) despite the exceptional charge for equalising GMP benefits taken in 2018. Although there were increases in the discount rate, which reduced the value of the pension liabilities, this was largely offset by reductions in the value of the scheme's holding in liability-driven investments, reflecting an appropriate prudent investment strategy for a mature pension scheme.

Profit before tax and exceptional items (£m)

2018 represents the 9th consecutive year of profit growth



Outlook
The Board remains confident that its strategy to position the business to serve key growth markets continues to be effective. The increase in profits in 2018 represents the ninth consecutive year of profit growth for Macfarlane Group. 2019 has started well and our profitability in the year to date is ahead of the same period in 2018.

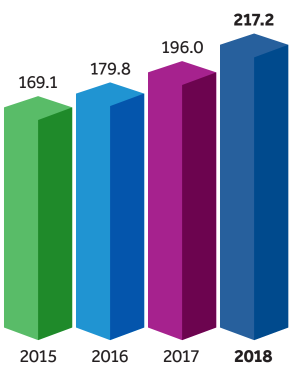
Our strategy continues to focus on the delivery of sustainable profit growth by concentrating on added value products and services in our target market sectors, combined with efficiency improvements and the identification and completion of further value-enhancing acquisitions. This strategy, which is continuously refined, has served all stakeholders well in recent years and we remain confident that it will continue to do so.

Macfarlane Group's performance in 2018 reflects the successful implementation of this strategy and we are confident that the Group will demonstrate further progress in 2019.

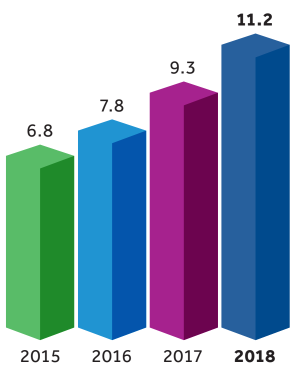
Stuart R Paterson
Chairman
22 February 2019

Group performance

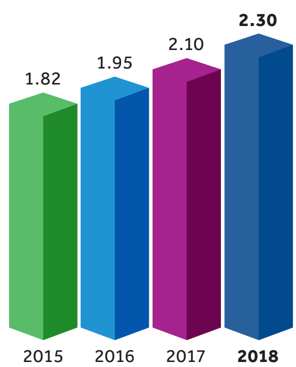
Sales (£m)



Profit before tax and exceptional item (£m)



Dividend (p)



Macfarlane Group business model and strategy

Macfarlane Group business model

We design, manufacture and distribute protective packaging products to business users in the UK and labels to customers in the UK, Europe and USA.

Packaging Distribution

MACFARLANE PACKAGING

Macfarlane Packaging Distribution is the UK market leader in the distribution of protective packaging products and contributes 87% of Group Revenue.

Market sectors served

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

Manufacturing Operations

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 5% 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 8% of Group Revenue.

Market sectors served

- Health and beauty
- Food
- Household goods
- Pharmaceutical

Strategic priority

Focus → Personalise → Innovate → Improve → Accelerate → Focus

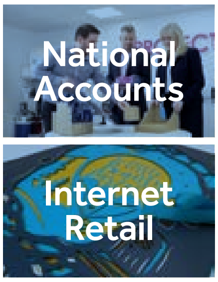
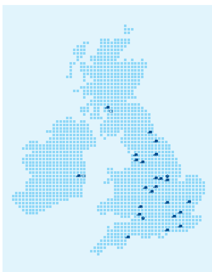
How our business generates value

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 from our existing customers and we experience a level of sales erosion each year as we optimise protective packaging usage for customers. Therefore new business generation is key to Macfarlane Group's overall growth and there is specific measurement and focus on this area.

Our strategy

For many years we have followed a consistent strategy to create value for shareholders. The Group objective is to grow sales volumes and achieve a return on sales of between 5% and 7%.

Our approach		Progress in 2018
We seek to implement a segmental sales strategy and focus on key sectors with above average growth potential, particularly National Accounts and internet retail.		• Continuing this approach has provided increased customer focus. • The Customer Service Centre enhances support of smaller local customers. • Our Innovation Lab demonstrates the range of our capability to customers. • Sales growth of 11% in 2018 reflects the success of our strategy.
We work to enhance gross margins through a focus on higher added value products and more effective sourcing.		• Both strategic and tactical purchasing programmes are in place to improve our sourcing capability. • Gross margins within Manufacturing Operations have decreased due to operational issues.
We ensure operational effectiveness is maximised through efficiencies in our logistics operations.		• Logistics costs reduced to 2.6% of sales (2017: 2.7%) through use of the Paragon planning tool and driver training.
We seek to optimise the costs associated with the physical infrastructure of our business.		• Property costs reduced to 3.9% of sales (2017: 4.0%) despite additional costs from acquisitions in our property network.
We supplement organic growth by acquiring good quality businesses.	Tyler Packaging HARRISON'S PACKAGING LTD	• We completed the acquisition of Tyler Packaging (Leicester) in July 2018 and Harrisons Packaging in August 2018.

Chief Executive's review – Packaging Distribution

Macfarlane Packaging Distribution is the leading UK specialist distributor of protective packaging materials. Macfarlane Packaging operates a Stock and Serve supply model from 23 Regional Distribution Centres (RDCs) and 3 satellite sites, supplying industrial and retail customers with a comprehensive range of protective packaging materials on a local, regional and national basis.

Competition in the packaging distribution market is from local a nd regional protective packaging specialist companies as well as national/international distribution generalists who supply a range of products, including protective packaging materials. In a fragmented market, Macfarlane Packaging 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 high quality 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 Stock and Serve supply, Just In Time delivery, tailored stock management programmes, electronic trading and independent advice on both packaging materials and packing processes.

Packaging Distribution

	Base business £000	Acquisition impact £000	**2018 £000**	2017 £000	**2018 growth**
Revenue	176,395	13,440	**189,835**	171,771	+11%
Cost of sales			**(133,843)**	(121,323)	
Gross margin			**55,992**	50,448	+11%
Operating expenses (recurring)			**(44,820)**	(41,012)	+9%
Operating profit before exceptional item	9,730	1,442	**11,172**	9,436	+18%
Operating expenses (exceptional)			**(270)**	–	
Operating profit			**10,902**	9,436	

2018 trading

Macfarlane Packaging Distribution grew sales by 11% in 2018 comprising 4% organic growth as well as the contribution from the acquisitions of Tyler and Harrisons in 2018 and the full year contribution from the 2017 acquisitions.

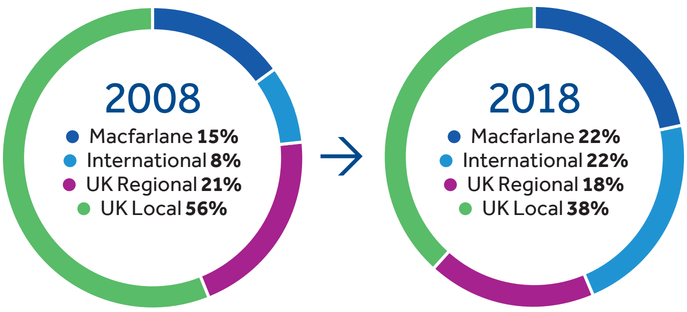
There were well publicised challenges in UK Retail in 2018 and as a result, our sales to this sector declined slightly due to demand weakness and customer churn. However this was more than offset by growth in the Industrial Sector with a number of contract extensions and new business wins.

Gross margin in Packaging Distribution was 29.5%, (2017: 29.4%) with effective management of input price increases as well as a strong full year contribution from the 2017 acquisition of Greenwoods.

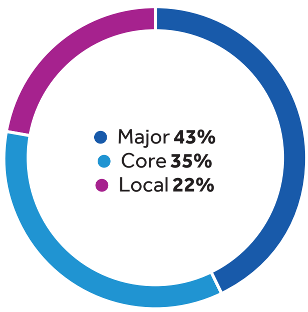
Cost control remained strong with an improving operating expenses to sales ratio of 23.6% (2017: 23.9%).

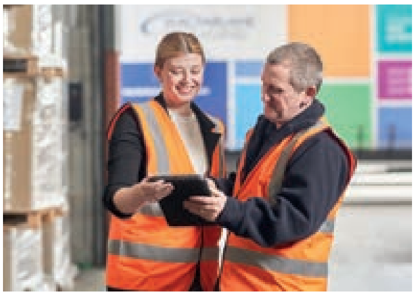
UK Packaging Distribution

UK market – recent development



Macfarlane customers





Macfarlane operates a Stock and Serve supply model from 23 RDCs and three satellite sites.

Operating profit before exceptional item for Packaging Distribution at £11.2 million grew 18% versus 2017 representing a return on sales of 5.9% (2017: 5.5%).

Future plans

2019 plans are focused on continuing to grow sales and improving profitability by the following actions:

Sales growth

- Maintaining our focus on the growth potential for protective packaging in our key market segments:
  - Customers in the e-commerce sector and the related Third-party logistics ('3PL') operators; and
  - National Accounts' customers in the Industrial Sector and the related 3PL operators;
- Accelerating the growth in new business through effective use of our Innovation Lab;
- Demonstrating our ability to add value to customers through effective implementation of our 'Significant Six' sales approach to optimise their Total Cost of Packaging;
- Developing our web-based offerings through www.macfarlanepackaging.com and Customer Connect to enable customers to further improve access to our full range of products and services;
- Growing sales of new products from recent acquisitions throughout the Group; and
- Providing customers requiring our capabilities in Europe with access to our offering.

Efficiency improvements

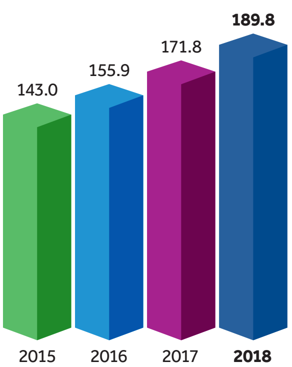
- Improving our sourcing through strengthening our relationships with key strategic suppliers;
- Implementing further operational savings in logistics by expanding the use of the Paragon vehicle management system and extending our warehouse best practice programme;
- Reducing operating costs by taking opportunities to consolidate the existing property footprint;
- Integrating recent acquisitions following the completion of the earn-out periods; and
- Maintaining our focus on working capital management to generate additional funds to support growth opportunities.

Acquisition growth

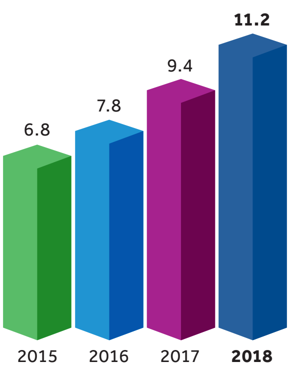
- Supplementing organic growth through the completion of further suitable quality acquisitions.

Packaging Distribution performance

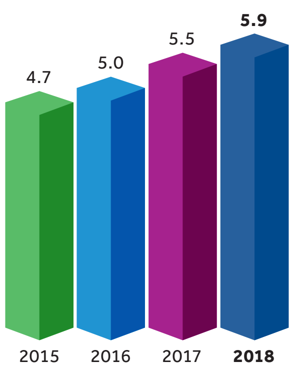
Sales (£m)



Operating profit before exceptional item (£m)



Return on sales (%)



Chief Executive's review – Manufacturing Operations

Manufacturing Operations comprise our Packaging Design and Manufacture business and our Labels business.

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.

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 our market offering through technical expertise, design capability, industry accreditations and national coverage through Macfarlane Packaging Distribution.

2018 trading

2018 sales for Packaging Design and Manufacture were 12% above 2017 with particularly strong growth from the aerospace sector. Despite operational pressures in the first half of the year which are now resolved, profitability in 2018 was above that in 2017. Our sales team has continued to develop a strong pipeline of new customer relationships, which should benefit the business in 2019.

Manufacturing Operations

	2018 £000	2017 £000
Revenue	**27,455**	24,220
Cost of sales	**(16,906)**	(14,364)
Gross margin	**10,549**	9,856
Operating expenses (recurring)	**(9,696)**	(9,203)
Operating profit before exceptional item	**853**	653
Operating expenses (exceptional)	**(60)**	–
Operating profit	**793**	653

Future plans

2019 plans for Packaging Design and Manufacture include:

- Accelerating sales growth in target market sectors e.g. Defence, Aerospace and Medical;
- Prioritising sales activity on the higher added-value bespoke composite pack product range;
- Improving operational performance further; and
- Continuing to strengthen the relationship with our Packaging Distribution business to create both sales and cost synergies.

Our Manufacturing Operations design and manufacture a high-quality range of bespoke packaging for the customer.

Labels

Our Labels business designs and prints self-adhesive labels for major Fast-moving Consumer Goods ('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 dependence 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.

2018 trading

Sales increased by 15% in the year as penetration of our resealable range improved and a number of new business wins were achieved. Despite margin being impacted by the increasingly competitive conditions in the UK retail sector, profits in the Labels business increased by 15% vs. 2017.

Our Manufacturing Operations design and manufacture a high-quality range of bespoke labelling solutions for the customer.

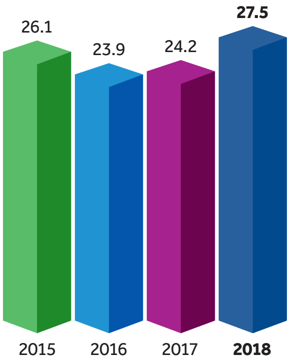
Future plans

2019 plans for Labels will focus on:

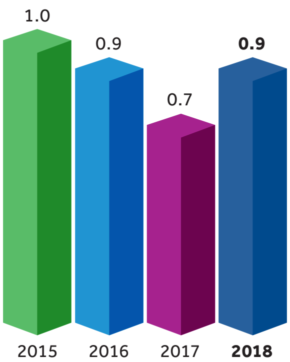
- Increasing business in higher added value products and services through rebalancing sales between our resealable and self-adhesive label ranges;
- Generating efficiency and sales benefits from investments in additional capacity and digital printing capability;
- Continuing improvement in operational efficiency to mitigate sales price pressure; and
- Developing the Reseal-it product in Europe and the USA, through ongoing partnerships, new business wins and increased penetration with key retailers.

Manufacturing Operations performance

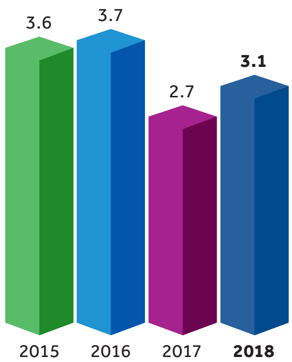
Sales (£m)



Operating profit before exceptional item (£m)



Return on sales (%)



Chief Executive's review – 2019 Group outlook

Our sales efforts will focus on those segments of the market, such as e-commerce, which are forecast to show continued above average growth rates and those industrial markets where customers recognise the added value brought to their operations by a specialist national protective packaging distributor.

During 2019 we will continue to look to acquire further good quality protective packaging businesses, improve our geographic coverage, develop new products introduced by recent acquisitions, work more closely with strategic suppliers and improve our operational efficiency by leveraging our property and logistics footprint.

Macfarlane businesses all have strong market positions with differentiated product and service offerings. We have a flexible business model and a clear strategic plan incorporating a range of actions, which are being effectively implemented and are reflected in our consistent, profitable growth in recent years.

Our future performance is largely dependent on successful execution of actions to grow sales, increase efficiencies and bring high-quality acquisitions into the Group. With a focus on attractive UK market sectors for our products and services, combined with our successful track record of growth and acquisitions, we expect 2019 to be another year of progress for Macfarlane Group.

Peter D. Atkinson
Chief Executive

22 February 2019

Five year record

	2018 £000	2017 £000	2016 £000	2015 £000	2014 £000
Turnover	**217,290**	195,991	179,772	169,132	153,767
Operating profit before exceptional item	**12,025**	10,089	8,712	7,702	6,646
Net interest payable	**(809)**	(828)	(901)	(935)	(1,040)
Profit before exceptional item	**11,216**	9,261	7,811	6,767	5,606
Exceptional item	**(330)**	–	–	–	–
Profit before tax	**10,886**	9,261	7,811	6,767	5,606
Taxation	**(2,145)**	(1,837)	(1,761)	(1,317)	(1,164)
Profit for the financial year	**8,741**	7,424	6,050	5,450	4,442
Diluted earnings per ordinary share	**5.55p**	5.22p	4.64p	4.35p	3.78p
Dividends	**3,387**	2,854	2,358	2,094	1,888
Dividends paid per ordinary share	**2.15p**	2.00p	1.84p	1.68p	1.60p
Dividend cover	**2.6**	2.6	2.6	2.6	2.4

This table reflects the five-year record for continuing operations as classified at 31 December 2018.

Working with our customers on packaging solutions

Located in Milton Keynes, the Macfarlane Packaging Innovation Lab is a purpose built space to create solutions for the most demanding packaging challenges.

Innovation starts with the people who work for Macfarlane and the Innovation Lab has been designed to ensure that there are no bounds to their imagination when seeking out smart solutions for customers.

The Innovation Lab has been designed to problem-solve from start to finish in one location. It provides creative solutions that customers can see, touch and take away, saving them time and money in the packaging development process.

The Significant Six

Our customers' products must arrive in perfect condition, on time and within managed costs.

At Macfarlane Packaging, we have spent decades innovating and perfecting packaging solutions for a wide range of markets that are strong, efficient and sustainable. In doing so, we have isolated six hidden costs that have the biggest impact on most packaging operations... we call these costs 'The Significant Six' and they can account for 90% of all costs in a packaging operation.

Storage costs

With over 700,000 sq ft of warehouse space and a fleet of over 100 vehicles, our nationwide RDCs mean that customers' packaging stock levels can be minimised.

Productivity costs

We can review the end-to-end customer pack operation to identify space, time and process efficiencies to aid productivity at all stages.

Administration costs

As the UK's biggest packaging supplier we can provide insight to enable our customers to reduce the costs associated with managing multiple suppliers.

Customer experience

Macfarlane Packaging can help enhance the consumer experience of packaging form and brand but at the same time be mindful of cost implications.

Transport costs

By re-thinking the pack design, significant reductions in storage, postal and courier charges can be achieved, whilst improving product protection at the same time.

Damages & returns

By challenging areas in the customer supply chain where there are damages and returns, we can find the right packaging solution to protect the product and the brand too.

Peak Scientific
Case study: Transport costs

Peak Scientific, a global leader in the manufacture, sale and support of gas generators, required packaging to transport its product to and from exhibitions across the globe.

Prior to engaging with Macfarlane, the company was using large wooden crates and looked for lightweight, robust packaging to help reduce product damage in transit.

Peak worked collaboratively with Macfarlane Packaging to create a new pack made from high-density polyethylene fibre for durability and an Airsac inflatable packaging system for enhanced product protection.

The new solution has **reduced the weight of each unit by over 44kg** and delivered substantial savings on shipping alone in addition to the reduced costs of replacing damaged goods and expensive wooden crates.

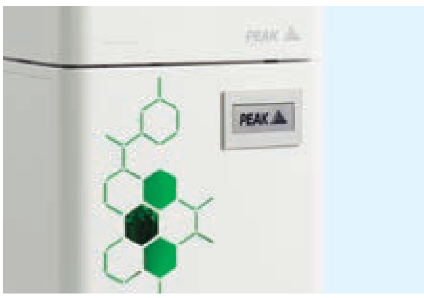
The pack won the **Supply Chain Solution of the Year** award at the UK Packaging Awards 2018.

50%
reduction in pack weight

Macfarlane Packaging and Peak Scientific staff with their Supply Chain Solution award at the UK Packaging Awards 2018.

"Macfarlane is a valued partner to assist in the transformation of our supply chain with innovative, cost effective solutions and services."

David Williamson, Global Supply Chain and Logistics Manager at Peak Scientific



GM Distribution
Case study: Productivity costs

GM Distribution, part of Grafton Group, serves one of the fastest growing builders and plumbing merchants with over 380 trade stores in the UK.

Keen to improve packing processes, the company needed a new packing station solution but wanted to be sure that the system was ergonomically correct for their warehouse space.

Macfarlane Packaging drafted a full size 3D model of the new system using **the latest 3D software** and loading it onto **HoloLens headsets** as a life size hologram. This allowed GM Distribution to see the packing station in situ, providing an accurate demonstration of the system proportions once installed on-site.

Project stakeholders were able to walk around the hologram, view it from all angles and make real-time adjustments to positioning as required.

With the help of the Macfarlane design team and HoloLens, the packing station was approved on the day. The installation layout was exactly as agreed using HoloLens.

HoloLens helped to **remove the risk element for the customer** – giving them a clear understanding of the impact of the new workstation and ensuring it was **the right solution** for them.

"The support we received from the Macfarlane team was great. We had a clear understanding of the impact on space that the packing station would have and, as a result, we could move quickly on project sign-off. The actual installation went smoothly as everyone knew exactly where the equipment should be placed."

Sarah Taylor, Head of Supply Chain at GM Distribution

90%

increase in speed of sign-off approval

Financial review

Trading

The Group saw growth in sales of 11% during 2018, driven by Packaging Distribution and enhanced by strong contributions from recent acquisitions. Group sales are £217.3 million, an increase of £21.3 million from 2017. Profit before tax and exceptional items for 2018 increased to £11.2 million, an increase of £1.9 million from that achieved in 2017.

Taxation

The tax charge for the year from continuing operations was £2.1 million on profit before tax of £10.9 million, a rate of 19.70%, above the prevailing rate of 19.00% mainly due to acquisition costs not being deductible against corporation tax liabilities. This compared with a tax charge of £1.8 million on the profit before tax of £9.3 million in 2017 and a tax rate of 19.80%, above the prevailing rate of 19.25% again due to acquisition costs not being deductible against corporation tax liabilities.

Earnings per share

Basic and diluted earnings per share totalled 5.55p (2017: 5.22p) an increase of 6%, lower than the growth in profit before tax, due to the increased number of shares in issue, following the issue of 21,212,121 ordinary shares on the acquisition of Greenwoods in September 2017.

Dividends

A dividend of 0.65p per share was paid on 11 October 2018. A further dividend of 1.65p per share is subject to approval by shareholders at the AGM in May 2019 and is not included as a liability in these financial statements.

Dividend cover has been maintained at 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 make pension contributions, finance acquisitions and meet capital expenditure requirements.

Cash flow and net bank debt

The Group's debt facility with Lloyds Banking Group PLC comprises a three-year committed borrowing facility of up to £30.0 million for the period to June 2022, secured over part of Macfarlane Group's trade receivables. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over trade receivables. The Group has been in compliance with these covenants throughout 2018.

The facility accommodates increased working capital requirements from our organic growth as well as finance for pension scheme contributions and an ability to fund acquisitions. Our financing requirements are met by maintaining committed borrowing facilities for the medium-term.

The Group had net bank borrowings of £13.2 million at 31 December 2018, a reduction of £1.1 million from the previous year. The Group spent £5.6 million on acquisitions in 2018 (2017: £8.3 million) and £1.5 million on capital expenditure in 2018 (2017: £1.7 million). In 2017, the Group concluded a placing of shares which raised net proceeds of £7.6 million towards the acquisition of Greenwoods.

We will continue to invest where there are needs or opportunities to meet future growth plans. The Group will strive to ensure that in 2019, 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

On 31 July 2018, and 2 August 2018 the Group's subsidiary, Macfarlane Group UK Limited acquired 100% of the issued share capital of Tyler and Harrisons respectively for a combined consideration of approximately £5.0 million. £3.4 million was paid in cash on acquisition, with the deferred considerations of £1.6 million payable in the third quarter of 2019, subject to certain trading targets being met in the year ending 31 July 2019.

During the second half of 2018, we paid £4.0 million, representing the maximum considerations in respect of the earn-out period for Greenwoods and the second earn-out period for Nelsons, acquired in 2016.

In 2017 Macfarlane Group PLC acquired Greenwoods at a maximum potential cost of up to £17.2 million. The Company completed a placing to part fund the acquisition, raising £7.6 million (net of expenses), issued shares to the Vendor totalling £6.0 million and retained contingent consideration of £3.25 million.

Market capitalisation and share price movements

The number of shares in issue at 31 December 2018 was 157,547,618, unchanged from 2017.

At the year-end the Company's market capitalisation was £112.7 million, compared with £122.5 million last year. The share price at 31 December 2018 was 71.50p, compared with 77.75p at 31 December 2017. The range of transaction prices for Macfarlane Group shares during 2018 was 71.50p to 112.00p 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 these financial instruments is to provide finance for the Group's operations. It is the Group's policy that no speculative trading in financial instruments is undertaken. The main risks arising are liquidity risk and credit risk and the secondary risks are interest rate risk and currency risk. The Board reviews and agrees policies for managing these risks, which have remained unchanged since the beginning of 2018 and these are set out in note 15 to the financial statements.

Pension scheme deficit

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

The deficit decreased during the year despite an exceptional charge of £0.3 million taken in respect of GMP equalisation.

The Board continues to make regular deficit reduction contributions each year to reduce the deficit. This, combined with careful stewardship of the investment portfolio by the Trustees, in conjunction with the Group, has helped better match the investments with the scheme's liability profile.

Following the triennial actuarial valuation of the scheme at 1 May 2017, the Group agreed a new schedule of contributions with the Pension Scheme Trustees, which assumed a recovery plan period of 7 years. The next triennial actuarial valuation will be carried out at 1 May 2020.

Pension scheme deficit

	2018 £000	2017 £000	2016 £000
Fair value of scheme investments	**75,827**	80,960	77,808
Present value of scheme liabilities	**(85,592)**	(92,783)	(92,345)
Deficit at 31 December	**(9,765)**	(11,823)	(14,537)

International Financial Reporting Standards and accounting policies

As detailed in the 2017 Annual Report, the new International Financial Reporting Standards adopted during 2018 had no major impact on the results for the year. The changes to accounting policies arising from the adoption of the new IFRSs are set out in the accounting policies note following the financial statements.

IFRS 16 '*Leases*' will be adopted using the modified retrospective approach from 1 January 2019 and will have a significant impact on the 2019 financial statements. Details are also set out in the accounting policies note following the financial statements.

The Group continues to comply with all International Financial Reporting Standards adopted by the European Union.

Going concern

The Directors, in their consideration of going concern, have reviewed the Group's cash flow forecasts and profit projections, which are based on the Directors' past experience and their assessment of the current market outlook for the business. The Group's business activities together with the factors likely to affect its future development, performance and financial position are set out in the Chairman's Statement and the Strategic Report on pages 2 to 25.

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

22 February 2019

Principal risks and uncertainties

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

These risks 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.

Macfarlane Group has carried out an impact analysis and evaluated the potential short to medium-term implications of a no-deal Brexit including reversion to World Trade Organisation tariffs. Where practical, we have put in place contingency measures to try to mitigate any immediate effects on the supply chain. As a business with the majority of its trade in the UK, the principal impact on Macfarlane Group of a no-deal Brexit would be reduced levels of business caused by any significant downturn in the UK economy.

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

Risk description

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 including currency fluctuations. 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.

Property
Given the multi-site nature of its business, the Group has a property portfolio comprising 3 owned sites and 35 leased sites of which 3 are sublet. This portfolio gives rise to risks in relation to ongoing lease costs, dilapidations and fluctuations in value.

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.

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 facility comprises a committed facility of up to £30 million. This includes 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 the decentralised management control is less effective and local decisions do not meet corporate objectives.

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 2018 estimated the scheme deficit to be £9.8 million, a decrease of £2.0 million during 2018. Small changes in these assumptions could mean that the deficit increases.

Acquisitions
The Group's growth strategy includes acquisitions as demonstrated in recent years. There is a risk that such acquisitions may not be available on acceptable terms in the future. It is also possible that acquisitions will not succeed due to the loss of key people or customers following acquisition or due to the acquired business not performing at the level expected. This could potentially lead to an impairment in the carrying value of the related goodwill and other intangible assets. Execution risks around the failure to successfully integrate the acquired business after the conclusion of the earn-out period also exist.

Mitigation

- The Group works closely with suppliers to manage the scale and timing of price increases to end-users effectively.
- Our IT systems monitor and measure 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.

- 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.

- Credit risk is controlled by applying rigour to the management of trade receivables by our Credit Manager and the credit control team, and is 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.

- The Group seeks to maintain an appropriate level of committed bank facilities that provide sufficient headroom above peak projected borrowing requirements.
- The existing facility is in place until June 2022.
- The Group regularly monitors net bank debt and forecast cash flows to ensure that it will be able to meet its financial obligations as they fall due.
- Compliance with covenants is monitored on a monthly basis and sensitivity analysis is applied to forecasts to assess the impact on covenant compliance.

- The Group ensures that our staff have the right working environment, information and sales tools to enable them to meet corporate objectives.
- A comprehensive management information system is maintained with key performance indicators monitored and actions taken when required.

- The scheme was closed to new members in 2002.
- Benefits for active members were amended by freezing pensionable salaries at 30 April 2009 levels.
- A Pension Increase Exchange option is available to offer flexibility to new pensioners in the current level of pension benefits and the rate of future increases.
- The Group makes Deficit Reduction Contributions each year.
- The investment profile is regularly reviewed to ensure continued matching of investments with the liability profile of the scheme with details set out in note 24.

- The Group carefully reviews potential acquisition targets, ensuring that the focus is on high-quality businesses which complement the existing Group profile and provide opportunities for growth.
- Having completed a number of acquisitions in recent years, the Group has well-established due diligence and integration processes and procedures.
- The Group has a comprehensive management information system to enable effective monitoring of post-acquisition performance.
- Earn-out mechanisms also mitigate risk in the post-acquisition period.
- Goodwill and other intangible assets are tested annually for impairment with the results set out in note 10.

Viability statement

The Board has considered the Group's viability as part of the ongoing programme to manage risk.

Each year the Board reviews the Group's strategic plan for the forthcoming three-year period and challenges the Executive team on the plan's risks. The strategic plan reflects the Group's businesses, which have a broad spread of customers across a range of different sectors with some longer term contracts in place. The assessment period of three years is consistent with the Board's review of the Group strategy, including assumptions regarding future growth rates for our business and acceptable levels of performance.

A robust financial model covering the three year period is maintained and regularly updated. The model is subject to sensitivity analysis which includes flexing a number of the main assumptions, including future revenue growth, gross margins, operating costs, finance 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 results of the exercise indicated that no additional facilities would be required.

The Board has carried out a robust assessment of the principal risks facing the Group and how these risks affect the Group's prospects and the strategic plan. The review also includes consideration of the principal risks facing the Group as described on the previous two pages including the potential impact of Brexit, which could prevent the Group from achieving its strategic plan and the potential impact these risks could have on the Group's business model, future performance, solvency and liquidity over the next three years.

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 including how these are managed. Based on the assessment of these risks and the sensitivity analysis undertaken, the Board of Directors 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 2021.

Corporate responsibility

Macfarlane Group has a responsibility to ensure that through its business operations it impacts positively on society. 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 Director of Group Risk. The key objectives of the CR Committee are:

- To improve the awareness of CR across the Group;
- To develop and implement action plans that support the CR strategy;
- To ensure that CR is an integral part of daily operational activities; and
- To monitor and report on CR performance using agreed key performance indicators.

Environmental care

Mandatory Greenhouse Gas Reporting 2018

Macfarlane Group seeks to minimise the impact of our operations on the environment and is committed to reducing its greenhouse gas ('GHG') emissions. This report outlines Macfarlane's GHG emissions for 2018. Using an operational approach, the Group identified its boundaries to ensure all 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, EcoAct. The validity, accuracy and completeness of the data was audited by EcoAct 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 2018 have been included in GHG reporting and 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 Group. This factor was chosen because it provides the greatest degree of accuracy and is the metric best aligned to business growth.

Table 1: Type of emissions

Type of emissions	Activity	2018 Units	2017 Units	2018 Tonnes of CO_2e	2017 Tonnes of CO_2e
Direct (Scope 1)	Natural gas (kWh)	**2,940,503**	2,476,943	**541**	456
	Vehicle fuel (litres)	**1,932,382**	1,823,523	**5,078**	4,822
	Other	**825**	31,688	**27**	61
	Subtotal			**5,646**	5,339
Indirect (Scope 2)	Purchased electricity (kWh)	**5,828,517**	5,241,655	**1,651**	1,843
	Subtotal			**1,651**	1,843
Total gross emissions (tCO_2e)				**7,297**	7,182

Table 2: Intensity ratio

	2018	2017
Total gross GHG emissions (tCO_2e)	**7,297**	7,182
Total sales (£000)	**217,290**	195,991
Carbon intensity (tCO_2e/£000)	**0.034**	0.037

Corporate responsibility (continued)

The results show that total gross GHG emissions in the period were 7,297 tonnes of CO_2e, (2017: 7,182 tonnes) comprised of the following;

- **Direct Emissions (Scope 1)**
  5,646 tonnes of CO_2e – 77%
  (2017: 5,339 tonnes – 74%)

- **Indirect Emissions (Scope 2)**
  1,651 tonnes of CO_2e – 23%
  (2017: 1,843 tonnes – 26%)

70% of emissions came from diesel, 23% from electricity, and 7% from natural gas.

Broken down by business unit the results were as follows;

- **Distribution**
  5,277 tonnes of CO_2e – 72%
  (2017: 4,146 tonnes – 58%)

- **Manufacturing Operations**
  2,020 tonnes of CO_2e – 28%
  (2017: 3,036 tonnes – 42%)

Our Manufacturing Operations have a proportionately higher impact on emissions than the Distribution business. However forthcoming investments in Labels are focusing on moving from high carbon intensity activities to lower carbon methods such as digital printing.

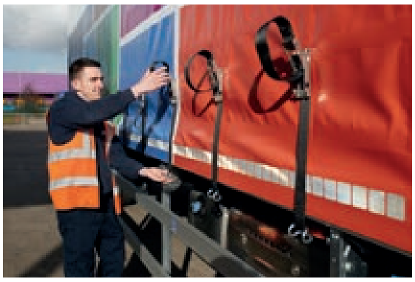
The 2018 acquisitions of Tyler and Harrisons, together with the full year impact of 2017 acquisitions, have increased emissions in areas such as fuel usage, in line with a larger fleet. The intensity calculation for 2018, reflects the work completed with a reduction in emissions based on turnover from 0.037 to 0.034.

Emissions from natural gas consumption increased by 19%, driven by the increased demand for heating at all sites due to the colder than average winter of 2018. Electricity consumption increased by 11%, however, due to the decarbonisation of the UK electricity grid, emissions from purchased electricity decreased by 11%.

During 2019, a programme will be developed with the key objective of reviewing transport efficiency to ensure effective and efficient use of the Company's fleet including recent acquisitions. The target in 2019 will be to see a reduction in fuel consumption, year on year. This will be aided by a continuous programme to upgrade our fleet (approx. 40% of vehicles were replaced in 2018) with new vehicles having cleaner, more fuel efficient, engine technology. These trucks will also yield a significant reduction in our NOx emissions.

Our policy of leasing the vast majority of our premises allows us to vary our property footprint to ensure the maximum efficiency of our operations, thereby minimising the impact on the environment.

Given the growth of the business, continued reductions in the overall Gross tCO_2e/Sales result will be a challenging target, however the Group is committed to see a further year on year reduction in 2019.



40% of our commercial vehicles were replaced in 2018 with the new vehicles having cleaner, more fuel-efficient engine technology.

Table 3: Business segment

Business segment	**2018 Tonnes of CO_2e**	2017 Tonnes of CO_2e	**2018 Sales £000**	2017 Sales £000	**2018 tCO_2e/£000**	2017 tCO_2e/£000
Packaging Distribution	**5,277**	4,146	**189,835**	171,771	**0.028**	0.024
Manufacturing Operations	**2,020**	3,036	**27,455**	24,220	**0.074**	0.125
Total	**7,297**	7,182	**217,290**	195,991	**0.034**	0.037

Waste management

Although the Group's overall waste tonnages increased due to additional sales and further acquisitions, our waste management objective to deliver a high recycling and recovery rate was met. This has been achieved during 2018 with the support from Reconomy, our waste provider during the year, through more site audits at our facilities, local toolbox talks and utilising our waste recording portal which provides reports to help manage waste streams and costs. Not all of our sites were supported by Reconomy in 2018 and therefore assumptions have been made in the collection of certain data.

Our goal to achieve a zero to landfill status in 2018 was very close with all businesses across the Group achieving over 97% of waste diverted from landfill. The levels of waste segregated on site decreased slightly to 67% (2017: 68%).

Our Labels division, through recycling 69 tonnes (2017: 70 tonnes) of paper-based backing product as part of their waste reduction programme, again achieved the best result in the Group with 99.9% (2017: 99.9%) waste diverted from landfill.

Table 4 demonstrates significant improvements in the recycling and recovery rate figures in the last ten years and the current rates are considered exceptional for the packaging industry.

Further achievements in 2018 include:
- Appointment of Group Quality and Environmental Manager to focus efforts in this area and to support the Group in achieving its environmental goals
- Nottingham Recycling, part of the Group, is now managing all baled corrugated and plastic waste streams.

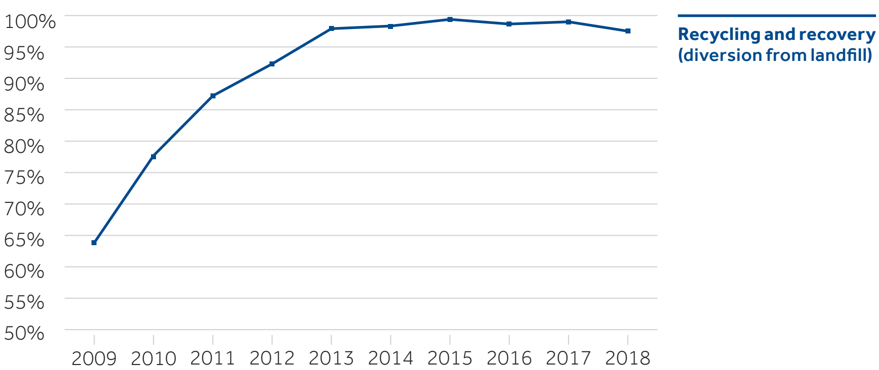
Our key environmental objectives for 2019 include;
- Continuous review and appraisals of all sites every quarter with a view to making efficiencies;
- Consider options for capital expenditure to improve efficiency in the Group's recovery and recycling activities;
- Incorporate all new sites under the Group waste contract therefore ensuring compliance, regular reviews and appraisals to support the overall Group targets;
- Provide further training on portal reports to improve site waste management;
- Deliver savings through the Manufacturing Waste Reduction Programme; and
- Develop a transition plan to register recent acquisitions to BSI ISO 14001 Environmental Management Standard.

Macfarlane Group works in partnership with its customers and suppliers to ensure that we provide an expert, independent and tailored approach, which takes into consideration the impact which the products and services we provide have on the environment.

One approach we take to achieve this is by using 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.

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.

Table 4: Recycling and recovery rate



Corporate responsibility (continued)

These objectives are monitored by an internal, independent audit process, providing visibility of a site's operational activities and its adherence to legislative or Company requirements. Environmental information is recorded, reviewed and analysed, by an identified team 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 2019, the CR Committee will continue to review environmental performance, actively supporting methods or practices that contribute to the continued development of a culture driven by environmental responsibility.

Registration to ISO 14001

With the exception of certain recent acquisitions (Network Packaging, Nelsons for Cartons & Packaging, Greenwoods Stock Boxes, Tyler Packaging (Leicester) and Harrisons Packaging), 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. A key objective in 2019 is the development of a transition plan to register recent acquisitions under the standard.

Health and Safety

The health, safety and welfare of all 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. To ensure we adhere 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.

We continue to invest in our premises and our equipment to improve the safety of our business operations, particularly in relation to the operation of our machinery and vehicles.

The Accident Frequency Rate ('AFR') representing the number of reportable incidents per 100,000 man-hours worked is shown in Table 5 below.

In 2018, we experienced an increase in AFR vs. 2017. This represented 11 reportable incidents compared to 6 in 2017. All reportable incidents are investigated thoroughly by our Health & Safety team and changes to working practices implemented if required. We also ensure that training in a particular area where incidents have arisen is reinforced. Manual handling and slips, trips and falls are the highest causes of reportable incidents and we continue to review and improve our training and oversight of these activities as part of our ongoing commitment to the safety of our people.

In 2018, we undertook a review and relaunch of our safety policies. These were audited by an external service provider to ensure compliance with the required standards.

In 2019, the business will renew its focus on behavioural health and safety, including incident reporting, and how to perform safety observations and provide feedback on safety performance.

We also recognise our commitment to the safety of our drivers and those who share the roads with our delivery vehicles. We now have camera systems fitted to many of our vehicles and the roll out of this initiative continues as part of our commitment to continuous improvement in our health and safety performance.

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 key role in overseeing the operation of all Health and Safety, reviewing reports on Health and Safety at each meeting. This report covers incidents, near misses, reportable and non-reportable incidents.

Table 5: Accident Frequency Rate (AFR)

Business segment	**2018**	2017	2016	2015	2014
Packaging Distribution	**0.48**	0.53	0.42	0.34	0.24
Manufacturing Operations	**1.20**	0.22	1.11	0.46	0.22
Group	**0.73**	0.43	0.64	0.38	0.23

Customer experience

Customer feedback

To continually improve the 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 through Net Promoter Score (NPS) Surveys, Mystery Shopper and online Trust Pilot reviews. This feedback 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, with the results shown in Table 6 below.

Sales order management

Our online customer order management system, Customer Connect, and www.macfarlanepackaging.com are contributing to improvements in productivity as well as meeting the needs of our customers requiring more visibility of their packaging management. In the Packaging Distribution business in 2018, the percentage of sales transacted online has decreased from 12.2% to 11.5% and order lines transacted online decreased to 22% vs. 23% in 2017.

Electronic documentation

In 2018, 88% (2017: 86%) 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 set out in Table 7 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.

Table 6: Annual customer satisfaction scores

	2018	2017
Packaging Distribution	**90%**	89%
Packaging Design and Manufacture	**89%**	82%
Labels	**96%**	95%

Table 7: Macfarlane Group websites

	Website domain	Target market/audience
Packaging Distribution	www.macfarlanepackaging.com	Wide range of businesses using packaging that need to protect their products during transit and storage.
Network Packaging	www.networkpack.co.uk	
Nelsons for Cartons & Packaging	www.nelsonsforcartons.co.uk	
Greenwoods Stock Boxes	www.boxesdirect.co.uk	
Tyler Packaging (Leicester)	www.tylerpackaging.com	
Harrisons Packaging	www.harrisonspackaging.co.uk	
Packaging Distribution Ireland	www.macfarlanepackaging.ie	
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)

Employees

Macfarlane Group recognises the importance of recruiting, developing, rewarding and retaining the very best people to ensure our business continues to run successfully, delivering outstanding customer service and continued business improvement. Maintaining a working environment that promotes good employee relations, safety well-being and employee engagement at all levels is critical to every Macfarlane operation.

Employee development

We strive to make our workplace one in which individuals feel challenged, fulfilled and able to achieve their full potential. Macfarlane Group invests in training to equip our people with the right skills and knowledge required to provide an outstanding tailored service to our customers and fulfil their personal potential.

During 2018 the Packaging and Labels business saw an increase in training hours per employee to 12.2 hours per annum. This increase is a reflection of the continued engagement with Apprenticeship Schemes and the launch of a Leadership Development programme, specifically aimed at identifying and supporting the development of future leaders. Macfarlane Group always looks to promote from within the organisation wherever possible and this programme is a further investment in our people to allow them to develop their careers within the business. The Group including recent acquisitions has provided, on average, 10.7 hours of training per employee during 2018.

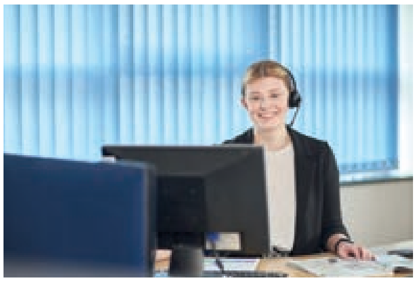
Macfarlane Group offers a wide range of training opportunities, ranging from external training and coaching to on-the-job training. This allows individuals to be stretched and challenged to achieve career objectives. The Company also provides Sponsored Further Education programmes, to support employee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

Employee engagement

Employee engagement is an ongoing feature of our business. Each year we welcome new employees to Macfarlane Group, many of whom join us through acquisitions, and who bring with them new ideas and perspectives which are valuable to the ongoing development 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. To support consistent employee engagement we run a number of functional forums and feedback workshops, both role specific and business specific. These forums provide an opportunity for our employees, to engage in an open two-way dialogue on topics that are important to everyone, including business performance, strategic targets and the overall wellbeing of our employees.

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 provides interactive tools and regular training for staff to support our aims of enhancing the customer experience.

We encourage employees to engage with their local communities, supporting charities and activities that are having a positive impact in their region. During 2018 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 2018 this was Cancer Research UK.

Diversity

The gender breakdown of Directors, Senior Managers and other Group employees at 31 December 2018 is shown in Table 8 below.

Gender pay gap

Macfarlane Group reported its Gender Pay Gap information in April 2018. This showed women's mean hourly rate to be 1.3% higher than men's and women's median hourly rate to be 11.3% higher than men's. Further details can be found on our website (www.macfarlanegroup.com).

Human Rights

Macfarlane Group complies with the Universal Declaration of Human Rights ('UDHR') and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. 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.
- Anti-Bribery & 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.
- Modern Slavery Act – Macfarlane Group has made a statement under the Modern Slavery Act which is supported by internal procedures to ensure that the principles of the act are adhered to. The statement is available on the website (www.macfarlanegroup.com).

No material breaches of the above policies were noted during 2018, nor were any matters of significant concern reported through our whistleblowing service.

Table 8: Diversity

	2018		2017	
	Female	**Male**	Female	Male
Directors	**1**	**5**	0	6
Senior Managers	**5**	**12**	4	12
All other employees	**306**	**560**	308	530

Board of Directors


1


2


3


4


5


6

1 Stuart Paterson
Chairman

Stuart joined the Board on 1 January 2013 as a non-executive Director, becoming Chairman on 29 September 2017. He is a Chartered Accountant and was Chief Financial Officer at Forth Ports Limited until he retired in January 2018. He joined Forth Ports in March 2011 when it was listed on the London Stock Exchange and the company was subsequently acquired by Arcus Infrastructure Partners in 2011. Prior to this role, Stuart was Chief Financial Officer of Johnston Press PLC from 2001 to 2010 and previously worked in senior financial management roles at Motorola Corporation, and as Group Finance Director and then Managing Director Europe for Aggreko PLC. Stuart joined Angel Trains Group Limited as a non-executive Director in September 2018, and chairs the Audit & Risk Committee. He is also a trustee of the Royal Yacht Britannia and a member of their Audit, Risk and Remuneration Committees. He also served as a non-executive Director with Devro PLC from 2006 to 2012, chairing the Audit Committee. He was chair of the Macfarlane Group Audit Committee until 8 January 2018 and also chairs the Nominations Committee, and is a member of the Remuneration Committee.

2 Peter Atkinson
Chief Executive

Peter joined Macfarlane Group as Chief Executive in 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, Europe and the USA.

3 John Love
Finance Director

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

4 Bob McLellan
Non-executive Director and Senior Independent Director

Bob 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 has held leading roles in both the UK and Continental Europe for industry employer associations. He is currently Chairman of the Logson Group and a non-executive director of Swanline Print Limited. Bob chaired the Remuneration Committee until 31 August 2018 when he was appointed as the Group's Senior Independent Director. He is a member of the Nominations, Remuneration and Audit Committees.

5 James Baird
Non-executive Director

James joined the Board on 8 January 2018. James previously led the Scotland and Northern Ireland business of Deloitte, the global accountancy firm, before becoming Managing Partner of its Audit & Risk Advisory division and Chief Operating Officer, both in Switzerland. An experienced auditor and advisor who has worked with companies in the UK and Europe across a range of industries, he is currently an Honorary Professor at Glasgow University's Adam Smith Business School and a member of the Strategy and Research Advisory Group of the Institute of Chartered Accountants of Scotland. James was appointed as chair of the Audit Committee on his appointment on 8 January 2018 and is a member of the Remuneration and Nominations Committees.

6 **Andrea Dunstan**
Non-executive Director

Andrea joined the Board on 1 September 2018. She has significant experience in the areas of performance management, organisational development, strategy and change management across several sectors notably distribution and third party logistics. She was most recently Chief People Officer at Premier Farnell PLC. Andrea is a non-executive Director of Sumo Group PLC, where she is chair of the Remuneration Committee and a member of the Audit and Nominations Committees. She is also a member of the Executive Council of The University of Salford. Andrea was appointed as chair of the Remuneration Committee on her appointment on 1 September 2018 and is a member of the Audit and Nominations Committees.

Derek Quirk
Company Secretary

Derek Quirk joined Macfarlane Group in December 2015 as Director of Group Risk. He was appointed Company Secretary on 1 March 2016 and is a member of the Group's Executive Committee. He provides legal support and leads the Group's Internal Audit function. Prior to his current role, Derek was with BBA Aviation PLC for seven years, serving as Head of Group Internal Audit and latterly as Financial Controller for one of the company's divisions. He is a member of The Institute of Chartered Accountants of Scotland.

Corporate advisers

Registration number
No. SC 004221
Registered in Scotland

Company Secretary
Derek L.H. Quirk

Registered office
First Floor
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Glasgow G3 7YE
Telephone: 0141 333 9666

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110 St. Vincent Street
Glasgow G2 5ER

Solicitors
CMS Cameron McKenna
Nabarro Olswang LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

Wright Johnston & Mackenzie LLP
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Glasgow G2 5RZ

Stockbrokers
Arden Partners plc
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London EC2N 1AR

Independent auditor
KPMG LLP
319 St. Vincent Street
Glasgow G2 5AS

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

Report of the Directors

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2018. Pages 2 to 47 inclusive comprise the Directors' report, which in turn includes the Strategic Report on pages 2 to 25.

These reports have been drawn up and presented in accordance with and in reliance upon applicable company law and any liability of the Directors in connection with these reports shall be subject to the limitations and restrictions provided by such laws.

Corporate governance

The information that fulfils the requirement of the Corporate Governance Statement can be found in the Corporate Governance Section on pages 40 to 47 (and is incorporated into this report by reference) with the exception of the information referred to in the Financial Conduct 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 2 and 3 and the Strategic Report on pages 2 to 25 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, which 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. Nothing in this report and the financial statements should be considered or construed as a profit forecast for the Group.

Results and dividends

The Group's profit before tax from continuing activities was £10,886,000 (2017: £9,261,000). This resulted in a profit for the year of £8,741,000 (2017: £7,424,000).

The Directors declared an interim dividend of 0.65p per share, which was paid on 11 October 2018 (2017: 0.60p per share). The proposed final dividend of 1.65p per share (2017: 1.50p per share) is subject to approval by shareholders at the AGM in May 2019 and has not been included as a liability in these financial statements.

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. The Group's objective is to achieve a capital structure that results in an appropriate cost of capital whilst providing flexibility in immediate and medium-term funding so as to accommodate any material investment requirements.

The 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 the Company's shareholders that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid. Details of the issued share capital are shown in note 19 and there have been no changes during 2018.

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

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 40 to 47.

The Directors will propose an ordinary resolution at the 2019 AGM seeking authority to allot shares in the Company under section 551 of the Companies Act 2006 up to an aggregate nominal amount of £13,128,968.

At the 2018 AGM, 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 £3,938,690, which expires at the conclusion of the 2019 AGM. A special resolution will seek to renew for a further year the authority over the existing unissued and uncommitted ordinary share capital of £3,938,690.

No authority will be sought at the 2019 AGM to enable the Company to purchase its own shares.

Substantial holdings

	Number of shares held	Percentage
Funds managed or advised by Rights & Issues Investment Trust plc	17,250,000	10.95%
Funds managed by Canaccord Genuity Group Inc.	15,761,358	10.00%
Funds managed or advised by Otus Capital Management	9,171,289	5.82%
Almadon Limited	9,090,909	5.77%

Employee share schemes

Option awards are shown in the Directors' Remuneration Report on page 31. No remaining option awards are outstanding at 31 December 2018 as set out in note 25.

The Remuneration Committee supervises the award of longer-term share incentives and specifies the performance conditions at the time of the award, having regard to the objectives of the Company and to market practice at the relevant time. Further detail is given in the Directors' Remuneration Report on pages 30 to 39.

Substantial holdings of shares in the Company

The Company has received notification prior to 21 February 2019 in accordance with Rule 5 of the Financial Conduct Authority's Disclosure and Transparency Rules of the voting rights as a shareholder of the Company set out in the table above.

Directors

The names of the Directors in office at 31 December 2018 together with short biographical details, are set out on pages 26 and 27. The Board considers its three Non-executive Directors to be independent.

James Baird was appointed as a Non-executive Director of the Company on 8 January 2018 and elected as a Director at the AGM in 2018. Andrea Dunstan was appointed as a Non-executive Director of the Company on 1 September 2018 and will retire and offer herself for election as a Director at the AGM in 2019.

Bob McLellan and John Love retire by rotation at the AGM in May 2019 and offers themselves for re-election. Bob McLellan has a letter of appointment with the Company dated 10 March 2016 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 Directors' Remuneration Report on page 32.

There are no agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs in the event of change of control.

Directors' and officers' liability insurance

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

Political donations

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 £3,938,690, representing 10% of the current share capital.

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. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Independent auditor

A resolution to re-appoint of KPMG LLP as the Company's auditor will be proposed at the AGM in 2019.

Company information

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

Approval

The Strategic Report on pages 2 to 25 and the Directors' Report on pages 28 to 47 were both approved by the Board on 22 February 2019.

Derek L.H. Quirk
Company Secretary
22 February 2019

Remuneration report

Remuneration Committee Chair's summary statement

I am pleased to present my first Report on Directors' Remuneration since joining the Board and the Remuneration Committee in September 2018.

This Remuneration Report has been drawn up under the provisions of the Enterprise and Regulatory Reform Act 2016. In addition to this statement the report includes two further sections detailing the Annual Report on Remuneration on pages 31 to 34 and the Remuneration Policy, being set before the 2019 AGM for the normal triennial approval, on page 35 to 39.

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, Stuart Paterson. The Committee determines the remuneration for the Executive Directors and also oversees the remuneration of the Chief Executive's direct reports.

The 2019 AGM is the third anniversary of the approval of our Directors' Remuneration Policy, which was approved by shareholders at the 2016 AGM. Under the UK Companies Act, we are therefore required to renew our Remuneration Policy this year. The Policy being presented for approval at the 2019 AGM is substantially unchanged from our 2016 Policy, which we believe has worked well for both shareholders and the Company.

The key components of executive remuneration are:

- Basic salary and benefits – the salary increase applied for 2018 was 2.0%, consistent with the average for all eligible employees. Base salaries will increase by 2.0% for 2019, also in line with the wider employee population.
- Annual Bonus – there is a maximum payment of 50% of salary with 40% of salary based on Profit before tax ('PBT') performance and 10% of salary based on personal objectives. Payment of the personal performance element of the annual bonus is subject to achieving a threshold PBT performance. No bonuses were paid in 2018 as detailed in the Remuneration report on page 31. Our policy allows for a bonus of up to 100% of salary, although the maximum for 2019 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. The 2015 awards lapsed in 2018 as detailed on page 32. From 2019 it is anticipated that awards with a face value of 50% of base salary will be granted annually to the Executive Directors, subject to stretching performance conditions. For 2019, we anticipate making these awards subject to Earnings per Share ('EPS') targets.
- Total Directors' remuneration is £817,000 in 2018 compared to £909,000 in 2017.

At the AGM on 14 May 2019, we are asking shareholders to approve two resolutions related to remuneration:

- To approve the Annual Report on Remuneration, outlining how the Policy was operated during 2018
- To approve the Remuneration Policy, which we anticipate will operate for the next three years.

I hope that you will feel able to continue to support the resolutions on remuneration at the upcoming AGM.

Andrea Dunstan
Chair of the Remuneration Committee
22 February 2019

Annual report on remuneration

Single total figure of remuneration for each Director

The details set out on pages 31 and 32 of this report, up to and including the Statement of Directors' shareholdings and share interests, have been audited by KPMG LLP.

2018	Salary and fees £000	Taxable benefits £000	Bonus £000	Pension costs £000	Long-term incentive £000	Total £000
Chairman						
S.R. Paterson	**66**	**–**	**–**	**–**	**–**	**66**
Executive Directors						
P.D. Atkinson	**348**	**16**	**–**	**76**	**–**	**440**
J. Love	**172**	**8**	**–**	**33**	**–**	**213**
Non-executive Directors						
R. McLellan	**33**	**–**	**–**	**–**	**–**	**33**
J.W.F. Baird (appointed 8 January 2018)	**32**	**–**	**–**	**–**	**–**	**32**
A.M. Dunstan (appointed 1 September 2018)	**11**	**–**	**–**	**–**	**–**	**11**
M. Arrowsmith (retired 31 August 2018)	**22**	**–**	**–**	**–**	**–**	**22**
Total	**684**	**24**	**–**	**109**	**–**	**817**

2017	Salary and fees £000	Taxable benefits £000	Bonus £000	Pension costs £000	Long-term incentive £000	Total £000
Chairman						
S.R. Paterson (from 29 September 2017)	41	–	–	–	–	41
G. Bissett (until 29 September 2017)	49	–	–	–	–	49
Executive Directors						
P.D. Atkinson	341	16	81	76	–	514
J. Love	169	7	43	20	–	239
Non-executive Directors						
M. Arrowsmith	33	–	–	–	–	33
R. McLellan	33	–	–	–	–	33
Total	666	23	124	96	–	909

Taxable benefits relate to provision of a Company car (or equivalent allowance) and private medical insurance.

Annual bonus for the year ended 31 December 2018

The Annual bonus is based on performance against financial targets and personal objectives as set out in the Remuneration Policy. Any bonuses are paid in cash following Board approval of the Group Accounts each year.

No element of the annual bonus is payable unless the minimum financial target is achieved. The minimum financial target for 2018 was PBT of £11.4 million, which was not achieved and therefore no bonus was awarded for either the financial targets or the personal objectives.

Directors' pension entitlements

Peter Atkinson receives a cash allowance which, including the related employer's national insurance contributions, equates to 25% of base salary. John Love is a member of Macfarlane Group PLC Pension & Life Assurance Scheme (1974). His accrued pension at 31 December 2018 was £45,100 (2017: £43,200). The related transfer value was £902,000 (2017: £864,000) calculated using HMRC guidelines. The scheme's normal retirement date is 65 with no automatic entitlement to early retirement.

Payments to past Directors

There were no payments made to former Directors in the year or payments made for loss of office.

Remuneration report (continued)

Statement of Directors' shareholdings and share interests

	2018		2017 (or date of appointment if later)	
	Beneficial	**Option**	Beneficial	Option
S.R. Paterson	**120,000**	**–**	120,000	–
P.D. Atkinson	**854,172**	**–**	854,172	775,254
J. Love	**800,000**	**–**	800,000	360,026
R. McLellan	**102,819**	**–**	102,819	–
J.W.F. Baird	**66,605**	**–**	–	–
A.M. Dunstan	**10,000**	**–**	–	–

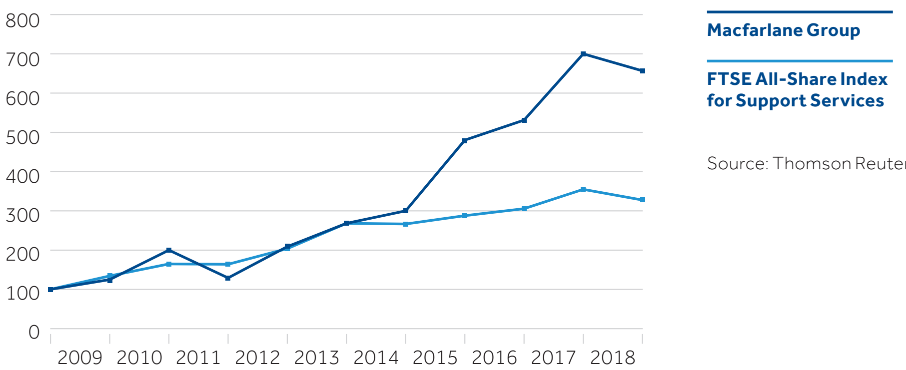
The Company operates a Performance Share Plan under which shares are awarded which vest subject to performance over a three-year period. Option awards to Peter Atkinson and John Love in 2015, outstanding at the end of 2017, lapsed on 22 February 2018. These awards were subject to an EPS range of between 5.75p and 6.53p per share in 2017 and the actual EPS for 2017 was 5.22p per share.

The remainder of the Annual report on remuneration is not subject to audit.

Performance graph and table

The graph below 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 to the Group for this purpose.

Total shareholder return index



Source: Thomson Reuters

CEO single figure

		Single figure of total remuneration £000	Annual variable element award vs. maximum opportunity	Long term incentive vesting against maximum opportunity
2018	P.D. Atkinson	440	0%	n/a
2017	P.D. Atkinson	514	48%	0%
2016	P.D. Atkinson	516	55%	n/a
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
2010	P.D. Atkinson	411	10%	n/a
2009	P.D. Atkinson	410	16%	n/a

Percentage change in remuneration of CEO and employees

The following table shows the percentage change in remuneration between 2018 and 2017 for the CEO and for all employees in the Group.

	CEO	Average for all eligible employees
Base salary	2.0%	2.0%
Benefits	0.0%	2.1%
Bonus	-100.0%	-9.5%

Relative importance of spend on pay

The difference in expenditure between 2017 and 2018 on remuneration for all employees in comparison to the distribution to shareholders by way of dividend is set out below:

	2018 £000	2017 £000	Change
Total employee pay	**27,791**	25,064	+11%
Dividend	**3,387**	2,854	+19%*

* This reduces to 8% when the impact of the share issue in 2017 is taken into account.

Statement of implementation of remuneration policy in 2019

The salaries of the Chief Executive and the Finance Director were increased by 2.0% to £354,552 and £175,626 respectively with effect from 1 January 2019, which is in line with the average increase for the Group's workforce.

The fees paid to the Chairman and Non-executive Directors also increased by 2.0% to £67,578 and £33,789 respectively from 1 January 2019.

There are no changes proposed to the operation of benefits and pensions from the bases operated in 2018.

Executive Directors will be eligible to receive an annual bonus of up to 50% of base salary, with 40% of salary based on PBT targets and 10% of salary based on personal objectives. No element of the annual bonus is payable if the PBT threshold target is not achieved. The precise targets are considered by the Board to be commercially sensitive at this time, but will be disclosed in next year's Directors' Remuneration Report.

The Remuneration Committee intends to make awards under the Performance Share Plan ('PSP') based on the following principles:

- An annual award over shares with a face value of 50% of salary (within the existing 100% of salary limit);
- A fixed 3 year performance period (with no re-testing); and
- A performance condition based on Earnings per share performance and subject also to an 'underpin' assessment by the Remuneration Committee that it must be satisfied regarding overall Company performance before vesting is confirmed.

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 pages 26 and 27.

The Remuneration Committee used the services of FIT Remuneration Consultants LLP to advise on certain aspects of remuneration during 2018 and fees of £850 were charged for the year for Remuneration Committee advice. The Directors consider FIT Remuneration Consultants LLP to be independent of the Group and objective in their advice.

Remuneration report (continued)

Statement of voting at the Annual General Meeting

At the AGM held on 15 May 2018, the Directors' Remuneration Report received the following votes from shareholders.

	Total number of votes	% votes cast
For	**64,914,542**	99.95%
Against	**31,783**	0.05%
Total votes cast (for or against)	**64,946,325**	100.00%
Votes withheld	**8,526**	
Total	**64,954,851**	

Votes received (including votes withheld) amounted to 41.23% of the issued share capital.

At the AGM held on 10 May 2016, the Directors' Remuneration Policy received the following votes from shareholders.

	Total number of votes	% votes cast
For	**60,702,093**	99.67%
Against	**202,989**	0.33%
Total votes cast (for or against)	**60,905,082**	100.00%
Votes withheld	**219,636**	
Total	**61,124,718**	

Remuneration policy

The following pages detail the Company's Directors' Remuneration Policy which is also shown under the Corporate Governance section of the Company website (www.macfarlanegroup.com). This will be subject to the vote on the Directors' Remuneration Policy being proposed at the 2019 AGM.

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 base salaries annually with changes effective from 1 January. This review takes into account practices elsewhere in the Group. Salary is pensionable.
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.
Changes	No material changes.

Retirement benefits (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 Executive Directors. The Group's legacy defined benefit scheme has been closed to new members since 2002 and the pensionable salary frozen in 2010. Pension contributions for new appointments will be kept under review in line with developing market practice.
Opportunity	Company contribution of up to 25% of base salary or equivalent cash allowance in lieu (inclusive of employer's national insurance contribution).
Changes	No material changes.

Other 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 include, car allowance or Company car, private medical insurance, permanent health insurance and any other such benefits as the Committee considers appropriate.
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.
Changes	No material changes.

Annual bonus (variable pay)

Link to strategy	To incentivise performance over a 12 month period based on the attainment of 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. Bonus awards are subject to malus and clawback provisions for 2 years following the award.
Opportunity	Maximum bonus potential capped at 100% of base salary but remains at 50% for 2019. The Annual bonus is not pensionable.
Performance measure	Performance measures 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.
Changes	No material changes.

Remuneration policy (continued)

Long term incentives (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-testing. Executive Directors are expected to build up a prescribed level of shareholding equivalent to 100% of base 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. LTIP awards are subject to malus and clawback provisions for 3 years following vesting.
Opportunity	Any award is capped at 100% of base salary in normal circumstances (200% in exceptional circumstances). For 2019 the Committee intends to make awards of 50% of salary.
Performance measure	Conditional awards will vest based on three-year performance against challenging financial and other targets set and assessed by the Committee in its discretion.
Changes	No material changes.

Outstanding obligations
The Company will honour any commitments entered into prior to the approval and introduction of this policy, including obligations entered into under prior policies.

Clawback/malus in the Annual bonus and the LTIP
Provisions are in place for both the Annual bonus and the LTIP arrangement to operate malus and/or clawback in certain exceptional circumstances, including the material misstatement of the Company's results (annual bonus and LTIP), if the assessment of performance on which vesting is based was based on an error (LTIP only) or circumstances which would warrant the summary dismissal of the individual, whether or not the Company has chosen to do so.

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 Chair will engage pro-actively with shareholders such as in advance of proposed awards under the Performance Share Plan.

Differences between the policy on remuneration for Directors from the policy for all other employees
While 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.

Approach to recruitment remuneration
The Remuneration Committee will follow the above policy when setting the remuneration for a new Executive Director. Base 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 and for a period of no more than two years following appointment.

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, however the Board may require the fees from such appointments to be accounted for to the Company. Neither P.D. Atkinson nor J. Love currently hold any external appointments.

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.

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

	Letter of appointment commencement date	Notice period
Non-executive Directors		
S.R Paterson	29 September 2017	6 months
R. McLellan	10 March 2016	3 months
J.W.F. Baird	8 January 2018	3 months
A.M. Dunstan	1 September 2018	3 months

Non-executive Director remuneration policy

Chairman

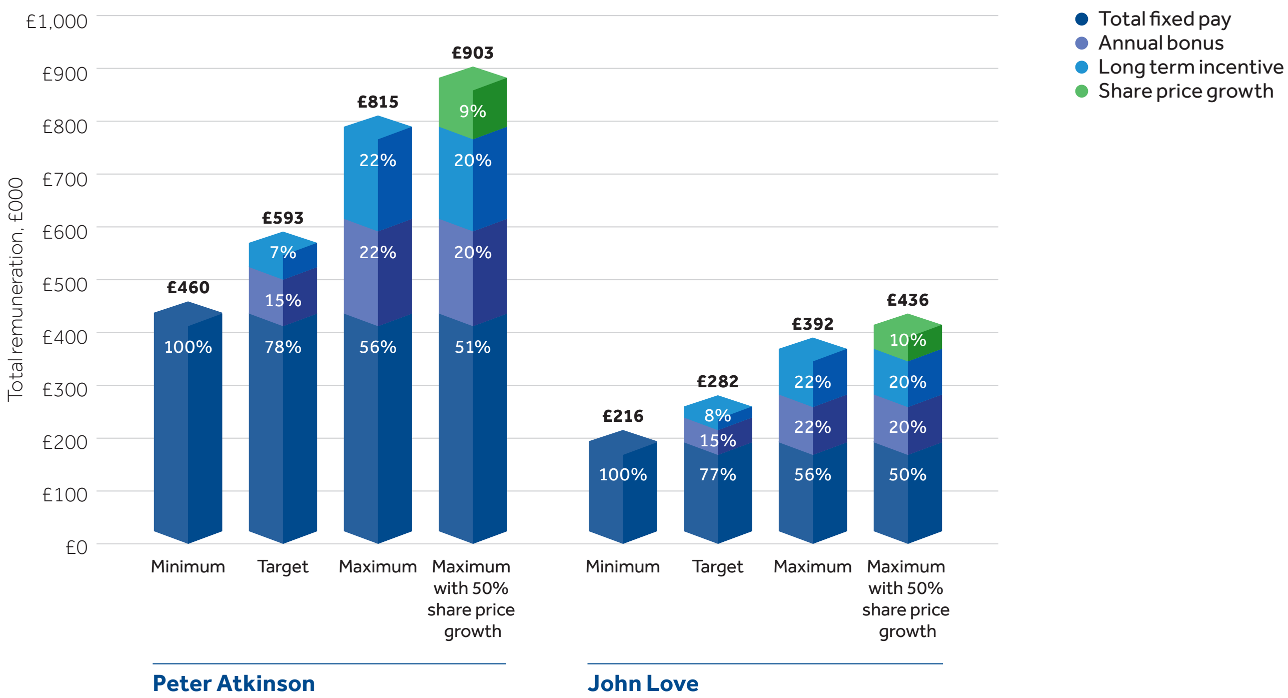
Link to strategy	To attract and retain a high-calibre Board Chairman by offering a market competitive fee level.
Operation	The Board Chairman is paid a single fee for all his responsibilities. The level of fee is reviewed periodically by the Remuneration Committee with reference to other comparable companies.
Opportunity	The current fee is £67,578 and is 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. Committee Chairs may be paid a supplement to reflect their additional responsibilities. Fee levels are reviewed periodically by the Chairman and the Executive Directors with reference to other comparable companies.
Opportunity	The current fee is £33,789 and is subject to periodic change under this policy. There are currently no supplementary fees paid and there is no maximum fee level.

Remuneration policy (continued)

Illustration of the application of the remuneration policy



The charts above illustrate how the remuneration policy for the Executive Directors will apply in 2019 based on the following assumptions:

Minimum	Consists of base salary, benefits and pension.				
	Base salary is the salary to be paid in 2019.				
	Benefits are an estimate of benefits to be paid for the full year in 2019.				
	Pension is an estimate of the value of pension contributions or cash allowance to be paid in 2019.				
	£000	Base salary	Benefits	Pension	Total fixed
	P.D. Atkinson	£355	£16	£89	£460
	J. Love	£176	£8	£33	£216
Target	Based on what the Director would receive if performance was 'on-target'. This includes: • Fixed pay (as above) • A target bonus payout of 25% of salary (50% of maximum) • A threshold level of vesting under the PSP (25% of maximum, i.e. 12.5% of salary) excluding share price appreciation and dividends				
Maximum	Based on what the Director would receive if performance was at 'maximum'. This includes: • Fixed pay (as above) • A maximum bonus payout of 50% of salary • A maximum level of vesting under the PSP (50% of salary) excluding share price appreciation and dividends				

An additional bar is shown, representing the maximum assumptions above and including the impact of 50% share price growth over the performance period for the PSP.

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, contractual pension contributions and other 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.

The Company has the power to enter into settlement agreements with Directors and to pay compensation to settle potential legal claims. In addition, and consistent with market practice, in the event of the termination of an Executive Director, the Company may make a contribution towards that individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees will be disclosed as part of the detail of termination arrangements. This policy does not include an explicit cap on the cost of termination payments.

Committee discretions

The Committee will operate the annual bonus plan and PSP according to their respective rules and the above policy table. The Committee retains discretion, consistent with market practice, in a number of respects including the terms and the termination of any contract, in relation to the operation and administration of these plans.

These discretions include but are not limited to:
- Selection of participants;
- Timing of the grant of an award and/or bonus opportunity;
- The size of an award and/or bonus opportunity subject to the maximum limits set out under the policy;
- Determination of performance against targets and resultant vesting of awards and/or bonus payments;
- Determination of vesting of awards and/or bonus payments 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 any treatment chosen;
- Adjustments reflecting particular circumstances, e.g. Rights issues, corporate restructurings etc.; and
- The annual review of performance measures, weightings and targets from year to year.

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, this can be set provided 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 Director's Remuneration Report and if appropriate be the subject of consultation with major shareholders.

The Committee may make minor amendments to the policy set out above without obtaining shareholder approval for that amendment.

Corporate governance

The Company is committed to the principles of corporate governance in the Financial Reporting Council's ('FRC'). UK Corporate Governance Code issued in April 2016 ('the Code'). The Company's compliance is set out in the narrative statement on pages 40 to 47 and for Directors' remuneration in the Directors' Remuneration Report on pages 30 to 39.

Stuart R Paterson
Chairman

Compliance

The Company did not fully comply with all the Code provisions during 2018. Following the appointment of Stuart Paterson as Chairman on 29 September 2017, a process was undertaken to recruit a new Non-executive Director. During this process, from 29 September 2017 until 8 January 2018 the Audit Committee continued to be chaired by Stuart Paterson, the Company Chairman. As a result, the Company did not comply with provision C.3.1 which states that the Company chairman may be a member of, but not chair, the Audit Committee. The appointment of James Baird on 8 January 2018 brought the Company into compliance with C.3.1 as he was immediately appointed as the Chairman of the Audit Committee given his recent and relevant financial experience.

The Company's auditor, KPMG LLP, is required to review whether the above statement (in addition to its wider remit under the Listing Rules) reflects the Company's compliance with the provisions of the Code specified for its review by the Financial Conduct Authority's 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. Names of the Directors, together with biographical details, illustrating their range of experience, are set out on pages 26 and 27. Details of Executive Directors' service contracts are given in the Remuneration Policy on page 37 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.

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 2018 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.

The Chairman's other commitments are included in his biography on page 26. The Board is satisfied that these do not interfere with the performance of Group duties, which is based on a commitment of approximately 45 days per annum.

The Board considers its non-executive Directors, Bob McLellan, James Baird and Andrea Dunstan to be independent both in character and judgement. None of these 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 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 is kept under regular review.

The roles of the Chairman and Chief Executive

The division of responsibilities between the Chairman and the Chief Executive is clearly defined and has been approved by the Board. The Chairman is responsible for 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. The Chief Executive's responsibilities focus on managing the business and implementing the Group's strategy.

Senior Independent Director

The Board appointed Bob McLellan as Senior Independent Director on 1 September 2018 succeeding Mike Arrowsmith who had been in the role since 7 May 2013. Bob 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 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 2019 AGM, Andrea Dunstan, Bob McLellan and John Love fall due to retire and, being eligible, offer themselves for election and re-election as appropriate. Directors' service contracts and letters of appointment will be available for shareholder review prior to the AGM on 14 May 2019.

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 Director's first appointment, the Chairman will discuss with the Director whether it is appropriate for a further three-year term to be served.

Company Secretary

Derek Quirk, 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 executive management in achieving these objectives, create value for and safeguard the interests of shareholders within the appropriate legal and regulatory framework. The Board met seven times during 2018 and individual attendance at those and the Board Committee meetings is set out in the table on the following page. In 2018, 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 for 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, approval of capital expenditure below Board authority levels and the development and implementation of risk management systems.

Board Agendas are set by the Chairman, who consults with the Chief Executive and discusses the agendas with the Company Secretary, who maintains a programme of areas for discussion to ensure that all matters reserved for the Board and any other key issues are addressed at the appropriate time.

Corporate governance (continued)

At each meeting, the Directors receive management information 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. These and other 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.

Accountability

The Board is responsible for presenting a fair, balanced and understandable assessment of the Group's position and prospects and asks the Audit Committee to consider and advise the Board of its view.

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 58, 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 from the date of this report. 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 48.

Board and Committee meetings

The number of regular Board and Committee meetings attended by each member during 2018 is shown in the table below.

Where a Director cannot attend a Board or Committee meeting, any comments the Director has on the papers being reviewed at that meeting are relayed in advance for consideration.

Professional development

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

Board performance evaluation

The Board has established a formal process, led by the Chairman, for an annual performance evaluation of the Board, its Committees and individual Directors. All Directors are made aware 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 strategic objectives and the performance and processes of the Board and all Board Committees. The results are collated by the Company Secretary and reviewed by the Board to identify any areas for improvement and to confirm objectives for the year ahead. The Chairman then holds individual meetings with each Director to review performance and set individual objectives.

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

Relationships with shareholders

The Group maintains a corporate website (www.macfarlanegroup.com) containing a wide range of information of interest to institutional and private investors.

Detailed reviews of the performance and financial position are included in the Strategic Report on pages 2 to 25 of this report. The Board uses, this together with the Chairman's Statement on pages 2 and 3 and the remainder of the Report of the

Attendance by Directors at Board and Committee meetings during 2018

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Stuart Paterson – Chairman	7 (7)	3 (3)*	3 (3)	2 (2)
Peter Atkinson – Chief Executive	7 (7)	–	–	–
John Love – Finance Director	7 (7)	–	–	–
Bob McLellan – Senior Independent Director	7 (7)	3 (3)	3 (3)	2 (2)
James Baird – Non-executive Director	7 (7)	3 (3)	3 (3)	2 (2)
Andrea Dunstan – Non-executive Director	2 (2)	1 (1)	1 (1)	0 (0)
Mike Arrowsmith – Non-executive Director	5 (5)	2 (2)	2 (2)	2 (2)

Figures in brackets indicate the maximum number of meetings in 2018 in which the individual was a Board or Committee member.

* The Chairman attends but is not a member of the Audit Committee.

Directors on pages 28 and 29, 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 regular discussions with institutional shareholders, including meetings led by the Chief Executive and the Finance Director, following the announcement of the annual results in February and the 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 annual results and the 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 all shareholders have an opportunity to raise questions with members of the Board on matters relating to the Group's operations and performance during the meeting and to meet Directors after the formal proceedings have ended. Details of the resolutions to be proposed at the AGM can be found in the Notice of Meeting accompanying the Annual Report and Accounts. The Notice of Meeting is sent out more than 20 days in advance of the meeting. 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.

Nominations Committee

The Nominations Committee membership during 2018 was as follows:

Stuart Paterson
(Chair)

Bob McLellan

James Baird
(from 8 January 2018)

Andrea Dunstan
(from 1 September 2018)

Mike Arrowsmith
(until 31 August 2018)

The Nominations Committee met two times during 2018 and its terms of reference are available on the Group website (www.macfarlanegroup.com).

The principal work undertaken by the Nominations Committee in 2018 was to consider and recommend that the Company propose for re-election any Directors falling due for re-appointment at the AGM; and to recruit and recommend the appointment of a new non-executive Director to succeed Mike Arrowsmith, a process led by the Group's Chairman.

The Committee's ongoing 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.

Following a Nominations Committee held on 22 February 2018 the Committee proposed James Baird and Stuart Paterson for re-election at the AGM on 15 May 2018. No Director is involved in any decisions regarding his own appointment or re-appointment.

Following a Nominations Committee on 28 August 2018, the Committee approved the appointment of Andrea Dunstan as a non-executive Director with effect from 1 September 2018.

Corporate governance (continued)

Remuneration Committee

The Remuneration Committee membership during 2018 was as follows:

Andrea Dunstan
(Chair from 1 September 2018)
Bob McLellan
(Chair until 31 August 2018)
James Baird
(from 8 January 2018)
Stuart Paterson
Mike Arrowsmith
(until 31 August 2018)

None of the members of the Remuneration Committee during 2018 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 2018 and its terms of reference are available on the Group website (www.macfarlanegroup.com).

The principal work undertaken by the Remuneration Committee in 2018 was:
(a) To review performance against 2017 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 2018 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 Directors' Remuneration Report.

The work carried out by the Remuneration Committee, including the new Remuneration Policy Statement for approval by shareholders at the 2019 AGM, is described within the Directors' Remuneration Report, which is set out on pages 30 to 39.

Audit Committee

During 2018 the Audit Committee comprised:

James Baird
(Chair from 8 January 2018)
Stuart Paterson
(Chair to 7 January 2018)
Bob McLellan
Andrea Dunstan
(from 1 September 2018)
Mike Arrowsmith
(until 31 August 2018)

James Baird was appointed as a Non-executive Director on 8 January 2018 and immediately appointed as Chairman of the Audit Committee given his relevant experience. The remaining Committee members, Bob McLellan and Andrea Dunstan have a wide range of commercial experience as evidenced in their biographical details on pages 26 and 27. The Company Chairman attends meetings to give the benefit of his relevant experience but is no longer a member of the Committee with effect from 8 January 2018.

The Committee's terms of reference are displayed on the Group website (www.macfarlanegroup.com) and its principal oversight responsibilities cover the following five 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. The overall responsibility for the systems of internal control and for reviewing their effectiveness rests with the Board.

- **Internal audit**
  The Committee monitors and reviews the effectiveness of the Company's internal audit function and its terms of reference annually and recommends to the Board any changes required following the review. Reports from internal audit are considered at each meeting and the Committee actively engages in selecting areas to be audited.

- **Viability statement**
  Pages 16 and 17 give information on these risks and uncertainties and the mitigating actions being taken to address them. The viability statement set out on page 18 includes scenario testing of the key risks in order to determine their potential impact on the prospects of the Company.

- **External audit**
  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 formal consideration of the independence of the external auditor. The Committee considers the framework used for the supply of non-audit services by the external auditor and reviews non-audit services and fees.

- **Financial reporting**
  The Audit Committee monitors the integrity of the Group's financial statements and the significant judgements contained therein. The Committee also considers any other formal announcements relating to the Group's performance. Further details are set out on the following pages.

The Audit Committee met three times during 2018 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 2018 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;
- Agreeing the programme of work for the internal audit function taking into account identified risks;
- Discussing reports from the Head of Internal Audit on the work undertaken by Internal Audit and management responses to proposals made in these audit reports, 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 includes confirmations of auditor independence and approval of the engagement letter; and
- Reviewing and approving the external audit fee and keeping the level of non-audit fees under review.

Following each Audit Committee meeting, copies of the minutes of the meetings are circulated to all Board Directors and are made available to the external auditors by the Company Secretary, who acts as Secretary to the Committee.

2018 Financial statements

Certain accounting policies require key accounting judgements or involve particularly complex or subjective estimates or assumptions which will have a significant effect on the amounts recognised in the financial statements. The Audit Committee receives a report from the Finance Director, for each reported set of results, summarising the principal judgements taken by executive management. The Committee discusses and challenges these judgements and considers the report together with the results of the external audit. The Committee then makes a recommendation to the Board on the suitability of the policies and judgements supporting the reported results.

For the 2018 financial statements, the Committee considers the two most significant areas of judgement to be:

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 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. Investments are valued at bid price and confirmed by the pension scheme's investment adviser.

The Audit Committee has 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 Macfarlane Group's defined benefit pension scheme.

The level of deficit calculated by the pension scheme actuary and the related disclosures are based on these assumptions and the components of the movement in the pension scheme deficit in 2018 have all been explained to the Committee's satisfaction. These movements in 2018 include the exceptional cost adjustment of £330k relating to the equalisation of pension benefits for current and prior years for men and women in relation to GMP benefits. The sensitivities of movements in the underlying assumptions are clearly set out in note 24. Accordingly the Committee is comfortable with the classification of the exceptional cost in relation to GMP equalisation and the reporting of the pension scheme deficit.

Corporate governance (continued)

Audit Committee (continued)

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 by applying an expected credit loss model. The Group's executive management then reviews local judgements. Whilst every attempt is made to ensure that the provision held against doubtful trade receivables is as accurate as possible, there remains a risk that the provision may not match the level of debt, which ultimately proves to be uncollectible. At 31 December 2018, the Group retained a provision held against trade receivables of £304,000 (2017: £361,000). Further details are set out in note 14.

The Audit Committee receives details of individual receivables > £25,000 twice in each year. The Committee reviews the extent to which year-end balances have been settled in 2019 to date, paying particular attention to receivables outwith terms and any bad debts written off, comparing this with similar analyses produced at previous reporting dates. This is then considered against the level of provision held against trade receivables. Based on this analysis, the Committee is of the view that the level of provision and the disclosures of items beyond terms is appropriate.

Consideration of other matters

The Committee debates a number of other areas for each reporting period, but does not consider these matters to be of such significance as those above. For the 2018 financial statements, the main other areas included:

- The acquisition of subsidiaries is accounted for under the acquisition method. Acquired businesses are measured at the date of acquisition as the aggregate fair value of assets, liabilities and contingent liabilities. The excess of the cost of acquisition over the fair value of the identifiable net assets is classified as goodwill. The Committee reviews this process for each acquisition undertaken and discusses the methodology and assumptions used with management. The Committee concluded that it was satisfied with the basis of accounting in this area and the resulting measurements;
- Goodwill is allocated to cash generating units ('CGUs') expected to benefit from the synergies of the business combination, for the purpose of impairment testing. Carrying values of goodwill for each CGU are considered annually. The Committee reviews and discusses management's approach, including not only impairment testing but also the related sensitivity analysis. The Committee was satisfied with the assumptions and judgements applied, concluding that there was no evidence of impairment of goodwill;
- The level of and basis for inventory provisions at 31 December 2018;
- The disclosure of Alternative Performance Measures ('APMs') in relation to the exceptional costs;
- A review of the viability statement including disclosure of the terms of the Group's banking facilities; and
- The preliminary review of the impact of IFRS 16 '*Leases*' which takes effect in 2019.

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 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 of the arrangements are on the Group website (www.macfarlanegroup.com). All concerns are investigated at the earliest opportunity and the employee's anonymity 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 of the external auditors with ethical and regulatory requirements to the Audit Committee, and day-to-day responsibility to the Finance Director. The Audit Committee ensures 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 noted that there are no contractual obligations to restrict the choice of external auditor. In accordance with best practice, the audit partner from the external auditor rotates off the audit engagement every 5 years.

The Audit Committee monitors non-audit services provided to the Group by the external auditor, recognising that there will be certain non-audit work which the external auditor is best placed to undertake. There will also 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. Non-audit work over a certain value to be undertaken by the external auditor has to be approved by the Audit Committee in advance of any work being undertaken. Details of amounts paid to KPMG LLP during 2018 for audit and other services are set out in note 2 to the financial statements.

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

Risk management and internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. It is management's role 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 accordance with the principles of the Code and the related guidance. The process was in place throughout 2018 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, Internal Audit has been staffed in-house. Certain parts of the internal audit plan may be outsourced when specific expertise is required. The Committee challenges and agrees the annual internal audit plan, receives reports on internal audit issues raised and a six-monthly update from the Head of Internal Audit;
- Monthly and annual financial control checklists submitted by each business unit;
- Discussion by the Committee of the external auditor's conclusions of its annual audit and interim review; and
- A robust risk assessment process as set out below.

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 ensures that management has identified and implemented appropriate controls, which are acceptable to the Board, to address these risks. The risk register is taken into account in setting the internal audit plan each year.

The Audit Committee has received reports on cyber security matters to emphasise the importance of having robust cyber security measures in place as part of the controls framework, but also to ensure that employees, customers and suppliers are protected from the impact of cyber security breaches.

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.

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 International Financial Reporting Standards as adopted by the European Union (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, relevant and reliable;
- 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;
- Assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 comply 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 Report, 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.

On behalf of the Board

Peter D. Atkinson
Chief Executive
22 February 2019

John Love
Finance Director
22 February 2019

Independent auditor's report to the members of Macfarlane Group PLC

1. Our opinion is unmodified

We have audited the financial statements of Macfarlane Group PLC ('the Company') for the year ended 31 December 2018 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement, the Company balance sheet and the Company statement of changes in equity and the related notes, including the accounting policies set out on pages 58 to 63.

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 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the Directors on 9 May 2012. The period of total uninterrupted engagement is for the 7 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The impact of uncertainties due to the UK exiting the European Union on our audit (new risk)

Refer to page 16 (Principal Risks), page 18 (Viability Statement), pages 44 and 46 (Audit Committee Report).

The risk – Unprecedented levels of uncertainty – All audits assess and challenge the reasonableness of estimates, in particular as described in the valuation of defined benefit pension liabilities and valuation of trade receivables below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the Directors' statement 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 position and performance, business model and strategy.

Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

Our response – We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

- Our Brexit knowledge – We considered the Directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks.
- Sensitivity analysis – When addressing the valuation of defined benefit pension liabilities and valuation of trade receivables and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.
- Assessing transparency – As well as assessing individual disclosures as part of our procedures on the valuation of defined benefit pension liabilities and valuation of trade debtors we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

Our results – As reported under going concern, valuation of defined benefit pension liabilities and valuation of trade receivables, we found the resulting estimates and related disclosures of defined benefit pension liabilities and trade receivables, and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Independent auditor's report to the members of Macfarlane Group PLC (continued)

Going concern (new risk)

Refer to page 15 (Financial Review), page 18 (Viability Statement) and page 58 (Accounting Policy).

The risk – Disclosure quality – The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company.

That judgement is based upon an evaluation of the Group and Company's business model, including the impact of Brexit, and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.

The risks most likely to adversely affect the Group's and Company's available financial resources over this period were increases in interest rates and deteriorations in profitability and debtors ageing.

The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.

Our response – Our procedures included:

- Historical comparisons: We compared historical cash flow forecasts to actual cash flows achieved in the year and previously in order to assess the Group's forecasting accuracy;
- Sensitivity analysis: We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively;
- Funding assessment: We assessed the committed level of financing and related covenant requirements by reference to supporting documentation and sensitising to challenge continued compliance with these covenant requirements;
- Our sector experience: We assessed the financial forecasts with reference to our knowledge of the business;
- Assessing transparency: We assessed the completeness and accuracy of the matters covered in the going concern disclosure.

Our results – We found the going concern disclosure without any material uncertainty to be acceptable (2017: acceptable).

Valuation of defined benefit pension liabilities (risk vs 2017 ⬅➡)

Group (£85.6 million; 2017: £92.8 million)
Refer to page 45 (Audit Committee Report), page 61 (Accounting Policy) and page 83 (Financial Disclosures).

Parent Company (£34.2 million; 2017: £37.1 million)
Refer to page 45 (Audit Committee Report), page 92 (Accounting Policy) and page 96 (Financial Disclosures).

The risk – Subjective valuation – Significant assumptions and estimates are made in valuing the Group's post-retirement defined benefit scheme. Small changes in assumptions and estimates used to value the Group's net pension obligation (before deducting scheme assets) would have a significant effect on the results and financial position of the Group. The judgemental nature of the assumptions and the magnitude of the scheme deficit in relation to the Group balance sheet position results in this being a key area that we focussed on during the audit. Specific audit and actuarial expertise is required to evaluate these complex and judgemental methods and assumptions.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of defined benefit pension liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 24) disclose the sensitivities estimated by the Group.

Our response – Our procedures included:

- Control design and testing: Evaluating the appropriateness of the design of related controls over the Directors' review of assumptions, membership data and the IAS 19 report and testing the operating effectiveness of such controls, where applicable.
- Our actuarial expertise: 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 assumptions with our internal actuarial indicators which have been benchmarked against current market practice and assumptions used by other groups with similar defined benefit pension schemes; and
- Assessing transparency: Considering the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions.

Our results – We found the valuation of the defined benefit pension liability to be acceptable. (2017: acceptable).

Valuation of trade receivables (risk vs 2017 ⬆) (gross £46.5 million; 2017: £46.8 million, provision £0.3 million; 2017: £0.4 million)

Refer to page 46 (Audit Committee Report), page 62 and 63 (Accounting Policy) and page 73 (Financial Disclosures).

The risk – Subjective estimate – 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. Receivables balances are significant and there is an element of judgement in the Group's receivables provisioning.

The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of trade receivables has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality.

Our response – Our procedures included:

- Control design and testing: Evaluating the design and operating effectiveness of a selection of the Group's controls relating to the collection processes over aged receivables and customer credit approvals. Tests of operating effectiveness were performed over relevant controls depending on the frequency of control operation and were designed to assess whether appropriate procedures were followed in each instance.
- Tests of details: Our testing concentrated on those receivables perceived to be at a higher risk of non-recoverability based on the value and age of the receivable, or other factors such as the financial position of the customers. For a sample of these receivables we obtained a detailed understanding of the payment status of the receivable balance and the customer's likelihood of payment through both Director and credit control's assessment and inspection of correspondence with the customer. We critically assessed the methodology used to calculate the provision recorded against trade receivables, challenged the appropriateness of these provisions, and for a sample of year-end receivables, we analysed the level of cash receipts received post year end; and
- Assessing transparency: Considering the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provision for the impairment of receivables.

Our results – We found the provision for trade receivables to be acceptable. (2017: acceptable)

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £570,000 (2017: £450,000), determined with reference to a benchmark of Group profit before tax of £11.5 million, of which it represents 5% (2017: 4.8%).

Materiality for the Parent Company financial statements as a whole was set at £300,000 (2017: £300,000), determined with reference to a benchmark of Company total assets, of which it represents 0.5% (2017: 0.4%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £25,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 10 (2017: 8) reporting components, we subjected 6 (2017: 6) to full scope audits for Group purposes.

The components within the scope of our work accounted for the percentages illustrated below. For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

	Revenue	Profit before tax	Net assets
Scoped out of our audit	2%	8%	5%
Full audit	98%	92%	95%

The Group team performed all of the audit work in support of our opinion, including the audit of the Parent Company.

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- if the related statement under the Listing Rules set out on page 40 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

Independent auditor's report to the members of Macfarlane Group PLC (continued)

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

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

- the Directors' confirmation within the viability statement on page 18 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the principal risks and uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 48, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Group is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Hugh Harvie (Senior Statutory Auditor)
for and on behalf of KPMG LLP
Chartered Accountants
319 St Vincent Street
Glasgow
G2 5AS

22 February 2019

Consolidated income statement

For the year ended 31 December 2018

	Note	2018 Before exceptional item £000	Exceptional item (see note 3) £000	2018 £000	2017 £000
Continuing operations					
Revenue	1	**217,290**	**–**	**217,290**	195,991
Cost of sales		**(150,749)**	**–**	**(150,749)**	(135,687)
Gross profit		**66,541**	**–**	**66,541**	60,304
Distribution costs		**(8,604)**	**–**	**(8,604)**	(8,208)
Administrative expenses		**(45,912)**	**(330)**	**(46,242)**	(42,007)
Operating profit*	2	**12,025**	**(330)**	**11,695**	10,089
Finance costs	5	**(809)**	**–**	**(809)**	(828)
Profit before tax*		**11,216**	**(330)**	**10,886**	9,261
Tax	6	**(2,201)**	**56**	**(2,145)**	(1,837)
Profit for the year*	7,20	**9,015**	**(274)**	**8,741**	7,424
Earnings per share*	9				
Basic and diluted		**5.72p**	**(0.17p)**	**5.55p**	5.22p

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

* See note 3

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Items that may be reclassified to profit or loss			
Foreign currency translation differences – foreign operations	20	**(6)**	45
Items that will not be reclassified to profit or loss			
Remeasurement of pension scheme liability	24	**(32)**	(223)
Tax recognised in other comprehensive income			
Tax on remeasurement of pension scheme liability	18	**6**	38
Other comprehensive expense for the year, net of tax		**(32)**	(140)
Profit for the year		**8,741**	7,424
Total comprehensive income for the year		**8,709**	7,284

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

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Note	Share capital £000	Share premium £000	Revaluation reserve £000	Translation reserve £000	Retained earnings £000	Total £000
At 1 January 2017		34,084	4,641	70	254	274	39,323
Comprehensive income							
Profit for the year		–	–	–	–	7,424	7,424
Foreign currency translation differences – foreign operations	20	–	–	–	45	–	45
Remeasurement of pension scheme liability	24	–	–	–	–	(223)	(223)
Tax on remeasurement of pension scheme liability	18	–	–	–	–	38	38
Total comprehensive income		–	–	–	45	7,239	7,284
Transactions with shareholders							
Dividends	8	–	–	–	–	(2,854)	(2,854)
Share-based payments	25	–	–	–	–	(180)	(180)
Issue of share capital	19,20	5,303	8,334	–	–	–	13,637
Total transactions with shareholders		5,303	8,334	–	–	(3,034)	10,603
At 31 December 2017		**39,387**	**12,975**	**70**	**299**	**4,479**	**57,210**
Comprehensive income							
Profit for the year		**–**	**–**	**–**	**–**	**8,741**	**8,741**
Foreign currency translation differences – foreign operations	20	**–**	**–**	**–**	**(6)**	**–**	**(6)**
Remeasurement of pension scheme liability	24	**–**	**–**	**–**	**–**	**(32)**	**(32)**
Tax on remeasurement of pension scheme liability	18	**–**	**–**	**–**	**–**	**6**	**6**
Total comprehensive income		**–**	**–**	**–**	**(6)**	**8,715**	**8,709**
Transactions with shareholders							
Dividends	8	**–**	**–**	**–**	**–**	**(3,387)**	**(3,387)**
Total transactions with shareholders		**–**	**–**	**–**	**–**	**(3,387)**	**(3,387)**
At 31 December 2018		**39,387**	**12,975**	**70**	**293**	**9,807**	**62,532**

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

Consolidated balance sheet

At 31 December 2018

	Note	2018 £000	2017 £000
Assets			
Non-current assets			
Goodwill and other intangible assets	10	**58,648**	57,234
Property, plant and equipment	11	**8,533**	8,630
Trade and other receivables	14	**162**	296
Deferred tax assets	18	**1,851**	2,407
Total non-current assets		**69,194**	68,567
Current assets			
Inventories	13	**16,940**	15,465
Trade and other receivables	14	**51,360**	52,578
Cash and cash equivalents	15	**4,611**	2,013
Total current assets		**72,911**	70,056
Total assets	1	**142,105**	138,623
Liabilities			
Current liabilities			
Trade and other payables	16	**47,891**	49,100
Current tax payable		**1,029**	741
Finance lease liabilities	17	**101**	245
Bank borrowings	15	**17,769**	16,346
Total current liabilities		**66,790**	66,432
Net current assets		**6,121**	3,624
Non-current liabilities			
Retirement benefit obligations	24	**9,765**	11,823
Deferred tax liabilities	18	**2,993**	3,048
Trade and other payables	16	**25**	13
Finance lease liabilities	17	**–**	97
Total non-current liabilities		**12,783**	14,981
Total liabilities	1	**79,573**	81,413
Net assets	1	**62,532**	57,210
Equity			
Share capital	19	**39,387**	39,387
Share premium	20	**12,975**	12,975
Revaluation reserve	20	**70**	70
Translation reserve	20	**293**	299
Retained earnings	20	**9,807**	4,479
Total equity		**62,532**	57,210

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 22 February 2019 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 2018

	Note	2018 £000	2017 £000
Cash inflow from operating activities	21	**11,832**	6,482
Investing activities			
Acquisitions, net of cash acquired	22	**(5,638)**	(8,337)
Proceeds from disposal of property, plant and equipment		**73**	210
Acquisition of property, plant and equipment		**(1,452)**	(1,740)
Cash outflow from investing activities		**(7,017)**	(9,867)
Financing activities			
Dividends paid	8	**(3,387)**	(2,854)
Proceeds from issue of share capital (net of issue expenses)		**–**	7,637
Drawdown/(repayment) of bank borrowing facility	21	**1,423**	(860)
Repayment of finance lease liabilities		**(253)**	(455)
Cash (outflow)/inflow from financing activities		**(2,217)**	3,468
Net increase in cash and cash equivalents		**2,598**	83
Cash and cash equivalents at beginning of year		**2,013**	1,930
Cash and cash equivalents at end of year	21	**4,611**	2,013

There is no material impact of foreign exchange rate differences on the cash and cash equivalents balance at the end of the current or preceding financial year.

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

Accounting policies

For the year ended 31 December 2018

Basis of preparation

Macfarlane Group PLC is a public company listed on the London Stock Exchange, incorporated and domiciled in the United Kingdom and registered in Scotland.

Basis of accounting

The 2018 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. These consolidated financial statements are presented in Sterling, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

The financial statements have been prepared on the historical cost basis. The revaluation reserve relates to a period before transition to IFRS.

In measuring the financial performance and position, the financial measures used include those which have been derived from the reported results in order to eliminate factors which distort year-on-year comparisons and/or provide useful information to stakeholders. These are considered non-GAAP financial measures and include measures such as operating profit before exceptional items and profit before tax and before exceptional items. We believe this information along with comparable GAAP measurements is useful in providing a basis for measuring the financial performance and position. Note 3 includes further information on these non-GAAP financial measures.

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 Report on pages 2 to 25.

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. The Group has a committed borrowing facility of £30 million with Lloyds Banking Group PLC in place until June 2022. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over trade receivables. Credit risk is managed by applying considerable rigour in managing the Group's trade receivables. The Directors believe that the Group is adequately placed to manage its financial risks effectively, despite any economic uncertainty.

The Directors are of the opinion that the Group's cash flow forecasts and profit projections, which they believe are based on a 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 the current facility 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 from the date of approval of these financial statements. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Judgements, assumptions and estimation uncertainties

In preparing these financial statements, the Directors are required to make judgements, estimates and assumptions, all of which affect the application of the Group's accounting policies and therefore impact the reported 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, which are reviewed on an ongoing basis, with the impact of any subsequent revisions considered necessary being recognised on a prospective basis.

In preparing the consolidated financial statements, the judgements, assumptions and estimation uncertainties made in applying accounting policies with the most significant effect on the amounts recognised in these financial statements and therefore having the most significant risk of resulting in a material change are included in the following notes:

Subject	Note	Area of assumptions and estimation uncertainties
Retirement benefit obligations	24	The valuation of the pension deficit is affected by small movements in key actuarial assumptions
Trade and other receivables	14	The provision held against receivables is based on applying an expected credit loss model and related estimates of recoverable amounts

The Directors believe that the judgements, estimates, and assumptions applied in the preparation of these consolidated financial statements are appropriate.

Changes in accounting policies in 2018

The Group has applied IFRS 15 '*Revenue from Contracts with Customers*' and IFRS 9 '*Financial Instruments*' with effect from 1 January 2018. A number of other new standards took effect from 1 January 2018 but they did not have a material effect on the Group's financial statements.

The impact of applying IFRS 15 '*Revenue from Contracts with Customers*' is set out in accounting policy (c) and the impact of applying IFRS 9 '*Financial Instruments*' is set out in accounting policy (j). The application of these IFRSs has not had any material impact on the reported results for 2018.

New accounting standards and interpretations

The Group is currently assessing the potential impact of new and revised standards and interpretations issued by the IASB that will be effective from 1 January 2019. None of these have been adopted early.

IFRS 16 '*Leases*' will be effective in the 2019 financial statements and will be applied using the modified retrospective approach but with no application of the practical expedients available. To prepare for the transition, data has been collected on all the Group's leases which are primarily for operating properties and vehicles. The application of IFRS 16 will have a material impact on the consolidated financial statements. IFRS 16 requires that for all material leases with terms over 12 months, the Group's leased assets will be recorded within land and buildings and within plant and equipment as 'Right of Use' assets with a corresponding lease liability based on the discounted value of the future cash payments required under each lease. Existing operating lease expenses will be replaced with a smaller operating expense and a depreciation charge, and a separate financing cost, which will be recorded in finance costs. This will have no significant impact on reported profit before tax or total equity.

The Directors are in the process of evaluating the impact of IFRS 16 '*Leases*' in the Group's 2019 financial statements. The Group's financial commitments under all operating leases at 31 December 2018 are set out in note 23 to the financial statements and give an indication of the maximum values for Right of Use assets and corresponding lease liabilities to be absorbed.

The Directors do not anticipate that any other new or revised standards and interpretations currently issued by the IASB and effective in the 2019 financial statements will have a material impact on its reported results or its balance sheet.

Summary of accounting policies

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 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. The Group does not have any associates or other joint arrangements as defined by IFRS 10 '*Consolidated Financial Statements*'.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Business combinations

The acquisition of subsidiaries is accounted for under the acquisition method. The acquired business is measured at the effective date of acquisition, defined as the date control is acquired, as the aggregate fair value of assets, liabilities and contingent liabilities as required under IFRS 3 '*Business Combinations*'. Any excess of the cost of acquisition over the fair value of the separately identifiable net assets 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.

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.

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated.

Accounting policies (continued)
For the year ended 31 December 2018

(b) Goodwill and other intangible assets

Goodwill

Goodwill arising on a business combination is recognised as an asset and represents the excess of the cost of acquisition over the net fair values of the separately identifiable assets and liabilities of the acquired business or 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

Other intangible assets comprise separately identifiable intangible assets recognised on the acquisitions of businesses or 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.

Impairment

The carrying values of the Group's assets are reviewed annually to determine if there is any indication of impairment. If any such indication exists, the assets' recoverable values are calculated as the present value of the estimated future cash flows, discounted at appropriate pre-tax discount rates. Impairment losses are recognised when the carrying value of an asset or CGU exceeds recoverable value. Impairment losses are recognised in the consolidated income statement.

(c) Revenue recognition

The Group is engaged in the delivery of packaging materials, packing machinery, labels and labels machinery to customers. Revenue is not recognised if there is significant uncertainty regarding the recovery of the revenue consideration. Revenue represents amounts receivable for goods provided to third parties in the normal course of business, net of discounts, customer rebates, VAT and other sales related taxes.

The Group has adopted IFRS 15 '*Revenue from Contracts with Customers*' in the 2018 financial statements and the IFRS has been applied using the cumulative effect method from 1 January 2018.

Revenues were previously recognised in the income statement at the point at which the significant risks and rewards of ownership of the goods were transferred to the customer, the amount of revenue and the costs related thereto could be measured reliably and it was probable that the economic benefits of the transaction would flow to the Group.

IFRS 15 requires the Group to apportion revenues from customer contracts to separate performance obligations and recognise revenues as each performance obligation is satisfied. The Group has reviewed its arrangements with customers and concluded that the Group's revenue is generated from the delivery of the goods to customers and that this represents a single performance obligation. It is therefore appropriate to continue to recognise revenue at the point of transfer of goods to the customer, consistent with the revenue recognition framework in IFRS 15. The Group does not enter into any repurchase agreements.

Accordingly the adoption of IFRS 15 has not had a material impact on the timing of revenue recognition or any material impact on the Group's financial accounting. No adjustments were made on transition at 1 January 2018.

(d) 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 consolidated 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.

(e) 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 exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the consolidated income statement. Non-monetary assets and liabilities, measured at historical cost in a foreign currency, are translated using the exchange rates at the date of the transaction. Non-monetary assets and liabilities, stated at fair value in a foreign currency, are retranslated to the functional currency at the exchange rates ruling at the dates the fair value was determined.

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 the exchange rates ruling at the balance sheet date. Revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the exchange rates ruling at the dates of the transactions. Exchange differences arising from the translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

(f) Retirement benefits

Defined contribution schemes

A defined contribution scheme is a post-employment benefit scheme under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension schemes are recognised as an expense in the consolidated income statement in the periods during which services are rendered by employees.

Defined benefit schemes

A defined benefit scheme is a post-employment benefit scheme other than a defined contribution scheme. The Group's net retirement benefit obligation in respect of its defined benefit pension scheme is calculated by estimating the amount of future benefits that employees have earned in return for their service in current and prior periods. These benefits are then discounted to determine the present value, and the fair values of any scheme investments, at bid price, are deducted. The Group determines the net interest on the net retirement benefit obligation for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating to the average duration of the Group's retirement benefit obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, returns on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). Remeasurements are recognised in the statement of other comprehensive income and all other expenses related to defined benefit schemes charged in staff costs in the consolidated income statement.

When the benefits of a scheme are changed, or when a scheme is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in the consolidated income statement when the scheme amendment or curtailment occurs.

The calculation of the retirement benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of the present value of any minimum funding requirements.

The Group's defined benefit pension scheme covers the Group companies at December 2002. The net defined benefit cost of the scheme is apportioned to these participating entities based on the employment history of scheme members, who are allocated to the relevant subsidiary, with any remaining members allocated to the parent company.

Accounting policies (continued)
For the year ended 31 December 2018

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

Current tax is payable 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 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 and any adjustments in respect of prior years.

Deferred tax is accounted for using the balance sheet liability method and represents 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. 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 assets and liabilities are not discounted.

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 recognised for all taxable temporary differences.

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.

(h) Property, plant and equipment
Property, plant and equipment are stated at cost, with assets revalued before the date of transition to IFRS recorded at deemed cost.

No depreciation is provided on land. Depreciation is recognised so as to write off the cost of the property, plant and equipment, 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 to ensure they remain appropriate once in each calendar year.

(i) Inventories
Inventories are consistently stated at the lower of cost and net realisable value. Cost represents purchase price. 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. Inventories are stated less provisions required for slow-moving and obsolete items, where appropriate.

(j) 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.

The Group has adopted IFRS 9 '*Financial Instruments*' for the 2018 financial statements, and the IFRS has been applied prospectively from 1 January 2018. IFRS 9 requires the value of trade and other receivables to be measured on an expected credit loss model rather than an incurred loss model. As a company with limited historical bad debts and short-term trade receivables of less than six months in duration, the adoption of IFRS 9 has not had a material impact on the Group's operating profit or balance sheet. No adjustments were made on the transition at 1 January 2018.

Financial assets categorised as investments, comprise investments in debt and equity securities and are initially recognised at fair value with any subsequent gains or losses recognised in the consolidated income statement.

Other financial assets comprise trade and other receivables that have fixed or determinable recoveries. 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 under the expected credit loss model.

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 measured on an expected credit loss model at inception rather than an incurred loss model. When a trade receivable is uncollectible, it is written off against the provision made on inception. Subsequent recoveries of amounts previously written off are credited against the provision. Changes in the carrying value of the provision 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 IAS 39. Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. They 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.

(k) Exceptional items

Where items arise that would distort the presentation of the results for the year, the Directors will classify such items as exceptional in nature and provide details of the items to enable users of the accounts to understand the impact on the financial statements.

(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. 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 grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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

Notes to the financial statements

For the year ended 31 December 2018

1. Business and geographical segments

(a) Business segments

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 comprises over 85% of Group revenue and profit. The Group's **Manufacturing Operations** segment comprises 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. None of the business segments within Manufacturing Operations represents more than 10% of Group revenue or profit.

External revenues from major products and services	**2018 £000**	2017 £000
Packaging Distribution	**189,835**	171,771
Design, manufacture and assembly of timber, corrugated and foam-based packaging materials	**10,709**	9,621
Manufacture and supply of self-adhesive labels	**8,337**	7,848
Manufacture and supply of resealable labels and related machinery	**8,409**	6,751
External revenues	**217,290**	195,991

(b) Segmental information

	Packaging Distribution £000	**Manufacturing Operations £000**	**2018 Total £000**	Packaging Distribution £000	Manufacturing Operations £000	2017 Total £000
Revenue						
Total revenue	**190,227**	**32,189**	**222,416**	171,771	28,191	199,962
Inter-segment revenue	**(392)**	**(4,734)**	**(5,126)**	–	(3,971)	(3,971)
External revenue	**189,835**	**27,455**	**217,290**	171,771	24,220	195,991
Cost of sales	**(133,843)**	**(16,906)**	**(150,749)**	(121,323)	(14,364)	(135,687)
Gross profit	**55,992**	**10,549**	**66,541**	50,448	9,856	60,304
Net operating expenses	**(44,820)**	**(9,696)**	**(54,516)**	(41,012)	(9,203)	(50,215)
Operating profit before exceptional item	**11,172**	**853**	**12,025**	9,436	653	10,089
Exceptional item	**(270)**	**(60)**	**(330)**	–	–	–
Operating profit	**10,902**	**793**	**11,695**	9,436	653	10,089
Net finance costs			**(809)**			(828)
Profit before tax			**10,886**			9,261
Tax			**(2,145)**			(1,837)
Profit for the year			**8,741**			7,424

Inter-segment revenues are charged at prevailing market prices.

	Packaging Distribution £000	**Manufacturing Operations £000**	**2018 Total £000**	Packaging Distribution £000	Manufacturing Operations £000	2017 Total £000
Capital additions	**4,722**	**473**	**5,195**	16,548	716	17,264
Depreciation/amortisation	**3,360**	**487**	**3,847**	2,501	470	2,971
Segment assets	**125,060**	**17,045**	**142,105**	124,069	14,554	138,623
Segment liabilities	**(71,173)**	**(8,400)**	**(79,573)**	(74,324)	(7,089)	(81,413)
Net assets	**53,887**	**8,645**	**62,532**	49,745	7,465	57,210

(c) Geographical segments

The Group's operations are primarily located in the UK and Europe.

Packaging Distribution activities are primarily in the UK.

Within Manufacturing Operations, the Packaging Design and Manufacture business operates primarily in the UK and the Labels businesses operate in the UK, Europe and through distributors in the USA.

	Continuing operations UK £000	**Europe £000**	**2018 Total £000**	Continuing operations UK £000	Europe £000	2017 Total £000
Revenue						
External revenue	**211,975**	**5,315**	**217,290**	191,895	4,096	195,991
Result						
Operating profit	**11,310**	**385**	**11,695**	9,819	270	10,089
Non-current assets	**67,444**	**1,750**	**69,194**	66,828	1,739	68,567
Capital additions	**5,141**	**54**	**5,195**	17,178	86	17,264

(d) Information about major customers

No single customer accounts for more than 5% of the Group's external revenues. Customer dependencies are regularly monitored.

2. Operating profit

Operating profit has been arrived at after charging:	**2018 £000**	2017 £000
Depreciation of property, plant and equipment (see note 11)	**1,593**	1,391
Amortisation of other intangible assets (see note 10)	**2,244**	1,580
Acquisition related costs	**115**	105
Staff costs (see note 4)	**32,129**	29,070

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

Audit services		
Fees payable to Company's auditor for the audit of these financial statements	**36**	32
Fees payable to Company's auditor for the audit of the financial statements of the Company's subsidiaries	**110**	100
Total audit fees	**146**	132
Non-audit services		
Audit related assurance services for review of half-year statement	**10**	10
Other assurance services for the audit of Macfarlane Group PLC pension scheme	**8**	8
Total non-audit fees	**18**	18
Total fees paid to auditor	**164**	150

The Audit Committee reviews and approves non-audit work which the auditor performs, including the fees paid for such work, to ensure that the auditor's objectivity and independence is not compromised.

Notes to the financial statements (continued)

For the year ended 31 December 2018

3. Exceptional item

Pension scheme – Guaranteed Minimum Pension ('GMP') equalisation

On 26 October 2018, the High Court judgement involving Lloyds Banking Group defined benefits pension schemes concluded that schemes should equalise pension benefits for men and women in relation to GMP benefits. The judgement has implications for most defined benefit schemes, including the scheme operated by Macfarlane Group. We have worked with the scheme's actuary to understand the implications of the judgement for our scheme and the £330k exceptional expense represents our best estimate of the effect on our reported pension scheme liabilities.

The change in pension liabilities recognised in relation to GMP equalisation involves estimation uncertainty. It is expected that there will be follow-on court hearings to further clarify the application of GMP equalisation in practice and there may yet be appeals against all or part of the judgement. Whilst these financial statements reflect our best estimate of the impact on pension liabilities, the estimate involves a number of assumptions. As the outcome of future court hearings cannot be reliably predicted, it is not practical to quantify the extent of the estimation uncertainty, but the best estimate reflects the information currently available. The Directors will continue to monitor any further clarifications or developments in this area and consider the impact on pension liabilities accordingly.

The Directors have made the judgement that the estimated effect of GMP equalisation on the Group's pension liabilities is a past service cost in respect of pensionable service between 1990 and 1997 that should be reflected through the consolidated income statement as an exceptional item and that any subsequent change in the estimate should be recognised in other comprehensive income. This judgement is based on the fact that the reported pension liabilities for the Macfarlane Group scheme at 31 December 2017 as set out in note 24 did not include any amount in respect of GMP equalisation.

A pre-tax exceptional expense of £330k has been recorded in the consolidated income statement for 2018 as a past service cost in respect of the equalisation of GMP benefits. We believe this information provides a more meaningful basis for measuring our financial performance in 2018.

The impact on the Group's key performance measures in the consolidated income statement is shown below. Tax on the exceptional item has been charged at 17% reflecting the impact of the adjustment on the deferred tax asset.

	2018 Before exceptional item £000	Exceptional item £000	2018 £000
Continuing operations			
Operating profit*	12,025	(330)	11,695
Finance costs	(809)	–	(809)
Profit before tax*	11,216	(330)	10,886
Tax*	(2,201)	56	(2,145)
Profit for the year *	9,015	(274)	8,741
Earnings per share*			
Basic and diluted	5.72p	(0.17p)	5.55p

The amounts in the table above are shown for the following income and expenditure categories, both **before** the exceptional item in the left hand column and **after** the exceptional item in the right hand column.

- Operating profit
- Profit before tax
- Tax
- Profit for the year
- Earnings per share

The impact of the exceptional item is set out in the middle column.

4. Staff costs

The average monthly number of employees was:	2018 No.	2017 No.
Production	**186**	167
Sales and distribution	**476**	448
Administration	**233**	206
	895	821

The costs incurred in respect of these employees were:	2018 £000	2017 £000
Wages and salaries	**(27,791)**	(25,244)
Social security costs	**(2,621)**	(2,569)
Other pension costs	**(1,717)**	(1,437)
Share-based payments (see note 25)	**–**	180
	(32,129)	(29,070)

5. Finance costs

	2018 £000	2017 £000
Interest on bank borrowings	**(530)**	(462)
Interest on obligations under finance leases	**(17)**	(18)
Net interest expense on retirement benefit obligation (see note 24)	**(262)**	(348)
Finance costs	**(809)**	(828)

6. Tax

	2018 £000	2017 £000
Current tax		
United Kingdom corporation tax	**(1,953)**	(1,551)
Foreign tax	**(98)**	(62)
Adjustments in respect of prior years	**42**	49
Current tax charge	**(2,009)**	(1,564)
Deferred tax		
Current period	**(136)**	(273)
Deferred tax charge (see note 18)	**(136)**	(273)
Total tax charge	**(2,145)**	(1,837)

The standard rate of tax based on the UK average rate of corporation tax is 19.00% (2017: 19.25%).

Taxation for other jurisdictions is calculated at the rates prevailing in these jurisdictions.

The actual tax charge varies from the standard rate of tax on the results in the consolidated income statement for the reasons set out on the following page.

Notes to the financial statements (continued)

For the year ended 31 December 2018

6. Tax (continued)

	2018 £000	2017 £000
Profit before tax	**10,886**	9,261
Tax on profit at 19.00% (2017: 19.25%)	**(2,068)**	(1,783)
Factors affecting tax charge for the year:		
Non-deductible expenses	**(107)**	(95)
Difference on overseas tax rates	**(12)**	(8)
Changes in estimates related to prior years	**42**	49
Tax charge for the year	**(2,145)**	(1,837)
Effective tax rate for the year	**19.7%**	19.8%

Macfarlane Group's corporate tax structure is such that the effective corporation tax rate should be relatively close to the prevailing tax rate with non-deductible expenses usually the principal reason for any variation.

A reduction in the UK corporation tax rate to 17%, effective from 1 April 2020, was substantively enacted on 6 September 2017. This will reduce the Company's future current tax charges. Deferred tax assets and liabilities at 31 December 2018 have been calculated based on this rate.

7. Profit for the year

The Company has taken advantage of Section 408 of the Companies Act 2006 and consequently a separate profit and loss account for the parent company is not presented as part of these financial statements.

The Company's profit for the year is disclosed in note 35 to these financial statements.

8. Dividends

	2018 £000	2017 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for 2017 of 1.50p per share (2016: 1.40p per share)	**2,363**	1,909
Interim dividend for 2018 of 0.65p per share (2017: 0.60p per share)	**1,024**	945
	3,387	2,854

A proposed dividend of 1.65p per share will be paid on 6 June 2019 to those shareholders on the register at 17 May 2019. This is subject to approval by shareholders at the Annual General Meeting on 14 May 2019 and therefore has not been included as a liability in these financial statements.

9. Earnings per share

	2018 £000	2017 £000
Earnings for the purposes of calculating earnings per share		
Profit for the year before exceptional items	**9,015**	7,424
Profit for the year	**8,741**	7,424

Number of shares in issue for the purposes of calculating basic and diluted earnings per share	2018 Number of shares '000	2017 Number of shares '000
Weighted average number of shares in issue	**157,548**	142,228
Basic and diluted earnings per share – before exceptional item	**5.72p**	5.22p
Basic and diluted earnings per share – after exceptional item (see note 3)	**5.55p**	5.22p

10. Goodwill and other intangible assets

	Packaging Distribution £000	Manufacturing Operations £000	2018 Total £000	2017 Total £000
Goodwill	40,851	1,359	42,210	40,664
Other intangible assets	16,438	–	16,438	16,570
Goodwill and other intangible assets	57,289	1,359	58,648	57,234

	Packaging Distribution £000	Manufacturing Operations £000	2018 Total £000	2017 Total £000
Goodwill				
Fair value on acquisition				
At 1 January	39,305	1,359	40,664	35,037
Additions (see note 22)	1,546	–	1,546	5,627
At 31 December	40,851	1,359	42,210	40,664
Impairment				
At 1 January and 31 December	–	–	–	–
Carrying value				
At 31 December 2018	40,851	1,359	42,210	
At 31 December 2017	39,305	1,359		40,664

On 31 July 2018 the Group's subsidiary, Macfarlane Group UK Limited, acquired Tyler Packaging (Leicester) Limited and on 2 August 2018 also acquired Harrisons Packaging Limited. For both acquisitions, goodwill arising on acquisition was added to the Packaging Distribution CGU.

During 2017 Macfarlane Group UK Limited, acquired the packaging business of Greenwoods Stock Boxes Limited and acquired the whole issued share capital of Nottingham Recycling Limited, giving rise to goodwill on acquisition, which was added to the Packaging Distribution CGU.

At 31 December 2018, Macfarlane 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, sales growth rates, projected gross margin and overhead costs. A post-tax discount rate of 9.8% (2017: 8.0%) 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. The Group believes the risk profiles across the markets in which it operates are not significantly different and has therefore deemed it appropriate to apply the same discount rate to both CGUs. The pre-tax discount rate is 12.1% (2017: 9.9%) for each CGU and the Group's effective tax rate is then applied to give the post-tax discount rate. Sales 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 2019 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. In addition they have conducted a 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 that exceeds its carrying value.

Therefore at 31 December 2018 no impairment charge is required against the carrying value of goodwill.

Notes to the financial statements (continued)

For the year ended 31 December 2018

10. Goodwill and other intangible assets (continued)

	Brand values £000	Customer relationships £000	2018 Total £000	2017 Total £000
Other intangible assets				
Fair value on acquisition				
At 1 January	**727**	**21,501**	**22,228**	13,043
Additions (see note 22)	**79**	**2,033**	**2,112**	9,185
At 31 December	**806**	**23,534**	**24,340**	22,228
Amortisation				
At 1 January	**397**	**5,261**	**5,658**	4,078
Charge for year	**162**	**2,082**	**2,244**	1,580
At 31 December	**559**	**7,343**	**7,902**	5,658
Carrying value				
At 31 December 2018	**247**	**16,191**	**16,438**	
At 31 December 2017	330	16,240		16,570

Other intangible assets comprise separately identifiable intangible assets recognised on the acquisitions of businesses and subsidiary companies in Packaging Distribution between 2014 and 2018. They are recorded at fair value on acquisition less subsequent amortisation.

These are primarily Brand values, which are calculated on the Relief from Royalty method and a valuation of Customer relationships, which is calculated 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 periods up to five years and over a ten year period respectively.

On 31 July 2018 the Group's subsidiary, Macfarlane Group UK Limited, acquired Tyler Packaging (Leicester) Limited and on 2 August 2018 also acquired Harrisons Packaging Limited. For both acquisitions, values for Brand values and Customer relationships within Packaging Distribution were recognised.

At 31 December 2018, Macfarlane Group retained Brand values in respect of:

- Harrisons Packaging Limited, acquired in 2018;
- Tyler Packaging (Leicester) Limited, also acquired in 2018;
- The packaging business of Greenwoods Stock Boxes Limited and Nottingham Recycling Limited, acquired in 2017;
- Nelsons for Cartons & Packaging Limited, acquired in 2016;
- The packaging business of Edward McNeil Limited, acquired in 2016;
- The business of Colton Packaging Teesside, also acquired in 2016;
- One Packaging Limited, acquired in 2015; and
- Network Packaging Limited, acquired in 2014.

At 31 December 2018, Macfarlane Group retained values for Customer relationships in respect of:

- Lane Packaging Limited, acquired in 2014;
- Network Packaging Limited, also acquired in 2014;
- One Packaging Limited, acquired in 2015;
- The business of Colton Packaging Teesside, acquired in 2016;
- The packaging business of Edward McNeil Limited, acquired in 2016;
- Nelsons for Cartons & Packaging Limited, also acquired in 2016;
- The packaging business of Greenwoods Stock Boxes Limited and Nottingham Recycling Limited, acquired in 2017;
- Tyler Packaging (Leicester) Limited, acquired in 2018; and
- Harrisons Packaging Limited, also acquired in 2018.

11. Property, plant and equipment

	Land and buildings £000	Plant and equipment £000	Total £000
Cost			
At 1 January 2017	6,278	24,552	30,830
Acquisitions	–	2,215	2,215
Additions	830	910	1,740
Exchange movements	–	85	85
Disposals	(1)	(1,218)	(1,219)
At 1 January 2018	**7,107**	**26,544**	**33,651**
Acquisitions	**–**	**222**	**222**
Additions	**451**	**1,001**	**1,452**
Disposals	**(2)**	**(531)**	**(533)**
At 31 December 2018	**7,556**	**27,236**	**34,792**
Accumulated depreciation			
At 1 January 2017	3,154	19,906	23,060
Acquisitions	–	1,503	1,503
Charge for year	299	1,092	1,391
Exchange movements	–	71	71
Disposals	–	(1,004)	(1,004)
At 1 January 2018	**3,453**	**21,568**	**25,021**
Acquisitions	**–**	**137**	**137**
Charge for year	**380**	**1,213**	**1,593**
Disposals	**(2)**	**(490)**	**(492)**
At 31 December 2018	**3,831**	**22,428**	**26,259**
Carrying amount			
At 31 December 2018	**3,725**	**4,808**	**8,533**
At 31 December 2017	3,654	4,976	8,630
At 31 December 2016	3,124	4,646	7,770

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 our IT hardware 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 £8,533,000 (2017: £8,630,000) includes £504,000 (2017: £1,061,000) of assets held under finance leases. Depreciation charged in respect of these assets is £87,000 (2017: £217,000).

	2018 £000	2017 £000
Land and buildings at net book value comprise:		
Freeholds	**1,868**	1,722
Long leaseholds	**1,201**	1,121
Short leaseholds	**656**	811
	3,725	3,654

Notes to the financial statements (continued)

For the year ended 31 December 2018

12. Subsidiary companies

Operating subsidiaries, with names, countries of incorporation and registered offices, are shown on page 100.

13. Inventories

	2018 £000	2017 £000
Raw materials and consumables	**842**	496
Work in progress	**288**	205
Finished goods and goods for resale	**15,810**	14,764
	16,940	15,465

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

	2018 £000	2017 £000
Cost of inventories recognised as an expense in the consolidated income statement	**146,687**	132,248

Inventories recorded in the Group's balance sheet comprise large numbers of comparatively small balances.

Local teams review inventory levels, older and obsolete inventories and provide against exposures throughout the year. The Group's executive management then reviews these local judgements to ensure they properly reflect movements in absolute inventory levels, ageing of holdings and known obsolescence.

Movement in the provisions for slow-moving and obsolete inventories	2018 £000	2017 £000
At 1 January	**691**	693
Acquisitions	**–**	22
Additional provisions recognised in the consolidated income statement	**626**	530
Inventory written off during the year	**(869)**	(554)
At 31 December	**448**	691

14. Trade and other receivables

	2018 £000	2017 £000
Current		
Trade receivables	**46,539**	46,810
Provision for doubtful receivables	**(304)**	(361)
	46,235	46,449
Other receivables	**2,952**	3,907
Prepayments and accrued income	**2,173**	2,222
	51,360	52,578
Non-current		
Other receivables	**162**	296

Trade receivables represent amounts owed by customers in respect of goods or services provided by 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 (2017: 60 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 £25,000 reviewed twice per year. There are no customers with a balance in excess of 5% of the total trade receivables balance at 31 December 2018 or 31 December 2017.

Ageing of trade receivables	2018 £000	2017 £000
Current	**32,537**	32,143
Overdue		
30-60 days	**7,341**	7,619
60-90 days	**5,729**	5,690
Over 90 days	**932**	1,358
	46,539	46,810

Included in the Group's trade receivables balance are debtors with a carrying amount of £14,002,000, (2017: £14,667,000) 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 recoverable. The weighted average overdue age of these trade receivables is 18 days (2017: 19 days).

Amounts presented in the balance sheet are shown net of provisions for doubtful trade receivables of £304,000 (2017: £361,000), 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, any change in the credit quality from the date credit was originally granted up to the reporting date is considered.

Movement in the provision for doubtful trade receivables	2018 £000	2017 £000
At 1 January	**361**	326
Acquisitions	**–**	28
Credit losses recognised in the consolidated income statement	**181**	231
Amounts written off as uncollectible	**(238)**	(224)
At 31 December	**304**	361

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

Notes to the financial statements (continued)

For the year ended 31 December 2018

15. Financial instruments

The Group funds its operations from a number of sources of finance, namely operating cash flow, bank borrowings, finance lease borrowings and shareholders' equity, comprising share capital, reserves and retained earnings. 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. Throughout the period under review, the Group's policy is 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 2018. Principal risks arising are liquidity risk and credit risk, with secondary risks being interest rate risk and currency risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below and have remained unchanged since the beginning of 2018.

Liquidity risk

The Group's liquidity requirements are met by ensuring adequate access to funds by maintaining appropriate levels of committed bank facilities, which are reviewed regularly. The principal Group bank borrowing facility with Lloyds Banking Group PLC of £30 million is available until June 2022. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom relative to certain trade receivables' balances.
The maturity profile of debt outstanding at 31 December 2018 is set out 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. Amounts presented in the balance sheet are shown net of allowances for doubtful receivables, as estimated by the Group's management with details set out in note 14.

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 interest rate exposures by the use of financial instruments during 2018.

A sensitivity analysis has been prepared based on interest rate exposures at the year-end date and the stipulated change taking place at the beginning of the financial year and held constant throughout the year. If interest rates had been 50 basis points higher and all other variables held constant, the Group's profit before tax would have decreased by £84,000 (2017: £97,000).

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 2018 has been to review the need to hedge currency exposures on a regular basis and it was not considered necessary to cover 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 year-end is as follows:

	Assets 2018 £000	Assets 2017 £000	**Liabilities 2018 £000**	Liabilities 2017 £000
Euros	**1,912**	1,854	**1,150**	1,029
Swedish Krone	**1,302**	496	**891**	113
	3,214	2,350	**2,041**	1,142

The sterling value of the Group's foreign currency denominated profit/(loss) before tax is as follows:

	2018 £000	2017 £000
Euros	**(72)**	(63)
Swedish Krone	**444**	284
	372	221

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

	Result 2018 £000	Result 2017 £000	**Other equity 2018 £000**	Other equity 2017 £000
Euros	**(3)**	(3)	**38**	41
Swedish Krone	**22**	14	**21**	19
	19	11	**59**	60

Cash and cash equivalents	**2018 £000**	2017 £000
Currency		
Sterling	**4,129**	1,654
Euros	**469**	347
Swedish Krone	**13**	12
Cash and cash equivalents	**4,611**	2,013
Bank borrowings and loans		
Currency – Sterling	**17,769**	16,346
Bank borrowings and loans	**17,769**	16,346
Net bank debt	**13,158**	14,333

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

The principal Group bank borrowing facility with Lloyds Banking Group PLC of £30 million is available until June 2022. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom relative to certain trade receivables' balances. The Group is currently in compliance with all conditions in relation to its borrowing facility.

Interest rates

All Group borrowings are held at floating rates of interest. The average effective interest rate on bank borrowings approximates to 2.65% per annum (2017: 2.40%).

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 2018 all materially equate to book values.

Borrowing facilities

The Group has committed borrowing facilities available at 31 December 2018, in respect of which all conditions precedent had been met, as follows:

	2018 £000	2017 £000
Drawn down	**17,769**	16,346
Undrawn	**12,231**	9,104
Committed borrowing facilities	**30,000**	25,450

The principal Group borrowing facility of £30 million at 31 December 2018 (2017: £25 million) is with Lloyds Banking Group PLC. In 2017 there were two smaller facilities totalling £0.45 million, inherited as part of the recent acquisitions, which expired during 2018.

Notes to the financial statements (continued)

For the year ended 31 December 2018

15. Financial instruments (continued)

The Group's borrowing profile is as follows:	2018 £000	2017 £000
At amortised cost		
Bank borrowings – secured	**17,769**	16,346
Finance lease liabilities – secured	**101**	245
Current borrowings	**17,870**	16,591
Non-current – finance lease liabilities – secured	**–**	97
Total borrowings	**17,870**	16,688
Equity	**62,532**	57,210
Gearing (net debt to equity) ratio	**29%**	29%

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 16)	Carrying amount 2018 £000	Fair value 2018 £000	Level 1 2018 £000	Level 2 2018 £000	Level 3 2018 £000
Contingent consideration	**1,600**	**1,600**	**–**	**–**	**1,600**

	Carrying amount 2017 £000	Fair value 2017 £000	Level 1 2017 £000	Level 2 2017 £000	Level 3 2017 £000
Contingent consideration	4,000	4,000	–	–	4,000

The following table shows the valuation techniques used for Level 3 fair values, and 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 calculated cash outflows under possible earn-out scenarios and is not discounted	Trading performance of acquired subsidiary companies

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements.

Non-derivative financial instruments	2018 Contractual cash flows Total £000	Due < 1 year or less £000	Due 1 to 2 years £000
Secured bank borrowings	**17,769**	**17,769**	**–**
Finance lease liabilities	**101**	**101**	**–**
Trade creditors	**37,129**	**37,129**	**–**
	54,999	**54,999**	**–**

Non-derivative financial instruments	2017 Contractual cash flows Total £000	Due < 1 year or less £000	Due 1 to 2 years £000
Secured bank borrowings	16,346	16,346	–
Finance lease liabilities	342	245	97
Trade creditors	36,339	36,339	–
	53,027	52,930	97

16. Trade and other payables

	2018 £000	2017 £000
Due within one year		
Trade payables	**37,129**	36,339
Other taxation and social security	**3,438**	3,254
Contingent consideration	**1,600**	4,000
Other creditors	**810**	447
Accruals and deferred income	**4,914**	5,060
	47,891	49,100
Due after more than one year		
Other creditors	**25**	13

Trade and other payables principally comprise amounts outstanding for trade purchases, 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.

17. Finance lease liabilities

	2018 £000	2017 £000
Amounts payable under finance leases		
Due within one year	**101**	245
Due between one and two years	**–**	97
Present value of finance lease liabilities	**101**	342
Due for settlement within 12 months (shown within current liabilities)	**(101)**	(245)
Due for settlement after more than 12 months (shown as non-current liabilities)	**–**	97

Notes to the financial statements (continued)

For the year ended 31 December 2018

17. Finance lease liabilities (continued)

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

The average lease term on inception is between two and five years and the average effective borrowing rate is 2.50% per annum (2017: 2.50%). Interest rates are fixed at the contract date. All finance lease liabilities are on a fixed repayment basis and are denominated in Sterling.

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

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

18. Deferred tax

	Tax losses/ accelerated capital allowances £000	Other intangible assets £000	Retirement benefit obligations £000	Total £000
At 1 January 2017	247	(1,537)	2,471	1,181
Acquisition (see note 22)	(25)	(1,562)	–	(1,587)
(Charged)/credited in income statement	(56)	282	(499)	(273)
Credited in other comprehensive income				
Deferred tax on remeasurement of pension scheme liability	–	–	38	38
At 1 January 2018	**166**	**(2,817)**	**2,010**	**(641)**
Acquisition (see note 22)	**(13)**	**(358)**	**–**	**(371)**
(Charged)/credited in income statement	**(161)**	**381**	**(356)**	**(136)**
Credited in other comprehensive income				
Deferred tax on remeasurement of pension scheme liability	**–**	**–**	**6**	**6**
At 31 December 2018	**(8)**	**(2,794)**	**1,660**	**(1,142)**
2018				
Deferred tax assets				
Due outwith one year	**191**	**–**	**1,660**	**1,851**
Deferred tax liabilities				
Due outwith one year	**(199)**	**(2,794)**	**–**	**(2,993)**
	(8)	**(2,794)**	**1,660**	**(1,142)**
2017				
Deferred tax assets				
Due outwith one year	397	–	2,010	2,407
Deferred tax liabilities				
Due outwith one year	(231)	(2,817)	–	(3,048)
	166	(2,817)	2,010	(641)

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.

A reduction in the UK corporation tax rate to 17%, effective from 1 April 2020, was substantively enacted on 6 September 2017. This will reduce the Company's future current tax charge. Deferred tax assets and liabilities at 31 December 2018 and 31 December 2017 have been calculated based on this rate.

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

19. Share capital

	Number of 25p shares	2018 £000	2017 £000
Allotted, issued and fully paid:			
At 1 January	157,547,618	**39,387**	34,084
Issued during the year	–	**–**	5,303
At 31 December	157,547,618	**39,387**	39,387

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.

On 18 September 2017, the Company announced a placing of 12,121,212 ordinary shares of 25p each at a price of 66p per share for a total value of £8,000,000. On 21 September 2017, the Company's subsidiary Macfarlane Group UK Limited acquired the trade, goodwill and selected assets of the packaging business of Greenwoods Stock Boxes Limited and the whole of the issued share capital of Nottingham Recycling Limited. As part of the initial consideration, the Company issued 9,090,909 ordinary shares of 25p each at a value of 66p per share as non-cash consideration to the Vendors, an effective value of £6,000,000. These shares were all admitted to the Official List of the London Stock Exchange on 21 September 2017.

20. Reserves

	Share premium £000	Revaluation reserve £000	Translation reserve £000	Retained earnings £000
Balance at 1 January 2017	4,641	70	254	274
Profit for the year	–	–	–	7,424
Dividends paid (see note 8)	–	–	–	(2,854)
Issue of new shares	8,697	–	–	–
Expenses of share issue	(363)	–	–	–
Foreign currency translation differences – foreign operations	–	–	45	–
Share-based payments	–	–	–	(180)
Remeasurement of pension scheme liability taken direct to equity	–	–	–	(223)
Deferred tax taken direct to equity				
Tax on remeasurement	–	–	–	38
Balance at 1 January 2018	**12,975**	**70**	**299**	**4,479**
Profit for the year	**–**	**–**	**–**	**8,741**
Dividends paid (see note 8)	**–**	**–**	**–**	**(3,387)**
Foreign currency translation differences – foreign operations	**–**	**–**	**(6)**	**–**
Remeasurement of pension scheme liability taken direct to equity	**–**	**–**	**–**	**(32)**
Deferred tax taken direct to equity				
Tax on remeasurement	**–**	**–**	**–**	**6**
Balance at 31 December 2018	**12,975**	**70**	**293**	**9,807**

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 2018 relates wholly to continuing operations.

Notes to the financial statements (continued)

For the year ended 31 December 2018

21. Notes to the cash flow statement

	2018 £000	2017 £000
Operating profit	**11,695**	10,089
Adjustments for:		
Amortisation of intangible assets	**2,244**	1,580
Depreciation of property, plant and equipment	**1,593**	1,391
(Gain)/loss on disposal of property, plant and equipment	**(32)**	5
Operating cash flows before movements in working capital	**15,500**	13,065
Increase in inventories	**(1,192)**	(1,370)
Decrease/(increase) in receivables	**2,183**	(1,163)
Increase in payables	**122**	1,570
Pension scheme contributions	**(2,352)**	(3,285)
Cash generated by operations	**14,261**	8,817
Income taxes paid	**(1,882)**	(1,855)
Interest paid	**(547)**	(480)
Cash inflow from operating activities	**11,832**	6,482

	2018 £000	2017 £000
Movement in net debt		
Increase in cash and cash equivalents	**2,598**	83
(Increase)/decrease in bank borrowings	**(1,423)**	860
Finance leases inherited on acquisition	**(12)**	–
Cash flows from payment of finance lease liabilities	**253**	455
Movement in net debt in the year (* see below)	**1,416**	1,398
Opening net debt	**(14,675)**	(16,073)
Closing net debt	**(13,259)**	(14,675)

* The movement in net debt is inclusive of the net cash outflow in respect of acquisitions set out in note 22.

	2018 £000	2017 £000
Net debt comprises:		
Cash and cash equivalents in statement of cash flows	**4,611**	2,013
Bank borrowings	**(17,769)**	(16,346)
Net bank debt	**(13,158)**	(14,333)
Finance lease liabilities		
Due within one year	**(101)**	(245)
Due outwith one year	**–**	(97)
Closing net debt	**(13,259)**	(14,675)

Cash and cash equivalents (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.

Drawdown/(repayment) of bank borrowing facility	2018 £000	2017 £000
Opening balance	**(16,346)**	(17,206)
Net drawdown/(repayment) in the year	**(1,423)**	860
Closing balance	**(17,769)**	(16,346)

22. Acquisitions

On 31 July 2018, the Group's subsidiary, Macfarlane Group UK Limited acquired 100% of the issued share capital of Tyler Packaging (Leicester) Limited for a consideration of approximately £2.1 million. £1.5 million was paid in cash on acquisition. The deferred consideration of £0.6 million is payable in the third quarter of 2019, subject to certain trading targets being met in the twelve month period ending on 31 July 2019.

On 2 August 2018 Macfarlane Group UK Limited also acquired 100% of the issued share capital of Harrisons Packaging Limited for a consideration of approximately £2.8 million. £1.8 million was paid in cash on acquisition. The deferred consideration of £1.0 million is payable in the third quarter of 2019, subject to certain trading targets being met in the twelve month period ending on 2 August 2019.

The contingent considerations are recognised as a liability in trade and other payables and are remeasured to fair value of £1.6 million at the balance sheet date based on a range of outcomes between £Nil and £1.6 million. Trading in the post-acquisition period to 31 December 2018 supports the remeasured value of £1.6 million.

On 21 September 2017, Macfarlane Group UK Limited acquired the packaging business and selected assets of Greenwoods Stock Boxes Limited and 100% of Nottingham Recycling Limited, for a consideration of approximately £17.2 million. £7.97 million was paid in cash and £6.0 million settled by the issue of shares on acquisition. The deferred consideration of £3.25 million was paid in 2018.

In 2016, Macfarlane Group PLC acquired 100% of Nelsons for Cartons & Packaging Limited for a consideration of £7.2 million. £4.7 million was paid in cash and £1.0 million settled by the issue of shares on acquisition. Of the total deferred consideration of £1.5 million, £0.75 million was paid in 2017 and £0.75 million paid in 2018.

The impact of the acquisitions on the 2018 results is set out in the Strategic Report on page 6.

All the businesses detailed above are part of the Packaging Distribution segment. Goodwill arising on the acquisitions is attributable to the anticipated future profitability of the distribution of Group product ranges and anticipated operating synergies from future combinations of activities in the Packaging Distribution network.

Fair values assigned to net assets acquired and consideration paid and payable are set out below:

	Tyler Packaging (Leicester) £000	Harrisons Packaging £000	Previous years' acquisitions £000	2018 Total £000	2017 Total £000
Net assets acquired					
Other intangible assets (note 10)	**814**	**1,298**	**–**	**2,112**	9,185
Property, plant and equipment	**17**	**68**	**–**	**85**	712
Inventories	**92**	**191**	**–**	**283**	1,109
Trade and other receivables	**437**	**394**	**–**	**831**	2,736
Cash and bank balances	**916**	**817**	**–**	**1,733**	625
Trade and other payables	**(451)**	**(624)**	**–**	**(1,075)**	(1,179)
Current tax liabilities	**(78)**	**(83)**	**–**	**(161)**	(12)
Finance lease liabilities	**–**	**(12)**	**–**	**(12)**	–
Deferred tax liabilities	**(138)**	**(233)**	**–**	**(371)**	(1,587)
Net assets acquired	**1,609**	**1,816**	**–**	**3,425**	11,589
Goodwill arising on acquisition (note 10)	**524**	**1,022**	**–**	**1,546**	5,627
Total consideration	**2,133**	**2,838**	**–**	**4,971**	17,216
Contingent consideration on acquisitions					
Current year	**(600)**	**(1,000)**	**–**	**(1,600)**	(3,250)
Prior years	**–**	**–**	**4,000**	**4,000**	996
Shares	**–**	**–**	**–**	**–**	(6,000)
Total cash consideration	**1,533**	**1,838**	**4,000**	**7,371**	8,962
Net cash outflow arising on acquisition					
Cash consideration	**(1,533)**	**(1,838)**	**(4,000)**	**(7,371)**	(8,962)
Cash and bank balances acquired	**916**	**817**	**–**	**1,733**	625
Net cash outflow	**(617)**	**(1,021)**	**(4,000)**	**(5,638)**	(8,337)

Notes to the financial statements (continued)

For the year ended 31 December 2018

23. Financial commitments

The Group's property portfolio in the Packaging Distribution business comprises a number of property leases for periods of between one year and ten years. In addition the Group leases the majority of its commercial vehicles, motor vehicles, fork lift trucks and telecoms equipment on leasing arrangements, which run for periods of up to five 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 2018 £000	**Other 2018 £000**	Land and buildings 2017 £000	Other 2017 £000
Charge for the year	**5,220**	**3,280**	5,120	3,259
Recoveries from property sub-leases	**(478)**	**–**	(478)	–
Net charge for the year	**4,742**	**3,280**	4,642	3,259

At the year-end 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 2018 £000	**Other 2018 £000**	Land and buildings 2017 £000	Other 2017 £000
Within one year	**5,501**	**2,703**	5,108	3,244
Between one and five years	**14,710**	**5,350**	13,887	7,119
After more than five years	**7,058**	**253**	5,979	1,103
	27,269	**8,306**	24,974	11,466

The majority of the 35 (2017: 32) leases of land and buildings summarised above are subject to rent reviews. 3 (2017: 3) of these leases are subject to sub-let arrangements or assignations with third parties to reduce the property cost to Macfarlane Group.

At the year-end 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 2018 £000	Land and buildings 2017 £000
Within one year	**478**	478
Between one and five years	**260**	738
	738	1,216

In the event of tenants defaulting on future payments receivable under 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 £0.9 million, (2017: £1.3 million) being the difference between head lease and sub-lease payments from 1 January 2019 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 £800,000 (2017: £452,000).

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 of the trading subsidiaries, Macfarlane Group UK Limited and Macfarlane Labels Limited are also sponsoring employers of the Scheme. The Scheme is currently in deficit and disclosure of the respective proportions of the Group deficit are included and disclosed in the financial statements of each of the three participating employers.

The Scheme is an HMRC registered pension scheme and is administered by a Board of Trustees composed of employer-nominated representatives and member-nominated Trustees which is legally separate from the Group. The Scheme's investments 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 administration of benefits.

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. The Scheme was closed to new entrants during 2002.

On leaving 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 Price 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 Scheme by offering a Pension Increase Exchange ('PIE') option to pensioner members and a PIE option to all deferred and active members at retirement after 1 May 2012.

The Group will consider continued actions to manage and control the deficit in 2019.

Balance sheet disclosures at 31 December 2018

The 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 2017, the results of this valuation showed that the market value of the relevant investments of the Scheme was £82,100,000 and represented 81% of the actuarial value of benefits that had accrued to members.

The investment classes held by the Scheme and the Scheme deficit, based on the results of the actuarial valuation as at 1 May 2017, updated to the year-end are as shown below:

Investment class	**Valuation 2018 £000**	**Asset allocation**	Valuation 2017 £000	Asset allocation	Valuation 2016 £000	Asset allocation
Equities						
UK equity funds	**6,244**	**8.2%**	7,034	8.7%	6,604	8.5%
Overseas equity funds	**9,781**	**12.9%**	10,660	13.2%	10,508	13.5%
Multi-asset diversified growth funds	**17,512**	**23.1%**	21,533	26.6%	21,509	27.7%
Bonds						
Liability-driven investment funds	**28,379**	**37.4%**	28,534	35.2%	26,532	34.1%
Other						
European loan fund	**6,645**	**8.8%**	6,562	8.1%	6,334	8.1%
Secured property income fund	**7,112**	**9.4%**	6,606	8.2%	–	–
Cash	**154**	**0.2%**	31	–	6,321	8.1%
Fair value of Scheme investments	**75,827**	**100.0%**	80,960	100.0%	77,808	100.0%
Present value of Scheme liabilities	**(85,592)**		(92,783)		(92,345)	
Scheme deficit	**(9,765)**		(11,823)		(14,537)	

Notes to the financial statements (continued)

For the year ended 31 December 2018

24. Retirement benefit obligations (continued)

The Trustees review the Scheme's investments on a regular basis and consult with the Company regarding any proposed changes to the investment profile. Liability-Driven Investment Funds are intended to provide a match of 100% against the impact of movements in inflation on pension liabilities and a match of 80% against the impact of movements in interest rates on pension liabilities. During 2018 an additional diversified growth fund was introduced to the portfolio and the funds with an existing diversified growth fund were reduced.

The ability to realise the Scheme's investments at, or close to, fair value was considered when setting the investment strategy. 82% of the Scheme's investments can be realised at fair value on a daily or weekly basis. The remaining investments have monthly or quarterly liquidity, however, whilst the income from these helps to meet the Scheme's cash flow needs, they are not expected to be realised at short notice.

The present value of the Scheme liabilities is derived from cash flow projections over a long period and is thus inherently uncertain.

Assumptions

The Scheme's liabilities at 31 December 2018 were calculated on the following bases as required under IAS19:

	2018	2017	2016
Discount rate	**2.80%**	2.50%	2.70%
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 3.20% for LPI. 2.25% post 5 April 2006**	3% or 5% for fixed increases or 3.20% for LPI. 2.25% post 5 April 2006	3% or 5% for fixed increases or 3.20% for LPI. 2.25% post 5 April 2006
Inflation assumption (RPI)	**3.30%**	3.30%	3.30%
Inflation assumption (CPI)	**2.30%**	2.30%	2.30%
Life expectancy beyond normal retirement age of 65			
Male	**23.5**	23.7	22.8
Female	**25.7**	25.7	25.3

In 2018, the Directors consider that the estimated effect of GMP equalisation on the Group's pension liabilities is a past service cost as it is in respect of pensionable service between 1990 and 1997. The average uplift for GMP service for impacted members has been reflected through the consolidated income statement as an exceptional item as set out in note 3, with any subsequent changes in the estimate to be recognised in other comprehensive income. This treatment is based on the fact that the reported pension liabilities for the scheme as at 31 December 2017 did not include any amount in respect of GMP equalisation.

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 Scheme deficit. Assuming all other assumptions are held static then a movement in the following key assumptions would affect the level of the Scheme deficit as shown below:

	2018 £000	2017 £000	2016 £000
Assumptions			
Discount rate movement of +0.1%	**1,369**	1,485	1,478
Inflation rate movement of +0.1%	**(436)**	(473)	(471)
Mortality movement of +0.1 year in age rating	**257**	278	277

Positive figures reflect a reduction in scheme liabilities and therefore a reduction in the Scheme deficit. The sensitivity information has been prepared using the same method as adopted when updating the results of the 2017 actuarial 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 movements in current life expectancy tables.

All of the sensitivity information assumes that the average duration of the Scheme's liabilities is seventeen years.

Funding

UK pension legislation requires that pension schemes are funded prudently. Following the conclusion of the 2017 actuarial valuation, the scheme's trustees agreed with the Company to a deficit recovery period of 7 years. As part of this agreement, the Group reconfirmed its effective unconditional right to a refund, based on and in accordance with the terms and conditions of the defined benefit scheme and minimum funding requirements. Accordingly IFRIC 14 does not require an adjustment to the net pension liability.

Macfarlane Group PLC paid deficit reduction contributions of £2,900,000 per annum (inclusive of current service costs and interest of £382,000), which along with investment returns from return-seeking assets is expected to make good the actuarial shortfall by April 2024. The estimated deficit reduction contributions in 2019 will be £3,000,000 (inclusive of estimated service costs and interest of £400,000).

The employer contribution rate for active members is 28.7% of pensionable salary and the employee contribution rate is 7.0% of pensionable salary.

Movement in the scheme deficit during the year	2018 £000	2017 £000
At 1 January	**(11,823)**	(14,537)
Current service costs	**(120)**	(105)
Past service costs for GMP equalisation (see note 3)	**(330)**	–
Contributions from sponsoring companies	**2,802**	3,390
Net finance cost (see note 5)	**(262)**	(348)
Remeasurement of pension scheme liability in the year	**(32)**	(223)
At 31 December	**(9,765)**	(11,823)
Analysis of amounts charged to profit before tax		
Current service costs	**(120)**	(105)
Past service costs for GMP equalisation	**(330)**	–
Net finance cost	**(262)**	(348)
Pension expense charged to profit before tax	**(712)**	(453)
Analysis of the remeasurement of pension scheme liability recognised in the statement of other comprehensive income		
Return on scheme investments excluding amount shown in interest income	**(4,143)**	3,730
Changes in assumptions underlying the present value of scheme liabilities	**4,111**	(3,953)
Remeasurement of the pension scheme liability recognised in the statement of other comprehensive income	**(32)**	(223)
Movement in the fair value of scheme investments		
At 1 January	**80,960**	77,808
Interest income	**1,987**	2,065
Return on scheme investments excluding amount shown in interest income	**(4,143)**	3,730
Contributions from sponsoring companies	**2,802**	3,390
Contribution from scheme members	**72**	72
Benefits paid	**(5,851)**	(6,105)
At 31 December	**75,827**	80,960
Movement in the present value of scheme liabilities		
At 1 January	**(92,783)**	(92,345)
Normal service costs	**(120)**	(105)
Past service costs for GMP equalisation	**(330)**	–
Interest cost	**(2,249)**	(2,413)
Contribution from scheme members	**(72)**	(72)
Changes in assumptions underlying the scheme liabilities	**4,111**	(3,953)
Benefits paid	**5,851**	6,105
At 31 December	**(85,592)**	(92,783)

Notes to the financial statements (continued)

For the year ended 31 December 2018

24. Retirement benefit obligations (continued)

The total of £4,111,000, (2017: (£3,953,000)) set out on the previous page 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 £21,903,000 (2017: £21,871,000).

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

	2018 £000	2017 £000	2016 £000	2015 £000	2014 £000
Present value of defined benefit obligations	**(85,592)**	(92,783)	(92,345)	(79,311)	(81,863)
Fair value of scheme investments	**75,827**	80,960	77,808	67,793	67,990
Scheme deficit	**(9,765)**	(11,823)	(14,537)	(11,518)	(13,873)
Actual return on scheme investments					
Amount	**(2,156)**	5,795	12,080	706	11,672
Percentage of scheme investments	**(2.8%)**	7.2%	15.5%	1.0%	17.2%
Experience adjustment on scheme liabilities					
Amount	**4,111**	(3,953)	(15,162)	1,769	(11,921)
Percentage of scheme liabilities	**4.8%**	(4.3%)	(16.4%)	2.2%	(14.6%)
Experience adjustment on scheme investments					
Amount	**(4,143)**	3,730	9,610	(1,658)	9,184
Percentage of scheme investments	**(5.5%)**	4.6%	12.4%	(2.4%)	13.5%

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 £1,597,000 (2017: £1,332,000). Contributions amounting to £155,000 (2017: £139,000) were payable to the plans and are included in trade and other payables at the balance sheet date.

25. Share-based payments

Equity-settled long-term incentive plans Movements during the year:	**Number of shares 2018**	Number of shares 2017
Outstanding at 1 January	**1,135,280**	1,135,280
Lapsed during the year	**(1,135,280)**	–
Outstanding at 31 December	**–**	1,135,280

The Group recognised a credit of £180,000 in 2017 relating to equity-settled long-term incentive plan awards. The fair value at 31 December 2017 was £Nil. All awards lapsed on 22 February 2018.

26. Related party transactions

The Group has related party relationships with:

(i) its subsidiaries (see page 100),
(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*'.

	2018 £000	2017 £000
Directors' remuneration	**817**	909
Employer's national insurance contributions	**113**	125
	930	1,034

Further details of Directors' individual and collective remuneration are set out in the Directors' Remuneration Report on page 31. The details provided in the Directors' Remuneration Report address the Companies Act disclosure requirements relating to Directors' remuneration.

Details of Directors' shareholdings in the Company are shown on page 32 and total dividends of £40,000 were paid in respect of these shareholdings in 2018 (2017: £47,000).

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

The Directors have considered the implications of IAS 24 '*Related Party Disclosures*' and are satisfied that there are no other related party transactions occurring during the year, which require disclosure other than those already disclosed in these financial statements.

Company balance sheet
At 31 December 2018

	Note	2018 £000	2017 £000
Fixed assets			
Tangible assets	28	**38**	38
Investments	29	**35,391**	39,544
Deferred tax asset	30	**664**	804
Debtors	31	**27,603**	23,376
		63,696	63,762
Current assets			
Debtors	31	**2,803**	2,959
Cash at bank and in hand		**3**	3
Total current assets		**2,806**	2,962
Creditors – amounts falling due within one year	32	**(1,025)**	(1,703)
Net current assets		**1,781**	1,259
Total assets less current liabilities		**65,477**	65,021
Creditors – amounts falling due after more than one year	33	**(940)**	(940)
Net assets excluding pension liability		**64,537**	64,081
Pension liability	38	**(3,908)**	(4,730)
Net assets		**60,629**	59,351
Capital and reserves			
Share capital	34	**39,387**	39,387
Share premium	35	**12,975**	12,975
Profit and loss account	35	**8,267**	6,989
Shareholders' funds	36	**60,629**	59,351

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 22 February 2019 and signed on its behalf by

Peter D. Atkinson
Chief Executive

John Love
Finance Director

Company statement of changes in equity

For the year ended 31 December 2018

	Note	Share capital £000	Share premium £000	Retained earnings £000	Total £000
At 1 January 2017		34,084	4,641	5,022	43,747
Comprehensive income					
Profit for the year		–	–	4,259	4,259
Remeasurement of pension scheme liability	38	–	–	895	895
Tax on remeasurement of pension scheme liability		–	–	(153)	(153)
Total comprehensive income		–	–	5,001	5,001
Transactions with shareholders					
Dividends	8	–	–	(2,854)	(2,854)
Share-based payments	25	–	–	(180)	(180)
Issue of share capital	34,35	5,303	8,334	–	13,637
Total transactions with shareholders		5,303	8,334	(3,034)	10,603
At 31 December 2017		**39,387**	**12,975**	**6,989**	**59,351**
Comprehensive income					
Profit for the year		**–**	**–**	**4,026**	**4,026**
Remeasurement of pension scheme liability	38	**–**	**–**	**770**	**770**
Tax on remeasurement of pension scheme liability		**–**	**–**	**(131)**	**(131)**
Total comprehensive income		**–**	**–**	**4,665**	**4,665**
Transactions with shareholders					
Dividends	8	**–**	**–**	**(3,387)**	**(3,387)**
Total transactions with shareholders		**–**	**–**	**(3,387)**	**(3,387)**
At 31 December 2018		**39,387**	**12,975**	**8,267**	**60,629**

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

Notes to the Company financial statements

For the year ended 31 December 2018

27. Significant accounting policies

Macfarlane Group PLC is a public company listed on the London Stock Exchange, incorporated and domiciled in the United Kingdom and registered in Scotland.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ('FRS 101').

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. 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 assets;
(iii) Disclosures in respect of transactions with wholly owned subsidiaries;
(iv) The effects of new but not yet effective IFRSs;
(v) Disclosures in respect of the compensation of Key Management Personnel; and
(vi) Disclosures in respect of capital management.

As the consolidated financial statements for Macfarlane Group PLC include the equivalent disclosures, the Company has also applied the exemptions available under FRS 101 in respect of certain disclosures required by;

(i) IFRS 2 *Share Based Payments* in relation to Group-settled share-based payments;
(ii) IFRS 3 *Business Combinations* relating to business combinations undertaken by the Company; and
(iii) IFRS 7 *Financial Instruments*.

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. Details are set out on page 58. 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 Company has applied IFRS 15 *'Revenue from Contracts with Customers'* and IFRS 9 *'Financial Instruments'* with effect from 1 January 2018. Due to the transition methods chosen by the Company in applying the two standards, comparative information throughout these financial statements has not been restated.

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. 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.

Tangible assets

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated 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 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

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

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

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.

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 management services provided to Group undertakings, net of VAT. Revenue is recognised as the related costs are incurred.

Financial instruments

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

Financial assets

Financial assets, categorised as investments, are recognised and derecognised on the effective date where the purchase or sale of an investment is under a contract whose terms require the delivery of the investment within the timeframe established. They are initially measured at fair value, net of transaction 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.

Contingent consideration classified as a liability will be subsequently re-measured through the income statement under the requirements of the revised IFRS 3.

Share-based payments

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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

Notes to the Company financial statements (continued)

For the year ended 31 December 2018

27. Significant accounting policies (continued)

Taxation

The tax expense represents the sum of the current tax payable and deferred tax.

Current tax is payable 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. 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 assets and liabilities are not discounted.

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 recognised for all taxable temporary differences.

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.

Retirement benefit costs

Defined contribution schemes

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit schemes

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net retirement benefit obligation in respect of its defined benefit pension plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in current and prior periods. These benefits are then discounted to determine the present value, and the fair values of any plan investments, at bid price, are deducted. The Group determines the net interest on the net retirement benefit obligation for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year.

The discount rate is set in consultation with the Company's pension advisers, representing the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating to the average duration of the Group's retirement benefit obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, returns on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). Remeasurements are recognised in the statement of other comprehensive income and all other expenses related to defined benefit plans charged in staff costs in the profit and loss account.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in the profit and loss account when the plan amendment or curtailment occurs.

The calculation of the retirement benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of the present value of any minimum funding requirements.

The net defined benefit cost of the plan is apportioned to participating entities on the basis of the employment history of scheme members, who are allocated to the relevant subsidiary company, with any remaining unallocated members allocated to the parent company.

28. Tangible assets

	Land and buildings £000	Plant and equipment £000	Total £000
Cost			
At 1 January 2018	**15**	**305**	**320**
Disposals	**–**	**(59)**	**(59)**
At 31 December 2018	**15**	**246**	**261**
Depreciation			
At 1 January 2018	**14**	**268**	**282**
Disposals	**–**	**(59)**	**(59)**
At 31 December 2018	**14**	**209**	**223**
Net book value			
At 31 December 2018	**1**	**37**	**38**
At 31 December 2017	1	37	38

The parent company does not hold any assets under finance leases.

29. Investments

	2018 £000	2017 £000
Investment in subsidiaries at cost		
At 1 January	**39,544**	39,544
Struck off during the year	**(1,421)**	–
Group dividends	**(180)**	–
Group transfers	**(2,552)**	–
At 31 December	**35,391**	39,544

The parent company transferred its investment in One Packaging Limited to Macfarlane Group UK Limited during the year.

Details of the principal operating subsidiaries are set out on page 100.

30. Deferred tax asset

	2018 £000	2017 £000
Deferred tax on pension scheme deficit		
At 1 January	**804**	989
Charged to reserves	**(131)**	(153)
Charged to profit and loss account	**(9)**	(32)
At 31 December	**664**	804

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

Notes to the Company financial statements (continued)
For the year ended 31 December 2018

31. Receivables

	2018 £000	2017 £000
Due within one year		
Amounts owed by subsidiary undertakings	**1,500**	1,500
Other receivables	**628**	666
Prepayments and accrued income	**571**	483
Deferred tax asset (see below)	**104**	310
	2,803	2,959

Deferred tax asset		
Corporation tax losses		
At 1 January	**310**	320
Charged to profit and loss account	**(206)**	(10)
At 31 December	**104**	310

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

	2018 £000	2017 £000
Due after more than one year		
Amounts owed by subsidiary undertakings	**27,603**	23,376

32. Creditors – amounts falling due within one year

	2018 £000	2017 £000
Bank borrowings	**48**	54
Trade creditors	**270**	330
Other taxation and social security	**41**	41
Contingent consideration	**–**	750
Corporation tax	**432**	128
Accruals and deferred income	**234**	400
	1,025	1,703

The Company is a party to the Group bank borrowing facility with Lloyds Banking Group PLC, a committed facility of £30 million available until June 2022. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over the trade receivables of Macfarlane Group UK Limited, the principal trading subsidiary.

The Company and certain subsidiaries have given inter-company guarantees to secure the drawdown on this facility. The drawdown at 31 December 2018 by the subsidiary company, Macfarlane Group UK Limited amounted to £17.8 million.

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

	2018 £000	2017 £000
Amounts owed to subsidiary undertakings	**940**	940

34. Share capital

	Number of 25p shares	2018 £000	2017 £000
Called up, allotted and fully paid:			
At 1 January	157,547,618	**39,387**	34,084
Issued during the year	–	**–**	5,303
At 31 December	157,547,618	**39,387**	39,387

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.

On 18 September 2017, the Company announced a placing of 12,121,212 ordinary shares of 25p each at a price of 66p per share for a total value of £8,000,000. On 21 September 2017, the Company's subsidiary Macfarlane Group UK Limited acquired the trade, goodwill and selected assets of the packaging business of Greenwoods Stock Boxes Limited and the whole of the issued share capital of Nottingham Recycling Limited. As part of the initial consideration, the Company issued 9,090,909 ordinary shares of 25p each at a value of 66p per share as non-cash consideration to the Vendors, an effective value of £6,000,000. These shares were all admitted to the Official List of the London Stock Exchange on 21 September 2017.

35. Reserves

	Share premium £000	Profit and loss account £000	Total £000
Balance at 1 January 2017	4,641	5,022	9,663
Profit for the year	–	4,259	4,259
Dividends paid (see note 8)	–	(2,854)	(2,854)
Share-based payments (see note 25)	–	(180)	(180)
Issue of new shares	8,697	–	8,697
Expenses of share issue	(363)	–	(363)
Post-tax actuarial gain in pension scheme taken direct to reserves	–	742	742
Balance at 1 January 2018	**12,975**	**6,989**	**19,964**
Profit for the year	**–**	**4,026**	**4,026**
Dividends paid (see note 8)	**–**	**(3,387)**	**(3,387)**
Post-tax actuarial gain in pension scheme taken direct to reserves	**–**	**639**	**639**
Balance at 31 December 2018	**12,975**	**8,267**	**21,242**

36. Reconciliation of movements in shareholders' funds

	2018 £000	2017 £000
Profit for the year	**4,026**	4,259
Dividends to equity holders in the year	**(3,387)**	(2,854)
Post-tax actuarial gain in pension scheme taken direct to equity	**639**	742
Share-based payments	**–**	(180)
Issue of new shares (net of issue expenses)	**–**	13,637
Movements in shareholders' funds in the year	**1,278**	15,604
Opening shareholders' funds	**59,351**	43,747
Closing shareholders' funds	**60,629**	59,351

Notes to the Company financial statements (continued)

For the year ended 31 December 2018

37. Operating profit

		2018 £000	2017 £000
Operating profit for the parent company has been arrived at after charging:			
Auditor's remuneration	Audit services	**6**	6
	Non-audit services	**12**	18
Exceptional item			
Past service cost in respect of the equalisation of GMP benefits (see note 38)		**132**	–

	2018 No.	2017 No.
Staff costs		
The average monthly number of employees was:		
Administration	**11**	11

	2018 £000	2017 £000
The costs incurred in respect of these employees were:		
Wages and salaries	**909**	1,007
Social security costs	**118**	165
Other pension costs	**23**	25
Share-based payments (see note 25)	**–**	(180)
	1,050	1,017

38. Pensions

Introduction

Macfarlane Group PLC sponsors a defined benefit pension scheme for certain active and former UK employees – the Macfarlane Group PLC Pension & Life Assurance Scheme (1974) ('the Scheme'). Two of the trading subsidiaries, Macfarlane Group UK Limited and Macfarlane Labels Limited are also sponsoring employers of the Scheme. The Scheme is currently in deficit and disclosure of the respective proportions of the Group deficit are included and disclosed in the financial statements of each of the three participating employers.

The Scheme is an HMRC registered pension scheme and is administered by a Board of Trustees composed of employer-nominated representatives and member-nominated Trustees which is legally separate from the Group. The Scheme's investments 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 administration of benefits.

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. The Scheme was closed to new entrants during 2002.

On leaving 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 Price 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 Scheme by offering a Pension Increase Exchange ('PIE') option to pensioner members and a PIE option to all deferred and active members at retirement after 1 May 2012.

Balance sheet disclosures at 31 December 2018

The 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 2017, the results of this valuation showed that the market value of the relevant investments of the Scheme was £82,100,000 and represented 81% of the actuarial value of benefits that had accrued to members.

The investments held by the scheme and the Scheme deficit, based on the results of the actuarial valuation as at 1 May 2017, updated to the year-end to reflect amounts attributable to Macfarlane Group PLC, the parent company are shown below:

Investment class	**2018 £000**	2017 £000	2016 £000
Equities	**6,410**	7,078	6,845
Multi-asset diversified funds	**7,005**	8,613	8,603
Liability-driven investment funds	**11,352**	11,414	10,613
European loan fund	**2,845**	2,624	2,534
Secured property income fund	**2,658**	2,642	–
Cash	**60**	12	2,528
Fair value of scheme assets	**30,330**	32,383	31,123
Present value of scheme liabilities	**(34,238)**	(37,113)	(36,938)
Scheme deficit	**(3,908)**	(4,730)	(5,815)

The Trustees review the Scheme's investments on a regular basis and consult with the Company regarding any proposed changes to the investment profile. Liability-Driven Investment Funds are intended to provide a match of 100% against the impact of movements in inflation on pension liabilities and a match of 80% against the impact of movements in interest rates on pension liabilities. During 2018 the Company introduced an additional diversified growth fund to the portfolio and reduced the funds with an existing diversified growth fund provider.

The ability to realise the Scheme's investments at, or close to, fair value was considered when setting the investment strategy. 82% of the Scheme's investments can be realised at fair value on a daily or weekly basis. The remaining investments have monthly or quarterly liquidity, however, whilst the income from these helps to meet the Scheme's cash flow needs, they are not expected to be realised at short notice.

The present value of the Scheme's liabilities is derived from cash flow projections over a long period and is thus inherently uncertain.

The Scheme's liabilities at 31 December 2018 were calculated on the following bases as required under FRS17:

Assumptions	**2018**	2017	2016
Discount rate	**2.80%**	2.50%	2.70%
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 3.20% for LPI. 2.25% post 5 April 2006**	3% or 5% for fixed increases or 3.20% for LPI. 2.25% post 5 April 2006	3% or 5% for fixed increases or 3.20% for LPI. 2.25% post 5 April 2006
Inflation assumption (RPI)	**3.30%**	3.30%	3.30%
Inflation assumption (CPI)	**2.30%**	2.30%	2.30%
Life expectancy beyond normal retirement age of 65			
Male	**23.5**	23.7	22.8
Female	**25.7**	25.7	25.3

Notes to the Company financial statements (continued)

For the year ended 31 December 2018

38. Pensions (continued)

In 2018, the Directors have made the judgement that the estimated effect of GMP equalisation on the Group's pension liabilities is a past service cost in respect of pensionable service between 1990 and 1997. The average uplift for GMP service for impacted members has been reflected through the profit and loss account as an exceptional item totalling £132k as set out in note 37, with any subsequent changes in the estimate to be recognised in other comprehensive income. This treatment is based on the fact that the reported pension liabilities for the scheme at 31 December 2017 did not include any amount in respect of GMP equalisation.

Movement in scheme deficit during the year	2018 £000	2017 £000
At 1 January	(4,730)	(5,815)
Current service cost	(13)	(11)
Past service costs for GMP equalisation	(132)	–
Contributions	302	340
Other financial charges	(105)	(139)
Remeasurement of pension scheme liability in the year	770	895
At 31 December	**(3,908)**	(4,730)
Analysis of amounts charged to operating profit		
Current service cost	(13)	(11)
Past service costs for GMP equalisation	(132)	–
Pension cost charged to operating profit	**(145)**	(11)
Analysis of amounts charged to other financial charges		
Expected return on pension scheme assets	795	826
Interest cost of pension scheme liabilities	(900)	(965)
Other financial charges	**(105)**	(139)
Analysis of the remeasurement of the scheme deficit		
Actual return less expected return on scheme assets	(817)	2,529
Changes in assumptions underlying the present value of the scheme's liabilities	1,587	(1,634)
Remeasurement of the scheme deficit	**770**	895
Movement in the fair value of scheme assets		
At 1 January	32,383	31,123
Expected return on scheme assets	795	826
Actual return less expected return on scheme assets	(817)	2,529
Contributions paid by Company	302	340
Contribution from scheme members	7	8
Benefits paid	(2,340)	(2,443)
At 31 December	**30,330**	32,383
Movement in the present value of scheme liabilities		
At 1 January	(37,113)	(36,938)
Service costs	(13)	(11)
Past service costs for GMP equalisation	(132)	–
Interest costs	(900)	(965)
Contribution from scheme members	(7)	(8)
Actuarial gain/(loss) in the year	1,587	(1,634)
Benefits paid	2,340	2,443
At 31 December	**(34,238)**	(37,113)

The cumulative remeasurement of the pension liability applied against reserves since the transition to IAS 19 on 1 January 2004 is a loss of £2,156,000 (2017: £2,926,000).

	2018 £000	2017 £000	2016 £000	2015 £000	2014 £000
Present value of defined benefit obligations	**(34,238)**	(37,113)	(36,938)	(31,725)	(33,564)
Fair value of scheme investments	**30,330**	32,383	31,123	27,118	27,876
Scheme deficit	**(3,908)**	(4,730)	(5,815)	(4,607)	(5,688)
Return on scheme investments	**(22)**	3,355	5,599	361	6,341
Percentage of scheme investments	**(0.1%)**	10.4%	18.0%	1.3%	22.7%
Experience adjustment to scheme investments	**(817)**	2,529	4,610	(585)	5,320
Percentage of scheme investments	**(2.7%)**	7.8%	14.8%	(2.2%)	19.0%
Experience adjustment on scheme liabilities	**1,587**	(1,634)	(6,107)	1,464	(4,946)
Percentage of scheme liabilities	**4.6%**	(4.4%)	(16.5%)	4.6%	(14.7%)

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 £11,000 (2017: £14,000) with no contributions payable to the plan at the balance sheet date.

39. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed. The Directors have considered the implications of IAS 24 '*Related Party Disclosures*' and are satisfied that there are no other related party transactions occurring during the year, which require disclosure, other than those already disclosed in these financial statements.

Principal operating subsidiaries and related undertakings

Company name		Principal activities	Country of registration
Macfarlane Group UK Limited [1]		Supply and distribution of all forms of packaging materials and equipment. Design and manufacture of specialist packaging.	England
Coventry	Tel: 02476 511511		
Grantham	Tel: 01476 574747		
Westbury	Tel: 01373 858555		
Nelsons for Cartons & Packaging Limited [1]		Supply and distribution of all forms of packaging materials and equipment.	England
Leicester	Tel: 0116 2641050		
Tyler Packaging (Leicester) Limited [1]		Supply and distribution of all forms of packaging materials and equipment.	England
Leicester	Tel: 0116 2336373		
Harrisons Packaging Limited [1]		Supply and distribution of all forms of packaging materials and equipment.	England
Leyland	Tel: 01772 331780		
Nottingham Recycling Limited [2]		Recovery of waste paper and corrugated board for recycling.	England
Nottingham	Tel: 0115 986 7181		
Macfarlane Labels Limited [3]		Manufacture of high quality printed self-adhesive labels and resealable labelling solutions.	Scotland
Kilmarnock	Tel: 01563 525151		
Macfarlane Group Ireland (Labels & Packaging) Limited [4]		Manufacture of high quality printed self-adhesive labels and resealable labelling solutions and supply and distribution of packaging materials and equipment.	Ireland
Wicklow	Tel: 00 353 1281 0234		
Macfarlane Group Sweden AB [5]		Provision of high quality printed self-adhesive labels and resealable labelling solutions.	Sweden
Helsingborg	Tel: 00 46 42 13 75 55		

All the above subsidiaries are wholly owned either by Macfarlane Group PLC or one of its subsidiary companies and operate in their country of registration. The Company controls 100% of the ordinary share capital of each subsidiary. 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		
National Packaging Group Limited [1]	01355867	England
Adhesive Labels Limited [1]	00723320	England
Network Packaging Limited [6]	03400627	England
Owned by Macfarlane Group UK Limited		
Online Packaging Limited [1]	02903657	England
Allpoint Packaging Limited [1]	03930806	England
Macfarlane Packaging Limited [7]	SC041678	Scotland
Abbott's Packaging Limited [1]	00372831	England
Mitchell Packaging Limited [1]	00535311	England
One Packaging Limited [1]	09647045	England
Greenwoods Stock Boxes Limited [7]	SC576825	Scotland
Owned by Harrisons Packaging Limited		
Temperature Controlled Packaging Limited [1]	06896225	England
Owned by Network Packaging Limited		
Networkpack Limited [6]	07076439	England
Owned by Macfarlane Group Sweden AB		
ReSeal-it Scandinavia [5]	556480-9845	Sweden
Regath HB [5]	969610-8753	Sweden

Registered offices

[1] Siskin Parkway East, Middlemarch Business Park, Coventry CV3 4PE
[2] Abbeyfield Road, Nottingham NG7 2SX
[3] Bentinck Street, Kilmarnock KA1 4AS
[4] Kilmacullagh, Newtownmountkennedy, Co. Wicklow, Ireland
[5] Kapplöpningsgatan 14, 252 30 Helsingborg, Sweden
[6] Unit 5, Lanesfield Drive, Spring Road Industrial Estate, Ettingshall, Wolverhampton WV4 6UA
[7] 3 Park Gardens, Glasgow G3 7YE

Financial diary

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

Accounts and Annual General Meeting
Report and financial statements – Posted to shareholders on 3 April 2019
Annual General Meeting – Held in Glasgow on 14 May 2019

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: 0371 384 2439
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.

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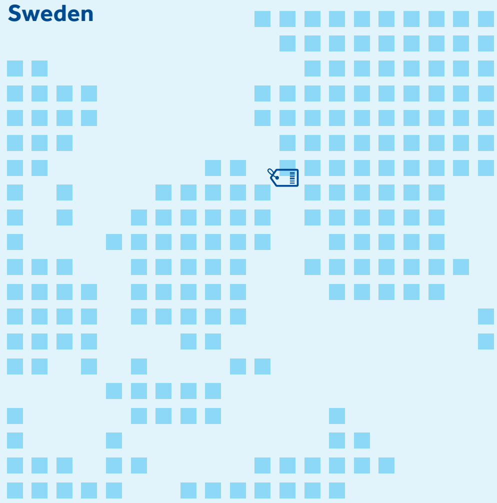
Sweden



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United Kingdom:
Bristol t. 0117 317 2660
Coventry t. 02476 217000
Enfield t. 0208 344 3800
Exeter t. 01392 825300
Fareham t. 01329 854300
Glasgow t. 0141 840 2000
Gloucester t. 0145 255 5550
Grantham t. 01476 513602
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Leicester t. 0116 2641050
Leyland t. 01772 331780
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Milton Keynes t. 01908 512900
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Nottingham t. 0115 985 1851
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Sweden:
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