MACFARLANE GROUP

**26 February 2015**

**ANNUAL RESULTS FOR THE YEAR TO 31 DECEMBER 2014**

| **Financial Highlights** | **2014** | **2013** | **Year on Year Change** |
|---|---|---|---|
| Group turnover | £153.8m | £143.9m | +7% |
| Pre-tax profit * | £5.6m | £5.1m | +11% |
| Pre-tax profit | £5.6m | £4.7m | +19% |
| Proposed full year dividend | 1.65 pence | 1.60 pence | +3% |
| Earnings per share * | 3.78 pence | 3.32 pence | +14% |

* Before exceptional items

Macfarlane Group PLC increased sales to £153.8m in 2014, a 7% increase on the prior year (2013: £143.9m). The Group grew profit before tax and exceptional items in 2014 by 11% to £5.6m (2013: £5.1m), fuelled by a combination of organic sales growth and targeted acquisitions. This result represented a significant achievement for the Group in competitive market conditions.

**Trading**

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

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

**Dividend**

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

**Net Debt and Pension Scheme**

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

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

**Outlook**

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

Commenting on the 2014 results, Graeme Bissett, Chairman, said:

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

| **Further enquiries:** | **Macfarlane Group** | | Tel: 0141 333 9666 |
|---|---|---|---|
| | Graeme Bissett | Chairman | |
| | Peter Atkinson | Chief Executive | |
| | John Love | Finance Director | |
| | | | |
| | **Spreng & Co** | | Tel: 0141 548 5191 |
| | Callum Spreng | | Mob: 07803 970103 |

**Notes to Editors:**

- Macfarlane Group PLC is listed on the London Stock Exchange (LSE: MACF) in the Industrials Sector.
- The company has more than 60 years' experience in the UK packaging industry.
- Macfarlane Group has three businesses:
  - **Macfarlane Packaging** is the leading UK distributor of a comprehensive range of protective packaging products.
  - **Labels** designs and prints high quality self-adhesive and re-sealable labels, principally for FMCG companies.
  - **Packaging Design and Manufacture** specialises in designing and producing protective packaging for high value, fragile products.
- Macfarlane Group is headquartered in Glasgow, Scotland, and employs over 700 people at 25 sites, principally in the UK and Ireland.
- The company has 20,000+ customers in the UK, Europe and the USA providing 600,000+ lines to a wide range of industry sectors including: consumer goods; food manufacturing; logistics; internet retail; mail order; electronics; defence and aerospace.

## Business Review

### Group performance

| Segment | Revenue 2014 £000 | Profit before exceptional items 2014 £000 | Revenue 2013 £000 | Profit before exceptional items 2013 £000 |
|---|---|---|---|---|
| Packaging Distribution | **126,907** | **5,758** | 116,280 | 4,960 |
| Manufacturing Operations | **26,860** | **888** | 27,591 | 1,291 |
| Revenue from continuing operations | **153,767** | | 143,871 | |
| Operating profit | | **6,646** | | 6,251 |
| Net finance costs | | **(1,040)** | | (1,199) |
| Profit before tax - continuing operations | | **5,606** | | 5,052 |

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

The Packaging Distribution business achieved a sales increase versus 2013 of 9% comprising 4% organic growth and 5% from acquisitions. There was a strong final quarter's sales performance, reflecting a 6% increase versus 2013, through the benefit of new business wins earlier in the year and increasing penetration of National Accounts. The growth in new business particularly focused on the supply of protective packaging to internet retailers both directly and through our partnerships with major Third Party Logistics ("3PL") customers. The increased competitive environment resulted in a slightly lower gross margin of 28.8% compared to 29.1% in 2013. Despite the increases in overheads arising from the two acquisitions, cost control remained strong with the overhead to sales ratio reducing to 24.3% compared with 24.8% in 2013. Operating profit before tax and exceptional items in the Packaging Distribution business at £5.8 million showed growth of 16% versus 2013.

2014 was a year of contrast for our Manufacturing Operations. The focus for both our Labels and Packaging Design and Manufacture businesses in 2014 was to concentrate on their higher added-value activities and this resulted in changes to both the customer and product mix. Sales in our Manufacturing Operations decreased by 3% versus 2013 mainly due to certain key customers in the self-adhesive label sector losing market share. Gross margins improved overall but reduced in our Labels business due to the increasingly competitive UK retail market and the cost base increased due to the relocation of our Labels facility in Ireland during 2013. The weaker performance from our Labels business was the major cause of our Manufacturing Operations recording operating profit before tax and exceptional items of £0.9 million compared with £1.3 million in 2013.

Whilst there is a modest improvement in the economic environment, our future performance will again be largely dependent on our own efforts to grow sales and increase efficiencies. We operate a flexible business model and our ability to focus on the most attractive UK market sectors for our products and services gives us confidence that 2015 will be another year of progress for Macfarlane Group.

**Business Review (continued)**

**Macfarlane Packaging Distribution** is the leading UK specialist distributor of protective packaging materials, and in what is a highly fragmented market, Macfarlane is the market leader. The business operates from 18 Regional Distribution Centres (RDCs) supplying customers with a comprehensive range of protective packaging materials and services on a local, regional and national basis.

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

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

| | Existing £000 | Acquisitions £000 | **2014 £000** | 2013 £000 | |
|---|---|---|---|---|---|
| Sales | 120,631 | 6,276 | **126,907** | 116,280 | Sales growth 9% |
| Cost of sales | (86,029) | (4,353) | **(90,382)** | (82,415) | |
| Gross margin | 34,602 | 1,923 | **36,525** | 33,865 | Margin growth 8% |
| Overheads | (29,360) | (1,407) | **(30,767)** | (28,905) | Overhead growth 6% |
| Operating profit before exceptional items | 5,242 | 516 | **5,758** | 4,960 | Profit growth 16% |

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

The 18 RDCs in our network are managed and measured as profit centres. In 2014 we had 13 of our 18 RDCs performing above the target return on sales level of 5%. The remaining 5 RDCs continue to demonstrate improvements that indicate their ability to achieve the target return on sales.

**Future Plans**

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

- Accelerating our penetration of the growing internet retail sector both directly and through our partnerships with key 3PL organisations;
- Expanding our focus in industry sectors which benefit from Macfarlane's national coverage through our specialist National Account sales team;
- Continuing the development of our web-based presence through macfarlanepackaging.com to improve online visibility and access to our full range of products and services;
- Commencing the programme to integrate our recently acquired companies following the completion of the earnout periods;
- Supplementing organic growth through identification of further suitable acquisition opportunities;
- Improving the awareness of our membership of NovuPak, for UK based customers requiring our capabilities on a wider European basis;
- Continuing to reduce operating costs by evaluating alternatives to our current property footprint, implementing further operational savings in logistics through expanded use of the Paragon vehicle management system and the implementation of a warehouse best practice programme; and
- Maintaining the focus on working capital management to reduce borrowing levels.

## Manufacturing Operations

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

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| Sales | **26,860** | 27,591 |
| Cost of sales | **(15,922)** | (16,568) |
| Gross margin | **10,938** | 11,023 |
| Overheads | **(10,050)** | (9,732) |
| Operating profit before exceptional items | **888** | 1,291 |

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

- Sales reduced by 3% versus 2013 mainly due to key self-adhesive label customers losing UK market share;
- Gross margins increased to 40.7% (2013 – 40.0%) through the focus on higher added value products and services; and
- Net overheads increased as a percentage of sales from 35.3% in 2013 to 37.4% in 2014.

### Labels

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

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

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

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

We continued to make good progress in the development of the resealable range of labels and systems and Reseal-it in 2014 represented 39% of revenue (2013 – 36%). Competition in the resealable label sector is increasing but total sales for Reseal-it grew by 2% versus 2013. Despite some slowing of momentum in the USA this was more than offset with good growth in Reseal-it system sales in Europe and improved penetration in the UK market through major retailers.

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

### Future Plans

The priorities for Labels in 2015 are: -

- Maintenance of the strategic focus on higher added value products and services;
- Changes to our commercial offering in the self-adhesive label market to counterbalance customer order patterns and volatility;
- Continued improvement in operational efficiencies to counterbalance competitive price pressure, maximising the returns from 2014 capital expenditure; and
- Further development of the Reseal-it product in the US market through the Printpack partnership, in Europe through new business wins and in the UK through improved penetration with key retailers.

**Business Performance**

**Manufacturing Operations (continued)**

**Packaging Design and Manufacture**

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

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

**Business Performance**

2014 external sales were 3% below those in 2013 caused by the relocation of a major customer outwith the UK. Management continued to change the mix of products and services towards those with higher added-value and the benefit was an improvement in gross margin, which together with good cost control contributed to an overall level of profitability in 2014 slightly ahead of that achieved in 2013. There was encouraging progress during 2014 in the development of new customer relationships, which should benefit the business in 2015.

**Future Plans**

The priorities for 2015 are:

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

**Cash Flow and Net Debt**

The Group agreed a new debt facility with Lloyds Banking Group PLC in 2014, comprising a three-year committed borrowing facility of up to £20.0 million for the period to February 2017. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over trade receivables. This new longer-term borrowing facility was put in place to accommodate increased working capital requirements from our organic growth, finance for acquisitions and a one-off contribution to reduce the pension scheme deficit.

**Placing of new shares**

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

**Pension Scheme Deficit**

During the year the Group's pension scheme deficit reduced from £15.9 million to £13.9 million. The Board continues to take steps to cut Macfarlane Group's pension deficit including a one-off contribution of £2.5 million in the year. This, combined with careful stewardship of the investment portfolio by the Trustees, in conjunction with the Company, helped to offset the impact of lower bond yields

**2015 Outlook**

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

During 2015 we will look at further opportunities to accelerate sales growth through the acquisition of quality protective packaging businesses that can leverage our current infrastructure or improve our geographic penetration.

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

We expect 2015 to be another successful year for Macfarlane Group.

**Business Review**

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

| Risk | Mitigating Factors |
|---|---|
| **Raw material prices**<br>The Group's businesses are impacted by commodity-based raw material prices and manufacturer energy costs, with profitability sensitive to supplier price changes. The principal components are corrugated paper, polythene films, timber and foam, with changes to paper and oil prices having a direct impact on the price we pay to our suppliers. | The Group works closely with its supplier base to manage the scale and timing of price increases to end-users effectively. Our IT systems monitor and measure our effectiveness in recovering supplier price changes. Where possible, alternative supplier relationships are maintained to minimise supplier dependency. We work with customers to redesign packs and reduce packing cost to mitigate the impact of cost increases. |
| **Funding defined benefit pension scheme**<br>The Group's defined benefit pension scheme is sensitive to a number of key factors; investment returns, discount rates used to calculate scheme liabilities (based on corporate bond yields) and mortality assumptions. The IAS19 valuation of the Group's defined benefit pension scheme as at 31 December 2014 estimated the scheme deficit to be £13.9 million. Small changes in these assumptions could mean that the deficit increases. | Steps undertaken to reduce the deficit include: -<br>The scheme was closed to new members in 2002.<br>Benefits for active members were amended by freezing pensionable salaries at 30 April 2009 salary levels.<br>The revaluation of deferred members' benefits has reflected Consumer Prices Index as the inflation measure since 2010.<br>During 2012 a Pension Increase Exchange exercise was completed to offer flexibility to pensioners in the current level of pension benefits and the rate of future increases.<br>Further actions to reduce volatility will be evaluated in 2015. |
| **Property**<br>Given the multi-site nature of its business, the Group has a property portfolio comprising 4 owned sites and 27 leased sites of which 4 are sublet, with 1 vacant owned site at the balance sheet date. This portfolio gives rise to risks for ongoing lease costs, dilapidations and fluctuations in value. | Where a site is non-operational the Group seeks to assign, sell or sub-lease the building to mitigate the financial impact. If this is not possible, rental voids are provided on vacant properties taking into consideration the likely period of vacancy and incentives to re-let. |
| **Financial liquidity, debt covenants and interest rates**<br>The Group needs continuous access to funding to meet its trading obligations and to support organic growth and acquisitions. There is a risk that the Group may be unable to obtain the necessary funds or that such funds will only be available on unfavourable terms. The Group's borrowing facilities comprise a committed facility of £20 million, including requirements to comply with specified covenants, with a breach potentially resulting in Group borrowings being subject to more onerous conditions. | The Group seeks to maintain an appropriate level of committed bank facilities that provides sufficient headroom above peak projected borrowing requirements. The Group continually monitors net debt and forecast cash flows to ensure that it will be able to meet its financial obligations as they fall due. Compliance with debt covenants is monitored on a monthly basis and sensitivity analysis is applied to forecasts to assess the impact on covenants. |

| Risk | Mitigating Factors |
|---|---|
| **Decentralised structure**<br>The Packaging Distribution business model reflects a decentralised approach with a high dependency on effective local decision-making. There is a risk that management control is less effective and local decisions do not meet overall corporate objectives. | A comprehensive management information system is maintained with key performance indicators monitored consistently and regularly with actions taken when required. |
| **Working capital**<br>The Group has a significant investment in working capital in the form of trade receivables and inventories. There is a risk that this investment is not fully recovered. | Credit risk is controlled by applying rigour to the management of trade receivables by our credit control team, managed by a credit control manager and subject to additional scrutiny from the Group Finance Director.<br>Inventory levels and order patterns are regularly reviewed and risks arising from holding bespoke stocks are managed by obtaining order cover from customers. |

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

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.

**Going Concern**

The Directors, in their consideration of going concern, have reviewed the Group's cash flow forecasts and revenue projections, which they believe are based on past experience and what they consider to be prudent market data. The Group's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the Chairman's Statement and Business Review on pages 1 to 8.

The Group's principal financial risks in the medium term relate to liquidity and credit risk. Liquidity risk is managed by ensuring that the Group's day-to-day working capital requirements are met by having access to banking facilities with suitable terms and conditions to accommodate the requirements of the Group's operations. Credit risk is managed by applying considerable rigour in managing the Group's trade receivables. The Directors believe that the Group is adequately placed to manage its financial risks effectively despite the current uncertain economic outlook.

The Group's principal banking facilities of up to £20.0 million are in place until February 2017 and the Directors are of the opinion that the Group's cash forecasts and revenue projections, taking account of reasonably possible changes in trading performance given current market and economic conditions, show that the Group should be able to operate within its current facilities and comply with its banking covenants.

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

**Cautionary Statement**

The Chairman's Statement and the Business Review on pages 1 to 8 have been prepared to provide additional information to members of the Company to assess the Group's strategy and the potential for the strategy to succeed. It should not be relied on by any other party or for any other purpose.

This report and the financial statements contain certain forward-looking statements relating to operations, performance and financial status. By their nature, such statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors, including both economic and business risk factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report.

**Responsibility Statement of the Directors**

The responsibility statement below has been prepared in connection with the company's full annual report for the year ending 31 December 2014. Certain parts of the full annual report are not included within this announcement. The Directors of Macfarlane Group PLC are

| | |
|---|---|
| G. Bissett | Chairman |
| P.D. Atkinson | Chief Executive |
| J. Love | Finance Director |
| M. Arrowsmith | Non-Executive Director and Senior Independent Director |
| S. Paterson | Non-Executive Director |
| R. McLellan | Non-Executive Director |

To the best of the knowledge of the Directors (whose names and functions are set out above), the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit for the Company and the undertakings included in the consolidation taken as a whole; and

Pursuant to Disclosure and Transparency Rules, Chapter 4, the Directors' Report of the Company's annual report includes a fair review of the development and performance of the business and the position of the Company, and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties faced by the business.

| | |
|---|---|
| Peter Atkinson | John Love |
| Chief Executive | Finance Director |
| 26 February 2015 | 26 February 2015 |

**Macfarlane Group PLC**

**Consolidated income statement**

**For the year ended 31 December 2014**

| | Note | **2014 £000** | 2013 before exceptional items £000 | Exceptional items £000 (see Note 3) | 2013 £000 |
|---|---|---|---|---|---|
| **Continuing operations** | 3 | | | | |
| Revenue | | **153,767** | 143,871 | - | 143,871 |
| Cost of sales | | **(106,304)** | (98,983) | - | (98,983) |
| **Gross profit** | | **47,463** | 44,888 | - | 44,888 |
| Distribution costs | | **(7,432)** | (7,458) | - | (7,458) |
| **Administrative expenses** | | **(33,385)** | (31,179) | (336) | (31,515) |
| **Operating profit** | 3 | **6,646** | 6,251 | (336) | 5,915 |
| Finance costs | 4 | **(1,040)** | (1,199) | - | (1,199) |
| **Profit before tax** | | **5,606** | 5,052 | (336) | 4,716 |
| Tax | 5 | **(1,164)** | (1,265) | 5 | (1,260) |
| **Profit for the year** | 7 | **4,442** | 3,787 | (331) | 3,456 |
| **Earnings per share** | | | | | |
| Basic | 7 | **3.78p** | 3.32p | (0.29p) | 3.03p |
| Diluted | 7 | **3.78p** | 3.31p | (0.29p) | 3.02p |

**Macfarlane Group PLC**

**Consolidated statement of comprehensive income**

**For the year ended 31 December 2014**

| | Note | 2014 £000 | 2013 £000 |
|---|---|---|---|
| Exchange differences on translation of foreign operations | | **(102)** | 40 |
| Remeasurement of pension scheme liability | 10 | **(2,737)** | 1,177 |
| Tax recognised in other comprehensive income | | | |
| Tax on remeasurement of pension scheme liability | 11 | **548** | (271) |
| Long-term corporation tax rate change | 11 | **-** | (476) |
| Other comprehensive income for the year | | **(2,291)** | 470 |
| Profit for the year | | **4,442** | 3,456 |
| Total comprehensive income for the year | | **2,151** | 3,926 |

**Consolidated statement of changes in equity**

**For the year ended 31 December 2014**

| | Note | Share Capital £000 | Share Premium £000 | Revaluation Reserve £000 | Own Shares £000 | Translation Reserve £000 | Retained Earnings £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 | | 28,755 | - | 70 | (810) | 183 | (4,180) | 24,018 |
| Profit for the year | | - | - | - | - | - | 3,456 | 3,456 |
| Dividends | 6 | - | - | - | - | - | (1,774) | (1,774) |
| Exchange differences on translation of foreign operations | | - | - | - | - | 40 | - | 40 |
| Transfer of own shares to pension scheme | | - | - | - | 499 | - | (245) | 254 |
| Remeasurement of pension liability | 10 | - | - | - | - | - | 1,177 | 1,177 |
| Tax on remeasurement of pension liability | 11 | - | - | - | - | - | (271) | (271) |
| Long-term corporation tax rate change | 11 | - | - | - | - | - | (476) | (476) |
| **At 31 December 2013** | | **28,755** | **-** | **70** | **(311)** | **223** | **(2,313)** | **26,424** |
| Profit for the year | | **-** | **-** | **-** | **-** | **-** | **4,442** | **4,442** |
| Dividends | 6 | **-** | **-** | **-** | **-** | **-** | **(1,888)** | **(1,888)** |
| Issue of share capital | 12 | **2,398** | **1,018** | **-** | **-** | **-** | **-** | **3,416** |
| Exchange differences on translation of foreign operations | | **-** | **-** | **-** | **-** | **(102)** | **-** | **(102)** |
| Exercise of share options | 13 | **-** | **-** | **-** | **311** | **-** | **(168)** | **143** |
| Remeasurement of pension liability | 10 | **-** | **-** | **-** | **-** | **-** | **(2,737)** | **(2,737)** |
| Tax on remeasurement of pension liability | 11 | **-** | **-** | **-** | **-** | **-** | **548** | **548** |
| **At 31 December 2014** | | **31,153** | **1,018** | **70** | **-** | **121** | **(2,116)** | **30,246** |

## Macfarlane Group PLC

## Consolidated balance sheet at 31 December 2014

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

**Macfarlane Group PLC**

**Consolidated cash flow statement**

**For the year ended 31 December 2014**

| | Note | 2014 £000 | 2013 £000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | 9 | **2,843** | 3,427 |
| **Investing activities** | | | |
| Acquisition of subsidiary undertaking | 8 | **(5,051)** | - |
| Proceeds on disposal of property, plant and equipment | | **152** | 30 |
| Purchases of property, plant and equipment | | **(624)** | (774) |
| **Net cash used in investing activities** | | **(5,523)** | (744) |
| **Financing activities** | | | |
| Dividends paid | 6 | **(1,888)** | (1,774) |
| Proceeds from issue of share capital (net of issue expenses) | 12 | **2,791** | - |
| Proceeds from sale of own shares to satisfy share options | 13 | **143** | - |
| Repayment of bank loan | | **(6,000)** | - |
| Additional payment to pension scheme | | **(2,500)** | - |
| Drawdown on bank borrowing facility | | **11,349** | - |
| Repayments of obligations under finance leases | 9 | **(83)** | (126) |
| **Net cash generated by/(used in) financing activities** | | **3,812** | (1,900) |
| **Net increase in cash and cash equivalents** | 9 | **1,132** | 783 |
| Cash and cash equivalents at beginning of year | | **118** | (665) |
| **Cash and cash equivalents at end of year** | 9 | **1,250** | 118 |

**Macfarlane Group PLC**

**Notes to the financial information**

**For the year ended 31 December 2014**

## 1. General information

The financial information set out in this preliminary announcement does not constitute the Group's statutory financial statements as defined in Section 435 of the Companies Act 2006 and has been extracted from the full statutory accounts for the years ended 31 December 2014 and 31 December 2013 respectively.

The financial statements for 2014 were approved by the Board of Directors on 26 February 2015. The auditor's report on the statutory financial statements for the year ended 31 December 2014 was unqualified pursuant to Section 498 of the Companies Act 2006 and did not contain a statement under sub-section 498 (2) or (3) of that Act. The comparative figures for the financial year ended 31 December 2013 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

## 2. Basis of preparation

The Group's business activities, together with the factors likely to affect its future development, performance and financial position are set out on pages 1 to 8.

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 committed banking facilities with suitable terms and conditions to accommodate the requirements of the Group's operations. Credit risk, which is heightened as a result of the difficulties customers may face in the current climate, is managed by applying considerable rigour in managing the Group's trade receivables. The Directors believe that the Group is adequately placed to manage its financial risks effectively despite the current uncertain economic outlook.

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

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

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2014.

## 2. Basis of preparation (continued)

### Judgements, assumptions and estimation uncertainties

In preparing the 2014 financial statements, management has made judgements, estimates and assumptions, which affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from the amounts estimated. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about judgements, assumptions and estimation uncertainties made in applying accounting policies that have the most significant effect on the amounts recognised in these financial statements and therefore have the most significant risk of resulting in a material change are as follows:-

| | | |
|---|---|---|
| (i) | Trade and Other Receivables | The provision for doubtful receivables is based on judgmental estimates over the recoverable amounts |
| (ii) | Retirement Benefit Obligations | The valuation of the pension deficit is affected by key actuarial assumptions |

## 3. Segmental information

The Group's principal business segment is **Packaging Distribution,** comprising the distribution of packaging materials and supply of storage and warehousing services in the UK. This constitutes over 80% of Group turnover and profit and as such, the Group has combined the remaining operations for the manufacture and supply of self-adhesive and resealable labels to a variety of FMCG customers in the UK & Europe and the design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK into one segment headed **Manufacturing Operations**. No individual business segment within Manufacturing Operations represents more than 10% of Group revenue or income.

## 3. Segmental information (continued)

| | **2014** |
|---|---|
| | **£000** |
| **Packaging Distribution** | |
| Revenue | **126,907** |
| Cost of sales | **(90,382)** |
| Gross profit | **36,525** |
| Net operating expenses | **(30,767)** |
| Operating profit | **5,758** |
| **Manufacturing Operations** | |
| Revenue | **26,860** |
| Cost of sales | **(15,922)** |
| Gross profit | **10,938** |
| Net operating expenses | **(10,050)** |
| Operating profit | **888** |

| | Profit before Exceptional items £000 | Exceptional items £000 | 2013 £000 |
|---|---|---|---|
| **Packaging Distribution** | | | |
| Revenue | 116,280 | - | 116,280 |
| Cost of sales | (82,415) | - | (82,415) |
| Gross profit | 33,865 | - | 33,865 |
| Net operating expenses | (28,905) | (42) | (28,947) |
| Operating profit | 4,960 | (42) | 4,918 |
| **Manufacturing Operations** | | | |
| Revenue | 27,591 | - | 27,591 |
| Cost of sales | (16,568) | - | (16,568) |
| Gross profit | 11,023 | - | 11,023 |
| Net operating expenses | (9,732) | (294) | (10,026) |
| Operating profit | 1,291 | (294) | 997 |

| **Exceptional items 2013** | Packaging Distribution £000 | Manufacturing Operations £000 | 2013 £000 |
|---|---|---|---|
| Costs to exit surplus properties | (42) | (294) | (336) |

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

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

## 3. Segmental information (continued)

| | 2014 £000 | 2013 £000 |
|---|---|---|
| **Group segment** | | |
| **Group segment – total revenue** | | |
| Packaging Distribution | **126,907** | 116,280 |
| Manufacturing Operations | **32,358** | 32,180 |
| Inter-segment revenue | **(5,498)** | (4,589) |
| **External revenue - continuing operations** | **153,767** | 143,871 |
| **Operating profit - continuing operations** | | |
| Packaging Distribution | **5,758** | 4,918 |
| Manufacturing Operations | **888** | 997 |
| **Operating profit – continuing operations** | **6,646** | 5,915 |
| Finance costs | **(1,040)** | (1,199) |
| **Profit before tax** | **5,606** | 4,716 |
| Tax | **(1,164)** | (1,260) |
| **Profit for the year** | **4,442** | 3,456 |

| | **Assets £000** | **Liabilities £000** | **Net assets £000** |
|---|---|---|---|
| **Group segments** | | | |
| Packaging Distribution | **80,365** | **58,189** | **22,176** |
| Manufacturing Operations | **16,020** | **7,950** | **8,070** |
| **Net assets 2014** | **96,385** | **66,139** | **30,246** |

| | Assets £000 | Liabilities £000 | Net assets £000 |
|---|---|---|---|
| Group segments | | | |
| Packaging Distribution | 68,493 | 48,544 | 19,949 |
| Manufacturing Operations | 13,371 | 6,896 | 6,475 |
| Net assets 2013 | 81,864 | 55,440 | 26,424 |

## 4. Finance costs

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| Interest on bank borrowings | **(438)** | (418) |
| Interest on obligations under finance leases | **(8)** | (6) |
| Net interest expense on retirement benefit obligation (see note 10) | **(594)** | (775) |
| **Total finance costs** | **(1,040)** | (1,199) |

## 5. Tax

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| **Current tax** | | |
| United Kingdom corporation tax at 21.50% (2013: 23.25%) | **(230)** | (795) |
| Foreign tax | **(95)** | (62) |
| **Total current tax** | **(325)** | (857) |
| Total deferred tax (see note 11) | **(839)** | (403) |
| **Total** | **(1,164)** | (1,260) |

The standard rate of tax based on the UK average rate of corporation tax, is 21.50% (2013 – 23.25%). Taxation for other jurisdictions is calculated at the rates prevailing in these jurisdictions. The actual tax charge for the current and previous year varies from 21.50% (2013 – 23.25%) of the results as set out in the income statement for the reasons set out in the following reconciliation:

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| **Profit before taxation** | **5,606** | 4,716 |
| **Tax on profit at 21.50% (2013 – 23.25%)** | **(1,205)** | (1,096) |
| Factors affecting tax charge for the year:- | | |
| Non-deductible expenses | **(1)** | (70) |
| Difference on overseas tax rates | **(1)** | (47) |
| Changes in estimates related to prior years | **43** | 16 |
| Exceptional items | **-** | (63) |
| **Tax charge for the year** | **(1,164)** | (1,260) |

## 6. Dividends

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| Amounts recognised as distributions to equity holders in the year: | | |
| Final dividend for the year ended 31 December 2013 of 1.10p per share (2012 – 1.05p per share) | **1,265** | 1,202 |
| Interim dividend for the year ended 31 December 2014 of 0.50p per share (2013 – 0.50p per share) | **623** | 572 |
| | **1,888** | 1,774 |

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

In addition to the amounts shown above, a proposed dividend of 1.15p per share will be paid on 4 June 2014 to those shareholders on the register at 8 May 2015. This is subject to approval by shareholders at the Annual General Meeting in 2015 and has not been included as a liability in these financial statements.

## 7. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| **Earnings from continuing operations for the purposes of earnings per share being profit for the year from continuing operations** | **4,442** | 3,456 |

| **Number of shares in issue for the purposes of calculating basic and diluted earnings per share** | **2014 No. of shares '000** | 2013 No. of shares '000 |
|---|---|---|
| Weighted average number of ordinary shares in issue for the year | **117,550** | 115,019 |
| Weighted average number of shares in Employee Share Ownership Trusts | **(184)** | (846) |
| **Weighted average number of shares in issue for the purposes of basic earnings per share** | **117,366** | 114,173 |
| Effect of dilutive potential ordinary shares due to share options | **-** | 96 |
| **Weighted average number of shares in issue for the purposes of diluted earnings per share** | **117,366** | 114,269 |
| **Basic Earnings per share** | **3.78p** | 3.03p |
| **Diluted Earnings per share** | **3.78p** | 3.02p |

## 8. Acquisition of subsidiary companies

During 2014 the Group acquired two trading subsidiary companies.

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

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

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

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

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

## 9. Notes to the cash flow statement

| | | 2014 £000 | 2013 £000 |
|---|---|---|---|
| **Operating profit before exceptional items** | | **6,646** | 6,251 |
| Adjustments for: | | | |
| Amortisation of intangible assets | | **428** | 295 |
| Depreciation of property, plant and equipment | | **1,020** | 1,036 |
| Gain on disposal of property, plant and equipment | | **(8)** | (12) |
| **Operating cash flows before movements in working capital** | | **8,086** | 7,570 |
| (Increase)/decrease in inventories | | **(1,194)** | 189 |
| Increase in receivables | | **(4,119)** | (809) |
| Increase in payables | | **4,193** | 765 |
| Decrease in provisions | | **(30)** | (693) |
| Adjustment for pension scheme funding (exc. additional contribution) | | **(2,854)** | (2,493) |
| **Cash generated by operations** | | **4,082** | 4,529 |
| Income taxes paid | | **(793)** | (678) |
| Interest paid | | **(446)** | (424) |
| **Net cash inflow from operating activities** | | **2,843** | 3,427 |
| **Movement in net debt** | | | |
| Increase in cash and cash equivalents in the year | | **1,132** | 783 |
| Increase in bank borrowings in the year | | **(11,349)** | - |
| Decrease in bank loans | | **6,000** | - |
| New finance lease facilities | | **(683)** | - |
| Repayment of obligations under finance leases | | **83** | 126 |
| **Movement in net debt in the year** | | **(4,817)** | 909 |
| Opening net debt | | **(5,915)** | (6,824) |
| **Closing net debt** | | **(10,732)** | (5,915) |
| **Net debt comprises:** | | | |
| Cash and cash equivalents | | **1,250** | 477 |
| Bank borrowings treated as overdrafts and loans | | **-** | (359) |
| Cash and cash equivalents in statement of cash flows | | **1,250** | 118 |
| Bank borrowings (2013 - Bank loans) | | **(11,349)** | (6,000) |
| **Net bank debt** | | **(10,099)** | (5,882) |
| Obligations under finance leases | Due within one year | **(155)** | (33) |
| | Due outwith one year | **(478)** | - |
| **Closing net debt** | | **(10,732)** | (5,915) |

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

2013 bank borrowings totalling £6.4 million were refinanced in February 2014.

## 10. Pension scheme

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

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

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

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

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

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

### Balance sheet disclosures

The assets in the scheme, the net liability position for the scheme and the expected rates of return have been based on the results of the actuarial valuation as at 1 May 2014, updated to the year-end.

| | **Fair value 2014 £000** | Fair value 2013 £000 | Fair value 2012 £000 | Fair value 2011 £000 | Fair value 2010 £000 |
|---|---|---|---|---|---|
| **Asset class** | | | | | |
| Equities | **15,893** | 15,079 | 14,474 | 12,782 | 26,577 |
| Multi-asset diversified funds | **18,541** | 16,414 | 13,026 | 12,206 | - |
| Liability-driven investment funds | **22,195** | - | - | - | - |
| Bonds | **11,263** | 22,534 | 23,544 | 21,806 | 18,436 |
| Other (cash) | **98** | 211 | 305 | 174 | 280 |
| Fair value of assets | **67,990** | 54,238 | 51,349 | 46,968 | 45,293 |
| Present value of scheme liabilities | **(81,863)** | (70,134) | (70,247) | (67,452) | (61,018) |
| Deficit in the scheme | **(13,873)** | (15,896) | (18,898) | (20,484) | (15,725) |
| Related deferred tax asset (see note 11) | **2,775** | 3,179 | 4,346 | 5,121 | 4,246 |
| Net pension scheme liability | **(11,098)** | (12,717) | (14,552) | (15,363) | (11,479) |

## 10. Pension scheme (continued)

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

As a result, despite the reductions in bond yields in 2014 causing an increase in liabilities, improved investment returns have helped offset this.

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

| **Assumptions** | **2014** | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Discount rate | **3.50%** | 4.50% | 4.40% | 4.80% | 5.50% |
| Rate of increase in salaries | **0.00%** | 0.00% | 0.00% | 0.00% | 0.00% |
| Inflation assumption (RPI) | **3.00%** | 3.40% | 3.00% | 3.00% | 3.50% |
| Inflation assumption (CPI) | **2.10%** | 2.50% | 2.30% | 2.20% | |
| Spouse's pension assumption | | | | | |
| Pensioner members | **70%** | 70% | 70% | 90% | 90% |
| Deferred and active members | **80%** | 80% | 80% | 90% | 90% |
| Life expectancy beyond normal retirement date of 65 | | | | | |
| Male | **22.7 years** | 22.6 years | 22.4 years | 22.3 years | 21.5 years |
| Female | **25.1 years** | 25.1 years | 24.6 years | 24.6 years | 24.0 years |

| **Movement in scheme deficit** | **2014 £000** | 2013 £000 | 2012 £000 | 2011 £000 | 2010 £000 |
|---|---|---|---|---|---|
| At 1 January | **(15,896)** | (18,898) | (20,484) | (15,725) | (20,366) |
| Current service cost | **(126)** | (148) | (146) | (150) | (119) |
| Employer contributions | **5,480** | 2,748 | 2,583 | 2,169 | 2,705 |
| Pension Increase Exchange gain | **-** | - | 1,855 | - | - |
| Net finance cost | **(594)** | (775) | (930) | (333) | (735) |
| Curtailments and settlements | **-** | - | - | (13) | 1,250 |
| Remeasurement of pension scheme liability | **(2,737)** | 1,177 | (1,776) | (6,432) | 1,540 |
| **At 31 December** | **(13,873)** | (15,896) | (18,898) | (20,484) | (15,725) |

### Funding

UK pension legislation requires that pension schemes are funded prudently. Following the completion of the triennial actuarial valuation at 1 May 2014, Macfarlane Group PLC is now paying deficit reduction contributions in accordance with an agreement with the scheme trustees to reduce the deficit over 10 years.

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

## 10. Pension scheme (continued)

### Sensitivity to key assumptions

The key assumptions used for IAS 19 are discount rate, inflation and mortality. If different assumptions were used, then this could have a material effect on the results disclosed. Assuming all other assumptions are held static then a movement in the following key assumptions would affect the level of the deficit as shown below:-

| Assumptions | **2014** **£000** | 2013 £000 | 2012 £000 |
|---|---|---|---|
| Discount rate movement of +0.1% | **1,285** | 1,192 | 1,194 |
| Inflation rate movement of +0.1% | **(393)** | (281) | (281) |
| Mortality movement of +0.1 year in age rating | **(295)** | (231) | (232) |

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

## 11. Deferred tax

| | **2014** **£000** | 2013 £000 |
|---|---|---|
| At 1 January | **3,375** | 4,525 |
| Inherited on acquisitions | **(858)** | - |
| Charged in income statement | **(839)** | (403) |
| Credited/(harged) in other comprehensive income | | |
| Remeasurement of pension scheme liability | **548** | (271) |
| Long-term corporation tax rate change | **-** | (476) |
| At 31 December | **2,226** | 3,375 |
| | | |
| On retirement benefit obligations (see note 10) | **2,775** | 3,179 |
| Corporation tax losses | **470** | 449 |
| **Disclosed as deferred tax asset** | **3,245** | 3,628 |
| On other intangible assets | | |
| **Disclosed as a deferred tax liability** | **(1,019)** | (253) |
| At 31 December | **2,226** | 3,375 |

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

## 12. Share capital

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| **Allotted, issued and fully paid:** | | |
| At 1 January | **28,755** | 28,755 |
| Issued during the year | **2,398** | - |
| At 31 December | **31,153** | 28,755 |
| **Share premium** | | |
| At 1 January | **-** | |
| Issue of new shares during the year | **1,227** | |
| Expenses of share issue | **(209)** | |
| At 31 December | **1,018** | |

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

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

Total proceeds raised for both of these issues were £2,791,000, net of issue expenses of £209,000.

## 13. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed.

Details of individual and collective remuneration of the Company's Directors and dividends received by the Directors for calendar year 2014 will be disclosed in the Group's Annual Report for the year ending 31 December 2014.

Peter Atkinson, the Group's Chief Executive, exercised options over 551,372 ordinary shares on 8 May 2014. The consideration paid for the shares was £143,357. He then sold 442,500 ordinary shares for a consideration of £194,700. As a result of these transactions, his beneficial holding in Macfarlane Group PLC increased from 745,300 ordinary shares to 854,172 ordinary shares, representing 0.74% of the issued share capital of 115,019,000 ordinary shares.

The directors are satisfied that there are no other related party transactions occurring during the year which require disclosure.

## 14. Posting to shareholders and Annual General Meeting

The Annual Report and Accounts will be sent to shareholders on Friday 27 March 2015 and will be available to members of the public at the Company's Registered Office, 21 Newton Place, Glasgow G3 7PY from 4 April 2015.

The Annual General Meeting will take place at the Thistle Hotel, Cambridge Street Glasgow at 12 noon on Tuesday 5 May 2015.