MACFARLANE GROUP

25 February 2016

ANNUAL RESULTS FOR THE YEAR TO 31 DECEMBER 2015

Financial Highlights	**2015**	**2014**	**Year on Year Change**
Group turnover	£169.1m	£153.8m	+ 9.9%
Pre-tax profit	£6.8m	£5.6m	+20.7%
Diluted earnings per share	4.35p	3.78p	+15.1%
Proposed full year dividend	1.82p	1.65p	+10.0%

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

Trading

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

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

After charging interest, the Group profit before tax amounted to £6.8m (2014: £5.6m).

Dividend

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

Net Debt and Pension Scheme

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

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

Outlook

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

Commenting on the 2015 results, Graeme Bissett, Chairman, said:

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

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

Further enquiries:	**Macfarlane Group**		Tel: 0141 333 9666
	Graeme Bissett	Chairman	
	Peter Atkinson	Chief Executive	
	John Love	Finance Director	
	Spreng Thomson		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 resealable 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 750 people at 27 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

	Revenue 2015 £000	**Profit before tax 2015 £000**	Revenue 2014 £000	Profit before tax 2014 £000
Segment				
Packaging Distribution	**143,035**	**6,751**	126,907	5,758
Manufacturing Operations	**26,097**	**951**	26,860	888
Revenue from continuing operations	**169,132**		153,767	
Operating profit		**7,702**		6,646
Net finance costs		**(935)**		(1,040)
Profit before tax - continuing operations		**6,767**		5,606

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

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

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

	Base business £000	Acquisition impact £000	**2015 £000**	2014 £000	
Sales	133,907	9,128	**143,035**	126,907	Sales growth 13%
Cost of sales	(94,468)	(6,349)	**(100,817)**	(90,382)	
Gross margin	39,439	2,779	**42,218**	36,525	Margin growth 16%
Overheads	(33,077)	(2,390)	**(35,467)**	(30,767)	Overhead growth 15%
Operating profit	6,362	389	**6,751**	5,758	Profit growth 17%

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

Business Review (continued)

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

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

Future Plans

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

- Building competitive differentiation to increase our sales penetration of the growing internet retail sector both directly and through our partnerships with key 3PL organisations;
- Expanding our focus in industry sectors which will clearly benefit from Macfarlane's national coverage through our specialist National Account sales team;
- Continuing to develop our web-based presence through www.macfarlanepackaging.com to improve online visibility and provide customers with access to our full range of products and services;
- Commencing programmes to integrate our recently acquired companies following the completion of the respective earn-out periods;
- Supplementing organic growth through the identification and execution of further suitable acquisition opportunities;
- Improving the awareness of our membership of NovuPak, for UK based customers requiring our capabilities on a wider European basis;
- Reducing operating costs by evaluating alternatives to the existing property footprint, including the delivery of anticipated benefits from the recently announced closure of our Hayes RDC;
- Implementing further operational savings in logistics through expanded use of the Paragon vehicle management system and implementation of our warehouse best practice programme; and
- Maintaining the focus on working capital management to reduce borrowing levels.

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

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

Business Review (continued)

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

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

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

Future Plans

The priorities for 2016 are:

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

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

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

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

Future Plans

The priorities for Labels in 2016 are: -

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

Business Review (continued)

2016 Outlook

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

During 2016 we will look at further opportunities for sales growth through the acquisition of good quality protective packaging businesses that can leverage our current infrastructure or improve our geographic penetration.

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

Whilst the economic environment is showing stability, our future performance will again be largely dependent on our own efforts to grow sales and increase efficiencies. We operate a flexible business model and our ability to focus on the most attractive UK market sectors for our products and services gives us confidence that 2016 will be another year of progress for Macfarlane Group.

Business Review (continued)

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

Risk	Mitigating Factors
Raw material prices The Group's businesses are impacted by commodity-based raw material prices and manufacturer energy costs, with profitability sensitive to supplier price changes. The principal components are corrugated paper, polythene films, timber and foam, with changes to paper and oil prices having a direct impact on the price we pay to our suppliers.	The Group works closely with its supplier base to manage the scale and timing of price increases to end-users effectively. Our IT systems monitor and measure our effectiveness in recovering supplier price changes. Where possible, alternative supplier relationships are maintained to minimise supplier dependency. We work with customers to redesign packs and reduce packing cost to mitigate the impact of cost increases.
Funding defined benefit pension scheme The Group's defined benefit pension scheme is sensitive to a number of key factors; investment returns, discount rates used to calculate scheme liabilities and mortality assumptions. The IAS 19 valuation of the Group's defined benefit pension scheme as at 31 December 2015 estimated the scheme deficit to be £11.5m, a reduction of £2.4m during 2015. Small changes in these assumptions could mean that the deficit increases.	The scheme was closed to new members in 2002. Benefits for active members were amended by freezing pensionable salaries at 30 April 2009 levels. Revaluation of deferred members' benefits has reflected Consumer Prices Index as the inflation measure since 2010. A Pension Increase Exchange option is available to offer flexibility to pensioners in the current level of pension benefits and the rate of future increases. The investment profile is constantly reviewed to ensure a more accurate matching of investments and the liability profile of the scheme. As a result, in 2014 the scheme's fixed interest bonds were switched into Liability-Driven Investments.
Property Given the multi-site nature of its business, the Group has a property portfolio comprising 3 owned sites and 28 leased sites of which 4 are sublet. This portfolio gives rise to risks in relation to ongoing lease costs, dilapidations and fluctuations in value.	Where a site is non-operational the Group seeks to assign, sell or sub-lease the building to mitigate the financial impact. If this is not possible, rental voids are provided on vacant properties taking into consideration the likely period of vacancy and incentives to re-let.
Financial liquidity, debt covenants and interest rates The Group needs continuous access to funding to meet its trading obligations and to support organic growth and acquisitions. There is a risk that the Group may be unable to obtain funds or that such funds will only be available on unfavourable terms. The Group's borrowing facilities now comprise a committed facility of up to £25.0 million, with an option to increase these further to £30.0 million, including requirements to comply with specified covenants, with a breach potentially resulting in Group borrowings being subject to more onerous conditions.	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. The existing facilities have been extended to June 2019.

Business Review (continued)

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

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.

Viability statement

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

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

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

The review and analysis also considers the principal risks facing the Group as described on pages 7 and 8 and the potential impact these risks could have on the Group's business model, future performance, solvency and liquidity over the assessment period.

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 £30.0 million are in place until June 2019. 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 at least the next twelve months. 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 2015. 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
25 February 2016	25 February 2016

Macfarlane Group PLC

Consolidated income statement

For the year ended 31 December 2015

	Note	2015 £000	2014 £000
Continuing operations			
Revenue	3	**169,132**	153,767
Cost of sales		**(115,911)**	(106,304)
Gross profit		**53,221**	47,463
Distribution costs		**(7,587)**	(7,432)
Administrative expenses		**(37,932)**	(33,385)
Operating profit	3	**7,702**	6,646
Finance costs	4	**(935)**	(1,040)
Profit before tax		**6,767**	5,606
Tax	5	**(1,317)**	(1,164)
Profit for the year	7	**5,450**	4,442
Earnings per share			
Basic	7	**4.37p**	3.78p
Diluted	7	**4.35p**	3.78p

Macfarlane Group PLC

Consolidated statement of comprehensive income

For the year ended 31 December 2015

	Note	2015 £000	2014 £000
Foreign currency translation differences - foreign operations		**(62)**	(102)
Remeasurement of pension scheme liability	10	**111**	(2,737)
Tax recognised in other comprehensive income			
Tax on remeasurement of pension scheme liability	11	**(22)**	548
Long-term corporation tax rate change	11	**(229)**	-
Other comprehensive expense for the year, net of tax		**(202)**	(2,291)
Profit for the year		**5,450**	4,442
Total comprehensive income for the year		**5,248**	2,151

Consolidated statement of changes in equity

For the year ended 31 December 2015

	Note	Share Capital £000	Share Premium £000	Revaluation Reserve £000	Own Shares £000	Translation Reserve £000	Retained Earnings £000	Total £000
At 1 January 2014		28,755	-	70	(311)	223	(2,313)	26,424
Profit for the year		-	-	-	-	-	4,442	4,442
Dividends	6	-	-	-	-	-	(1,888)	(1,888)
Issue of share capital	12	2,398	1,018	-	-	-	-	3,416
Foreign currency translation differences		-	-	-	-	(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**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**5,450**	**5,450**
Dividends	6	**-**	**-**	**-**	**-**	**-**	**(2,094)**	**(2,094)**
Foreign currency translation differences		**-**	**-**	**-**	**-**	**(62)**	**-**	**(62)**
Remeasurement of pension liability	10	**-**	**-**	**-**	**-**	**-**	**111**	**111**
Tax on remeasurement of pension liability	11	**-**	**-**	**-**	**-**	**-**	**(22)**	**(22)**
Long-term corporation tax rate change	11	-	-	-	-	-	**(229)**	**(229)**
Credit for share-based payments		-	-	-	-	-	**72**	**72**
At 31 December 2015		**31,153**	**1,018**	**70**	**-**	**59**	**1,172**	**33,472**

Macfarlane Group PLC

Consolidated balance sheet at 31 December 2015

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

Macfarlane Group PLC

Consolidated cash flow statement

For the year ended 31 December 2015

	Note	2015 £000	2014 £000
Net cash inflow from operating activities	9	**5,368**	2,843
Investing activities			
Acquisition of subsidiary undertakings	8	**(3,941)**	(5,051)
Proceeds on disposal of property, plant and equipment		**263**	152
Purchases of property, plant and equipment		**(809)**	(624)
Net cash used in investing activities		**(4,487)**	(5,523)
Financing activities			
Dividends paid	6	**(2,094)**	(1,888)
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		**1,690**	11,349
Repayments of obligations under finance leases	9	**(320)**	(83)
Net cash (used in)/generated by financing activities		**(724)**	3,812
Net increase in cash and cash equivalents	9	**157**	1,132
Cash and cash equivalents at beginning of year		**1,250**	118
Cash and cash equivalents at end of year	9	**1,407**	1,250

Notes to the financial information

For the year ended 31 December 2015

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 2015 and 31 December 2014 respectively.

The financial statements for 2015 were approved by the Board of Directors on 25 February 2016. The auditor's report on the statutory financial statements for the year ended 31 December 2015 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 2014 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 9.

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 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.

In February 2014, the Company became a party to the Group bank borrowing arrangement with Lloyds Banking Group PLC, which comprises a three-year committed borrowing facility of up to £20 million, in place until February 2017. These facilities were increased to £25.0 million in February 2016 with an additional option to increase them further to £30.0 million. The facilities are now available until June 2019. 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 debtors of the Company

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 at least the next twelve months. For this reason they continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2015.

2. Basis of preparation (continued)

Judgements, assumptions and estimation uncertainties

In preparing the 2015 financial statements, management has made judgements, assumptions and estimates, 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 small movements in 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 revenue and profit and as such, the Group has combined the remaining operations for the design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK and the manufacture and supply of self-adhesive and resealable labels to a variety of FMCG customers in the UK & Europe into one segment headed **Manufacturing Operations**. No individual business segment within Manufacturing Operations represents more than 10% of Group revenue or income.

	2015	2014
	£000	£000
Packaging Distribution		
Revenue	**143,265**	126,907
Cost of sales	**(101,047)**	(90,382)
Gross profit	**42,218**	36,525
Net operating expenses	**(35,467)**	(30,767)
Operating profit	**6,751**	5,758
Manufacturing Operations		
Revenue	**31,017**	32,358
Cost of sales	**(20,014)**	(21,420)
Gross profit	**11,003**	10,938
Net operating expenses	**(10,052)**	(10,050)
Operating profit	**951**	888

3. Segmental information (continued)

	2015	2014
	£000	£000
Group segment – total revenue		
Packaging Distribution	**143,265**	126,907
Manufacturing Operations	**31,017**	32,358
Inter-segment revenue	**(5,150)**	(5,498)
External revenue - continuing operations	**169,132**	153,767
Operating profit - continuing operations		
Packaging Distribution	**6,751**	5,758
Manufacturing Operations	**951**	888
Operating profit – continuing operations	**7,702**	6,646
Finance costs	**(935)**	(1,040)
Profit before tax	**6,767**	5,606
Tax	**(1,317)**	(1,164)
Profit for the year	**5,450**	4,442

	Assets	**Liabilities**	**Net assets**
	£000	**£000**	**£000**
Group segments			
Packaging Distribution	**87,590**	**61,625**	**25,965**
Manufacturing Operations	**14,544**	**7,037**	**7,507**
Net assets 2015	**102,134**	**68,662**	**33,472**

	Assets	Liabilities	Net assets
	£000	£000	£000
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

4. Finance costs

	2015	2014
	£000	£000
Interest on bank borrowings	**(460)**	(438)
Interest on obligations under finance leases	**(37)**	(8)
Net interest expense on retirement benefit obligation (see note 10)	**(438)**	(594)
Total finance costs	**(935)**	(1,040)

5. Tax

	2015	2014
	£000	£000
Current tax		
United Kingdom corporation tax at 20.25% (2014: 21.50%)	**(1,134)**	(230)
Foreign tax	**(48)**	(95)
Prior period adjustments	**80**	-
Total current tax	**(1,102)**	(325)
Total deferred tax (see note 11)	**(215)**	(839)
Total	**(1,317)**	(1,164)

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

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

6. Dividends

	2015	2014
	£000	£000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2014 of 1.15p per share (2013 – 1.10p per share)	**1,433**	1,265
Interim dividend for the year ended 31 December 2015 of 0.53p per share (2014 – 0.50p per share)	**661**	623
	2,094	1,888

In addition to the amounts shown above, a proposed dividend of 1.29p per share will be paid on 9 June 2016 to those shareholders on the register at 13 May 2016. This is subject to approval by shareholders at the Annual General Meeting on 10 May 2016 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:

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

Number of shares in issue for the purposes of calculating basic and diluted earnings per share	**2015 No. of shares '000**	2014 No. of shares '000
Weighted average number of ordinary shares in issue for the year	**124,611**	117,550
Weighted average number of shares in Employee Share Ownership Trusts	**-**	(184)
Weighted average number of shares in issue for the purposes of basic earnings per share	**124,611**	117,366
Effect of dilutive potential ordinary shares due to share options	**576**	-
Weighted average number of shares in issue for the purposes of diluted earnings per share	**125,187**	117,366
Basic Earnings per share	**4.37p**	3.78p
Diluted Earnings per share	**4.35p**	3.78p

8. Acquisition of subsidiary companies

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

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

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

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

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

9. Notes to the cash flow statement

		2015	2014
		£000	£000
Operating profit		**7,702**	6,646
Adjustments for:			
Amortisation of intangible assets		**826**	428
Depreciation of property, plant and equipment		**1,151**	1,020
Loss/(gain) on disposal of property, plant and equipment		**34**	(8)
Operating cash flows before movements in working capital		**9,713**	8,086
Increase in inventories		**(546)**	(1,194)
Increase in receivables		**(2,042)**	(4,119)
Increase in payables		**2,178**	4,193
Decrease in provisions		**(32)**	(30)
Adjustment for pension scheme funding (exc. additional contribution in 2014)		**(2,682)**	(2,854)
Cash generated by operations		**6,589**	4,082
Income taxes paid		**(724)**	(793)
Interest paid		**(497)**	(446)
Net cash inflow from operating activities		**5,368**	2,843
Movement in net debt			
Increase in cash and cash equivalents in the year		**157**	1,132
Increase in bank borrowings in the year		**(1,690)**	(11,349)
Decrease in bank loans		**-**	6,000
New finance lease facilities		**(813)**	(683)
Repayment of obligations under finance leases		**320**	83
Movement in net debt in the year		**(2,026)**	(4,817)
Opening net debt		**(10,732)**	(5,915)
Closing net debt		**(12,758)**	(10,732)
Net debt comprises:			
Cash and cash equivalents in statement of cash flows		**1,407**	1,250
Bank borrowings		**(13,039)**	(11,349)
Net bank debt		**(11,632)**	(10,099)
Obligations under finance leases	Due within one year	**(388)**	(155)
	Due outwith one year	**(738)**	(478)
Closing net debt		**(12,758)**	(10,732)

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

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 and as a result no further salary inflation applies for active members who remained in the scheme. Active members' benefits also include life assurance cover, albeit the payment of these benefits is at the discretion of the scheme's Trustees.

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, with the inflationary increases is currently based on the Retail Prices Index ("RPI") measure of inflation.

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

The Group will consider a number of further actions to reduce the deficit in 2016.

Balance sheet disclosures

The fair value of the scheme investments, present value of the scheme liabilities 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.

	2015	2014	2013	2012	2011
	£000	£000	£000	£000	£000
Investment class					
Equities	**16,788**	15,893	15,079	14,474	12,782
Multi-asset diversified funds	**25,476**	18,541	16,414	13,026	12,206
Liability-driven investment funds	**14,107**	22,195	-	-	-
Bonds	**11,119**	11,263	22,534	23,544	21,806
Other (cash and similar assets)	**303**	98	211	305	174
Fair value of assets	**67,793**	67,990	54,238	51,349	46,968
Present value of scheme liabilities	**(79,311)**	(81,863)	(70,134)	(70,247)	(67,452)
Deficit in the scheme	**(11,518)**	(13,873)	(15,896)	(18,898)	(20,484)
Related deferred tax asset (see note 11)	**2,073**	2,775	3,179	4,346	5,121
Net pension scheme liability	**(9,445)**	(11,098)	(12,717)	(14,552)	(15,363)

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	**2015**	2014	2013	2012	2011
Discount rate	**3.70%**	3.50%	4.50%	4.40%	4.80%
Rate of increase in salaries	**0.00%**	0.00%	0.00%	0.00%	0.00%
Inflation assumption (RPI)	**3.10%**	3.00%	3.40%	3.00%	3.00%
Inflation assumption (CPI)	**2.10%**	2.10%	2.50%	2.30%	2.20%
Spouse's pension assumption					
Pensioner members	**70%**	70%	70%	70%	90%
Deferred and active members	**80%**	80%	80%	80%	90%
Life expectancy beyond normal retirement date of 65					
Male	**22.7 years**	22.7 years	22.6 years	22.4 years	22.3 years
Female	**25.3 years**	25.1 years	25.1 years	24.6 years	24.6 years

Movement in scheme deficit	**2015 £000**	2014 £000	2013 £000	2012 £000	2011 £000
At 1 January	**(13,873)**	(15,896)	(18,898)	(20,484)	(15,725)
Current service cost	**(152)**	(126)	(148)	(146)	(150)
Employer contributions	**2,834**	5,480	2,748	2,583	2,169
Pension Increase Exchange gain	**-**	-	-	1,855	-
Net finance cost	**(438)**	(594)	(775)	(930)	(333)
Curtailments and settlements	**-**	-	-	-	(13)
Remeasurement of pension scheme liability	**111**	(2,737)	1,177	(1,776)	(6,432)
At 31 December	**(11,518)**	(13,873)	(15,896)	(18,898)	(20,484)

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

Positive figures reflect a reduction in the scheme liabilities and therefore a reduction in the scheme deficit. The sensitivity information has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date and is consistent with the approach adopted in previous years.

11. Deferred tax

	2015 **£000**	2014 £000
At 1 January	**2,226**	3,375
Inherited on acquisitions	**(249)**	(858)
Charged in income statement	**(215)**	(839)
Credited/(charged) in other comprehensive income		
Remeasurement of pension scheme liability	**(22)**	548
Long-term corporation tax rate change	**(229)**	-
At 31 December	**1,511**	2,226
On retirement benefit obligations (see note 10)	**2,073**	2,775
Corporation tax losses	**426**	470
Disclosed as deferred tax asset	**2,499**	3,245
On other intangible assets		
Disclosed as a deferred tax liability	**(988)**	(1,019)
At 31 December	**1,511**	2,226

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Company's future current tax charge accordingly.

The deferred tax asset at 31 December 2015 has been calculated based on these rates.

12. Share capital

	2015	2014
	£000	£000
Allotted, issued and fully paid:		
At 1 January	**31,153**	28,755
Issued during the year	**-**	2,398
At 31 December	**31,153**	31,153
Share premium		
At 1 January	**1,018**	-
Issue of new shares during the year	**-**	1,227
Expenses of share issue	**-**	(209)
At 31 December	**1,018**	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 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 2015 will be disclosed in the Group's Annual Report for the year ending 31 December 2015.

On 8 May 2015, Peter Atkinson and John Love were granted option awards over 775,254 and 360,026 ordinary shares respectively under the Macfarlane Group PLC Long Term Incentive Plan. These awards are based on targets around Earnings per share, Total Shareholder Return and sales levels for the year ended 31 December 2017.

Peter Atkinson, the Group's Chief Executive, exercised options over 551,372 ordinary shares during 2014. The consideration paid for the shares was £143,357.

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 Thursday 31 March 2016 and will be available to members of the public at the Company's Registered Office, 21 Newton Place, Glasgow G3 7PY from Monday 4 April 2015.

The Annual General Meeting will take place at the City Hotel, Cambridge Street Glasgow at 12 noon on Tuesday 10 May 2016.