MACFARLANE GROUP

21 February 2019

ANNUAL RESULTS FOR THE YEAR TO 31 DECEMBER 2018 (UNAUDITED)

Financial Highlights				**Earnings per share**	
	2018	**2017**	**Increase**	**2018**	**2017**
Turnover	£217.3m	£196.0m	+11%		
Profit before tax and exceptional item	£11.2m	£9.3m	+20%	5.72p	5.22p
Profit before tax	£10.9m	£9.3m	+17%	5.55p	5.22p
Proposed full year dividend	2.30p	2.10p	+10%		

Macfarlane Group PLC achieved another year of significant growth in 2018 with sales of £217.3m, (2017: £196.0m) 11% ahead of 2017 and profit before tax and exceptional items of £11.2m (2017: £9.3m), 20% ahead of 2017. The trading performance continued the positive trends of recent years and was in line with market expectations.

Exceptional item

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

Trading

Packaging Distribution increased sales by 11% to £189.8m (2017: £171.8m) with 4% achieved from organic growth and 7% from acquisitions, both the new acquisitions in 2018 and the full year benefit from those completed in 2017, all of which continue to perform well. Gross margin in Packaging Distribution rose to 29.5%, (2017: 29.4%) reflecting the effective management of input price increases in the second quarter as well as a full year contribution from the Greenwoods' business acquired in 2017. The acquisitions of Tyler Packaging (Leicester) Limited ("Tyler") and Harrisons Packaging Limited ("Harrisons") were both concluded in the second half of 2018 and have contributed as expected since acquisition.

The growth in sales and gross margin, combined with good cost control, resulted in Packaging Distribution achieving a 19% increase in operating profit before exceptional items to £11.2m (2017: £9.4m).

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

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

Dividend

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

Net Bank Debt

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

Pension Scheme

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

Outlook

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

Commenting on the 2018 results, Stuart Paterson, Chairman, said:

"The increase in profits in 2018 represents the ninth consecutive year of profit growth for Macfarlane Group. 2019 has started well and our profitability in the year to date is ahead of the same period in 2018.

Our strategy continues to focus on the delivery of sustainable profit growth by concentrating on added value products and services in our target market sectors, combined with efficiency improvements and the identification and completion of value-enhancing acquisitions. This strategy, which is continuously refined, has served all stakeholders well in recent years and we remain confident that it will continue to do so. Macfarlane Group's performance in 2018 reflects the successful implementation of this strategy and despite the ongoing uncertainties surrounding Brexit and the difficulties being experienced in the retail sector, we are confident that the Group will demonstrate further progress in 2019."

Further enquiries:	**Macfarlane Group**		Tel: 0141 333 9666
	Stuart Paterson	Chairman	
	Peter Atkinson	Chief Executive	
	John Love	Finance Director	
	Spreng Thomson		Tel: 0141 548 5191
	Callum Spreng		Mob: 07803 970103

Legal Entity Identifier (LEI): 213800LVRYDERSJAAZ73

Notes to Editors:

- Macfarlane Group PLC is listed on the London Stock Exchange (LSE: MACF) in the Industrials Sector
- The company is headquartered in Glasgow, Scotland and has more than 60 years' experience in the UK packaging industry
- Macfarlane Group's businesses are:
  - **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** designs and produces protective packaging for high value, fragile products
- Macfarlane Group employs over 900 people at 30 sites, principally in the UK, but also in Ireland and Sweden.
- 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 2018 £000**	**Operating profit 2018 £000**	Revenue 2017 £000	Operating profit 2017 £000
Packaging Distribution	**189,835**	**11,172**	171,771	9,436
Manufacturing Operations	**27,455**	**853**	24,220	653
Revenue from continuing operations	**217,290**		195,991	
Operating profit before exceptional item	**5.5%**	**12,025**	5.1%	10,089
Exceptional item		**(330)**		-
Operating profit - continuing operations		**11,695**		10,089

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

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

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

Packaging Distribution	Base Business £000	Acquisition impact £000	**2018 £000**	2017 £000	**2018 Growth**
Sales	176,395	13,440	**189,835**	171,771	**11%**
Cost of sales			**(133,843)**	(121,323)	
Gross margin			**55,992**	50,448	**11%**
Net operating expenses			**(44,820)**	(41,012)	**9%**
Operating profit before exceptional item	9,730	1,442	**11,172**	9,436	**18%**
Exceptional item			**(270)**	-	
Operating profit			**10,902**	9,436	

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

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

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

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

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

Business Review (continued)

Future Plans

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

Sales Growth

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

Efficiency Improvements

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

Acquisition Growth

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

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

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

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

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

Business Review (continued)

Packaging Design and Manufacture (continued)

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

Future Plans

2019 plans for Packaging Design and Manufacture include:

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

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

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

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

Future Plans

2019 plans for Labels will focus on: -

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

2019 Outlook

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

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

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

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

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

Risk Description	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 including currency fluctuations. The principal components are corrugated paper, polythene films, timber and foam, with changes to paper and oil prices having a direct impact on the price we pay to our suppliers.	The Group works closely with suppliers to manage the scale and timing of price increases to end-users effectively. Our IT systems monitor and measure effectiveness in recovering supplier price changes. Where possible, alternative supplier relationships are maintained to minimise supplier dependency. We work with customers to redesign packs and reduce packing cost to mitigate the impact of cost increases.
Property Given the multi-site nature of its business, the Group has a property portfolio comprising 3 owned sites and 35 leased sites of which 3 are sublet. This portfolio gives rise to risks in relation to ongoing lease costs, dilapidations and fluctuations in value.	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.
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 the Credit manager and the credit control team, and is subject to additional scrutiny from the Group Finance Director. Inventory levels and order patterns are regularly reviewed and risks arising from holding bespoke stocks are managed by obtaining order cover from customers.
Financial liquidity, debt covenants, interest rates The Group needs continuous access to funding to meet its trading obligations and to support organic growth and acquisitions. There is a risk that the Group may be unable to obtain funds or that such funds will only be available on unfavourable terms. The Group's borrowing facility comprises a committed facility of up to £30m. This includes requirements to comply with covenants, with a breach potentially resulting in 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 existing facility is in place until June 2022. The Group regularly monitors net debt and forecast cash flows to ensure that it will be able to meet its financial obligations as they fall due. Compliance with debt covenants is monitored on a monthly basis and sensitivity analysis is applied to forecasts to assess the impact on covenant compliance.

Risk Description	Mitigating Factors
Defined benefit pension scheme The Group's defined benefit pension scheme is sensitive to a number of key factors; investment returns, discount rates used to calculate scheme liabilities and mortality assumptions. The IAS 19 valuation of the Group's defined benefit pension scheme as at 31 December 2018 estimated the scheme deficit to be £9.8m, a decrease of £2.0m during 2018. 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. A Pension Increase Exchange option is available to offer flexibility to new pensioners in the current level of pension benefits and the rate of future increases. The Group makes Deficit Reduction Contributions each year. The investment profile is constantly reviewed to ensure continued matching of investments with the liability profile of the scheme.
Decentralised structure The Packaging Distribution business model reflects a decentralised approach with a high dependency on effective local decision-making. There is a risk that the decentralised management control is less effective and local decisions do not meet corporate objectives.	The Group ensures that our staff have the right working environment, information and sales tools to enable them to meet corporate objectives. A comprehensive management information system is maintained with key performance indicators monitored and actions taken when required.
Acquisitions The Group's growth strategy includes acquisitions as demonstrated in recent years. There is a risk that such acquisitions may not be available on acceptable terms in the future. It is also possible that acquisitions will not succeed due to the loss of key people or customers following acquisition or the acquired business not performing at the level expected. This could potentially lead to impairment in the carrying value of the related intangible assets. Execution risks around the failure to successfully integrate the acquired business after the conclusion of the earn-out period also exist.	The Group carefully reviews potential acquisition targets, ensuring that the focus is on high-quality businesses which complement the existing Group profile and provide opportunities for growth. Having completed a number of acquisitions in recent years, the Group has established due diligence and integration processes and procedures. The Group has a comprehensive management information system to enable effective monitoring of post-acquisition performance. Earn-out mechanisms also mitigate risk in the post-acquisition period. Goodwill and other intangible assets are tested annually for impairment as set out in the Annual Report.

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

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

Viability statement

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

A robust financial model covering a three year period is maintained and regularly updated. The model is subject to sensitivity analysis which flexes a number of the main assumptions, including future revenue growth, gross margins, operating costs, finance costs and working capital management. The results of flexing these assumptions, both individually and in aggregate, are used to determine whether additional bank facilities will be required during the three year period. The results of the exercise indicated that no additional facilities would be required.

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

The Directors' assessment has been made with reference to the resilience of the Group and the strength of its financial position, the Group's current strategy, the Board's risk appetite and the Group's principal risks including how these are managed. Based on the assessment of these risks and the sensitivity analysis undertaken, the Board of Directors have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years to December 2021.

Going Concern

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

The Group's principal banking facility is in place until June 2022. 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 2018. Certain parts of the full annual report are not included within this announcement. The Directors of Macfarlane Group PLC are

S.R. Paterson	Chairman
P.D. Atkinson	Chief Executive
J. Love	Finance Director
R. McLellan	Non-Executive Director and Senior Independent Director
J.W.F. Baird	Non-Executive Director
A.M. Dunstan	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
21 February 2019	21 February 2019

Macfarlane Group PLC

Consolidated income statement

For the year ended 31 December 2018

	Note	Before Exceptional Items Unaudited £000	Exceptional Items Unaudited £000	2018 Unaudited £000	2017 Audited £000
Revenue	3	**217,290**	**-**	**217,290**	195,991
Cost of sales		**(150,749)**	**-**	**(150,749)**	(135,687)
Gross profit		**66,541**	**-**	**66,541**	60,304
Distribution costs		**(8,604)**	**-**	**(8,604)**	(8,208)
Administrative expenses		**(45,912)**	**(330)**	**(46,242)**	(42,007)
Operating profit	3	**12,025**	**(330)**	**11,695**	10,089
Finance costs	4	**(809)**	**-**	**(809)**	(828)
Profit before tax		**11,216**	**(330)**	**10,886**	9,261
Tax	5	**(2,201)**	**56**	**(2,145)**	(1,837)
Profit for the year	7	**9,015**	**(274)**	**8,741**	7,424
Earnings per share					
Basic and diluted	7	**5.72p**	**(0.17p)**	**5.55p**	5.22p

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Note	2018 Unaudited £000	2017 Audited £000
Items that may be reclassified to profit or loss			
Foreign currency translation differences - foreign operations		**(6)**	45
Items that will not be reclassified to profit or loss			
Remeasurement of pension scheme liability	10	**(32)**	(223)
Tax recognised in other comprehensive income			
Tax on remeasurement of pension scheme liability	11	**6**	38
Other comprehensive expense for the year, net of tax		**(32)**	(140)
Profit for the year		**8,741**	7,424
Total comprehensive income for the year		**8,709**	7,284

Macfarlane Group PLC

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Note	Share Capital £000	Share Premium £000	Revaluation Reserve £000	Translation Reserve £000	Retained Earnings £000	Total £000
At 1 January 2017 (Audited)		34,084	4,641	70	254	274	39,323
Comprehensive income							
Profit for the year		-	-	-	-	7,424	7,424
Foreign currency translation differences		-	-	-	45	-	45
Remeasurement of pension liability	10	-	-	-	-	(223)	(223)
Tax on remeasurement of pension liability	11	-	-	-	-	38	38
Total comprehensive income		-	-	-	45	7,239	7,284
Transactions with shareholders							
Dividends	6	-	-	-	-	(2,854)	(2,854)
Credit for share-based payments		-	-	-	-	(180)	(180)
Issue of share capital	12	5,303	8,334	-	-	-	13,637
Total transactions with shareholders		5,303	8,334	-	-	(3,034)	10,603
At 31 December 2017 (Audited)		**39,387**	**12,975**	**70**	**299**	**4,479**	**57,210**
Comprehensive income							
Profit for the year		**-**	**-**	**-**	**-**	**8,741**	**8,741**
Foreign currency translation differences		**-**	**-**	**-**	**(6)**	**-**	**(6)**
Remeasurement of pension liability	10	**-**	**-**	**-**	**-**	**(32)**	**(32)**
Tax on remeasurement of pension liability	11	**-**	**-**	**-**	**-**	**6**	**6**
Total comprehensive income		**-**	**-**	**-**	**(6)**	**8,715**	**8,709**
Transactions with shareholders							
Dividends	6	**-**	**-**	**-**	**-**	**(3,387)**	**(3,387)**
Total transactions with shareholders		**-**	**-**	**-**	**-**	**(3,387)**	**(3,387)**
At 31 December 2018 (Unaudited)		**39,387**	**12,975**	**70**	**293**	**9,807**	**62,532**

Macfarlane Group PLC

Consolidated balance sheet at 31 December 2018

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

Macfarlane Group PLC

Consolidated cash flow statement

For the year ended 31 December 2018

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

1. General information

The financial information set out herein does not constitute the Company's statutory accounts for the years ended 31 December 2018 or 2017. The financial information for 2017 is derived from the statutory accounts for 2017 which have been delivered to the registrar of companies. The auditor has reported on the 2017 accounts; their report 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. The statutory accounts for 2018 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the registrar of companies in due course.

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

IFRS 16 *"Leases"* will be applied in the 2019 financial statements using the modified retrospective approach but with no application of the practical expedients available. IFRS 16 requires that for all material operating leases, the Group's leased assets will be recorded within land and buildings and plant and equipment as "Right of Use" assets with a corresponding lease liability based on the discounted value of future cash payments required under each lease. Existing operating lease expenses will be replaced with a smaller operating expense, a depreciation charge and a separate financing cost. This will have no significant impact on reported profit before tax or total equity.

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 any economic uncertainty.

The Group's has a committed borrowing facility of £30 million with Lloyds Banking Group PLC in place until June 2022. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over certain trade receivables of the Group.

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 the current facility and comply with its banking covenants.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least the next twelve months. For this reason they continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2018.

2. Basis of preparation (continued)

Judgements, assumptions and estimation uncertainties

In preparing the 2018 financial statements from which this financial information has been extracted, 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.

The 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 adjustment are as follows:-

(i)	Retirement benefit obligations	The valuation of the pension deficit is affected by small movements in key actuarial assumptions
(ii)	Trade and other receivables	The provision held against receivables is based on applying an expected credit loss model and related estimates of recoverable amounts

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 comprises over 85% of Group revenue and profit. The Group's **Manufacturing Operations** segment comprises the design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK, the design, manufacture and supply of self-adhesive labels to a variety of FMCG customers in the UK & Europe and the design, manufacture and supply of resealable labels to a variety of FMCG customers in the UK, Europe and the USA. None of the individual business segments within Manufacturing Operations represents more than 10% of Group revenue or profit.

	2018	2017
	£000	£000
Packaging Distribution		
Revenue	**190,227**	171,771
Cost of sales	**(134,235)**	(121,323)
Gross profit	**55,992**	50,448
Net operating expenses	**(44,820)**	(41,012)
Operating profit before exceptional item	**11,172**	9,436
Exceptional item	**(270)**	-
Operating profit	**10,902**	9,436
Manufacturing Operations		
Revenue	**32,189**	28,191
Cost of sales	**(21,640)**	(18,335)
Gross profit	**10,549**	9,856
Net operating expenses	**(9,696)**	(9,203)
Operating profit before exceptional item	**853**	653
Exceptional item	**(60)**	-
Operating profit	**793**	653

3. Segmental information (continued)

Exceptional item Guaranteed Minimum Pension ("GMP") equalisation

On 26 October 2018, the High Court judgement involving Lloyds Banking Group defined benefits pension schemes concluded that schemes should equalise pension benefits for men and women in relation to GMP benefits. The judgement has implications for most defined benefit schemes, including the scheme operated by Macfarlane Group. We have worked with the scheme's actuary to understand the implications of the judgement for our scheme and the £330,000 exceptional expense recorded in the consolidated income statement for 2018 as a past service cost in respect of the equalisation of GMP benefits represents our best estimate of the effect on our reported pension scheme liabilities. We believe this information provides a more meaningful basis for measuring our financial performance in 2018

The Directors have made the judgement that the estimated effect of GMP equalisation on the Group's pension liabilities is a past service cost in respect of pensionable service between 1990 and 1997 that should be reflected as an exceptional item and that any subsequent change in the estimate should be recognised in other comprehensive income. This judgement is based on the fact that the pension liabilities for the Macfarlane scheme at 31 December 2017 in note 10 did not include any amount in respect of GMP equalisation.

	2018	2017
	£000	£000
Group segment – total revenue		
Packaging Distribution	**190,227**	171,771
Manufacturing Operations	**32,189**	28,191
Inter-segment revenue	**(5,126)**	(3,971)
External revenue	**217,290**	195,991
Operating profit		
Packaging Distribution	**10,902**	9,436
Manufacturing Operations	**793**	653
Operating profit	**11,695**	10,089
Finance costs	**(809)**	(828)
Profit before tax	**10,886**	9,261
Tax	**(2,145)**	(1,837)
Profit for the year	**8,741**	7,424

	Assets	**Liabilities**	**Net assets**
	£000	**£000**	**£000**
Group segments			
Packaging Distribution	**125,060**	**71,173**	**53,887**
Manufacturing Operations	**17,045**	**8,400**	**8,645**
Net assets 2018	**142,105**	**79,573**	**62,532**
Packaging Distribution	124,069	74,324	49,745
Manufacturing Operations	14,554	7,089	7,465
Net assets 2017	138,623	81,413	57,210

4. Finance costs

	2018	2017
	£000	£000
Interest on bank borrowings	**(530)**	(462)
Interest on obligations under finance leases	**(17)**	(18)
Net interest expense on retirement benefit obligation (see note 10)	**(262)**	(348)
Total finance costs	**(809)**	(828)

5. Tax

	2018	2017
	£000	£000
Current tax		
United Kingdom corporation tax at 19.00% (2017: 19.25%)	**(1,953)**	(1,551)
Foreign tax	**(98)**	(62)
Adjustments in respect of prior years	**42**	49
Total current tax	**(2,009)**	(1,564)
Deferred tax		
Current year	**(136)**	(273)
Total deferred tax (see note 11)	**(136)**	(273)
Total tax charge	**(2,145)**	(1,837)

The standard rate of tax based on the UK average rate of corporation tax, is 19.00% (2017 – 19.25%). Taxation for other jurisdictions is calculated at the rates prevailing in these jurisdictions. The actual tax charge for the current and previous year varies from the standard rate of tax on the results in the consolidated income statement for the reasons set out in the following reconciliation:-

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

6. Dividends

	2018	2017
	£000	£000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2017 of 1.50p per share (2016 – 1.40p per share)	**2,363**	1,909
Interim dividend for the year ended 31 December 2018 of 0.65p per share (2017 – 0.60p per share)	**1,024**	945
	3,387	2,854

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

7. Earnings per share

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

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

	2018	2017
Number of shares in issue for the purposes of calculating basic and diluted earnings per share	**No. of shares ‘000**	No. of shares ‘000
Weighted average number of shares in issue for the purposes of basic earnings per share		
Weighted average number of shares in issue	**157,548**	142,228
Earnings per share before exceptional item	**5.72p**	5.22p
Earnings per share after exceptional item	**5.55p**	5.22p

8. Acquisitions

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

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

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

8. Acquisitions (continued)

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

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

The impact of the acquisitions on the 2018 results is set out in the Strategic Report on page 3.

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

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

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

9. Notes to the cash flow statement

		2018 £000	2017 £000
Operating profit after exceptional items		**11,695**	10,089
Adjustments for:			
Amortisation of intangible assets		**2,244**	1,580
Depreciation of property, plant and equipment		**1,593**	1,391
Loss/(gain) on disposal of property, plant and equipment		**(32)**	5
Operating cash flows before movements in working capital		**15,500**	13,065
Increase in inventories		**(1,192)**	(1,370)
Decrease/(increase) in receivables		**2,183**	(1,163)
Increase in payables		**122**	1,570
Adjustment for pension scheme funding		**(2,352)**	(3,285)
Cash generated by operations		**14,261**	8,817
Income taxes paid		**(1,882)**	(1,855)
Interest paid		**(547)**	(480)
Cash inflow from operating activities		**11,832**	6,482
Movement in net debt			
Increase in cash and cash equivalents		**2,598**	83
Decrease/(increase) in bank borrowings		**(1,423)**	860
Finance leases inherited on acquisition		**(12)**	-
Repayment of obligations under finance leases		**253**	455
Movement in net debt in the year		**1,416**	1,398
Opening net debt		**(14,675)**	(16,073)
Closing net debt		**(13,259)**	(14,675)
Net debt comprises:			
Cash and cash equivalents in statement of cash flows		**4,611**	2,013
Bank borrowings		**(17,769)**	(16,346)
Net bank debt		**(13,158)**	(14,333)
Obligations under finance leases	Due within one year	**(101)**	(245)
	Due outwith one year	**-**	(97)
Closing net debt		**(13,259)**	(14,675)

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 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, the inflationary increase is currently based on the Retail Price Index ("RPI") measure of inflation or based on Limited Price Indexation ("LPI") for certain defined periods of service.

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

Balance sheet disclosures

The fair value of scheme investments, the present value of scheme liabilities and expected rates of return are based on the results of the actuarial valuation as at 1 May 2017, updated to the year-end.

	2018	2017	2016	2015	2014
	£000	£000	£000	£000	£000
Investment class					
Equities	**16,025**	17,694	17,112	16,788	15,893
Multi-asset diversified funds	**17,512**	21,533	21,509	25,476	18,541
Liability-driven investment funds	**28,379**	28,534	26,532	14,107	22,195
Bonds	**-**	-	-	11,119	11,263
Secured property income fund	**7,112**	6,606	-	-	-
European loan fund	**6,645**	6,562	6,334	-	-
Other (cash and similar assets)	**154**	31	6,321	303	98
Fair value of scheme investments	**75,827**	80,960	77,808	67,793	67,990
Present value of scheme liabilities	**(85,592)**	(92,783)	(92,345)	(79,311)	(81,863)
Scheme deficit	**(9,765)**	(11,823)	(14,537)	(11,518)	(13,873)
Related deferred tax asset (see note 11)	**1,660**	2,010	2,471	2,073	2,775
Net pension scheme liability	**(8,105)**	(9,813)	(12,066)	(9,445)	(11,098)

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. Liability-Driven Investment Funds are intended to provide a match of 100% against the impact of movements in inflation on pension liabilities and a match of 80% against the impact of movements in interest-rates on pension liabilities. During 2018, an additional diversified growth fund was introduced to the portfolio and the funds with an existing diversified growth fund were reduced.

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

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

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

Assumptions	**2018**	2017	2016	2015	2014
Discount rate	**2.80%**	2.50%	2.70%	3.70%	3.50%
Rate of increase in salaries	**0.00%**	0.00%	0.00%	0.00%	0.00%
Inflation assumption (RPI)	**3.30%**	3.30%	3.30%	3.10%	3.00%
Inflation assumption (CPI)	**2.30%**	2.30%	2.30%	2.10%	2.10%
Life expectancy beyond normal retirement date of 65					
Male	**23.5 years**	23.7 years	22.8 years	22.7 years	22.7 years
Female	**25.7 years**	25.7 years	25.3 years	25.3 years	25.1 years

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

Movement in scheme deficit	**2018 £000**	2017 £000	2016 £000	2015 £000	2014 £000
At 1 January	**(11,823)**	(14,537)	(11,518)	(13,873)	(15,896)
Current service costs	**(120)**	(105)	(95)	(152)	(126)
Past service costs for GMP equalisation	**(330)**	-	-	-	-
Employer contributions	**2,802**	3,390	3,001	2,834	5,480
Net finance cost	**(262)**	(348)	(373)	(438)	(594)
Remeasurement of pension scheme liability	**(32)**	(223)	(5,552)	111	(2,737)
At 31 December	**(9,765)**	(11,823)	(14,537)	(11,518)	(13,873)

Funding

UK pension legislation requires that pension schemes are funded prudently. Following the triennial actuarial valuation of the scheme at 1 May 2017, the Company agreed a new schedule of contributions with the Pension Scheme Trustees, which assumed a recovery plan period of 7 years. The next triennial actuarial valuation is due at 1 May 2020.

10. Pension scheme (continued)

Movement in fair value of scheme investments	**2018 £000**	2017 £000
Scheme investments at start of period	**80,960**	77,808
Interest income	**1,987**	2,065
Return on scheme investments (excluding interest income)	**(4,143)**	3,730
Contributions from sponsoring companies	**2,802**	3,390
Contribution from scheme members	**72**	72
Benefits paid	**(5,851)**	(6,105)
Scheme investments at end of period	**75,827**	80,960

Movement in present value of scheme liabilities	**2018 £000**	2017 £000
Scheme liabilities at start of period	**(92,783)**	(92,345)
Current service cost	**(120)**	(105)
Past service costs for GMP equalisation	**(330)**	-
Interest cost	**(2,249)**	(2,413)
Contribution from scheme members	**(72)**	(72)
Changes in assumptions underlying the scheme liabilities	**4,111**	(3,953)
Benefits paid	**5,851**	6,105
Scheme liabilities at end of period	**(85,592)**	(92,783)

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

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.

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

11. Deferred tax

		2018 £000	2017 £000
At 1 January		**(641)**	1,181
Acquisitions		**(371)**	(1,587)
Charged in income statement	(see note 5)	**(136)**	(273)
Credited/(charged) in other comprehensive income			
Remeasurement of pension scheme liability		**6**	38
At 31 December		**(1,142)**	(641)
Deferred tax assets			
On retirement benefit obligations (see note 10)		**1,660**	2,010
Corporation tax losses		**191**	397
Disclosed as deferred tax assets		**1,851**	2,407
Deferred tax liabilities			
On accelerated capital allowances		**(199)**	(231)
On other intangible assets		**(2,794)**	(2,817)
Disclosed as deferred tax liabilities		**(2,993)**	(3,048)
At 31 December		**(1,142)**	(641)

A reduction in the UK corporation tax rate to 17% effective from 1 April 2020 was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge. Deferred tax assets and liabilities have been calculated based on this rate.

12. Share capital

	2018 £000	2017 £000
Allotted, issued and fully paid:		
At 1 January	**39,387**	34,084
Issued during the year	**-**	5,303
At 31 December	**39,387**	39,387
Share premium		
At 1 January	**12,975**	4,641
Issue of new shares during the year	**-**	8,697
Expenses of share issue	**-**	(363)
At 31 December	**12,975**	12,975

The Company has one class of ordinary shares of 25p each, which carry no right to fixed income. Each ordinary share carries one vote in any General Meeting of the Company.

12. Share capital (continued)

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

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 2018 will be disclosed in the Group's 2018 Annual Report and Accounts.

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 Wednesday 3 April 2019 and will be available to members of the public at the Company's Registered Office from Friday 5 April 2019.

The Annual General Meeting will take place at the Double Tree by Hilton Hotel, Cambridge Street Glasgow G2 3HN at 12 noon on Tuesday 14 May 2019.