

Company Registration No. 1630389  
Registered in England

## **MACFARLANE GROUP UK LIMITED**

### **Report and Financial Statements**

**31 December 2017**

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# **MACFARLANE GROUP UK LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2017**

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# **MACFARLANE GROUP UK LIMITED**

## **OFFICERS AND PROFESSIONAL ADVISERS**

### **DIRECTORS**

P.D. Atkinson  
I. Gray  
J. Love

### **COMPANY SECRETARY**

J. Love

### **REGISTERED OFFICE**

Siskin Parkway East  
Middlemarch Business Park  
Coventry CV3 4PE

### **BANKERS**

Lloyds Banking Group PLC  
Level 6  
110 St Vincent Street  
Glasgow G2 5ER

### **SOLICITORS**

Wright Johnston & Mackenzie  
302 St Vincent Street  
Glasgow G2 5RZ

### **INDEPENDENT AUDITOR**

KPMG LLP  
319 St Vincent Street  
Glasgow G2 5AS

## STRATEGIC REPORT

The Directors present their strategic report for the year ended 31 December 2017.

### REVIEW OF THE BUSINESS

#### Principal activity

The principal activity of the Company is the distribution and manufacture of packaging products. The Company is a wholly owned subsidiary of Macfarlane Group PLC ("the Group"), a company registered in Scotland and listed on the London Stock Exchange. The company comprises the majority of the Group's Packaging Distribution business and the whole of its Packaging Design and Manufacture businesses. Further information is contained in the consolidated accounts for Macfarlane Group PLC, which can be accessed at [www.macfarlanegroup.com](http://www.macfarlanegroup.com).

#### Performance Review

Sales increased by 10.2% to £157.3m in 2017, primarily driven by the benefits of Greenwoods in the year. Gross margin percentage increased to 30.6% during the year, an increase of 0.3%, reflecting the contribution from higher margin acquisitions. Gross profit generated in the year, increased by £4.8m in 2017 to £48.1m.

Distribution and administrative costs, net of other operating income, were well controlled and increased by £3.2m to £38.9m, the increased primarily relating to acquisitions. Interest charges totalled £1.2m, £0.2m lower than in 2016.

As a result profit before tax was £7.9m, 27% ahead of the £6.3m achieved in 2016.

The trade and assets of One Packaging Limited, a company acquired by the parent company in 2015, were absorbed into Macfarlane Group UK Limited with effect from 1 January 2017.

On 21 September 2017, the Company acquired the goodwill and selected assets of the packaging business of Greenwood Stock Boxes Limited, based in Nottingham and the whole of the issued share capital of its new subsidiary company, Nottingham Recycling Limited. Both businesses have performed strongly since acquisition.

The Company's total equity amounts to £6,735,000, an increase of £2,928,000 on the previous year. Whilst the Company has net current liabilities, it has access to the Group's borrowing facilities and has sufficient funds to meet its liabilities as they fall due. In addition it has been agreed that £19.1m of the total indebtedness due to the parent company of £20.1m does not fall due for repayment until at least twelve months after the balance sheet date.

The directors are satisfied with the performance for the year.

#### Risks and Uncertainties

The key risks associated with the business are:

- As a distributor and manufacturer in a market where products are vulnerable to commodity based raw material prices and manufacturer energy costs, profitability is sensitive to supplier price changes, including changes primarily relating to exchange rate movements. Whilst currency movements have been more volatile since the Brexit vote, the Company reacts to this as to any other supplier price changes. The Company works closely with its supplier base to manage effectively the scale and timing of price changes to end users and has extensive IT support to monitor and measure its effectiveness in passing through supplier price changes to the customer base.
- Competition in the Packaging Distribution market is primarily from local companies with strong local connections and capability. The Company competes effectively on a local basis through its strong focus on and regular monitoring of customer service, its breadth and depth of product offering and the recruitment and retention of staff who have good local market knowledge.
- The Company's business is decentralised with a high dependency on effective local decision-making. In order to ensure management control of local decision-making there is a comprehensive management information system with all key sales, margin and working capital measures monitored consistently and regularly.
- In Packaging Design and Manufacture, the main customer sectors are UK based manufacturers and industrial companies who need to protect their products in transit. Certain industries such as automotive and aerospace are large users of this type of packaging solution. To the extent that there is any decline in the UK industrial and manufacturing sector, this would be expected to have an impact on the Packaging Design and Manufacture business. This can be mitigated to some extent by accessing the large customer base through the Packaging Distribution business. However a UK economic slowdown would adversely affect the Company's results.
- The Company has a significant investment in working capital in the form of trade debtors and stocks and there is a risk that this investment is not fully recovered. This risk is mitigated by applying rigour to the management of trade debtors through our credit control team. Stock levels and order patterns are regularly reviewed and risks arising from holding bespoke stocks are managed by obtaining order cover from customers.

**STRATEGIC REPORT (continued)**

**Risks and Uncertainties (continued)**

The key risks associated with the business are:

- The Company is a member of the Group's defined benefit pension scheme which is sensitive to a number of key factors; investment returns, discount rates used to calculate scheme liabilities and mortality assumptions. The FRS101 valuation of the the Company's share of the Group's defined benefit pension scheme as at 31 December 2017 estimated the scheme deficit to be £6.0m, a reduction of £1.4m during 2017. Small changes in these assumptions could mean that the deficit increases.

**FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES**

The Company's principal financial assets are trade debtors and the Company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts. The Company has no significant concentration of credit risk, with its exposure spread over a large number of customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Company's principal financial liabilities are bank borrowings, trade creditors and intercompany creditors, which are paid under standard terms.

The Directors, in their consideration of going concern, have reviewed the Company's future cash flow forecasts and revenue projections, which they believe are based on a prudent assessment of the market and past experience.

The Company's activities, together with the factors likely to affect its future development, performance and position are set out above.

The Company's principal financial risks in the medium term relate to liquidity and credit risk. Liquidity risk is managed by ensuring that the Company's day-to-day working capital requirements are met by having access to banking facilities with suitable terms and conditions to reflect the Company's operations. Credit risk, which is heightened as a result of the trading difficulties customers may face, is mitigated by applying considerable rigour in managing the Company's trade receivables. The Directors believe that the Company is adequately placed to manage its financial risks given the current economic outlook.

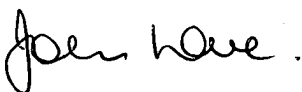
**GOING CONCERN**

The Company is a subsidiary of Macfarlane Group PLC and is funded by having access to the Group's borrowing facility with Lloyds Banking Group PLC of £25.0 million which is in place until June 2019. There is an option to increase the facility to £30.0 million before June 2019.

The Directors of Macfarlane Group UK Limited are of the opinion that the Company's cash flow forecasts and revenue projections, taking account of reasonably possible changes in trading performance given current market and economic conditions, show that the Company should be able to operate within its current facilities and that the Group will continue to comply with its banking covenants.

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

Approved by the Board of Directors  
and signed by order of the Board



J. Love  
Company Secretary  
22 February 2018

# MACFARLANE GROUP UK LIMITED

## DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2017. The Directors during the year and to the date of this report were:-

P.D. Atkinson  
I. Gray  
J. Love

## PARENT COMPANY

The Company is a wholly owned subsidiary of Macfarlane Group PLC, the immediate and ultimate parent company.

## DIVIDENDS AND TRANSFERS TO RESERVES

The results for the year are detailed in the profit and loss account on page 8 and the profit for the financial year of £6,343,000 (2016 – £4,965,000) has been transferred to reserves. Dividends of £2,500,000 were paid during the current year (2016 – £2,500,000).

## FINANCIAL INSTRUMENTS

The Company does not use complex financial instruments. The Company's financial instruments comprise cash and other items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Company's operations.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken. The Company has not entered into any derivative financial instruments. The Company does not believe it will be exposed to any significant risks due to the nature of the financial instruments in the operation.

## EMPLOYMENT OF DISABLED PERSONS

Company policy is to encourage the employment of disabled persons where the disabilities do not hinder these persons in the performance of their duties. Where an employee becomes disabled every effort is made to re-settle that employee in a suitable post. Registered disabled persons, once employed, receive equal opportunities for training, career development and promotion.

## EMPLOYEE INVOLVEMENT

The Directors recognise the importance of meaningful communication and consultation in maintaining good employee relations.

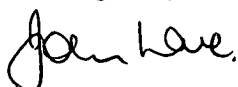
## DISCLOSURE OF INFORMATION TO AUDITOR

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

## AUDITOR

A resolution will be put forward to re-appoint KPMG LLP as auditor of the Company and to authorise the Directors to determine their remuneration. This resolution will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed by order of the Board



J. Love  
Company Secretary  
22 February 2018

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing as applicable, matters relating to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MACFARLANE GROUP UK LIMITED**

### **Opinion**

We have audited the financial statements of Macfarlane Group UK Limited ("the company") for the year ended 31 December 2017 which comprise the profit and loss account, balance sheet, statement of other comprehensive income, statement of changes in equity, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

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

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MACFARLANE GROUP UK LIMITED (continued)**

### **Directors' responsibilities**

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.


### **Auditor's responsibilities**

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

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



**Hugh Harvie (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
319 St Vincent Street  
Glasgow G2 5AS  
22 February 2018

# MACFARLANE GROUP UK LIMITED

## PROFIT AND LOSS ACCOUNT Year ended 31 December 2017

	Note	2017 £000	2016 £000
<b>TURNOVER - continuing operations</b>	2	157,266	142,754
Cost of sales		(109,182)	(99,444)
<b>GROSS PROFIT</b>		<u>48,084</u>	<u>43,310</u>
Distribution costs		(6,325)	(5,797)
Administrative expenses		(32,977)	(30,192)
Other operating income		373	299
		<u>(38,929)</u>	<u>(35,690)</u>
<b>OPERATING PROFIT – continuing operations</b>	3	9,155	7,620
Net interest payable	4	(1,211)	(1,369)
<b>PROFIT BEFORE TAX</b>		<u>7,944</u>	<u>6,251</u>
Tax on profit	6	(1,601)	(1,286)
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<u><u>6,343</u></u>	<u><u>4,965</u></u>

## STATEMENT OF OTHER COMPREHENSIVE INCOME Year ended 31 December 2017

		2017 £000	2016 £000
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurement of pension scheme liability	19	(1,103)	(3,479)
Tax recognised in other comprehensive income			
Tax on remeasurement of pension scheme liability	11	188	626
Long-term corporation tax rate change	11	-	(74)
<b>Total other comprehensive expense for the year</b>		<u>(915)</u>	<u>(2,927)</u>
<b>Profit for the year</b>		<u>6,343</u>	<u>4,965</u>
<b>Total comprehensive income for the year</b>		<u><u>5,428</u></u>	<u><u>2,038</u></u>

## STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2017

	Note	Share Capital £000	Profit and Loss Account £000	Total Equity £000
<b>At 1 January 2016</b>		1,361	2,908	4,269
Profit for the year		-	4,965	4,965
Dividends	7	-	(2,500)	(2,500)
Remeasurement of pension scheme liability	19	-	(3,479)	(3,479)
Tax on remeasurement of pension scheme liability	11	-	626	626
Long-term corporation tax rate change	11	-	(74)	(74)
<b>At 31 December 2016</b>		<u>1,361</u>	<u>2,446</u>	<u>3,807</u>
Profit for the year		-	6,343	6,343
Dividends	7	-	(2,500)	(2,500)
Remeasurement of pension scheme liability	19	-	(1,103)	(1,103)
Tax on remeasurement of pension scheme liability	11	-	188	188
<b>At 31 December 2017</b>		<u><u>1,361</u></u>	<u><u>5,374</u></u>	<u><u>6,735</u></u>

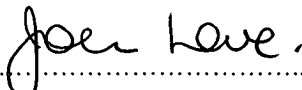
# MACFARLANE GROUP UK LIMITED

## BALANCE SHEET 31 December 2017

	Note	2017 £000	2016 £000
<b>NON-CURRENT ASSETS</b>			
Intangible assets	8	17,441	6,241
Tangible assets	9	5,379	4,667
Investments	10	17,372	14,659
Deferred tax asset	11	1,025	1,260
Debtors	13	296	425
<b>TOTAL NON-CURRENT ASSETS</b>		<b>41,513</b>	<b>27,252</b>
<b>CURRENT ASSETS</b>			
Stocks	12	12,399	9,873
Debtors	13	43,078	37,941
Cash at bank and in hand		161	150
<b>CREDITORS: amounts falling due within one year</b>	14	<b>(59,139)</b>	<b>(53,085)</b>
<b>NET CURRENT LIABILITIES</b>		<b>(3,501)</b>	<b>(5,121)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>38,012</b>	<b>22,131</b>
<b>CREDITORS: amounts falling due after more than one year</b>	15	<b>(25,187)</b>	<b>(10,910)</b>
Deferred tax liability	11	(60)	-
Pension liability	19	(6,030)	(7,414)
<b>NET ASSETS</b>		<b>6,735</b>	<b>3,807</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	1,361	1,361
Profit and loss account		5,374	2,446
<b>TOTAL SHAREHOLDER'S FUNDS</b>		<b>6,735</b>	<b>3,807</b>

These financial statements of Macfarlane Group UK Limited, company number 1630389, were approved by the Board of Directors on 22 February 2018 and signed on behalf of the Board of Directors by

 Director  
Ivor Gray

 Director  
John Love

# MACFARLANE GROUP UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

### 1. ACCOUNTING POLICIES

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

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Macfarlane Group PLC includes the Company in its consolidated financial statements. By virtue of Section 401 of the Companies Act 2006, the Company is exempt from the requirement to prepare group financial statements therefore these financial statements present information about the Company as an individual undertaking and not about its Group.

The consolidated financial statements of Macfarlane Group PLC are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from 21 Newton Place, Glasgow, G3 7PY.

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

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

As the consolidated financial statements of Macfarlane Group PLC include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- (i) Certain disclosures required by IAS 36 Impairment of Assets in respect of the impairment of goodwill and indefinite life intangible assets;
- (ii) Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company in the current and prior periods including the comparative period reconciliation for goodwill; and
- (iii) Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

#### Judgements, assumptions and estimation uncertainties

In preparing these financial statements, management has made judgements, estimates and assumptions, which affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The judgements, estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from the amounts estimated.

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

Subject	Note	Area of assumptions and estimation uncertainties
Retirement benefit obligations	19	The valuation of the pension deficit is affected by key actuarial assumptions
Debtors	13	The provision for doubtful debtors is based on judgmental estimates over the recoverable amounts

# MACFARLANE GROUP UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

### 1. ACCOUNTING POLICIES (CONTINUED)

#### **Application of accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the preparation of these financial statements.

The financial statements are prepared on the historical cost basis except that certain of the following assets and liabilities are stated at their fair value as explained below:-

#### **Intangible assets**

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. It is not amortised but is tested annually for impairment. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the financial statements of this departure.

Patents and trademarks are valued at cost on acquisition and are depreciated in equal annual instalments over their estimated useful economic lives which are considered to be between five and ten years.

#### **Tangible assets**

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

#### **Investments**

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

#### **Non-derivative financial instruments**

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

#### **Trade and other debtors**

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

#### **Trade and other creditors**

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

#### **Interest-bearing borrowings**

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

#### **Stocks**

Stocks are stated at the lower of cost and net realisable value. Such cost is determined by average cost and is stated less any provisions required for obsolescence. In the case of work in progress and finished goods, cost comprises material and labour costs plus attributable manufacturing overheads, based on normal operating capacity.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided to third parties in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue from the sale of goods and is recognised when the Company has transferred the significant risks and rewards of ownership of the goods to the customer, the amount of revenue and the costs related thereto can be measured reliably and it is probable that the economic benefits of the transaction will flow to the Company.

# MACFARLANE GROUP UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2017

### 1. ACCOUNTING POLICIES (CONTINUED)

#### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as tangible assets of the Company at their fair value as determined at the inception of the lease. Depreciation is provided in accordance with the Company's accounting policy for the class of tangible asset concerned. Interest costs are charged over the lease term and future obligations, comprising the corresponding liability to the lessor, are included in the balance sheet as finance lease liabilities.

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the term of the relevant lease. Incentives to enter into an operating lease are initially recorded as a liability and then treated as a reduction in the rental expense on a straight-line basis over the lease term.

#### Financial instruments

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

#### *Financial assets*

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

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

Indicators are assessed for the *impairment of financial assets* at each balance sheet date. Financial assets are impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted. For trade debtors the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade debtors where the carrying amount is reduced through the use of an allowance account. When a trade debtor is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying value of the allowance account are recognised in the profit and loss account.

*Cash and cash equivalents* comprise cash on hand and on demand deposits, readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

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

*Financial liabilities* comprise solely other financial liabilities under the terms of IFRS 7. Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost, with interest expense measured on an effective yield basis.

*Equity instruments* are any contracts evidencing a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

*Derivative financial instruments* were not used in the current or preceding financial year.

#### Taxation

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

The current tax payable is based on the taxable profit for the year. Taxable profit differs from profit before tax as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The current tax liability is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax balances represent the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax assets and liabilities are not discounted.

# MACFARLANE GROUP UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2017

### 1. ACCOUNTING POLICIES (CONTINUED)

#### **Taxation**

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also recorded in the statement of other comprehensive income.

#### **Retirement benefit costs**

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

#### ***Defined contribution plan***

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

#### ***Defined benefit scheme***

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

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

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

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

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

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

#### **Foreign currency translation**

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. All exchange differences are recorded in the profit and loss account.

# MACFARLANE GROUP UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

### 2. TURNOVER

Turnover represents amounts derived from the provision of goods and services which fall within the Company's ordinary activities after deduction of trade discounts and value added tax. Turnover and profit before taxation is attributable to the manufacture and distribution of packaging and the provision of storage, warehousing and haulage services. An analysis of turnover by geographical market is given below:

	2017 £000	2016 £000
United Kingdom	154,678	141,057
Europe	1,689	1,153
Other overseas sales	899	544
	<u>157,266</u>	<u>142,754</u>

### 3. OPERATING PROFIT

	2017 £000	2016 £000
Operating profit is arrived at after charging/(crediting):		
Depreciation	963	866
Gain on disposal of assets	(2)	(8)
Rentals under operating leases		
Plant and machinery	3,192	2,253
Property	4,339	3,848
Auditor's remuneration		
For audit services	89	82
All other non-audit services	-	85
	<u></u>	<u></u>

### 4. NET INTEREST PAYABLE

	2017 £000	2016 £000
Interest on intercompany loan balances	(1,006)	(1,146)
Interest on finance leases	(27)	(32)
Net interest expense on retirement benefit obligation (note 19)	(178)	(191)
	<u>(1,211)</u>	<u>(1,369)</u>

### 5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2017 £000	2016 £000
Total emoluments of all directors are as follows:		
Salary and benefits in kind	137	137
Contribution to defined contribution pension plan	12	11
	<u>149</u>	<u>148</u>

Retirement benefits accrue to two directors (2016: two) under the parent company's pension schemes. Two (2016 – Two) of the Company's directors are remunerated by Macfarlane Group PLC, the ultimate parent company and are not therefore included in the analysis of costs set out above.

From 6 April 2016, all employees of Network Packaging Limited, a fellow subsidiary company, transferred into the employment of Macfarlane Group UK Limited. From 6 April 2017, all employees of Nelsons for Cartons & Packaging Limited, a fellow subsidiary company, transferred into the employment of Macfarlane Group UK Limited. All employee costs are now borne by Macfarlane Group UK Limited since these dates and the employee costs have been recharged to both companies as incurred by a management charge.

	2017 No.	2016 No.
Average number of persons employed		
Production	90	90
Sales and distribution	434	380
Administration	175	169
	<u>699</u>	<u>639</u>



# MACFARLANE GROUP UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

### 5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

Staff costs during the year (including directors)	2017 £000	2016 £000
Wages and salaries	20,703	18,847
Social security costs	2,087	1,738
Pension costs		
Contributions to defined contribution plans	994	812
Contributions to defined benefit scheme	85	70
	<u>23,869</u>	<u>21,467</u>
Management charge to Network Packaging Limited	(1,433)	(1,071)
Management charge to Nelsons for Cartons & Packaging Limited	(435)	-
	<u>22,001</u>	<u>20,396</u>

### 6. TAX ON PROFIT

	2017 £000	2016 £000
<b>United Kingdom corporation tax :</b>		
Current tax	(1,099)	(955)
Adjustments in respect of prior years	(19)	18
Total current tax	<u>(1,118)</u>	<u>(937)</u>
Movement in deferred tax asset on pension deficit (see note 11)	(423)	(349)
Movement in deferred tax on accelerated capital allowances (see note 11)	(60)	-
Total deferred tax	<u>(483)</u>	<u>(349)</u>
<b>Tax on profit</b>	<u>(1,601)</u>	<u>(1,286)</u>

The average rate of current tax for the year, based on the UK standard rate of corporation tax, is 19.25% (2016 – 20.00%). The actual tax charge for the current and prior years varies from 19.25% (2016 – 20.00%) for the reasons set out in the following reconciliation:

	2017 £000	2016 £000
<b>Profit before tax</b>	<u>7,944</u>	<u>6,251</u>
Tax charge on profit before tax at an average rate of 19.25% (2016 – 20.00%)	(1,529)	(1,250)
<b>Factors affecting charge:</b>		
(Depreciation in excess of capital allowances)/capital allowances in excess of depreciation	(37)	(55)
Expenses not deductible for tax purposes	(24)	(16)
Other timing differences	(11)	35
Current tax charge for the year	<u>(1,601)</u>	<u>(1,286)</u>

Reductions in the UK corporation tax rate from 20 to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2017 have been calculated based on these rates.

# MACFARLANE GROUP UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

7.	<b>DIVIDENDS</b>	<b>2017</b>	<b>2016</b>
		<b>£000</b>	<b>£000</b>
	<b>Amounts recognised as distributions to equity holders in the year</b>		
	Interim dividends of 183.63p per share (2016 – interim dividend of 183.63p)	2,500	2,500
		<hr/>	<hr/>
8.	<b>INTANGIBLE ASSETS</b>	<b>Purchased goodwill</b>	<b>Patents &amp; Trademarks</b>
		<b>£000</b>	<b>£000</b>
	<b>Cost</b>		<b>Total</b>
	At 1 January 2017	10,187	240
	Additions	11,200	-
		<hr/>	<hr/>
	At 31 December 2017	21,387	240
		<hr/>	<hr/>
	<b>Accumulated amortisation and impairment</b>		
	At 1 January 2017 and 31 December 2017	3,946	240
		<hr/>	<hr/>
	<b>Net book value</b>		
	At 31 December 2017	17,441	-
		<hr/>	<hr/>
	At 31 December 2016	6,241	-
		<hr/>	<hr/>

Goodwill comprises the value arising in a business combination representing the excess of the cost of acquisition over the net fair values of the identifiable assets and liabilities of the acquired subsidiary at the effective date of acquisition. Goodwill is allocated to Cash Generating Units, ("CGUs") expected to benefit from the synergies of the combination, for the purpose of impairment testing.

At 31 December 2017, the Group had one CGU to which goodwill had been ascribed namely Packaging Distribution, comprising goodwill arising on all acquisitions in this segment since 2001. This includes the acquisition in the year of the goodwill of Greenwoods Stock Boxes totalling £11,200,000.

The recoverable amount of the CGU is determined using 'value in use' calculations with key assumptions relating to discount rates, growth rates and projected gross margin and overhead costs as set out in the accounts of the parent company, Macfarlane Group PLC.

The Directors believe the assumptions used are appropriate, but in addition have conducted sensitivity analysis to determine the changes in assumptions that would result in an impairment of the carrying value of goodwill at 31 December 2017. Based on this analysis the Directors believe that any reasonable changes in the key assumptions would maintain a recoverable amount for the CGU, which exceeds its carrying value.

Therefore no impairment charge is required against the carrying value of goodwill in 2017.

Based on the exemption stated in note 1, no further disclosure relating to the current or prior year acquisitions is made in these financial statements.

# MACFARLANE GROUP UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2017

### 9. TANGIBLE ASSETS

	Land and buildings £000	Plant, machinery, vehicles & fittings £000	Total £000
<b>Cost</b>			
At 1 January 2017	5,014	11,870	16,884
Additions	692	397	1,089
Acquisitions	-	1,557	1,557
Group transfers	35	407	442
Disposals	(1)	(36)	(37)
At 31 December 2017	5,740	14,195	19,935
<b>Accumulated depreciation</b>			
At 1 January 2017	2,390	9,827	12,217
Charge for the year	280	683	963
Acquisitions	-	1,096	1,096
Group transfers	4	293	297
Disposals	-	(17)	(17)
At 31 December 2017	2,674	11,882	14,556
<b>Net book value</b>			
At 31 December 2017	3,066	2,313	5,379
At 31 December 2016	2,624	2,043	4,667

The carrying value of £5,379,000 (2016 - £4,667,000) includes £562,000 (2016 - £696,000) of assets held under finance leases. Depreciation charged in respect of these assets is £134,000 (2016 - £136,000).

	2017 £000	2016 £000
<b>Land and buildings at net book value</b>		
Freehold	1,142	1,179
Long leasehold	1,121	945
Short leasehold	803	500
	3,066	2,624

# MACFARLANE GROUP UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

### 10. INVESTMENTS

	Shares in subsidiary undertakings £000
<b>Cost</b>	
At 1 January 2017	14,973
Additions	2,832
Struck off during the year	(119)
At 31 December 2017	17,686
<b>Provision for impairment</b>	
At 1 January 2017 and 31 December 2017	314
<b>Net book value</b>	
At 31 December 2017	17,372
At 31 December 2016	14,659

The Company owns the whole of the issued ordinary share capital of the following dormant companies:

	Company number	Country of Registration
Online Packaging Limited	02903657	England
Allpoint Packaging Limited	03930806	England
Bloomfield Supplies Limited	02253938	England
Abbott's Packaging Limited	01385800	England
Mitchell Packaging Limited	00535311	England
Macfarlane Packaging Limited	SC041678	Scotland
Greenwoods Stock Boxes Limited	SC576825	Scotland

Macfarlane Merchanting Limited was struck off on 24 October 2017.

All the above companies registered in England have their registered office at Siskin Parkway East, Middlemarch Business Park, Coventry, CV3 4PE. The registered office of the companies registered in Scotland is 21 Newton Place, Glasgow G3 7PY.

On 21 September 2017, the Company acquired the whole of the issued ordinary share capital of Nottingham Recycling Limited (Company number 03249021) registered in England for a consideration of £2,832,000. The principal activity of the company is the recycling of waste paper and board. The registered office of Nottingham Recycling Limited is Abbeyfield Road, Nottingham, NG7 2SX.

### 11. DEFERRED TAX

	2017 £000	2016 £000
<b>Deferred tax asset on pension scheme deficit</b>		
At 1 January	1,260	1,057
Credit/(charge) to the statement of other comprehensive income		
On remeasurement of pension liability	188	626
Long-term corporation tax rate change	-	(74)
Charge through profit and loss account (see note 6)	(423)	(349)
At 31 December	1,025	1,260
<b>Deferred tax liability on accelerated capital allowances</b>		
At 1 January	-	-
Charge through profit and loss account (see note 6)	(60)	-
At 31 December	(60)	-

The deferred tax asset relates to the pension scheme deficit. Recovery of the deferred tax asset is anticipated against future taxable profits.

# MACFARLANE GROUP UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2017

<b>12. STOCKS</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Raw materials and consumables	191	142
Work in progress	18	19
Finished goods and goods for resale	12,190	9,712
	<u>12,399</u>	<u>9,873</u>
<b>Movement in the provisions for slow-moving and obsolete stocks</b>		
At 1 January	513	463
Group transfers	4	-
Acquisitions	22	-
Additional provisions established and charged in the profit and loss account	506	577
Stocks written off during the year	(503)	(527)
	<u>542</u>	<u>513</u>
At 31 December		
<b>13. DEBTORS</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>Due within one year</b>		
Trade debtors	37,278	32,631
Amounts owed by group undertakings	983	321
Other debtors	3,424	3,750
Prepayments and accrued income	1,393	1,239
	<u>43,078</u>	<u>37,941</u>
<b>Due after more than one year</b>		
Other debtors	296	425
	<u>296</u>	<u>425</u>
<b>Movement in the provisions for doubtful trade debtors</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
At 1 January	218	268
Group transfers	4	-
Acquisitions	27	-
Provision for doubtful debts charged in the profit and loss account	156	156
Debtors written off during the year	(150)	(206)
	<u>255</u>	<u>218</u>
At 31 December		

# MACFARLANE GROUP UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2017

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2017 £000	2016 £000
Bank borrowings (see below)	16,345	16,437
Obligations under finance leases (see note 15)	120	227
Trade creditors	30,636	28,329
Amounts owed to group undertakings	34	181
Amounts owed to parent company	1,000	1,000
Other taxation and social security	3,339	2,599
Other creditors	3,250	-
Corporation tax	367	429
Accruals and deferred income	4,048	3,883
	<u>59,139</u>	<u>53,085</u>

The Group's bank borrowing facility with Lloyds Banking Group PLC of £25.0 million is available until June 2019, with an option to increase the facility to £30.0 million. 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 parent company, Macfarlane Group plc and a fellow subsidiary, Macfarlane Labels Limited have both given guarantees to secure any bank borrowings drawn down under this facility.

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	2017 £000	2016 £000
Obligations under finance leases	18	183
Amounts owed to parent company	19,066	4,509
Amounts owed to subsidiary undertakings	6,103	6,218
	<u>25,187</u>	<u>10,910</u>

The Company continues to receive support from its parent company, Macfarlane Group PLC. The Directors have received confirmation that of the amount due to the parent company of £20,066,000 (2016 - £5,509,000) that amounts totalling £19,066,000 (2016 - £4,509,000) do not fall due for repayment for more than one year.

Any loan repayments will take into account the company's cash generation in 2018.

	2017 £000	2016 £000
Obligations under finance lease are payable as follows		
Within one year	120	227
Between one and two years	18	169
After more than two years	-	14
	<u>138</u>	<u>410</u>

16. CALLED UP SHARE CAPITAL	2017 £000	2016 £000
Called up, allotted and fully paid		
1,361,400 ordinary shares of £1 each	<u>1,361</u>	<u>1,361</u>

# MACFARLANE GROUP UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

### 17. CONTINGENT LIABILITIES

The company has given an intercompany guarantee to secure the bank borrowings of the parent company and certain fellow subsidiaries. There was no contingent liability at 31 December 2017 under these obligations.

Following the assignment of a property head lease at Coventry in October 2011, the company provided guarantees for the rentals under the head lease in the event of a default by the assignee, the UK subsidiary of a multinational business listed on the New York Stock Exchange. As a result of the assignation, a contingent liability of £1.4 million (2016 - £1.8 million) is disclosed, representing the difference between the head lease and sub-lease payments from 1 January 2018 until the conclusion of the head lease in November 2020.

### 18. FINANCIAL COMMITMENTS

The Company's property portfolio in its Packaging Distribution business comprises a number of property leases for periods of between one year and ten years. In addition the Company leases all its commercial vehicles, motor vehicles, forklift trucks and telecoms equipment on leasing arrangements, which run for periods of up to six years. These arrangements are collectively known as operating leases.

At the balance sheet date the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due for payment as follows:

	Land & buildings 2017 £000	Other 2017 £000	Land & buildings 2016 £000	Other 2016 £000
Within one year	4,268	3,192	3,768	2,253
Between one and five years	10,825	7,067	9,856	3,795
After more than five years	5,153	1,103	3,844	105
	<u>20,246</u>	<u>11,362</u>	<u>17,468</u>	<u>6,153</u>

The majority of the 27 (2016 – 24) property leases summarised above are subject to rent reviews. 3 (2016 – 3) of these leases are subject to sub-let arrangements or assignations with third parties to reduce the property cost to the Company.

At the balance sheet date there were outstanding commitments for future annual minimum lease payments receivable under non-cancellable operating leases which fall due as follows: -

	Land & buildings 2017 £000	Land & buildings 2016 £000
Within one year	478	478
Within two to five years	738	1,216
	<u>1,216</u>	<u>1,694</u>

In the event of tenants defaulting on future payments under non-cancellable property leases, this would lead to increased property costs for the Company until the leases were subsequently sub-let.

# MACFARLANE GROUP UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

### 19. PENSION LIABILITY

#### Introduction

Macfarlane Group PLC, the parent company, sponsors a defined benefit pension scheme for certain active and former UK employees – the Macfarlane Group PLC Pension & Life Assurance Scheme (1974) (“the scheme”). Two trading subsidiaries, Macfarlane Group UK Limited and Macfarlane Labels Limited are also sponsoring employers of the scheme. Disclosure of the respective proportions of the Group deficit are set out in the accounts of each of the three participating employers.

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

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

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

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

#### Balance sheet disclosures at 31 December 2017

The pension scheme’s qualified actuary from Aon Hewitt carries out triennial valuations using the Projected Unit Credit Method to determine the level of deficit. For the most recent triennial valuation at 1 May 2017, the provisional results of this valuation showed that the market value of the relevant investments of the scheme was £82,100,000 and the actuarial value of these investments represented 81% of the value of benefits that had accrued to members.

The investments held by the scheme and the deficit of the scheme have been based on the provisional results of the actuarial valuation as at 1 May 2017 updated to the year-end for the amounts attributable to Macfarlane Group UK Limited, are as shown below:-

Investment class	Valuation	Valuation
	2017	2016
	£000	£000
Equities	9,024	8,727
Multi-asset diversified funds	10,982	10,970
Liability-driven investment funds	14,552	13,531
Secured property income fund	3,369	-
European loan fund	3,347	3,230
Cash	16	3,224
	<hr/>	<hr/>
Fair value of scheme assets	41,290	39,682
Present value of scheme liabilities	(47,320)	(47,096)
	<hr/>	<hr/>
<b>Deficit in the scheme</b>	<b>(6,030)</b>	<b>(7,414)</b>



# MACFARLANE GROUP UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

### 19. PENSION LIABILITY (continued)

The scheme's liabilities at 31 December 2017 were calculated on the following bases required under IAS19:

Assumptions	2017	2016	2015
Discount rate	2.50%	2.70%	3.70%
Rate of increase in salaries	0.00%	0.00%	0.00%
Rate of increase in pensions in payment	3% or 5% for fixed increases or 3.20% for LPI. 2.25% post 5 April 2006	3% or 5% for fixed increases or 3.20% for LPI. 2.25% post 5 April 2006	3% or 5% for fixed increases or 3.00% for LPI. 2.10% post 5 April 2006
Inflation assumption (RPI)	3.30%	3.30%	3.10%
Inflation assumption (CPI)	2.30%	2.30%	2.10%
Life expectancy at normal retirement date of 65			
Males	23.7	22.8	22.7
Females	25.7	25.3	25.3

	2017 £000	2016 £000
<b>Movement in the scheme deficit in the year</b>		
At 1 January	(7,414)	(5,874)
Current service cost	(85)	(70)
Contributions	2,750	2,200
Other financial charges	(178)	(191)
Remeasurement of pension scheme liability in the year	(1,103)	(3,479)
<b>At 31 December</b>	<b>(6,030)</b>	<b>(7,414)</b>

<b>Movement in the fair value of scheme assets</b>		
At 1 January	39,682	34,574
Expected return on scheme assets	1,053	1,259
Actual return less expected return on scheme assets	860	4,216
Contributions paid by Company	2,750	2,200
Contribution from scheme members	58	53
Benefits paid	(3,113)	(2,620)
<b>At 31 December</b>	<b>41,290</b>	<b>39,682</b>

<b>Movement in the present value of defined benefit obligations</b>		
At 1 January	(47,096)	(40,448)
Service costs	(85)	(70)
Interest costs	(1,231)	(1,450)
Contribution from scheme members	(58)	(53)
Actuarial loss in the year	(1,963)	(7,695)
Benefits paid	3,113	2,620
<b>At 31 December</b>	<b>(47,320)</b>	<b>(47,096)</b>

The cumulative remeasurement of the pension liability applied against reserves since the transition to IAS 19 on 1 January 2004 is a loss of £19,656,000 (2016 - £18,553,000).

# MACFARLANE GROUP UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

### 19. PENSION LIABILITY (continued)

	2017 £000	2016 £000			
<b>Analysis of amounts charged to operating profit</b>					
Current service costs	(85)	(70)			
<b>Analysis of amounts charged to net finance costs</b>					
Expected return on pension scheme assets	1,053	1,259			
Interest cost of pension scheme liabilities	(1,231)	(1,450)			
Other financial charges	(178)	(191)			
<b>Analysis of the remeasurement of the pension scheme liability included in the statement of other comprehensive income</b>					
Actual return less expected return on scheme assets	860	4,216			
Changes in assumptions underlying the present value of the scheme's liabilities	(1,963)	(7,695)			
<b>Remeasurement of pension scheme liability</b>	(1,103)	(3,479)			
	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Present value of defined benefit obligations	(47,320)	(47,096)	(40,448)	(40,931)	(35,067)
Fair value of scheme assets	41,290	39,682	34,574	33,995	27,119
<b>Deficit in the scheme</b>	(6,030)	(7,414)	(5,874)	(6,936)	(7,948)
<b>Experience adjustment on scheme assets</b>					
Difference between expected and actual return on scheme assets £000	860	4,216	(631)	3,593	(74)
Percentage of scheme assets	2.1%	10.6%	(1.8%)	10.6%	(0.3%)
<b>Actual return on scheme assets £000</b>	1,913	5,475	574	4,836	1,346
Percentage of scheme assets	4.6%	13.8%	1.7%	14.2%	5.0%

#### Defined contribution schemes

The company also participated in a number of defined contribution schemes, including two Macfarlane Group Personal Pension Schemes. Contributions charged to the profit and loss account in respect of these schemes for the year were £994,000 (2016 - £812,000).

Contributions from the company amounting to £119,000 (2016 - £90,000) were payable to the schemes and are included in creditors at 31 December.

# **MACFARLANE GROUP UK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **Year ended 31 December 2017**

### **20. RELATED PARTY TRANSACTIONS AND RELATED UNDERTAKINGS**

The Group has related party relationships with

- (i) its parent company, Macfarlane Group PLC;
- (ii) its subsidiary companies,
- (iii) its Directors; and
- (iv) the Macfarlane Group PLC sponsored pension schemes.

Transactions with Macfarlane Group PLC and fellow subsidiaries are eliminated in the consolidated accounts of Macfarlane Group PLC and are not disclosed in these financial statements.

The company's related undertakings are the parent company, disclosed in note 21 and its subsidiary undertakings. Details of all subsidiary undertakings are set out in note 10.

Directors' remuneration is set out in note 5. P.D. Atkinson and J. Love are also directors of the parent company and their remuneration is disclosed in the accounts of Macfarlane Group PLC.

Disclosures in relation to the pension schemes are set out in note 19.

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

### **21. ULTIMATE PARENT COMPANY**

The immediate and ultimate parent company is Macfarlane Group PLC, a company registered in Scotland. Macfarlane Group PLC is the parent undertaking of the smallest and largest group, which includes the company and for which group financial statements are prepared. Group financial statements may be obtained from its registered office at 21 Newton Place, Glasgow G3 7PY.