

**Company Registration No. 1630389**  
**Registered in England**

**MACFARLANE GROUP UK LIMITED**

**Report and Financial Statements**

**31 December 2019**

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COMPANIES HOUSE

**MACFARLANE GROUP UK LIMITED**

**REPORT AND FINANCIAL STATEMENTS 2019**

<b>CONTENTS</b>	<b>Page</b>
<b>Officers and professional advisers</b>	<b>1</b>
<b>Strategic report</b>	<b>2</b>
<b>Directors' report</b>	<b>7</b>
<b>Statement of Directors' responsibilities</b>	<b>8</b>
<b>Independent auditor's report</b>	<b>9</b>
<b>Profit and Loss Account</b>	<b>12</b>
<b>Statement of Other Comprehensive Income</b>	<b>12</b>
<b>Statement of Changes in Equity</b>	<b>12</b>
<b>Balance Sheet</b>	<b>13</b>
<b>Notes to the financial statements</b>	<b>14</b>

# **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 LLP  
302 St Vincent Street  
Glasgow G2 5RZ

### **INDEPENDENT AUDITOR**

Deloitte LLP  
110 Queen Street  
Glasgow G1 3BX

## STRATEGIC REPORT

The Directors present their strategic report for the year ended 31 December 2019.

## 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

The trade and assets of Tyler Packaging (Leicester) Limited, a company acquired in 2018, were absorbed into Macfarlane Group UK Limited with effect from 24 June 2019.

Sales totalled £183.6m in 2019 (2018: £178.8m), reflecting the full year benefit of Network Packaging Limited's trading which was absorbed from 1 August 2018. Gross margin percentage increased to 32.2% during the year (2018: 30.5%), reflecting input price deflation during the year. Gross profit increased to £59.1m in 2019 (2018: £54.5m).

Distribution and administrative costs, net of other operating income, were well controlled and increased to £46.2m (2018: £43.3m), with £1.6m of the increase primarily relating to the full year impact of the absorption of the trades of Tyler and Network

Interest charges totalled £2.2m, (2018: £1.7m) the increase from 2018 due to higher average group borrowings in 2019 and the impact of the new leasing standard IFRS 16 'Leases'.

Dividends of £0.8m (2018: £nil) were received from the trading subsidiaries.

As a result profit before tax was £11.5m, 21% ahead of the £9.5m achieved in 2018.

IFRS 16 'Leases' requires the Company to recognise right-of-use assets and lease liabilities on the balance sheet and depreciation on these assets and interest on the lease liabilities in the profit and loss account. Previously operating leases were off balance sheet and leasing costs were disclosed in administrative expenses. IFRS 16 has been applied from 1 January 2019, with no requirement to restate comparative figures. Whilst the impact on profit before tax or net assets from applying the new standard has been minimal, changes in classifications are indicated throughout the financial statements.

The Company's total equity amounts to £17.8m, an increase of £5.3m 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 in a letter of support from the parent company, Macfarlane Group PLC, that £25.8m of the total indebtedness due to the parent company of £28.1m 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.

**STRATEGIC REPORT (continued)**

**Stakeholder engagement**

The Board and its individual directors consider that they have acted in good faith in the manner that is most likely to promote the success of Macfarlane Group UK Limited ("MGUK") for the benefit of its members as a whole and in doing so having regard to the stakeholders and matters set out in Section 172 of the Companies Act 2006.

There is a recognition by the directors that they are not expected to balance the interests of MGUK against those of other stakeholders but rather, after considering all relevant factors, to decide on the actions which will best lead to success for the Group having regard to the long term. This can mean that certain stakeholder groups may be inadvertently adversely affected, but this will not of itself call into question the decisions made.

The Directors view the key company stakeholders and means of engagement as:

<b>Stakeholder Group</b>	<b>Principal methods of engagement</b>
① Shareholders	Members of the Board interact with the Board of the shareholder Macfarlane Group PLC throughout the year. Two of the three directors are common to both Companies.
② Employees	Board Members visit the majority of trading locations each year. This provides the opportunity to engage with the local teams and hear their views on working in MGUK.
③ Customers	Teams at all our locations interact with all our existing and potential customers, in the Local, Core and National customer groups on a daily basis to understand and fulfil the product and service requirements of our customers.
④ Suppliers	Our procurement teams and employees at all our locations interact both with our strategic and all other suppliers on a daily basis to ensure that the supply chain is robust and that the trading relationships with suppliers continue to operate well.
⑤ Our trading locations and the impact of our activities on the local environment	We operate from good quality facilities throughout the UK and deliver to customers using our own fleet of trucks, driven by our drivers. We act in a manner intended to recognise and reduce our impact on our local environments in terms of the types of product supplied, usage of energy and CO2 emissions.

In all cases, the level of engagement informs the Board, both in relation to stakeholder concerns and the likely impact on decision-making throughout the year.

We expect our people to act with the highest level of integrity in dealing with all stakeholders. We operate a suite of policies which are intended to ensure that MGUK's employees are empowered to make decisions locally but within a control framework which meets the company's objectives.

The Board uses its regular meetings as a mechanism to address and meet its obligations under Section 172 of the Companies Act 2006. The following narrative covers the key decisions made and the stakeholder group(s) impacted by these decisions.

**Strategy and performance**

*Strategy* ① ② ③ ④ ⑤

The Board reviews the Company's strategic direction and growth plans during each calendar year.

The Board approved the acquisition of Carnweather (the parent of the trading business Ecopac UK), concluding that the business had a similar customer and business approach to MGUK and would be a good strategic fit.

**STRATEGIC REPORT**

**STAKEHOLDER ENGAGEMENT (continued)**

*Performance* ① ② ③ ④

The Board approves the annual budget for the forthcoming year at its December meeting.

The Board reviews the trading performance of the business throughout the year, monitoring performance against the agreed budget and the previous financial year. Reporting covers trading performance, relationships with key customers and suppliers as well as aspects of operational performance and the impact on our employees. The reports also give the Board visibility of the up to date trading terms with both customers and suppliers.

In 2019, the Board met with representatives of our key strategic supply partners.

The activities of our competitors are reviewed, along with any potential impact on MGUK.

**Financing** ① ② ⑤

The Board approves all location moves and the terms of new property arrangements. In 2019, this included the closure of our Enfield site in September 2019 and the move to a smaller site in Harlow, supported by additional space in Sudbury as well as the closure of a small manufacturing site in Nether Broughton and the transfer of that trade to an existing site in Nottingham.

The Board considers and approves any items of capital expenditure with a value in excess of £100k.

The Board approves the annual dividend, to the parent company account distributable reserves and likely cash flows and the level of dividends relative to other financing requirements.

**Risk** ① ② ③ ④ ⑤

The Board reviews the Company's internal control framework ensuring regular updating of the business's risk registers.

The Board regularly reviews the MGUK's risk register, ensuring that where appropriate and practical, there are appropriate monitoring procedures, mitigating controls and actions in respect of each major risk. This includes a formal consideration of emerging risks.

The Board receives a Health and Safety status report at every meeting as well as an annual presentation from the Group's Health & Safety Manager, which covers the impact on our employees, our sites and our local environment.

**Governance and legal requirements** ① ② ⑤

The Board's Governance structure is set by the parent company.

The Board aim to comply with all legal requirements for the business.

The Company's Greenhouse Gas Emissions are disclosed within the Corporate Responsibility Report of the parent Company, Macfarlane Group PLC.

**Culture and organisation** ① ②

The Board seeks to satisfy itself that the Company's policies and practices for staff are consistent with the Company's values and are designed to promote the long-term success of the Company.

The Board reviews and approves the Company's Gender Pay reports each year.

The Board receives a report from the HR Director each year covering key employee matters and developments. This report covers the results of our annual employee survey.

Representatives of the Board engage with the Management Development Group and attend the Annual Awards Dinner.

**STRATEGIC REPORT (continued)**

**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 relating to exchange rate movements. 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.
- 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.
- The Company is a member of the Group's defined benefit pension scheme which is sensitive to a number of key factors including; discount rates used to calculate scheme liabilities, inflation rates being applied to deferred pensions and pensions in payment, mortality assumptions and investment returns. The valuation of the Group's defined benefit pension scheme as at 31 December 2019 estimated the Company's share of the deficit to be £3.3m, a decrease of £1.7m during 2019. Small changes in the assumptions can lead to large fluctuations in the deficit.

The Company 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 at 31 December 2020. Where practical, we would 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 Company 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 UK Limited.

**STRATEGIC REPORT (continued)**

**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, obligations under finance leases and intercompany creditors, which are paid under standard terms.

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 accommodate the requirement of the Company's operations. Credit risk is mitigated by applying considerable rigour in managing the Company's trade debtors.

The Directors believe that the Company is adequately placed to manage its financial risks given the current economic outlook.

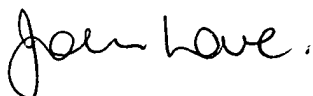
**GOING CONCERN**

As a wholly owned subsidiary of Macfarlane Group PLC, the Company is funded by having access to the Group's borrowing facility with Lloyds Banking Group PLC of £30 million which is in place until June 2022. In addition the Company has loans totalling £28.1m and a letter of support from the parent company, Macfarlane Group PLC, as detailed in note 16.

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 and for a period extending at least twelve months from the date of signing these financial statements. 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

13 March 2020



**DIRECTORS' REPORT**

The Directors present their annual report and the audited financial statements for the year ended 31 December 2019.

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 10 and the profit for the financial year of £9,563,000 (2018: £7,630,000) has been transferred to reserves. Dividends of £3,750,000 were paid during the current year (2018: £1,250,000).

**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.

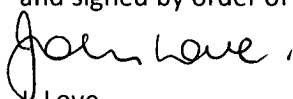
**DISCLOSURE OF INFORMATION TO AUDITOR**

The Directors holding 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 (as defined by the Companies Act 2006) of which the Company's auditor is unaware. Each Director has taken all 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**

Deloitte LLP were appointed as auditor to the Company during the year. A resolution will be put forward to re-appoint Deloitte LLP as auditor of the Company and to authorise the Directors to determine their remuneration at the forthcoming Annual General Meeting.

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



J. Love

Company Secretary

13 March 2020

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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 also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MACFARLANE GROUP UK LIMITED REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Opinion**

In our opinion the financial statements of Macfarlane Group UK Limited ("the Company") for the year ended 31 December 2019:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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.

We have audited the financial statements, which comprise

- the profit and loss account;
- the statement of other comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MACFARLANE GROUP UK LIMITED  
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)**

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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

Under the Companies Act 2006 we are required to report in respect of the following matters 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 respect of these matters.

**Use of our report**

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.



**David Sweeney CA (Senior Statutory Auditor)**

**For and on behalf of Deloitte LLP**

Statutory Auditor

United Kingdom

13 March 2020

**MACFARLANE GROUP UK LIMITED**

**PROFIT AND LOSS ACCOUNT**

**YEAR ENDED 31 DECEMBER 2019**

	Note	2019 £000	Pre- exceptional 2018 £000	Exceptional item (note 3) 2018 £000	2018 £000
<b>TURNOVER – continuing operations</b>	2	<b>183,696</b>	178,839	-	178,839
Cost of sales		<b>(124,551)</b>	(124,363)	-	(124,363)
<b>GROSS PROFIT</b>		<b>59,145</b>	54,476	-	54,476
Distribution costs		<b>(6,693)</b>	(6,726)	-	(6,726)
Administrative expenses		<b>(40,367)</b>	(36,775)	(168)	(36,943)
Other operating income		<b>837</b>	361	-	361
		<b>(46,223)</b>	(43,140)	(168)	(43,308)
<b>OPERATING PROFIT - continuing operations</b>	3	<b>12,922</b>	11,336	(168)	11,168
Income from shares in group undertakings		<b>800</b>	-	-	-
Net interest payable	4	<b>(2,179)</b>	(1,715)	-	(1,715)
<b>PROFIT BEFORE TAX</b>		<b>11,543</b>	9,621	(168)	9,453
Tax on profit	6	<b>(1,980)</b>	(1,852)	29	(1,823)
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<b>9,563</b>	7,769	(139)	7,630

**STATEMENT OF OTHER COMPREHENSIVE INCOME  
YEAR ENDED 31 DECEMBER 2019**

**Other comprehensive expense**

*Items that will not be reclassified to profit or loss*

	Note	2019 £000	2018 £000
Remeasurement of pension scheme liability	20	<b>(579)</b>	(754)
Tax on remeasurement of pension scheme liability	12	<b>98</b>	129

**Other comprehensive expense for the year**

Profit for the year		<b>9,563</b>	7,630
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**Total comprehensive income for the year**

	<b>9,082</b>	7,005
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**STATEMENT OF CHANGES IN EQUITY  
YEAR ENDED 31 DECEMBER 2019**

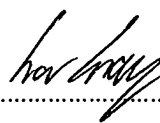
	Note	Share Capital £000	Profit and Loss Account £000	Total Equity £000
<b>At 1 January 2018</b>		1,361	5,374	6,735
Profit for the year		-	7,630	7,630
Dividends paid	7	-	(1,250)	(1,250)
Other comprehensive expense for the year		-	(625)	(625)
<b>At 31 December 2018</b>		1,361	11,129	12,490
Profit for the year		-	9,563	<b>9,563</b>
Dividends paid	7	-	(3,750)	<b>(3,750)</b>
Other comprehensive expense for the year		-	(481)	<b>(481)</b>
<b>At 31 December 2019</b>		<b>1,361</b>	<b>16,461</b>	<b>17,822</b>

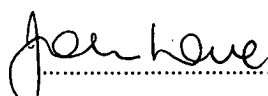
**MACFARLANE GROUP UK LIMITED**

**BALANCE SHEET**  
**31 DECEMBER 2019**

	Note	2019 £000	2018 £000 As restated (see note 1) *
<b>NON-CURRENT ASSETS</b>			
Intangible assets	8	36,107	* 28,184
Tangible assets	9	5,179	5,279
Right of Use assets	10	22,126	-
Investments	11	17,301	* 13,856
Deferred tax asset	12	561	847
Debtors	14	34	162
<b>TOTAL NON-CURRENT ASSETS</b>		<b>81,308</b>	<b>48,328</b>
<b>CURRENT ASSETS</b>			
Stocks	13	12,448	13,719
Debtors	14	42,391	43,884
Cash at bank and in hand		1,188	3,337
		<b>56,027</b>	<b>60,940</b>
<b>CREDITORS: amounts falling due within one year</b>	15	<b>(65,127)</b>	<b>(61,113)</b>
<b>NET CURRENT LIABILITIES</b>		<b>(9,100)</b>	<b>(173)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>72,208</b>	<b>48,155</b>
<b>CREDITORS: amounts falling due after more than one year</b>	16	<b>(51,089)</b>	* (30,685)
Pension liability	20	(3,297)	(4,980)
<b>NET ASSETS</b>		<b>17,822</b>	<b>12,490</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	17	1,361	1,361
Profit and loss account	18	16,461	11,129
<b>TOTAL SHAREHOLDER'S FUNDS</b>		<b>17,822</b>	<b>12,490</b>

These financial statements of Macfarlane Group UK Limited, company number 1630389, were approved by the Board of Directors on 13 March 2020 and signed on behalf of the Board of Directors by

  
..... Director  
Ivor Gray

  
..... Director  
John Love

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

1. ACCOUNTING POLICIES

Macfarlane Group UK Limited is a private company limited by shares, incorporated and domiciled in England and Wales. The Company's registered office is Siskin Parkway East, Middlemarch Business Park, Coventry, CV3 4PE.

The Company meets the definition of a qualifying entity under "*FRS 100 Application of Financial Reporting Requirements*" issued by the FRC and accordingly, these financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("*FRS 101*").

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

These financial statements are presented in pounds sterling which is the currency of the primary economic environment in which the Company operates. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

The Company's ultimate parent undertaking, Macfarlane Group PLC includes the Company in its consolidated financial statements. Under Section 401 of the Companies Act 2006, the Company is therefore exempt from the requirement to prepare group financial statements. These financial statements therefore 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 Adopted IFRSs and are available on the Group website [www.macfarlanegroup.com](http://www.macfarlanegroup.com) and may be obtained from 3 Park Gardens, Glasgow, G3 7YE.

The Company has applied the exemptions available under FRS 101 in these financial statements 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 applied the exemptions under FRS 101 available for 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.

**Going concern**

The Directors 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.



## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

### 1. ACCOUNTING POLICIES (CONTINUED)

#### Going concern (continued)

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least twelve months from the date of signing these financial statements. For this reason they continue to adopt the going concern basis in preparing the financial statements.

#### Key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. Due to the nature of estimation, the actual outcomes may well differ from these estimates. No significant judgements have been made in the current or prior year.

The key sources of estimation uncertainty that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

#### Retirement benefit obligations

The determination of any defined benefit pension scheme liability is based on assumptions determined with independent actuarial advice. The key assumptions used include discount rate, inflation rate and mortality assumptions, for which a sensitivity analysis is provided in note 20. The directors consider that those sensitivities represent reasonable sensitivities which could occur in the next financial year.

#### Valuation of trade receivables

The provision held against trade receivables is based on applying an expected credit loss model and related estimates of recoverable amounts, as detailed in note 14. Whilst every attempt is made to ensure that the provision held against doubtful trade receivables is as accurate as possible, there remains a risk that the provision may not match the level of debt, which ultimately proves uncollectable. An increase in the average default rate of trade receivables beyond terms from 0.81% to 2.43% above the historic loss rates observed would lead to an increase in the provision recognised of £600,000.

#### Changes in accounting policies and applications of new accounting standards

This is the first set of financial statements where IFRS 16 '*Leases*' has been applied, with an initial application date of 1 January 2019. IFRS 16 introduces significant changes to lessee accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets.

The Company has a large number of property and equipment leases. Details of the Company's accounting policies under IFRS 16 are set out below, followed by details of the impact on adoption of IFRS 16. Judgements applied in the adoption of IFRS 16 included determining the lease term for those leases with termination or extension options and determining an incremental borrowing rate where the rate implicit in a lease could not be readily determined.

Whilst the impact on profit before tax or net assets from applying the new standard has been minimal, there are changes in classifications from the adoption of IFRS 16 in 2019 indicated throughout these financial statements.

#### 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:-

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

1. ACCOUNTING POLICIES (CONTINUED)

**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.

Patents and trademarks are valued at cost on acquisition and are amortised in equal annual instalments over their estimated useful economic lives considered to be between 5 and 10 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, 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 an allowance for expected credit losses ("ECL").

**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.

**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.

**Leases**

From 1 January 2019, the Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets below £4,000. For these short-term or low value leases, the Company recognises the lease payments as an operating expense disclosed in administrative expenses on a straight-line basis over the term of the lease.

For all other leases, the lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

1. ACCOUNTING POLICIES (CONTINUED)

**Leases (continued)**

Lease liabilities are presented on two separate lines in the balance sheet for creditors due within one year and creditors after more than one year. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the liability by payments made. The Company remeasures the lease liability (and adjusts the related right-of-use asset) whenever the lease term has changed or a lease contract is modified and the modification is not accounted for as a separate lease. The Company did not make any such adjustments during the period presented.

Right-of-use ("ROU") assets comprise the initial measurement of the corresponding lease liability and are subsequently measured at cost less accumulated depreciation and impairment losses.

ROU assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the ROU asset reflects that the Company expects to exercise a purchase option, the related ROU asset is depreciated over the useful life of the asset. Depreciation starts on commencement date of the lease.

ROU assets are presented within the same category as that within which the corresponding underlying assets would be presented if they were owned – for the Company these two categories are property and plant, machinery, vehicles and fittings.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient and has separated out the non-lease components for its leases. These non-lease components, typically servicing and maintenance costs, have been recognised as an expense on a straight-line basis and disclosed in administrative expenses in the profit and loss account.

**Approach to transition**

The Company has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information. For leases previously treated as operating leases, the Company has elected to follow the approach in IFRS 16.C8(b)(ii), whereby right of use assets are set equal to the lease liability, adjusted for prepaid or accrued lease payments, including unamortised lease incentives.

The Company's incremental borrowing rates applied to lease liabilities as at 1 January 2019 range between 2.75% and 3.00%.

**Practical expedients adopted on transition**

As part of the Company's adoption of IFRS 16 and application of the modified retrospective approach to transition, the Company elected to use the following practical expedients:

- a single discount rate has been applied to assets with reasonably similar characteristics; and
- hindsight has been used in determining the lease term.

**Impact on Disclosures**

*Former operating leases*

IFRS 16 changes accounting for leases previously classified as operating leases under IAS 17, which were off-balance sheet. Applying IFRS 16, for all leases, the Company now recognises ROU assets and lease liabilities on the balance sheet, initially measured as described above. Lease incentives are recognised as part of the measurement of the ROU assets and lease liabilities, whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight line basis.

ROU assets are tested for impairment in accordance with IAS 36 Impairment of Assets.

## NOTES TO THE FINANCIAL STATEMENTS

### 31 DECEMBER 2019

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### Leases (continued)

Under IFRS 16 the Company recognises depreciation of ROU assets and interest on lease liabilities in the profit and loss account, whereas operating leases previously gave rise to leasing costs in administrative expenses.

##### Former finance leases

This change has not had a material effect on the Company's financial statements.

##### Financial impact of IFRS 16 'Leases'

The table below sets out adjustments recognised at 1 January 2019, the date of initial application.

£000	As previously reported 31 December 2018 £000	Impact of IFRS 16 £000	At 1 January 2019 £000
<b>Non-current assets</b>			
Right of Use assets	-	24,138	24,138
Debtors			
<b>Current assets</b>			
Debtors	43,884	51	43,935
<b>Impact on total assets</b>		24,655	
<b>Creditors falling due within one year</b>			
Finance lease liabilities	(28)	(5,448)	(5,476)
<b>Creditors amounts falling due after more than one year</b>			
Finance lease liabilities	-	(19,207)	(19,207))
<b>Impact on total liabilities</b>		(24,655)	
<b>Net assets/Shareholder's funds</b>	12,490	-	12,490
<b>Net current liabilities</b>	(173)	(5,397)	(5,570)

The table below presents a reconciliation from operating lease commitments disclosed at 31 December 2018 to the finance lease assets and liabilities recognised at 1 January 2019.

	Receivable £000	Payable £000
Operating lease commitments at 31 December 2018 under IAS 17	738	(31,943)
Non-lease components expensed under IFRS 16	-	2,805
Short-term and low value leases	-	927
Effect of discounting	(26)	3,556
Finance lease liabilities recognised at 31 December 2018	-	(28)
<b>Total finance lease assets/(liabilities) recognised at 1 January 2019</b>	<b>712</b>	<b>(24,683)</b>

Movements in lease liabilities in 2019 are set out in note 16.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

1. ACCOUNTING POLICIES (CONTINUED)

**Revenue recognition**

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

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

**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 profit and loss account.

Other financial assets comprise trade and other debtors that have fixed or determinable recoveries and are classified as trade, intercompany 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 under the expected credit loss model.

Indicators are assessed for the impairment of financial assets at each balance sheet date. Financial assets are impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted. For trade 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 measured on an expected credit loss model at inception rather than an incurred loss model. When a trade debtor is uncollectible, it is written off against the provision made on inception or at a previous reporting period end. Subsequent recoveries of amounts previously written off are credited against the provision in accordance with IFRS 9. Changes in the carrying value of the provision are recognised in the profit and loss account.

Cash at bank and in hand 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

1. ACCOUNTING POLICIES (CONTINUED)

**Financial instruments (continued)**

*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.

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 as it excludes items of income or expense that are taxable or deductible in other years and also 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.

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.

**Exceptional items**

Where items arise that would distort the presentation of the results for the year, the directors will classify such items as exceptional in nature and provide details of the items to enable users of the accounts to understand the impact on the financial statements. There are no such items in 2019.

**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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

1. ACCOUNTING POLICIES (CONTINUED)

**Retirement benefit costs**

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

**Defined contribution scheme**

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

**Defined benefit scheme**

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

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

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

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

The net defined benefit cost of the Group scheme is apportioned between participating employers 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.

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2019**

**1. ACCOUNTING POLICIES (CONTINUED)**

**Restatement of Financial Position at 31 December 2018**

The Company's financial statements have been restated for a change in the treatment of intangible assets and investments. Previously investments were carried at original cost and only transferred to goodwill when the investee company was struck off. With effect from 1 January 2018, the carrying value of investments in dormant companies has been written down to the value of the net assets in the investee company, reflecting the point at which the trade and assets transfer to the Company. Amounts in excess of the net asset value have been transferred to goodwill to the extent that the goodwill balance is supported by the directors' impairment assessment.

This has resulted in a prior year restatement as shown below. There is no impact on profit or on net assets in prior years.

	<b>2018</b> <b>£000</b>		<b>2018</b> <b>£000</b>
	As originally stated	Adjustment	As restated
<b>NON-CURRENT ASSETS</b>			
Intangible assets (see note 8)	<b>17,194</b>	10,990	28,184
Investments (see note 11)	<b>25,142</b>	(11,286)	13,856
Creditors due after more than one year	<b>(30,981)</b>	296	(30,685)
		<hr/>	<hr/>
		-	-

There was no adjustment required to opening reserves.



## NOTES TO THE FINANCIAL STATEMENTS

### 31 DECEMBER 2019

#### 2. TURNOVER

Turnover represents amounts derived from the provision of goods and services after deduction of trade discounts and value added tax. Revenue is recognised at a point in time when the product is delivered to customers. Turnover and profit before taxation are both attributable to the distribution and design and manufacture of packaging products. An analysis of turnover by geographical market is given below:

	2019 £000	2018 £000
United Kingdom	180,840	176,268
Europe	2,403	1,867
North America	379	622
Other overseas sales	74	82
<b>Total turnover</b>	<b>183,696</b>	<b>178,839</b>

#### 3. OPERATING PROFIT

	2019 £000	2018 £000
<b>Operating profit is arrived at after charging/(crediting):</b>		
Depreciation of tangible assets	1,161	1,146
Depreciation of Right of Use assets	5,398	-
Gain on disposal of assets	(2)	(14)
Rentals under operating leases	-	7,699
Auditor's remuneration		
For audit services	100	98
Exceptional item (see below)	-	168

Deloitte LLP was appointed as auditor during 2019. 2018 fees were paid to the previous auditor KPMG LLP.

#### Non-audit fees

There were no non-audit fees payable to Deloitte LLP in the year.

#### Exceptional item

On 26 October 2018, the High Court judgement involving Lloyds Banking Group defined benefit pension schemes concluded that GMP benefits should be equalised, a judgement with implications for most defined benefit schemes, including the Macfarlane Group scheme of which the Company is a participating employer. Working with the scheme's actuary to understand the implications of the judgement for the scheme, an expense of £168,000 was charged in 2018 representing the best estimate of the effect on the reported pension scheme liabilities.

The Directors determined that the estimated effect of GMP equalisation on the Company's pension liabilities was a past service cost that should be reflected through the profit and loss account as an exceptional item in 2018 and that any subsequent change in the estimate should be recognised in other comprehensive income. This judgement was based on the fact that the reported pension liabilities for the Macfarlane Group UK scheme at 31 December 2017 did not include any amount in respect of GMP equalisation.

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2019**

<b>4. NET INTEREST PAYABLE</b>	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Interest receivable on bank balances	9	2
Interest on intercompany loan balances	(1,400)	(1,578)
Interest on lease obligations	(671)	(5)
Net interest expense on pension scheme deficit (note 20)	(117)	(134)
<b>Net interest payable</b>	<b>(2,179)</b>	<b>(1,715)</b>

Interest on lease obligations in 2019 includes the interest on all leases following the transition to IFRS 16 'Leases' as set out in note 16. Interest in 2018 only includes the interest on finance leases under IAS 17 'Leases'.

<b>5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES</b>	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Total emoluments of all directors are as follows:</b>		
Salary and benefits in kind	140	131
Defined contribution pension scheme contributions	12	12
<b>Aggregate emoluments</b>	<b>152</b>	<b>143</b>
<b>Staff costs during the year (including directors' costs)</b>	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	25,108	22,885
Social security costs	2,331	2,127
Pension costs		
Contributions to defined contribution schemes	1,345	1,216
Contributions to defined benefit scheme	89	94
	<b>28,873</b>	<b>26,322</b>
Recharge to Network Packaging Limited	-	(792)
Recharge to Nelsons for Cartons & Packaging Limited	(651)	(632)
Recharge to Nottingham Recycling Limited	(261)	-
Recharge to Harrisons Packaging Limited	(357)	-
Recharge to Ecopac (U.K.) Limited	(401)	-
	<b>27,203</b>	<b>24,898</b>

Retirement benefits accrue to two directors (2018: two) under the parent company's pension schemes. Two (2018: two) directors are remunerated by Macfarlane Group PLC, the ultimate parent company. They are not remunerated for their services as directors of Macfarlane Group UK Limited and therefore there is no directors' remuneration included in the costs set out above.

In prior years, all employees of Network Packaging and Nelsons for Cartons & Packaging, fellow subsidiaries of Macfarlane Group PLC, transferred into the employment of Macfarlane Group UK Limited. On 5 April 2019, all employees of Nottingham Recycling and Harrisons Packaging transferred into the employment of Macfarlane Group UK Limited. On 1 July 2019, all employees of Ecopac (U.K.) Limited transferred into the employment of Macfarlane Group UK Limited.

All employee costs are now borne by the Company and the costs incurred for these employees have been recharged to each of the companies as set out above.

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2019**

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

	<b>2019</b>	<b>2018</b>
	<b>No.</b>	<b>No.</b>
<b>Average number of persons employed</b>		
Production	112	112
Sales and distribution	475	448
Administration	217	204
	<u>804</u>	<u>764</u>

**6. TAX ON PROFIT**

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>United Kingdom corporation tax :</b>		
Current tax	1,611	1,567
Adjustments in respect of prior years	(15)	(6)
<b>Total current tax</b>	<u>1,596</u>	<u>1,561</u>
Movement in deferred tax asset on pension deficit (note 12)	384	307
Movement in deferred tax on accelerated capital allowances (note 12)	-	(45)
<b>Total deferred tax</b>	<u>384</u>	<u>262</u>
<b>Tax on profit</b>	<u>1,980</u>	<u>1,823</u>

The average rate of current tax for the year, based on the UK standard rate of corporation tax, is 19% (2018: 19%). The actual tax charge for the current and prior years varies from 19% (2018: 19%) for the reasons set out in the following reconciliation:

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Profit before tax</b>	<u>11,543</u>	<u>9,453</u>
Tax charge on profit before tax at an average rate of 19%	2,193	1,796
<b>Factors affecting charge:</b>		
Depreciation in excess of capital allowances	(1)	2
Expenses not deductible for tax purposes	(15)	25
Income from shares in group undertakings – non-taxable	(152)	-
Other timing differences	(45)	-
<b>Total tax charge for the year</b>	<u>1,980</u>	<u>1,823</u>

**7. DIVIDENDS PAID**

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Amounts recognised as distributions to equity holders in the year</b>		
Interim dividend of 275.475p per share		
(2018 – interim dividend of 91.825p)	<u>3,750</u>	<u>1,250</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2019**

**8. INTANGIBLE ASSETS**

	<b>Purchased goodwill £000</b>	<b>Patents &amp; Trademarks £000</b>	<b>Total £000</b>
	As restated (see note 1)		As restated (see note 1)
<b>Cost</b>			
At 1 January 2019	32,130	240	<b>32,370</b>
Group transfers	6,750		<b>6,750</b>
Reclassifications	1,173	-	<b>1,173</b>
	<u>40,053</u>	<u>240</u>	<u>40,293</u>
<b>At 31 December 2019</b>			
	<u>40,053</u>	<u>240</u>	<u>40,293</u>
<b>Accumulated amortisation and impairment</b>			
At 1 January 2019 and 31 December 2019	3,946	240	<b>4,186</b>
	<u>3,946</u>	<u>240</u>	<u>4,186</u>
<b>Net book value</b>			
At 31 December 2019	36,107	-	<b>36,107</b>
	<u>36,107</u>	<u>-</u>	<u>36,107</u>
<b>At 31 December 2018</b>			
	<u>28,184</u>	<u>-</u>	<u>28,184</u>

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.

During 2019, the parent company transferred the original investment of Network Packaging Limited (Company number 03400627) registered in England to the Company. The incorporation of the trade and assets into the business results in the inherent goodwill of £6,750,000 reclassified to goodwill. The investment in Tyler Packaging (Leicester) Limited had an original value of £2,133,000 (see note 11) included goodwill of £1,173,000. Given that the trade and assets of the companies were hived into the Company during the year, the goodwill element in the initial consideration has been reclassified to goodwill in 2019.

At 31 December 2019, the Group had two CGU groupings to which goodwill had been ascribed, with the major one being Packaging Distribution, comprising goodwill arising on all acquisitions in this segment since 2001.

The recoverable amount of the CGU grouping 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 2019. Based on this analysis the Directors believe that any reasonable changes in the key assumptions would maintain a recoverable amount for the CGU grouping, which exceeds its carrying value. Therefore no impairment charge is required against the carrying value of goodwill in 2019.

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.

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2019**

**9. TANGIBLE ASSETS**

	Land and buildings £000	Plant, machinery, vehicles & fittings £000	Total £000
<b>Cost</b>			
At 1 January 2019	5,976	15,228	21,204
Additions	515	624	1,139
Group transfers	-	75	75
Disposals	(69)	(624)	(693)
At 31 December 2019	<u>6,422</u>	<u>15,303</u>	<u>21,725</u>
<b>Accumulated depreciation</b>			
At 1 January 2019	3,024	12,901	15,925
Charge for the year	389	772	1,161
Group transfers	-	62	62
Disposals	(63)	(539)	(602)
At 31 December 2019	<u>3,350</u>	<u>13,196</u>	<u>16,546</u>
<b>Net book value</b>			
At 31 December 2019	<u>3,072</u>	<u>2,107</u>	<u>5,179</u>
At 31 December 2018	<u>2,952</u>	<u>2,327</u>	<u>5,279</u>

Group transfers relate to the absorption of Tyler Packaging (Leicester) Limited's assets on 24 June 2019.

	2019 £000	2018 £000
<b>Land and buildings at net book value</b>		
Freehold	1,057	1,100
Long leasehold	1,688	1,201
Short leasehold	327	651
	<u>3,072</u>	<u>2,952</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2019**

**10. RIGHT OF USE ASSETS**

	Property £000	Plant, machinery & vehicles £000	Total £000
<b>Cost</b>			
On adoption of IFRS 16 'Leases' on 1 January 2019	19,424	4,714	<b>24,138</b>
Additions	1,778	1,608	<b>3,386</b>
	<hr/>	<hr/>	<hr/>
At 31 December 2019	<b>21,202</b>	<b>6,322</b>	<b>27,524</b>
	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation</b>			
Charge for the year	3,919	1,479	<b>5,398</b>
	<hr/>	<hr/>	<hr/>
At 31 December 2019	<b>3,919</b>	<b>1,479</b>	<b>5,398</b>
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 31 December 2019	<b>17,283</b>	<b>4,843</b>	<b>22,126</b>
	<hr/>	<hr/>	<hr/>

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 and forklift trucks on leasing arrangements, which run for periods of up to six years.

Following the adoption of IFRS 16 'Leases' on 1 January 2019, the leases are now accounted for as leases, incorporating values for Right of Use assets under these leases. Additional details are set out in note 1, accounting policies and note 16 leases.

The majority of the property leases summarised above are subject to rent reviews.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

## 11. INVESTMENTS

## Shares in subsidiary undertakings

£000

As restated  
(see note 1)**Cost**

At 1 January 2019	14,170
Additions	3,851
Group transfers	767
Reclassifications (note 8)	(1,173)

At 31 December 2019	17,615
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**Provision for impairment**

At 1 January 2019 and 31 December 2019	314
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**Net book value**

At 31 December 2019	17,301
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At 31 December 2018	13,856
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**Dormant Companies**

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

	Company number	Country of Registration
Online Packaging Limited	02903657	England
Abbott's Packaging Limited	01385800	England
Mitchell Packaging Limited	00535311	England
Macfarlane Packaging Limited	SC041678	Scotland
Greenwoods Stock Boxes Limited	SC576825	Scotland
Tyler Packaging (Leicester) Limited	03460830	England

**Additions and Group transfers**

On 2 May 2019, the Company acquired the whole issued ordinary share capital of Carnweather Limited (Company number 08638532) and its trading subsidiary Ecopac (U.K.) Limited (Company number 02783546) both registered in England for a consideration of £3,851,000. The principal activity of Ecopac (U.K.) Limited is the distribution of packaging materials.

During 2019, the parent company transferred the whole issued ordinary share capital of Network Packaging Limited (Company number 03400627) registered in England to the Company for a consideration of £767,000.

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 3 Park Gardens, Glasgow G3 7YE.

**Trading Companies**

The Company has a wholly-owned trading subsidiary, Nottingham Recycling Limited (Company number 03249021) registered in England, whose principal activity is the recycling of waste paper and board. The registered office is Abbeyfield Road, Nottingham, NG7 2SX. The Company also has a wholly-owned trading subsidiary, Harrisons Packaging Limited (Company number 06999588) registered in England, whose principal activity is the distribution of packaging materials. The registered office is Siskin Parkway East, Middlemarch Business Park, Coventry, CV3 4PE.

**Reclassifications**

As set out in note 8, the investment in Tyler Packaging (Leicester) Ltd had inherent goodwill of £1,173,000 which has now been reclassified.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

<b>12. DEFERRED TAX</b>	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Deferred tax asset on pension scheme deficit</b>		
At 1 January	847	1,025
Credit to the statement of other comprehensive income		
On remeasurement of pension liability	98	129
Charge through profit and loss account (note 6)	(384)	(307)
	<u>561</u>	<u>847</u>
At 31 December	<u>561</u>	<u>847</u>
A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2017. Deferred tax assets at 31 December 2019 have been calculated based on these rates.		
<b>13. STOCKS</b>	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Raw materials and consumables	221	251
Work in progress	7	18
Finished goods and goods for resale	12,220	13,450
	<u>12,448</u>	<u>13,719</u>
<b>Movement in the provisions for slow-moving and obsolete stocks</b>		
At 1 January	247	542
Group transfers	-	12
Provisions established and charged in the profit and loss account	492	548
Stocks written off during the year	(364)	(855)
	<u>375</u>	<u>247</u>
At 31 December	<u>375</u>	<u>247</u>
Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales	<u>122,619</u>	<u>122,662</u>
<b>14. DEBTORS</b>	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Due within one year</b>		
Trade debtors	37,972	39,042
Amounts owed by group undertakings	421	1,121
Other debtors	2,201	2,495
Lease receivables	246	-
Prepayments and accrued income	1,551	1,226
	<u>42,391</u>	<u>43,884</u>
<b>Due after more than one year</b>		
Other debtors	34	162
	<u>34</u>	<u>162</u>



## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

## 14. DEBTORS (continued)

Trade debtors represent amounts owed by customers in respect of the revenue for goods or services provided to customers prior to the year end. The Company's credit risk is primarily attributable to its trade debtors. No interest is charged on overdue debtors.

Since the inception of IFRS 9 'Financial Instruments', the Company has applied a simplified approach to measuring ECL, using a provision matrix which takes into account historical credit loss experience based on the past due status of debtors, adjusted as appropriate to reflect current conditions and management's estimates of future economic conditions and known recoverability issues as a means of measuring the loss allowance for trade debtors at each reporting date.

The Company writes off trade debtors when there is no realistic prospect of recovery of the receivable. The amount is written off against the loss allowance held. The credit risk profile of these debtors is presented based on their past due status and the calculated loss ratios applied to the profiled debtors to give the ECL.

Risk profile category (ageing)	2019 £000	ECL rate	2019 ECL allowance	2018 £000	ECL rate	2018 ECL allowance
Current	28,161	0.31%	89	27,970	0.29%	81
Overdue						
0-30 days	5,387	0.63%	34	6,324	0.63%	40
30-60 days	3,588	0.81%	29	4,480	0.81%	36
60-90 days	868	2.81%	24	667	2.80%	24
Over 90 days	170	15.46%	26	41	15.40%	6
	<u>38,174</u>		<u>202</u>	<u>39,482</u>		<u>187</u>

The level of loss allowance has remained steady within a range of between 1.15% and 1.25% of the gross value of trade debtors. Amounts in the balance sheet are shown net of the allowance for trade debtors of £202,000 (2018: £187,000). The ECL values reflect the Group's prior experience and assessment of the current economic environment. In determining the recoverability of trade debtors and therefore the level of loss allowance, known changes in credit quality from the date credit was originally granted are taken into account.

**Movement in loss allowance**

At 1 January	187	255
Group transfers	-	8
Change in loss allowance for new trade receivables in the year	187	106
Amounts written off as uncollectible in the year	(172)	(182)
At 31 December	<u>202</u>	<u>187</u>

Amounts owed by group undertakings are due under the Company's standard commercial terms.

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2019**

<b>15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Bank borrowings (see below)	15,761	17,769
Amounts due under leases (note 16)	5,343	28
Trade creditors	31,624	32,680
Amounts owed to group undertakings	35	98
Amounts owed to parent company	2,250	1,000
Other taxation and social security	3,090	3,544
Other creditors	800	1,627
Corporation tax	754	280
Accruals and deferred income	5,470	4,087
	<b>65,127</b>	<b>61,113</b>

The Group's bank borrowing facility with Lloyds Banking Group PLC of £30 million is available until June 2022. Under the facility, the trade receivables of Macfarlane Group UK Limited have been assigned to Lloyds who then fund the Group in advance of the collection of the transferred receivables. The Invoice Discounting 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.

Amounts owed to group undertakings are payable under the Company's standard commercial terms.

<b>16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
		As restated (see note 1)
Amounts due under leases	17,003	-
Amounts owed to parent company	25,802	23,853
Amounts owed to subsidiary undertakings	8,284	6,832
	<b>51,089</b>	<b>30,685</b>

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. The Company receives support from its parent company, Macfarlane Group PLC. The Directors have received a letter of support from the parent company confirming that of £28,052,000 due to the parent company, (2018: £24,853,000) amounts totalling £25,802,000 (2018: £23,853,000) will not fall due for repayment until at least twelve months from the balance sheet date. Loan repayments will take the Company's cash generation in 2020 into account.

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2019**

**16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>AMOUNTS DUE UNDER LEASES</b>		
Within one year	5,343	28
Between one and five years	13,392	-
After more than five years	3,611	-
	<u>22,346</u>	<u>28</u>
<b>Movement in leases</b>		
At 1 January	28	138
On adoption of IFRS 16 on 1 January 2019	24,655	-
New leases entered into during 2019	3,386	24
Repayments under leases	(5,723)	(134)
	<u>22,346</u>	<u>28</u>

From 1 January 2019, the Company recognises a right-of-use asset and a corresponding lease liability for all lease arrangements in which it is the lessee, except for short-term leases with a lease term of 12 months or less and leases of low value assets. For these short-term or low value leases, the Company recognises the lease payments as an operating expense disclosed in administrative expenses on a straight-line basis over the term of the lease.

The lease liability is initially measured at the discounted present value of lease payments not paid at the commencement date. The Company remeasures the lease liability whenever the lease term changes or a lease contract is modified and the modification is not accounted for as a separate lease. Other than these remeasurements, lease payments are primarily fixed rather than variable in nature.

The application of IFRS 16 resulted in a decrease in other operating expenses and an increase in depreciation and interest expense compared to IAS 17. For all leases, the Company recognised the following amounts in the profit and loss account.

	<b>2019</b>
	<b>£000</b>
Depreciation on ROU assets	5,398
Interest expense on lease liabilities	669
Expense relating to short-term leases expiring during 2019	927
Expense relating to variable lease payments not included in the measurement of the lease liability	2,805

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2019**

<b>17. CALLED UP SHARE CAPITAL</b>	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Called up, allotted and fully paid</b>		
1,361,400 (2018: 1,36,400) ordinary shares of £1 each	<b>1,361</b>	1,361

The Company has one class of ordinary shares, which carry equal rights in relation to voting, entitlement to dividends and entitlement on any winding up of the Company.

<b>18. PROFIT AND LOSS ACCOUNT</b>	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
At 1 January	<b>11,129</b>	5,374
Profit for the year	<b>9,563</b>	7,630
Dividends paid	<b>(3,750)</b>	(1,250)
Remeasurement of pension scheme liability	<b>(579)</b>	(754)
Tax on remeasurement of pension scheme liability	<b>98</b>	129
At 31 December	<b>16,461</b>	11,129

**19. 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 2019 under that guarantee.

Following the assignment of a property head lease at Coventry in October 2011, the company provided a guarantee for the rentals under the head lease in the event of default by the assignee. The assignee is the UK subsidiary of a multinational business listed on the New York Stock Exchange. As a result of the assignation, a contingent liability of £0.4 million at 31 December 2019 (2018: £0.9 million) is disclosed, representing the sub-lease payments from 1 January 2020 until conclusion of the head lease in November 2020.

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2019**

**20. 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 financial statements of each of the three participating employers.

The scheme is an HMRC registered pension scheme, 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 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, with the payment of these benefits at the discretion of the Trustees of the scheme.

The scheme was closed to new entrants during 2002.

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 scheme. A Pension Increase Exchange (“PIE”) option was offered to all pensioner members in 2012. A PIE option for deferred and active members has been offered for all retirements after 1 May 2012.

**Balance sheet disclosures at 31 December 2019**

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

## NOTES TO THE FINANCIAL STATEMENTS

### 31 DECEMBER 2019

#### 20. PENSION LIABILITY (continued)

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

	2019 £000	2018 £000
<b>Investment class</b>		
Equities	11,291	8,173
Multi-asset diversified funds	12,945	8,931
Liability-driven investment funds	14,121	14,473
Secured property income fund	3,158	3,627
European loan fund	3,253	3,389
Cash	143	79
	<hr/>	<hr/>
Fair value of scheme investments	44,911	38,672
Present value of scheme liabilities	(48,208)	(43,652)
	<hr/>	<hr/>
<b>Scheme Deficit</b>	<b>(3,297)</b>	<b>(4,980)</b>

The scheme's liabilities at 31 December 2019 were calculated on the following bases required under IAS19:

Assumptions	2019	2018	2017
Discount rate	2.00%	2.80%	2.50%
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 2.95% for LPI. 2.15% post 5 April 2006	3% or 5% for fixed increases or 3.20% for LPI. 2.25% post 5 April 2006	3% or 5% for fixed increases or 3.20% for LPI. 2.25% post 5 April 2006
Spouse's pension assumption			
Pensioner/active and deferred members	70%/80%	70%/80%	70%/80%
PIE take up rate	45%	45%	45%
Inflation assumption (RPI)	3.00%	3.30%	3.30%
Inflation assumption (CPI)	2.10%	2.30%	2.30%
Life expectancy at normal retirement date of 65			
Males	23.3	23.5	23.7
Females	25.5	25.7	25.7
Average uplift for GMP service	0.40%	0.40%	N/A

#### GMP equalisation

In 2018, the Directors made the judgement that the estimated effect of GMP equalisation on the Company's pension liabilities was a past service cost. The average uplift for GMP service for impacted members was reflected through the profit and loss account as an exceptional item totalling £168,000 in 2018, with any subsequent changes in the estimate to be recognised in other comprehensive income. This treatment was based on the fact that reported pension liabilities for the scheme as at 31 December 2017 did not include any amount in respect of GMP equalisation.

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2019**

**20. PENSION LIABILITY (continued)**

**Sensitivity to significant assumptions**

The Pension scheme exposes the Group to actuarial risks, such as interest rate risk, inflation risk, longevity risk and investment risk. The significant assumptions used for IAS 19 are discount rate, inflation and mortality. If different assumptions were used, then this could have a material effect on the deficit. Assuming all other assumptions are held static then a movement in the following key assumptions would affect the level of the Pension scheme deficit as shown below:-

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Assumptions</b>		
Discount rate movement of +0.4%	<b>3,084</b>	2,792
Inflation rate movement of +0.1%	<b>(246)</b>	(223)
Mortality movement of +0.1 year in age rating	<b>145</b>	131

Positive figures reflect a reduction in scheme liabilities and therefore a reduction in the Pension scheme deficit. The sensitivity information has been prepared using the same method as adopted when updating the results of the 2017 actuarial valuation to the balance sheet date and is consistent with the approach adopted in previous years. It is set out in this manner to enable calculations of larger movements to be undertaken relatively easily.

The level of sensitivities shown reflect average movements in the assumptions in the last three years. All of the sensitivity information assumes that the average duration of the scheme's liabilities is seventeen years.

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Movement in the scheme deficit in the year</b>		
At 1 January	<b>(4,980)</b>	(6,030)
Current service cost	<b>(89)</b>	(94)
Past service costs for GMP equalisation	-	(168)
Contributions	<b>2,468</b>	2,200
Interest costs	<b>(117)</b>	(134)
Remeasurement of pension scheme liability in the year	<b>(579)</b>	(754)
<b>At 31 December</b>	<b>(3,297)</b>	(4,980)
	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Movement in the fair value of scheme assets</b>		
At 1 January	<b>38,672</b>	41,290
Interest income	<b>1,076</b>	1,013
Actuarial gain/(loss)	<b>4,784</b>	(2,904)
Contributions paid by Company	<b>2,468</b>	2,200
Contribution from scheme members	<b>56</b>	57
Benefits paid	<b>(2,145)</b>	(2,984)
<b>At 31 December</b>	<b>44,911</b>	38,672

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2019**
**20. PENSION LIABILITY (continued)**

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Movement in the present value of scheme liabilities</b>		
At 1 January	(43,652)	(47,320)
Current service costs	(89)	(94)
Past service costs for GMP equalisation	-	(168)
Interest costs	(1,193)	(1,147)
Contribution from scheme members	(56)	(57)
Actuarial (loss)/gain in the year	(5,363)	2,150
Benefits paid	2,145	2,984
<b>At 31 December</b>	<b>(48,208)</b>	<b>(43,652)</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 £20,989,000 (2018: £20,410,000).

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Analysis of amounts charged to operating profit</b>		
Current service costs	(89)	(94)
Past service costs for GMP equalisation	-	(168)
<b>Pension costs charged to operating profit</b>	<b>(89)</b>	<b>(262)</b>

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Analysis of amounts charged to net finance costs</b>		
Interest income on pension scheme assets	1,076	1,013
Interest cost of pension scheme liabilities	(1,193)	(1,147)
<b>Net interest expense</b>	<b>(117)</b>	<b>(134)</b>

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
<b>Analysis of the remeasurement of the pension scheme liability included in the statement of other comprehensive income</b>		
Actual return on assets excluding amounts recognised in net finance costs	4,784	(2,904)
Changes in assumptions underlying the present value of the scheme's liabilities	(5,363)	2,150
<b>Remeasurement of pension scheme liability</b>	<b>(579)</b>	<b>(754)</b>

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Present value of defined benefit obligations	(48,208)	(43,652)	(47,320)	(47,096)	(40,448)
Fair value of scheme assets	44,911	38,672	41,290	39,682	34,574
<b>Scheme deficit</b>	<b>(3,297)</b>	<b>(4,980)</b>	<b>(6,030)</b>	<b>(7,414)</b>	<b>(5,874)</b>



## NOTES TO THE FINANCIAL STATEMENTS

### 31 DECEMBER 2019

#### 20. PENSION LIABILITY (continued)

##### Experience adjustment - scheme assets

Difference between expected and actual return on scheme assets £000

	<b>4,784</b>	(2,904)	860	4,216	(631)
Percentage of scheme assets	<b>10.7%</b>	(7.5%)	2.1%	10.6%	(1.8%)

##### Actual return - scheme assets £000

	<b>5,860</b>	(1,891)	1,913	5,475	574
Percentage of scheme assets	<b>13.0%</b>	(4.9%)	4.6%	13.8%	1.7%

##### Defined contribution schemes

The Company also participates in a number of defined contribution arrangements within the Macfarlane Group PLC Group Personal Pension Plan. Contributions charged to the profit and loss account in respect of the defined contribution arrangements for the year were £1,345,000 (2018: £1,216,000).

Contributions from the Company amounting to £158,000 were payable to the scheme and are included in creditors at 31 December 2019 (2018: £134,000).

#### 21. POST BALANCE SHEET EVENT

On 6 January 2020, the Company's subsidiary, Macfarlane Group UK Limited acquired the business, goodwill and selected assets of the packaging distribution business of Armagrip Limited, based in County Durham for a consideration of £0.9m.

#### 22. RELATED PARTY TRANSACTIONS AND RELATED UNDERTAKINGS

The Company 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.

The Company's related undertakings are the parent company, disclosed in note 23 and its subsidiary undertakings. Details of all subsidiary undertakings are set out in note 11.

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 20.

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.

#### 23. 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 Macfarlane Group PLC's registered office at 3 Park Gardens, Glasgow G3 7YE.