Company Registration No. 1630389
Registered in England

MACFARLANE GROUP UK LIMITED

Report and Financial Statements

31 December 2018

MACFARLANE GROUP UK LIMITED

REPORT AND FINANCIAL STATEMENTS 2018

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MACFARLANE GROUP UK LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P.D. Atkinson
I. Gray
J. Love

COMPANY SECRETARY

J. Love

REGISTERED OFFICE

Siskin Parkway East
Middlemarch Business Park
Coventry CV3 4PE

BANKERS

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

SOLICITORS

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

INDEPENDENT AUDITOR

KPMG LLP
319 St Vincent Street
Glasgow G2 5AS

STRATEGIC REPORT

The Directors present their strategic report for the year ended 31 December 2018.

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**.

Performance Review

The trade and assets of Network Packaging Limited, a company acquired by the parent company of the Group in 2014, were absorbed into Macfarlane Group UK Limited with effect from 1 August 2018.

Sales increased by 14% to £178.8m in 2018, primarily driven by the full year benefit of the 2017 acquisition of Greenwoods Stock Boxes and the inclusion of Network Packaging Limited's trading from 1 August 2018. Gross margin percentage decreased to 30.5% during the year, reflecting a delay in passing through purchase price increases in the second quarter. Gross profit generated in the year increased by £6.4m in 2018 to £54.5m.

Distribution and administrative costs, net of other operating income, were well controlled and increased by £4.4m to £43.3m, the increase primarily relating to acquisitions. Interest charges totalled £1.7m, the increase from 2017 due to higher average group borrowings in 2018.

As a result profit before tax was £9.5m, 20% ahead of the £7.9m achieved in 2017.

The Company's total equity amounts to £12.5m, an increase of £5.8m on the previous year. Whilst the Company has net current liabilities, it has access to the Group's borrowing facilities and has sufficient funds to meet its liabilities as they fall due. In addition it has been agreed that £23.9m of the total indebtedeness due to the parent company of £24.9m does not fall due for repayment until at least twelve months after the balance sheet date.

The directors are satisfied with the performance for the year.

Risks and Uncertainties

The key risks associated with the business are:

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

STRATEGIC REPORT (continued)

Risks and Uncertainties (continued)

- The Company is a member of the Group's defined benefit pension scheme which is sensitive to a number of key factors including; investment returns, discount rates used to calculate scheme liabilities and mortality assumptions. The FRS101 valuation of the the Company's share of the Group's defined benefit pension scheme as at 31 December 2018 estimated the scheme deficit to be £5.0m, a reduction of £1.0m during 2018. Small changes in these assumptions could mean that the deficit increases.

FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES

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

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

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

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

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

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

GOING CONCERN

The Company is a subsidiary of Macfarlane Group PLC and is funded by having access to the Group's borrowing facility with Lloyds Banking Group PLC of £30 million which is in place until June 2022.

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

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

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

John Love.

J. Love
Company Secretary
22 February 2019

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2018. The Directors during the year and to the date of this report were:-

P.D. Atkinson
I. Gray
J. Love

PARENT COMPANY

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

DIVIDENDS AND TRANSFERS TO RESERVES

The results for the year are detailed in the profit and loss account on page 8 and the profit for the financial year of £7,630,000 (2017 – £6,343,000) has been transferred to reserves. Dividends of £1,250,000 were paid during the current year (2017 – £2,500,000).

FINANCIAL INSTRUMENTS

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

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

EMPLOYMENT OF DISABLED PERSONS

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

EMPLOYEE INVOLVEMENT

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

DISCLOSURE OF INFORMATION TO AUDITOR

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

AUDITOR

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

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

John Love.

J. Love
Company Secretary
22 February 2019

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

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

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

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

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

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

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

Opinion

We have audited the financial statements of Macfarlane Group UK Limited ("the company") for the year ended 31 December 2018 which comprise the profit and loss account, balance sheet, statement of other comprehensive income, statement of changes in equity, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the valuation of the pension deficit, the provision of doubtful debtors, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

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

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

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

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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

Hugh Harvie (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St Vincent Street
Glasgow G2 5AS
22 February 2019

MACFARLANE GROUP UK LIMITED

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2018

	Note	Pre-exceptional items £000	Exceptional Items (see note 3) £000	2018 £000	2017 £000
TURNOVER	2	178,839	-	178,839	157,266
Cost of sales		(124,363)	-	(124,363)	(109,182)
GROSS PROFIT		54,476	-	54,476	48,084
Distribution costs		(6,726)	-	(6,726)	(6,325)
Administrative expenses		(36,775)	(168)	(36,943)	(32,977)
Other operating income		361	-	361	373
		(43,140)	(168)	(43,308)	(38,929)
OPERATING PROFIT –	3	11,336	(168)	11,168	9,155
Net interest payable	4	(1,715)	-	(1,715)	(1,211)
PROFIT BEFORE TAX		9,621	(168)	9,453	7,944
Tax on profit	6	(1,852)	29	(1,823)	(1,601)
PROFIT FOR THE FINANCIAL YEAR		7,769	(139)	7,630	6,343

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year ended 31 December 2018

	Note	2018 £000	2017 £000
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement of pension scheme liability	19	(754)	(1,103)
Tax recognised in other comprehensive income			
Tax on remeasurement of pension scheme liability	11	129	188
Total other comprehensive expense for the year		(625)	(915)
Profit for the year		7,630	6,343
Total comprehensive income for the year		7,005	5,428

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2018

	Note	Share Capital £000	Profit and Loss Account £000	Total Equity £000
At 1 January 2017		1,361	2,446	3,807
Profit for the year		-	6,343	6,343
Dividends paid	7	-	(2,500)	(2,500)
Remeasurement of pension scheme liability	19	-	(1,103)	(1,103)
Tax on remeasurement of pension scheme liability	11	-	188	188
At 31 December 2017		1,361	5,374	6,735
Profit for the year		-	7,630	7,630
Dividends paid	7	-	(1,250)	(1,250)
Remeasurement of pension scheme liability	19	-	(754)	(754)
Tax on remeasurement of pension scheme liability	11	-	129	129
At 31 December 2018		1,361	11,129	12,490

MACFARLANE GROUP UK LIMITED

BALANCE SHEET
31 December 2018

	Note	2018 £000	2017 £000
NON-CURRENT ASSETS			
Intangible assets	8	17,194	17,441
Tangible assets	9	5,279	5,379
Investments	10	25,142	17,372
Deferred tax asset	11	847	1,025
Debtors	13	162	296
TOTAL NON-CURRENT ASSETS		48,624	41,513
CURRENT ASSETS			
Stocks	12	13,719	12,399
Debtors	13	43,884	43,078
Cash at bank and in hand		3,337	161
		60,940	55,638
CREDITORS: amounts falling due within one year	14	(61,113)	(59,139)
NET CURRENT LIABILITIES		(173)	(3,501)
TOTAL ASSETS LESS CURRENT LIABILITIES		48,451	38,012
CREDITORS: amounts falling due after more than one year	15	(30,981)	(25,187)
Deferred tax liability	11	-	(60)
Pension liability	19	(4,980)	(6,030)
NET ASSETS		12,490	6,735
CAPITAL AND RESERVES			
Called up share capital	16	1,361	1,361
Profit and loss account		11,129	5,374
TOTAL SHAREHOLDER'S FUNDS		12,490	6,735

These financial statements of Macfarlane Group UK Limited, company number 1630389, were approved by the Board of Directors on 22 February 2019 and signed on behalf of the Board of Directors by

.... Director

John Love

.... Director

Peter D. Atkinson

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

1. ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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.

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

Judgements, assumptions and estimation uncertainties

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

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

Subject	Note	Area of assumptions and estimation uncertainties
Retirement benefit obligations	19	The valuation of the pension deficit is affected by small movements in key actuarial assumptions
Debtors	13	The provision held against debtors is based on applying an expected credit loss model and related estimates of recoverable amounts.

1. ACCOUNTING POLICIES (CONTINUED)

Changes in accounting policies

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

The impact of applying IFRS 15 *"Revenue from Contracts with Customers"* is set out in the accounting policy for revenue recognition and the impact of applying IFRS 9 *"Financial Instruments"* is set out in the accounting policy for financial instruments. The application of these IFRSs has not had any material impact on the reported results for 2018.

Application of accounting policies

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

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

Intangible assets

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

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

Tangible assets

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

Investments

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

Non-derivative financial instruments

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

Trade and other debtors

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

Trade and other creditors

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

Interest-bearing borrowings

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

Stocks

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

1. ACCOUNTING POLICIES (CONTINUED)

Leases

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

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

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

Revenue recognition

The Company is engaged in the design, manufacturing and delivery 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.

The Company has adopted IFRS 15 *"Revenue from Contracts with Customers"* in the 2018 financial statements and the IFRS has been applied using the cumulative effect method from 1 January 2018.

Revenues were previously recognised in the income statement at the point at which the significant risks and rewards of ownership of the goods were transferred to the customer, the amount of revenue and the costs related thereto could be measured reliably and it was probable that the economic benefits of the transaction would flow to the Company.

IFRS 15 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 the goods to customers and this represents a single performance obligation. 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. The Company does not enter into any repurchase agreements.

Accordingly the adoption of IFRS 15 has not had a material impact on the timing of revenue recognition or any material impact on the Company's financial accounting. No adjustments were required to be made on transition at 1 January 2018.

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.

The Company has adopted IFRS 9 *"Financial Instruments"* for the 2018 financial statements, and the IFRS has been applied prospectively from 1 January 2018. IFRS 9 requires the value of trade and other receivables to be measured on an expected loss model rather than an incurred loss model. As a company with limited historical bad debts and short-term trade receivables of less than six months in duration, the adoption of IFRS 9 has not had a material impact on the Company's operating profit or balance sheet. No adjustments were made on the transition at 1 January 2018.

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 income statement.

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.

1. ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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

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

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

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

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

Taxation

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

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.

1. ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs

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

Defined contribution plan

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

Defined benefit scheme

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

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

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

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

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

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

Foreign currency translation

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

2. TURNOVER

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

	2018 £000	2017 £000
United Kingdom	176,268	154,678
Europe	1,867	1,689
Other overseas sales	704	899
	178,839	157,266

3. OPERATING PROFIT

	2018 £000	2017 £000
Operating profit is arrived at after charging/(crediting):		
Depreciation	1,146	963
Gain on disposal of assets	(14)	(2)
Rentals under operating leases		
Plant and machinery	3,251	3,192
Property	4,448	4,339
Auditor's remuneration		
For audit services	98	89

Exceptional item

On 26 October 2018, the High Court judgement involving Lloyds Banking Group defined benefits pension schemes concluded that schemes should equalise pension benefits for men and women in relation to GMP benefits. The judgement has implications for most defined benefit schemes, including the scheme operated by Macfarlane Group UK. We have worked with the scheme's actuary to understand the implications of the judgement for our scheme and the £168,000 exceptional expense represents our best estimate of the effect on our reported pension scheme liabilities.

The Directors have made the judgement that the estimated effect of GMP equalisation on the Company's pension liabilities is a past service cost in respect of pensionable service between 1990 and 1997 that should be reflected through the income statement as an exceptional item and that any subsequent change in the estimate should be recognised in other comprehensive income. This judgement is based on the fact that the reported pension liabilities for the Macfarlane Group UK scheme at 31 December 2017 as set out in note 19 did not include any amount in respect of GMP equalisation.

4. NET INTEREST PAYABLE

	2018 £000	2017 £000
Interest receivable on bank balances	2	-
Interest on intercompany loan balances	(1,578)	(1,006)
Interest on finance leases	(5)	(27)
Net interest expense on retirement benefit obligation (note 19)	(134)	(178)
Net interest payable	(1,715)	(1,211)

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2018 £000	2017 £000
Total emoluments of all directors are as follows:		
Salary and benefits in kind	131	137
Contribution to defined contribution pension plan	12	12
Aggregate emoluments	143	149

Retirement benefits accrue to two directors (2017: two) under the parent company's pension schemes. Two (2017 – Two) of the Company's directors are remunerated by Macfarlane Group PLC, the ultimate parent company and are not therefore included in the analysis of costs set out above.

In prior years, all employees of Network Packaging Limited, and Nelsons for Cartons & Packaging Limited, fellow subsidiaries of Macfarlane Group PLC, transferred into the employment of Macfarlane Group UK Limited. All employee costs are now borne by the company and employee costs have been recharged to both companies as incurred by a management charge. The charge to Network Packaging Limited ceased on 31 July 2018, when its trade was absorbed into Macfarlane Group UK Limited.

Average number of persons employed	2018 No.	2017 No.
Production	112	90
Sales and distribution	448	434
Administration	204	175
	764	699

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

Staff costs during the year (including directors)	2018 £000	2017 £000
Wages and salaries	22,885	20,703
Social security costs	2,127	2,087
Pension costs		
Contributions to defined contribution plans	1,216	994
Contributions to defined benefit scheme	94	85
	26,322	23,869
Management charge to Network Packaging Limited	(792)	(1,433)
Management charge to Nelsons for Cartons & Packaging Limited	(632)	(435)
	24,898	22,001

6. TAX ON PROFIT

	2018 £000	2017 £000
United Kingdom corporation tax :		
Current tax	(1,567)	(1,099)
Adjustments in respect of prior years	6	(19)
Total current tax	(1,561)	(1,118)
Movement in deferred tax asset on pension deficit (see note 11)	(307)	(423)
Movement in deferred tax on accelerated capital allowances (see note 11)	45	(60)
Total deferred tax	(262)	(483)
Tax on profit	(1,823)	(1,601)

The average rate of current tax for the year, based on the UK standard rate of corporation tax, is 19.00% (2017 – 19.25%). The actual tax charge for the current and prior years varies from 19.00% (2017 – 19.25%) for the reasons set out in the following reconciliation:

	2018 £000	2017 £000
Profit before tax	9,453	7,944
Tax charge on profit before tax at an average rate of 19.00% (2017 – 19.25%)	(1,796)	(1,529)
Factors affecting charge:		
Depreciation in excess of capital allowances	(2)	(37)
Expenses not deductible for tax purposes	(25)	(24)
Other timing differences	-	(11)
Total tax charge for the year	(1,823)	(1,601)

Reductions in the UK corporation tax rate from 20 to 19% (effective from 1 April 2017) and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2018 have been calculated based on these rates.

7. DIVIDENDS

	2018 £000	2017 £000
Amounts recognised as distributions to equity holders in the year		
Interim dividend of 91.825p per share (2017 – interim dividend of 183.63p)	1,250	2,500

8. INTANGIBLE ASSETS

	Purchased goodwill £000	Patents & Trademarks £000	Total £000
Cost			
At 1 January 2018	21,387	240	21,627
Reclassifications (see below)	(247)	-	(247)
At 31 December 2018	21,140	240	21,380
Accumulated amortisation and impairment			
At 1 January 2018 and 31 December 2018	3,946	240	4,186
Net book value			
At 31 December 2018	17,194	-	17,194
At 31 December 2017	17,441	-	17,441

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.

Following the conclusion of the Earn-out period and the final payment made in respect of the 2017 acquisition of the goodwill of Greenwoods Stock Boxes Limited and the whole of the issued ordinary share capital of Nottingham Recycling Limited, £247,000 of the final payment was re-allocated from the goodwill of Greenwoods Stock Boxes Limited to the investment value of Nottingham Recycling Limited as set out in note 10.

At 31 December 2018, the Group had one CGU to which goodwill had been ascribed namely Packaging Distribution, comprising goodwill arising on all acquisitions in this segment since 2001.

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

The Directors believe the assumptions used are appropriate, but in addition have conducted sensitivity analysis to determine the changes in assumptions that would result in an impairment of the carrying value of goodwill at 31 December 2018. Based on this analysis the Directors believe that any reasonable changes in the key assumptions would maintain a recoverable amount for the CGU, which exceeds its carrying value.

Therefore no impairment charge is required against the carrying value of goodwill in 2018.

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.

9. TANGIBLE ASSETS

	Land and buildings £000	Plant, machinery, vehicles & fittings £000	Total £000
Cost			
At 1 January 2018	5,740	14,195	19,935
Additions	238	643	881
Group transfers	-	603	603
Disposals	(2)	(213)	(215)
At 31 December 2018	5,976	15,228	21,204
Accumulated depreciation			
At 1 January 2018	2,674	11,882	14,556
Charge for the year	352	794	1,146
Group transfers	-	432	432
Disposals	(2)	(207)	(209)
At 31 December 2018	3,024	12,901	15,925
Net book value			
At 31 December 2018	2,952	2,327	5,279
At 31 December 2017	3,066	2,313	5,379

The carrying value of £5,279,000 (2017 - £5,379,000) includes £75,000 (2017 - £562,000) of assets held under finance leases. Depreciation charged in respect of these assets is £43,000 (2017 - £134,000).

Group transfers relate to the absorption of the trade of Network Packaging Limited, a fellow subsidiary on 1 August 2018.

Land and buildings at net book value	2018 £000	2017 £000
Freehold	1,100	1,142
Long leasehold	1,201	1,121
Short leasehold	651	803
	2,952	3,066

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

10. INVESTMENTS

	Shares in subsidiary undertakings £000
Cost	
At 1 January 2018	17,686
Additions	4,971
Reclassifications	247
Transfers	2,552
At 31 December 2018	25,456
Provision for impairment	
At 1 January 2018 and 31 December 2018	314
Net book value	
At 31 December 2018	25,142
At 31 December 2017	17,372

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

	Company number	Country of Registration
Online Packaging Limited	02903657	England
Allpoint Packaging Limited	03930806	England
Abbott's Packaging Limited	01385800	England
Mitchell Packaging Limited	00535311	England
One Packaging Limited	09647045	England
Macfarlane Packaging Limited	SC041678	Scotland
Greenwoods Stock Boxes Limited	SC576825	Scotland

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

The Company has a wholly-owned trading subsidiary, Nottingham Recycling Limited (Company number 03249021) registered in England. The principal activity of the company is the recycling of waste paper and board. The registered office of Nottingham Recycling Limited is Abbeyfield Road, Nottingham, NG7 2SX.

Additions

On 31 July 2018, the Company acquired the whole of the issued ordinary share capital of Tyler Packaging (Leicester) Limited (Company number 03460830) registered in England for a maximum consideration of £2,133,000. The principal activity of the company is the distribution of packaging materials.

On 2 August 2018, the Company acquired the whole of the issued ordinary share capital of Harrisons Packaging Limited (Company number 06999588) registered in England for a maximum consideration of £2,838,000. The principal activity of the company is the distribution of packaging materials.

The registered office of both companies is Siskin Parkway East, Middlemarch Business Park, Coventry, CV3 4PE.

Reclassifications

Following the conclusion of the Earn-out period and the final payment made in respect of the 2017 acquisition of the whole of the issued ordinary share capital of Nottingham Recycling Limited and the acquisition of the goodwill of Greenwoods Stock Boxes Limited, £247,000 of the final payment was allocated to the investment value of Nottingham Recycling Limited from the goodwill of Greenwoods Stock Boxes Limited as set out in note 8.

Transfers

On 31 July 2018 the investment of £2,552,000 in One Packaging Limited was transferred to the Company from the parent company Macfarlane Group PLC.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

11. DEFERRED TAX

	2018 £000	2017 £000
Deferred tax asset on pension scheme deficit		
At 1 January	1,025	1,260
Credit to the statement of other comprehensive income		
On remeasurement of pension liability	129	188
Charge through profit and loss account (see note 6)	(307)	(423)
At 31 December	847	1,025

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

	2018 £000	2017 £000
Deferred tax liability on accelerated capital allowances		
At 1 January	(60)	-
Group transfers	15	-
Charge through profit and loss account (see note 6)	45	(60)
At 31 December	-	(60)

Group transfers relate to the absorption of the trade of Network Packaging Limited, a fellow subsidiary on 1 August 2018.

12. STOCKS

	2018 £000	2017 £000
Raw materials and consumables	251	191
Work in progress	18	18
Finished goods and goods for resale	13,450	12,190
	13,719	12,399
Movement in the provisions for slow-moving and obsolete stocks		
At 1 January	542	513
Acquisitions	-	22
Group transfers	12	4
Additional provisions established and charged in the profit and loss account	548	506
Stocks written off during the year	(855)	(503)
At 31 December	247	542
Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales	122,662	107,469

13. DEBTORS

	2018 £000	2017 £000
Due within one year		
Trade debtors	39,042	37,278
Amounts owed by group undertakings	1,121	983
Other debtors	2,495	3,424
Prepayments and accrued income	1,226	1,393
	43,884	43,078
Due after more than one year		
Other debtors	162	296

13. DEBTORS (continued)

	2018 £000	2017 £000
Movement in the provisions for doubtful trade debtors		
At 1 January	255	218
Group transfers	8	4
Acquisitions	-	27
Provision for doubtful debts charged in the profit and loss account	106	156
Debtors written off during the year	(182)	(150)
At 31 December	187	255

Group transfers relate to the absorption of the trade of Network Packaging Limited, a fellow subsidiary on 1 August 2018.

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £000	2017 £000
Bank borrowings (see below)	17,769	16,345
Obligations under finance leases (see note 15)	28	120
Trade creditors	32,680	30,636
Amounts owed to group undertakings	98	34
Amounts owed to parent company	1,000	1,000
Other taxation and social security	3,544	3,339
Other creditors	1,627	3,250
Corporation tax	280	367
Accruals and deferred income	4,087	4,048
	61,113	59,139

The Group's bank borrowing facility with Lloyds Banking Group PLC of £30 million is available until June 2022. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over the trade debtors of the Company.

The parent company, Macfarlane Group PLC and a fellow subsidiary, Macfarlane Labels Limited have both given guarantees to secure any bank borrowings drawn down under this facility.

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2018 £000	2017 £000
Obligations under finance leases	-	18
Amounts owed to parent company	23,853	19,066
Amounts owed to subsidiary undertakings	7,128	6,103
	30,981	25,187

The Company continues to receive support from its parent company, Macfarlane Group PLC. The Directors have received confirmation that of the amount due to the parent company of £24,853,000 (2017 - £20,066,000) that amounts totalling £23,853,000 (2017 - £19,066,000) do not fall due for repayment for more than one year.

Any loan repayments will take into account the company's cash generation in 2019.

	2018 £000	2017 £000
Obligations under finance lease are payable as follows		
Within one year	28	120
Between one and two years	-	18
	28	138

16. CALLED UP SHARE CAPITAL

	2018 £000	2017 £000
Called up, allotted and fully paid		
1,361,400 ordinary shares of £1 each	1,361	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.

17. CONTINGENT LIABILITIES

The company has given an intercompany guarantee to secure the bank borrowings of the parent company and certain fellow subsidiaries. There was no contingent liability at 31 December 2018 under these obligations.

Following the assignment of a property head lease at Coventry in October 2011, the company provided guarantees for the rentals under the head lease in the event of a default by the assignee, the UK subsidiary of a multinational business listed on the New York Stock Exchange. As a result of the assignation, a contingent liability of £0.9 million (2017 - £1.4 million) is disclosed, representing the difference between the head lease and sub-lease payments from 1 January 2019 until the conclusion of the head lease in November 2020.

18. FINANCIAL COMMITMENTS

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

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

	Land & buildings 2018 £000	Other 2018 £000	Land & buildings 2017 £000	Other 2017 £000
Within one year	4,813	2,671	4,268	3,192
Between one and five years	12,329	5,313	10,825	7,067
After more than five years	6,565	252	5,153	1,103
	23,707	8,236	20,246	11,362

The majority of the 31 (2017 – 27) property leases summarised above are subject to rent reviews. 3 (2017 – 3) of these leases are subject to sub-let arrangements or assignations with third parties to reduce the property cost to the Company.

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

	Land & buildings 2018 £000	Land & buildings 2017 £000
Within one year	478	478
Within two to five years	260	738
	738	1,216

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

19. PENSION LIABILITY

Introduction

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

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

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

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

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

Balance sheet disclosures at 31 December 2018

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.

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:-

Investment class	Valuation 2018 £000	Valuation 2017 £000
Equities	8,173	9,024
Multi-asset diversified funds	8,931	10,982
Liability-driven investment funds	14,473	14,552
Secured property income fund	3,627	3,369
European loan fund	3,389	3,347
Cash	79	16
Fair value of scheme assets	38,672	41,290
Present value of scheme liabilities	(43,652)	(47,320)
Deficit in the scheme	(4,980)	(6,030)

19. PENSION LIABILITY (continued)

The scheme's liabilities at 31 December 2018 were calculated on the following bases required under IAS19:

Assumptions	2018	2017	2016
Discount rate	2.80%	2.50%	2.70%
Rate of increase in salaries	0.00%	0.00%	0.00%
Rate of increase in pensions in payment	3% or 5% for fixed increases or 3.20% for LPI. 2.25% post 5 April 2006	3% or 5% for fixed increases or 3.20% for LPI. 2.25% post 5 April 2006	3% or 5% for fixed increases or 3.20% for LPI. 2.25% post 5 April 2006
Inflation assumption (RPI)	3.30%	3.30%	3.30%
Inflation assumption (CPI)	2.30%	2.30%	2.30%
Life expectancy at normal retirement date of 65			
Males	23.5	23.7	22.8
Females	25.7	25.7	25.3

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

Movement in the scheme deficit in the year	**2018 £000**	**2017 £000**
At 1 January	(6,030)	(7,414)
Current service cost	(94)	(85)
Past service costs for GMP equalisation	(168)	-
Contributions	2,200	2,750
Other financial charges	(134)	(178)
Remeasurement of pension scheme liability in the year	(754)	(1,103)
At 31 December	(4,980)	(6,030)

Movement in the fair value of scheme assets		
At 1 January	41,290	39,682
Expected return on scheme assets	1,013	1,053
Actual return less expected return on scheme assets	(2,904)	860
Contributions paid by Company	2,200	2,750
Contribution from scheme members	57	58
Benefits paid	(2,984)	(3,113)
At 31 December	38,672	41,290

19. PENSION LIABILITY (continued)

Movement in the present value of defined benefit obligations	**2018 £000**	**2017 £000**
At 1 January	(47,320)	(47,096)
Service costs	(94)	(85)
Past service costs for GMP equalisation	(168)	-
Interest costs	(1,147)	(1,231)
Contribution from scheme members	(57)	(58)
Actuarial gain/(loss) in the year	2,150	(1,963)
Benefits paid	2,984	3,113
At 31 December	(43,652)	(47,320)

The cumulative remeasurement of the pension liability applied against reserves since the transition to IAS 19 on 1 January 2004 is a loss of £20,410,000 (2017 - £19,656,000).

Analysis of amounts charged to operating profit		
Current service costs	(94)	(85)
Past service costs for GMP equalisation	(168)	-
Pension costs charged to operating profit	(262)	(85)
Analysis of amounts charged to net finance costs		
Expected return on pension scheme assets	1,013	1,053
Interest cost of pension scheme liabilities	(1,147)	(1,231)
Other financial charges	(134)	(178)
Analysis of the remeasurement of the pension scheme liability included in the statement of other comprehensive income		
Actual return less expected return on scheme assets	(2,904)	860
Changes in assumptions underlying the present value of the scheme's liabilities	2,150	(1,963)
Remeasurement of pension scheme liability	(754)	(1,103)

	2018 £000	**2017 £000**	**2016 £000**	**2015 £000**	**2014 £000**
Present value of defined benefit obligations	(43,652)	(47,320)	(47,096)	(40,448)	(40,931)
Fair value of scheme assets	38,672	41,290	39,682	34,574	33,995
Deficit in the scheme	(4,980)	(6,030)	(7,414)	(5,874)	(6,936)
Experience adjustment on scheme assets					
Difference between expected and actual return on scheme assets £000	(2,904)	860	4,216	(631)	3,593
Percentage of scheme assets	(7.5%)	2.1%	10.6%	(1.8%)	10.6%
Actual return on scheme assets £000	(1,891)	1,913	5,475	574	4,836
Percentage of scheme assets	(4.9%)	4.6%	13.8%	1.7%	14.2%

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19. PENSION LIABILITY (continued)

Defined contribution schemes

The company also participated in a number of defined contribution schemes, including two Macfarlane Group Personal Pension Schemes. Contributions charged to the profit and loss account in respect of these schemes for the year were £1,216,000 (2017 - £994,000).

Contributions from the company amounting to £134,000 (2017 - £119,000) were payable to the schemes and are included in creditors at 31 December.

20. RELATED PARTY TRANSACTIONS AND RELATED UNDERTAKINGS

The Group has related party relationships with

(i) its parent company, Macfarlane Group PLC;

(ii) its subsidiary companies,

(iii) its Directors; and

(iv) the Macfarlane Group PLC sponsored pension schemes.

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

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

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

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

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

21. ULTIMATE PARENT COMPANY

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