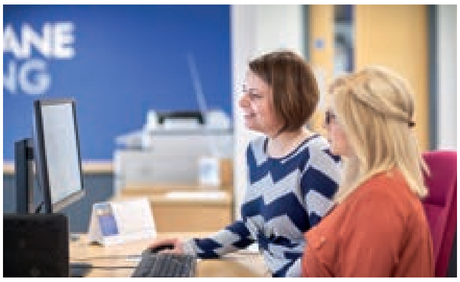
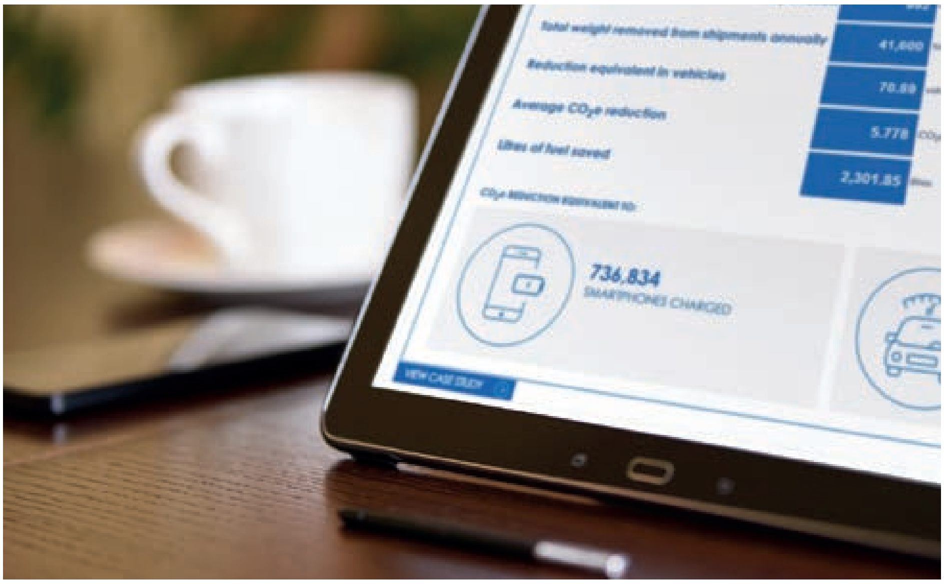
MACFARLANE GROUP

Annual Report and Accounts 2021

Focused on creating value from sustainable packaging solutions





View our Annual Report and Accounts and other information about Macfarlane Group at **www.macfarlanegroup.com**

Contents

Macfarlane Group PLC designs, manufactures and distributes protective packaging to business users. Protective packaging products are sold to customers in the UK, Ireland and Europe.

Revenue

£264.5m

(2020* £210.2m)

Profit before tax

£18.7m

(2020* £12.4m)

Carbon intensity

(tCO_2e per £000 revenue)

0.0234

(2020 0.0295)

Operating profit

(% of sales)

7.6%

(2020* 6.5%)

Diluted earnings per share

7.90p

(2020 6.42p)

GHG emissions

6,676 tCO_2e

(2020 6,786 tCO_2e)

Gross margin

(% of sales)

33.8%

(2020* 33.2%)

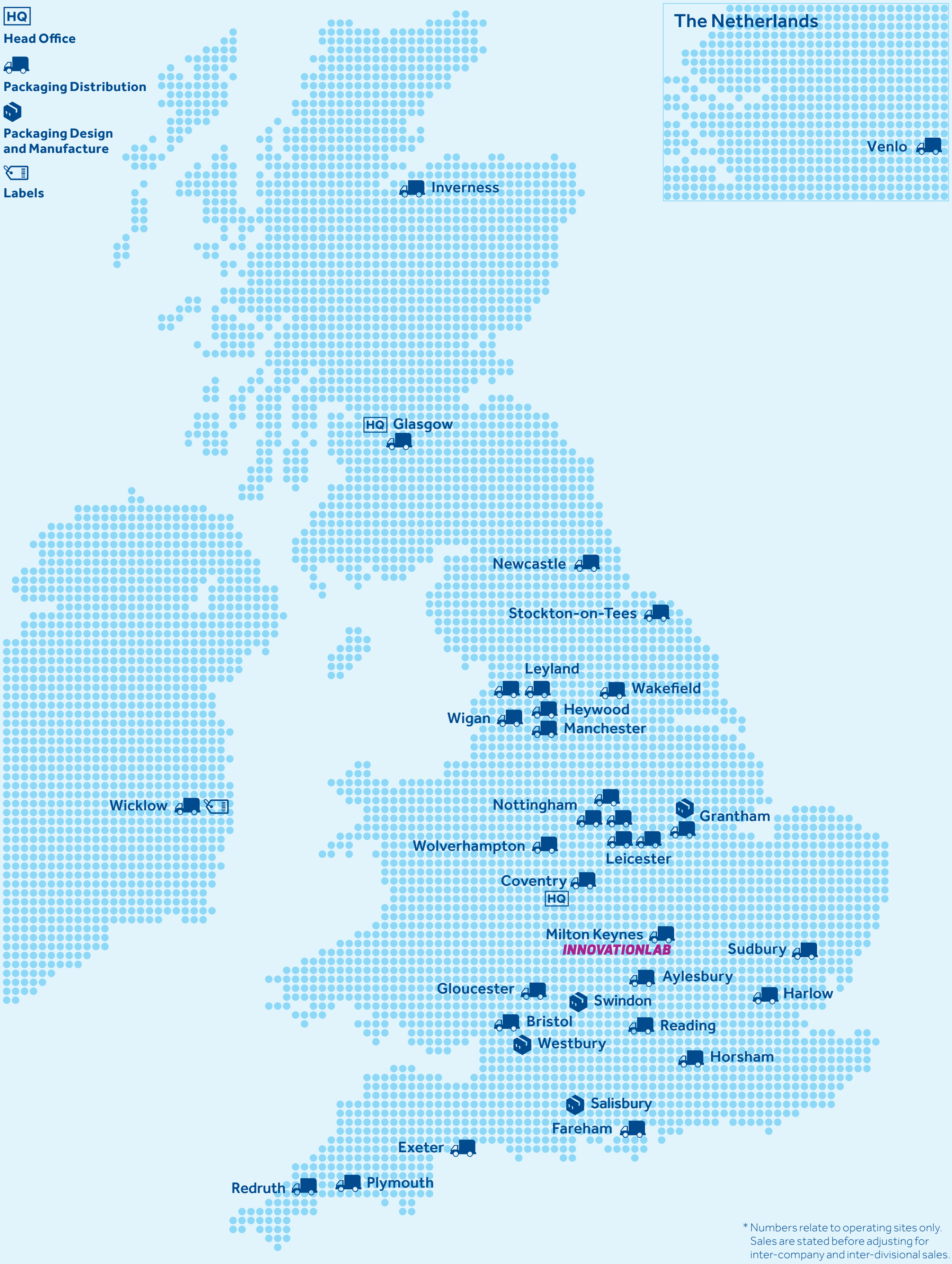
Dividend per share

3.20p

(2020 2.55p)

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

Macfarlane Group – serving our customers



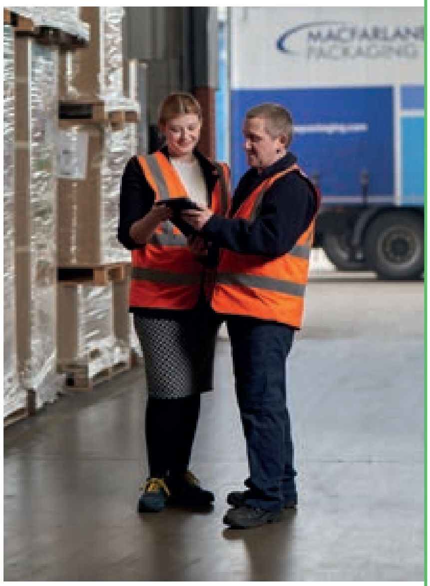
* Numbers relate to operating sites only. Sales are stated before adjusting for inter-company and inter-divisional sales.

Headquartered in Glasgow, Macfarlane Group PLC employs over 900 people at 36 sites in the UK, one each in Ireland and The Netherlands and services more than 20,000 customers across a wide range of sectors.

Europe *

Sales
£5.3m

No. of employees **10**
No. of vehicles **2**
No. of sites **1**
No. of customers **4,397**



North *

Sales
£69.5m

No. of employees **151**
No. of vehicles **35**
No. of sites **9**
No. of customers **3,582**

Midlands *

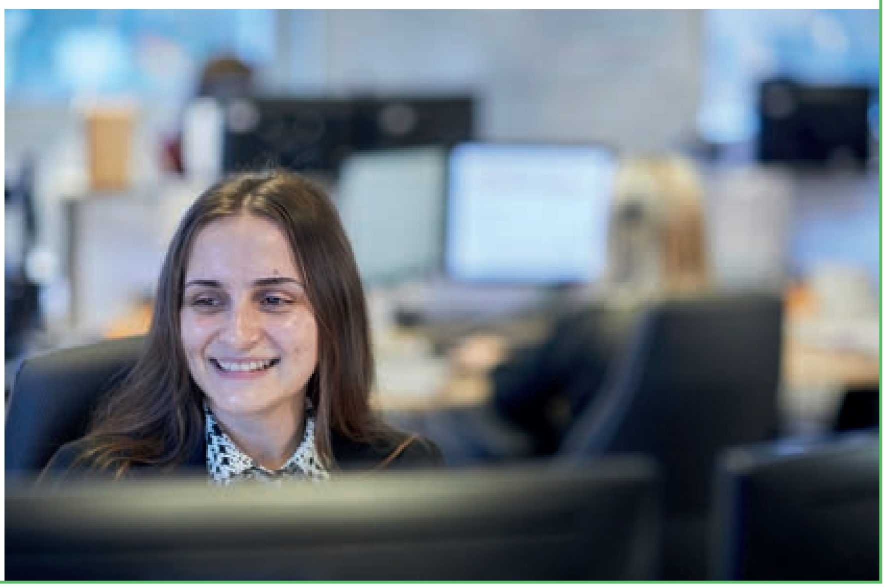
Sales
£82.8m

No. of employees **260**
No. of vehicles **44**
No. of sites **9**
No. of customers **3,467**

South west *

Sales
£47.1m

No. of employees **236**
No. of vehicles **33**
No. of sites **8**
No. of customers **3,037**



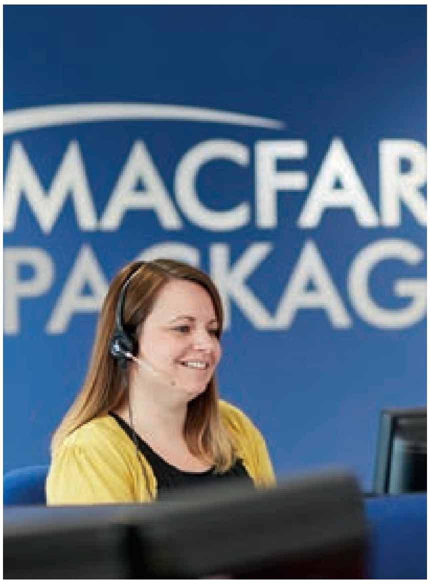
South east *

Sales
£64.2m

No. of employees **153**
No. of vehicles **29**
No. of sites **7**
No. of customers **9,212**

Our key highlights

The key highlights of 2021 for Macfarlane Group PLC[1] are set out below:



- Sales from continuing operations[2] grew by 26% versus 2020 to £264.5m.
- Operating profit at £20.1m and operating profit before amortisation[3] at £23.4m, both from continuing operations, increased by 47% and 44% respectively.
- Profit for the year of £12.6m increased £2.4m or 24% compared to 2020.
- Basic and diluted earnings per share were 7.98p per share (2020: 6.45p per share) and 7.90p per share (2020: 6.42p per share) respectively.
- Packaging Distribution achieved strong growth in sales and an improvement in operating profit before amortisation of 19% versus 2020.
- Manufacturing Operations delivered an encouraging recovery versus 2020 in both sales and operating profit before amortisation.
- GWP Holdings Limited ('GWP') and Carters Packaging (Cornwall) Limited ('Carters Packaging'), which were acquired in February and March 2021 respectively, have performed well.
- The Group sold its Labels[4] division in December 2021. Labels generated a loss before tax of £0.9m (2020: Profit of £0.6m) after charging goodwill impairment of £1.0m and costs of disposal of £0.3m. Labels has been treated as a discontinued operation in the year.
- Net cash inflow from operating activities of £23.8m (2020: £23.3m) reflects increased activity and continuing good management of working capital.
- Net bank funds[5] on 31 December 2021 was £2.5m, an increase of £3.0m from 31 December 2020, including £12.2m of investment in the acquisition of GWP and Carters Packaging and £5.2m[6] of net proceeds from the sale of Labels. The Group is operating well within its existing bank facility of £30.0m which runs until 31 December 2025.
- Pension scheme surplus of £8.3m at 31 December 2021 (31 December 2020 deficit of £1.5m). The improvement is due to continued contributions from Macfarlane Group, an increase in the discount rate and growth in investments during the year.
- The Board is proposing a final dividend of 2.33p per share (2020: 1.85p per share) which would take the total dividend for 2021 to 3.20p per share (2020: 2.55p per share) up 25 % on 2020.

1 Macfarlane Group PLC ('Macfarlane Group', 'the Group', 'Macfarlane').

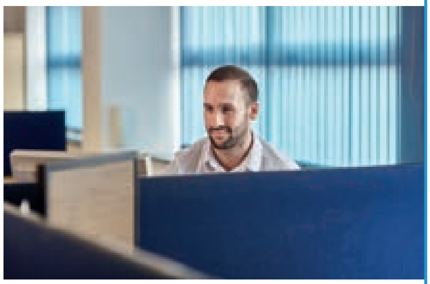
2 In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

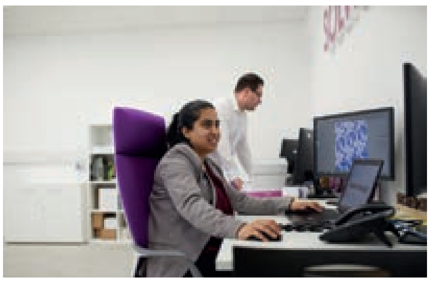
3 See page 87 for reconciliation of Alternative Performance Measure operating profit before amortisation to operating profit.

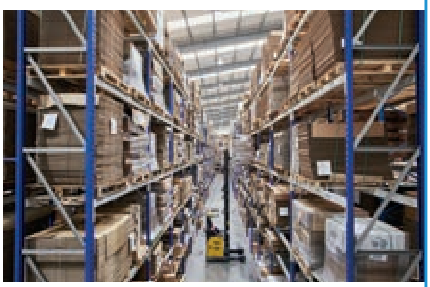
4 Macfarlane Labels Limited and its subsidiaries, Macfarlane Group Ireland (Labels & Packaging) Limited and Macfarlane Group Sweden AB (collectively 'Labels').

5 Alternative Performance Measure as defined in note 22.

6 Gross proceeds of £6.1m offset by £0.6m of cash retained within Labels at completion and £0.3m costs of disposal.



I am pleased to report that Macfarlane Group PLC has performed strongly in the year ended 31 December 2021. Our results are well ahead of the previous year and better than market expectations.

In the face of challenging market conditions our team has shown great commitment and dedication in servicing our customers and the Board wishes to place on record its thanks for their outstanding performance in helping the Group to continue its positive progress.

Trading

Macfarlane Group achieved good sales growth from continuing operations in 2021, benefiting from the ongoing structural shift to e-commerce retail, the recovery in certain industrial sectors which had been affected by Covid-19 in 2020 and the acquisitions of GWP and Carters Packaging. Despite ongoing difficult operating conditions due to Covid-19, significant inflationary pressure on input costs and supply shortages of some materials, the business has produced a strong profit performance.

Stuart Paterson

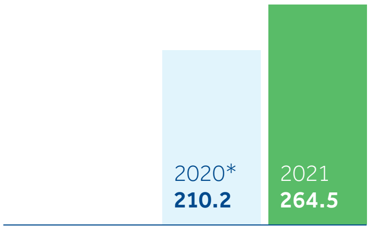
Packaging Distribution has grown sales through strong demand from existing customers in the e-commerce retail and medical sectors and recovery in a number of industrial sectors. However, demand from the aerospace, high street retail and hospitality sectors has not yet recovered to pre-pandemic levels. New business activity has increased significantly compared with 2020 and Carters Packaging has traded well since its acquisition in March 2021.

Manufacturing Operations has benefited from the acquisition of GWP, which is performing ahead of expectations, and a strong recovery in the Packaging Design and Manufacture business which returned to profit following the restructuring actions that we took in H2 2020. The development of the partnership with our Packaging Distribution business has played a key part in the recovery of the Manufacturing Operations in 2021.

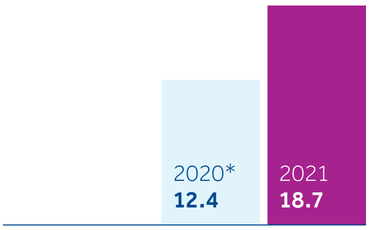
The Group sold its Labels business on 31 December 2021 to The Reflex Group Limited, a well-established, privately owned UK company focused on the manufacture of labels and flexible packaging. We believe the sale gives the best opportunity for the Labels business to develop and allows the Group to focus its resources on accelerating the growth of our protective packaging distribution and manufacturing businesses.

Group performance

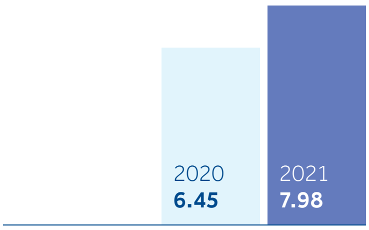
Revenue (£m)



Profit before tax (£m)



Basic earnings per share (p)



Our effective management of operating cash in 2021 has enabled the business to finance two good quality acquisitions through our existing bank facility. The sale of Labels provides the Group with additional cash resources to invest in the further development of the protective packaging businesses.

The pension scheme was in surplus at 31 December 2021 of £8.3m (2020: deficit £1.5m).

Covid-19 response

Throughout 2021 the Covid-19 pandemic has continued to impact the Group and has presented significant challenges to the operations of the businesses. However, in supporting our customers we have continually adapted to the changing government guidance to ensure we provide a safe workplace for our teams with particular focus on their health and well-being.

Environment, Social and Governance ('ESG')

The Board has always recognised the importance of ensuring ESG is prioritised within the business and ESG is now a standing item on the Board agenda. A comprehensive ESG action plan has been approved by the Board which will clearly demonstrate our commitment to sustainability, effective customer, employee, supplier and community engagement and governance.

In September 2021 Andrea Dunstan, the Chair of the Remuneration Committee, retired from the Board and after an extensive search process we welcomed Aleen Gulvanessian as a new Non-executive Director to the Board in October 2021. Aleen, who is the new Chair of the Remuneration Committee, has a strong governance background and brings extensive commercial and legal experience to the business.

In 2022 I will enter my 10th year of service on the Macfarlane Group Board and as such cease to be seen as independent under the Corporate Governance code. I have therefore given the Board notice of my intention to stand down this year once a new Chair has been identified and a smooth transition ensured. Plans for my succession are well advanced.

Proposed dividend

The Board is proposing a final dividend of 2.33 pence per share, amounting to a full year dividend of 3.20 pence per share, compared to the prior year dividend of 2.55 pence per share. Subject to the approval of shareholders at the Annual General Meeting on Tuesday 10 May 2022, the final dividend will be paid on Wednesday 1 June 2022 to those shareholders on the register at Friday 13 May 2022.

Outlook

We anticipate that 2022 will see ongoing inflationary pressure on input prices, continuing supply constraints on most raw materials and operating costs increasing due to staffing pressures. However, despite these challenges, trading in the early months has been encouraging and the Board is confident that, given the effectiveness of our strategy, the resilience of our business model and the experience and commitment of our people, Macfarlane Group will continue to deliver further growth in 2022.

Lord Macfarlane of Bearsden

It was with great sadness that we learned of the passing of our founder Lord Macfarlane of Bearsden in November last year. Lord Macfarlane was the driving force in building the Macfarlane Group between 1949 and 1999 when, as Chairman, he retired from the Board. Since then, he was a constant supportive presence and he is greatly missed.

Stuart R. Paterson
Chairman

24 February 2022

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

Business model and strategy

Our business model

What we do
Macfarlane Group designs, manufactures and distributes protective packaging products to business users across a range of sectors including e-commerce retail, logistics, medical, automotive, aerospace, electronics, high street retail, household essentials, food and hospitality. For reporting purposes, we split the Group into two segments. Macfarlane Packaging Distribution and Manufacturing Operations.

Our customer profile
Protective packaging products are sold to customers in the UK, Ireland and Europe.

Our operations
The protective packaging business operates a Stock and Serve model from 27 Regional Distribution Centres (RDCs) and 3 satellite sites providing a UK national network to support customers on a local, regional and national basis. The Group also operates a National Distribution Centre (NDC) and four manufacturing centres. There is a central administration centre in Coventry, and the Group head office is located in Glasgow.

Macfarlane Group has over 900 employees, mainly in the UK. Our sites range in size from over 100 employees at manufacturing locations to under 20 for smaller RDCs and satellite sites. The Group operates a decentralised structure for sales and operations supported by central teams covering areas such as procurement, logistics, HR, IT and finance.

How our business generates value
Macfarlane Group is the UK market leader in the distribution of protective packaging products. We leverage its purchasing scale to cost-effectively source from over 1,000 suppliers a comprehensive range of protective packaging products.

Added value for the customer is achieved as follows:

- by providing independent advice on the most cost-effective choice of product and packing processes.
- the sustainability of our product offering.
- by operating as a single-source supplier for these products on a Just In Time basis, with tailored stock management programmes and electronic trading capability.

Key benefits to customers are lower costs in the areas of packing, logistics and warehousing, reduced customer returns and product damage and enhanced brand presentation.

The manufacturing businesses utilise design, intellectual property and know-how to provide a bespoke service to support major retail and industrial customers to cost effectively protect their high-value products in storage and distribution.

The role for organic growth
Macfarlane Group's strategy is to grow its business organically by increasing the range of products supplied to existing customers and by winning new customers. New business generation is key to Macfarlane Group's organic growth and we have specialist teams, providing focus on specific target market sectors to win new customers. We then target acquisition growth through the purchase of high-quality businesses in the protective packaging market.

Our strategy

We have followed a consistent strategy to create value for shareholders, operating in markets offering above-average growth opportunities to develop business with existing customers and build relationships with new customers.

We also improve the performance of the business by more effective sourcing and increasing the efficiency of our logistics and property portfolio. We then supplement this organic growth in the existing business by acquiring quality businesses.

Our objective is to achieve an operating profit return on sales of between 7% and 10% (2021: 7.6%).

Key financial KPIs used in the Group are sales growth, gross margin, operating profit margin and profit before tax and these link in to our strategic priorities as set out on the right.

> 1,000
global suppliers of protective packaging

27
Regional Distribution Centres (RDCs)

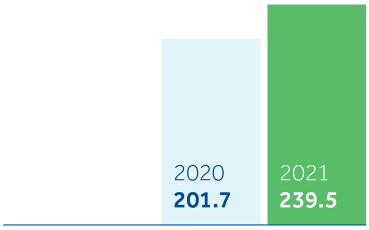
> 20,000
customers throughout the UK

Strategic priority	Progress in 2021
Sales	
Implement a segmental sales strategy to improve customer retention, increase product penetration and accelerate new business. The Group targets new business generation in excess of £12m per annum and aspires to a Net Promoter Score ('NPS') of 60.	Our segmental sales approach provides increased customer focus. New business generated in Packaging Distribution was £12.3m in 2021 (2020: £11.3m). NPS was 48 (2020: 53). The small decrease from last year reflects the challenging supply chain conditions during 2021 but still represents a good score relative to other B2B companies.
Sectors	
Focus on key sectors with growth potential, particularly E-Commerce Retail National Accounts and Third Party Logistics.	Our Innovation Lab continues to be an effective tool to demonstrate the range of our capability to customers. Retail sales in Packaging Distribution represent 30% of sales (2020: 28%).
Gross margin	
Maintain gross margins through effective sourcing, operational efficiencies, and management of fluctuations in input prices. The Group targets gross margins of 30%+ for Packaging Distribution and 40%+ for Manufacturing Operations.	The Group has experienced significant inflation in raw material input prices which has been managed effectively working closely with customers to pass through the changes and where possible minimise the impact. Gross margins in Packaging Distribution were 32.4% (2020: 32.5%) and Manufacturing Operations were 41.6% (2020:37.3%).
Logistics	
Ensure operational effectiveness is maximised through efficiencies in logistics. The target for Packaging Distribution is to remain below 2.5%.	Logistics costs in Packaging Distribution increased to 2.5% of sales (2020: 2.4%) primarily due to the impact of Covid-19 and supply chain challenges during 2021.
Infrastructure	
Optimising the costs associated with the physical infrastructure. **The Group aims to reduce the Packaging Distribution costs below 4.0% of sales.**	Property costs in Packaging Distribution are 4.1% of sales (2020: 4.5%). Our aim is to reduce the costs below 4.0% of sales.
Environment	
Reduce the Group's impact on the Environment through reduction of its internal carbon footprint and supporting customers through its 'Significant Six' sales approach. **The Group has set a target of reducing its Scope 1 and 2 carbon footprint by 30% by 2030.**	The largest contributor to the Group's CO_2 emissions is its commercial vehicle fleet (71%). The Group has commenced the electrification of its fleet with the ordering of 5 electric vehicles in 2021 due for delivery in 2022.
Acquisitions	
Supplement organic growth with at least two good quality acquisitions each year.	The Group acquired GWP Group and Carters Packaging in the year both high quality businesses manufacturing and distributing protective packaging. Both businesses have performed well since being acquired.

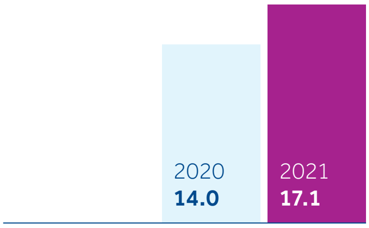
Chief Executive's review – Packaging Distribution

Packaging Distribution performance

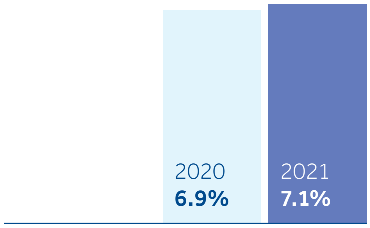
Revenue (£m)



Operating profit (£m)



Return on sales (%)



Macfarlane is the UK's leading specialist distributor of protective packaging materials. Macfarlane operates a stock and serve supply model from 27 Regional Distribution Centres ('RDCs') and 3 satellite sites, supplying industrial and retail customers with a comprehensive range of protective packaging materials on a local, regional and national basis.

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

Packaging Distribution benefits its customers by enabling them to ensure their products are cost-effectively protected in transit and storage through the supply of a comprehensive product range, single source stock and serve supply, just–in-time delivery, tailored stock management programmes, electronic trading and independent advice on both packaging materials and packing processes. Through the 'Significant Six' sales approach we reduce our customers' Total Cost of Packaging and their carbon footprint. This is achieved through supplying sustainable packaging solutions, optimising warehousing and transportation, reducing damages and returns and improving packaging efficiency.

2021 trading

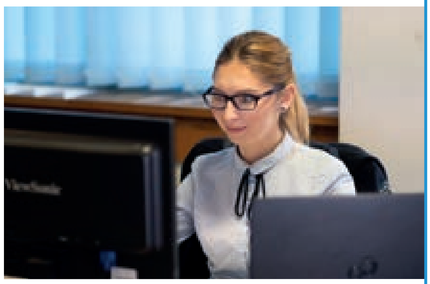
Packaging Distribution grew sales by 19% in 2021 due to continued strong demand from customers in the e-commerce and medical sectors and some recovery in the home & garden, automotive and electronics sectors which were adversely impacted by Covid-19 in 2020. Sales to e-commerce retail companies in 2021 represented 30% of sales (2020: 28%).

We grew new business by 9% in 2021 due primarily to the impact of Covid-19 restrictions on 2020 performance. However, this performance compares favourably to the performance in 2019 pre Covid-19. Our customers increasingly see the benefits of transacting with us online and this has resulted in a growth in activity through our website: **shop.macfarlanepackaging.com** and through our Simplicit-e electronic trading platform. In 2021, 44% of our customers managed their transactions with us online.

The business has experienced significant increases in input prices in all product categories throughout 2021. Against this backdrop, the gross margin in Packaging Distribution has held up well at 32.4% (2020: 32.5%), through our effectiveness in working with our customers to manage these input price changes.

Packaging Distribution

	2021 £000	2020 £000	2021 growth
Revenue	**239,508**	201,739	**19%**
Cost of sales	**161,896**	136,177	
Gross margin	**77,612**	65,562	**18%**
Operating expenses	**57,915**	49,054	**18%**
Operating profit before amortisation	**19,697**	16,508	**19%**
Amortisation	**2,642**	2,520	
Operating profit	**17,055**	13,988	**22%**



We continued to deliver the benefits from acquiring high quality packaging distribution businesses and in March 2021 we completed the acquisition of Carters Packaging based in Redruth, Cornwall.

During 2021 we made steady progress in extending our service into Europe to support a number of our pan-European customers. Through the Group's subsidiary company, based in the Netherlands, sales exited 2021 on an annual run-rate of c£5m with sales in 2021 of £2.3m (2020: £1.1m).

There were several factors behind the increase in operating expenses, the most significant being the impact of the acquisition, dilapidation costs related to the North West of England property consolidation planned for 2022 (see Future below), increased volumes of business, an increase in labour costs driven by wage inflation and higher level of incentive payments to reward employees for the strong performance of the business in 2021.

Packaging Distribution's operating profit at £17.1m grew 22% vs 2020 reflecting a 7.1% (2020: 6.9%) return on sales.

Future

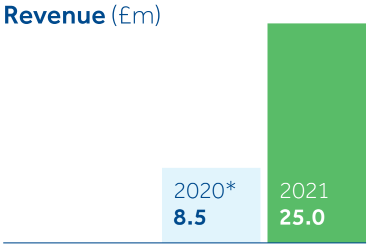
Our plans for 2022 are focused on continuing to grow sales and improving profitability through the following actions:

- Prioritise engagement with potential new customers in stable and growing sectors such as e-commerce retail, medical, scientific, and third-party logistics;
- Effectively manage the significant input price increases and supply shortages being experienced across all product categories;
- Launch our new 'Packaging Optimiser' to allow our sales teams to better demonstrate our ability to add value for customers through our 'Significant Six' sales approach;
- Improve our engagement with existing and new customers with the introduction of Microsoft Dynamics as our new Customer Relationship Management platform;
- Refine and extend our product range to ensure we continue to offer our customers sustainable packaging solutions that reduce their carbon footprint;
- Introduce improvements to our web-based solutions to allow customers access to our full range of products and services more easily;
- Accelerate the progress we have made in our 'Follow the Customer' programme in Europe;
- Reduce operating costs through efficiency programmes in sales, logistics and administration;
- Implement our first major site consolidation with the relocation of our Wigan and Manchester RDCs to a new site at Middleton, north of Manchester;
- Maintain the focus on working capital management to facilitate future investment and manage effectively the ongoing bad debt risk within the current economic environment; and
- Supplement organic growth through progressing further high-quality acquisitions.

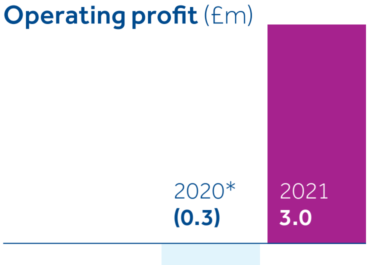
Chief Executive's review – Manufacturing Operations

Manufacturing Operations performance

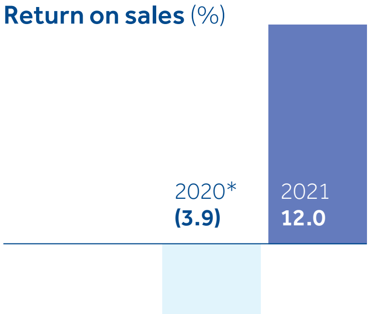
Revenue (£m)



Operating profit (£m)



Return on sales (%)



Manufacturing Operations comprises our Packaging Design and Manufacture business and GWP, acquired in February 2021. The Labels division included in Manufacturing Operations in 2020 was sold in December 2021 and has been classified as a discontinued operation (see page 13).

Manufacturing Operations designs, manufactures, assembles and distributes bespoke packaging solutions for customers requiring cost-effective methods of protecting high value products in storage and transit. The primary raw materials are corrugate, timber and foam. The businesses operate from four manufacturing sites, in Grantham, Westbury, Swindon and Salisbury, supplying both directly to customers and through the national RDC network of the Packaging Distribution business.

Key market sectors are defence, aerospace, medical equipment, electronics, automotive, e-commerce retail and household equipment. The markets we serve are highly fragmented, with a range of locally based competitors. We differentiate our market offering through technical expertise, design capability, industry accreditations and national coverage through the Packaging Distribution business.

2021 trading

Manufacturing Operations sales increased by 194% in 2021, consisting of organic growth of 16% (£1.4m) following a strong recovery in the automotive and defence sectors supplemented by £15.1m of sales through the acquisition of GWP. Combining the benefit of the acquisition of GWP with effective management of the gross margin in the face of significant input price increases, and control of overheads, operating profit before amortisation in 2021 is significantly ahead of the same period in 2020.

Future

Priorities for Manufacturing Operations in 2022 are to:

- Focus the sales team on new business growth in target sectors e.g., medical and defence;
- Prioritise new sales activity on our higher added-value bespoke composite pack product range;
- Effectively manage the significant material price increases being experienced across all product categories to minimise the impact on gross margins;
- Continue to strengthen the relationship with our Packaging Distribution businesses to create both sales and cost synergies;
- Commence the process of GWP working more closely with the Macfarlane Packaging Design and Manufacture and Packaging Distribution businesses.

Manufacturing Operations

	2021 £000	Restated 2020* £000	2021 growth
Revenue	**24,957**	8,488	**194%**
Cost of sales	**13,102**	4,223	
Gross margin	**11,855**	4,265	**178%**
Operating expenses	**8,186**	4,594	**78%**
Operating profit/(loss) before amortisation	**3,669**	(329)	
Amortisation	**669**	–	
Operating profit/(loss)	**3,000**	(329)	

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

Discontinued operations

On 31 December 2021, the Group sold its Labels businesses to Reflex for £6.3m. Labels realised a loss before tax of £0.9m in 2021 (2020: profit before tax £0.6m), after charging costs of disposal of £0.3m and goodwill impairment of £1.0m. Labels grew sales in 2021 by 7% but operating profit reduced by £0.3m due primarily to higher costs of serving customers outside the UK and lower gross margins impacted by higher input costs.

Labels has been a long-standing part of the Macfarlane Group but being part of Reflex, which is a £135m revenue business focused on the manufacturing of labels and flexible packaging, offers the best opportunity for Labels' future development. The proceeds of the sale will be strategically invested in the continuing growth of the Group's protective packaging businesses.

Chief Executive's review – Group

The Group has performed well in the face of extremely challenging market conditions with the ongoing impact of the Covid-19 pandemic, significant increases in input prices and supply shortages of some raw materials.

Despite these challenges the Group financial performance from continuing operations in 2021 has been resilient, with sales growth of 26% and an operating profit 47% ahead of 2020.

2022 outlook

The Group has demonstrated in 2021 that it can deliver a strong financial performance despite challenging market conditions and the impact of Covid-19. With the sale of Labels, the Group is focused on the strategic growth of its protective packaging businesses in the UK and Northern Europe.

The Group's businesses all have strong market positions with low customer concentration and differentiated product and service offerings which give both value and sustainability to our customers. We have a flexible business model and proven effective implementation of our strategic plan, which is reflected in consistent profit and cash generation over a sustained period.

Our future performance continues to depend on our effectiveness in growing sales, increasing efficiencies and bringing high quality acquisitions into the Group. Whilst we have experienced significant challenges in 2021, and there remain uncertainties ahead, our strategy and business model have proved to be resilient. We expect to deliver further growth in sales and profit in 2022.

Peter D. Atkinson
Chief Executive

24 February 2022

Group performance

	Revenue 2021 £000	**Operating profit before amortisation 2021 £000**	**Operating profit 2021 £000**	Restated* Revenue 2020 £000	Restated* Operating profit/(loss) before amortisation 2020 £000	Restated* Operating profit/(loss) 2020 £000
Segment						
Packaging Distribution	**239,508**	**19,697**	**17,055**	201,739	16,508	13,988
Manufacturing Operations	**24,957**	**3,669**	**3,000**	8,488	(329)	(329)
Continuing operations	**264,465**	**23,366**	**20,055**	210,227	16,179	13,659
% of revenue		**8.8%**	**7.6%**		7.7%	6.5%
Discontinued operations	**21,220**	**372**	**372**	19,802	710	710
Group total	**285,685**	**23,738**	**20,427**	230,029	16,889	14,369

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

Macfarlane Packaging Optimiser

Helping our customers drive down the cost of packaging and reduce their CO_2 emissions.

At Macfarlane Packaging, we have spent decades innovating and perfecting packaging solutions for a wide range of markets that are strong, efficient and sustainable. With that experience we have created the Packaging Optimiser – a new interactive tool that shows businesses the true financial and environmental cost of their packaging. The Packaging Optimiser illustrates six important costs that impact on most packaging operations – we call these 'The Significant Six', as well as the material cost itself. These areas can account for 90% of all costs in a packaging operation.

The Packaging Optimiser analyses the client's own Significant Six profile and with that information we can:

- review material options to find the right packaging
- meet their corporate sustainability goals
- unlock savings in their packaging operations

Storage costs

- Free up space for growth
- Reduce storage costs
- Reduce pallet handling
- Reduce the impact on goods-in

Transport costs

- Improve delivery fleet utilisation
- Reduce transport costs
- Reduce carbon emissions

Damages and returns

- Reduce product waste
- Reduce administration and handling
- Reduce transportation
- Reduce packaging waste
- Improve the customer experience

Admin costs

- Free up time
- Work more effectively
- Reduce costs

Increased productivity

- Make informed decisions on pack cost
- Reduce labour costs or reallocate time
- Fulfil forecasted business growth
- Reduce material waste

Customer experience

Optimised packaging all contributes to the ideal customer experience. From quick dispatch through to unboxing and easy recycling.

2021 represents the Group's twelfth consecutive year of growth in its profit before tax.

Trading review

The Group saw growth in sales from continuing operations of 26% during 2021, driven by strong organic growth in Packaging Distribution (16%) and Manufacturing Operations (16%) combined with a strong contribution from the acquisitions made in the year. Group sales from continuing operations are £264.5m, an increase of £54.2m from 2020. Profit before tax from continuing operations for 2021 increased to £18.7m, an increase of £6.2m from that achieved in 2020.

The Group sold its Labels division on 31 December 2021 and it is disclosed as a discontinued operation. The loss before tax of £0.9m consists of £0.3m profit from trading, a goodwill impairment charge of £1.0m and a loss on disposal of £0.2m (including costs of disposal of £0.3m).

Each month our management reporting provides the information to review the productivity of all locations in the Packaging Distribution business using performance against benchmark metrics as a percentage of sales for gross margin, payroll and related employment costs, property costs, other overheads and net profit. The resultant net profit by location is also compared to the original budget and prior year performance.

Our Manufacturing Operations also measure relevant operating costs to sales ratios and net profit generated.

Taxation

The tax charge for 2021 was £5.1m on profit before tax of £17.7m, a rate of 28.9%, above the prevailing rate of 19.0% mainly due to the effect on deferred tax of an adjustment in the long-term corporation tax rate from 19% to 25% and goodwill impairment, acquisition costs and disposal costs not being deductible for tax purposes. This compared with a tax charge of £2.8m on the 2020 profit before tax of £13.0m, a rate of 21.8%.

Macfarlane Group and its subsidiary companies have no uncertain tax treatments with HMRC in the UK.

Earnings per share

Basic and diluted earnings per share amounted to 7.98p (2020: 6.45p) and 7.90p (2020: 6.42p) respectively, broadly reflective of the movement in profitability. The calculations take account of the dilution caused by the issue of LTIP awards.

Dividends

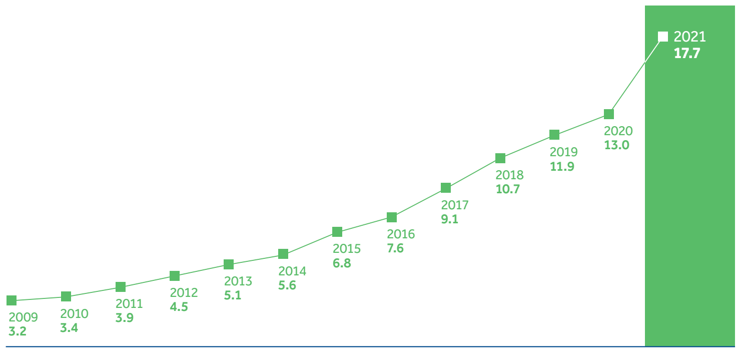
A dividend of 0.87p per share was paid on 14 October 2021. A further dividend of 2.33p per share is subject to approval by shareholders at the AGM in May 2022 and is not included as a liability in these financial statements.

Dividend cover has been maintained at 2.5 times. The Group continues to balance the aim to pay an attractive level of dividend against the need to retain funds in the business to finance growth, make the agreed levels of pension fund contributions, fund acquisitions and meet capital expenditure requirements.

Cash flow and net bank debt

The Group's debt facility with Lloyds Banking Group PLC comprises a committed borrowing facility of up to £30.0m secured over part of Macfarlane Group's trade receivables and at the start of 2021, the term of the facility was extended to 31 December 2025. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over trade receivables. The Group has been in compliance with these covenants throughout 2021 and 2022 to date.

The facility accommodates increased working capital requirements from our organic growth as well as finance for pension scheme contributions and an ability to fund acquisitions. Our financing requirements are met through cash generation from profitable trading as well as by maintaining committed borrowing facilities for the medium-term.



Profit before tax (£m) from total operations

Group net bank funds were £2.5m at 31 December 2021, an increase of £3.0m from 2020 as set out in note 22. The Group's cash generation continued to be strong enabling us to finance growth, make agreed levels of pension contributions, fund acquisitions and meet capital expenditure requirements. The Group spent £12.2m on acquisitions in 2021 (2020: £2.7m), £2.1m on capital expenditure in 2021 (2020: £0.8m) and received £5.2m net proceeds from the disposal of Labels.

We will continue to invest where there are needs or opportunities to meet future growth plans. The Group will strive to ensure that in 2022, profit generation is, at the very minimum, matched by cash generation. The Group will remain prudent in its assessment of the likely returns from capital expenditure and potential acquisitions

Acquisitions/disposals

On 26 February 2021, the Group's subsidiary Macfarlane Group UK Limited ('MGUK') acquired 100% of GWP Holdings Limited ('GWP'), for a maximum consideration of £15.1m. £10.0m was paid in cash on acquisition and the deferred consideration of £5.1m is payable in the first quarters of 2022 and 2023, subject to certain trading targets being met in the two twelve-month periods ending on 28 February 2022 and 2023 respectively.

On 31 March 2021, MGUK acquired 100% of Carters Packaging (Cornwall) Limited ('Carters Packaging'), for a maximum consideration of £4.5m. £3.0m was paid in cash on acquisition and the deferred consideration of £1.5m is payable in the second quarters of 2022 and 2023, subject to certain trading targets being met in the two twelve-month periods ending on 31 March 2022 and 2023 respectively.

We expect to pay the full deferred consideration on the GWP and Carters Packaging acquisitions based on their strong trading performance. Across both acquisitions the Group inherited net cash of £0.8m.

On 31 December 2021, the Group sold its Labels division comprising Macfarlane Labels Limited and its subsidiaries, Macfarlane Group Ireland (Labels & Packaging) Limited and Macfarlane Group Sweden AB (collectively 'Labels') for an estimated gross consideration of £6.3m, with £0.2m deferred subject to agreement of final completion accounts. Labels retained £0.6m of cash on completion and the cost of disposal was £0.3m.

Market capitalisation and share price movements

The number of shares in issue at 31 December 2021 was 157,812,000 unchanged from 31 December 2020. At the year-end the Company's market capitalisation was £205.2m, compared with £138.1m last year. The share price at 31 December 2021 was 130.00p, compared with 87.50p at 31 December 2020. The range of transaction prices for Macfarlane Group shares during 2021 was 82.60p to 145.00p for each ordinary share of 25p.

Financial instruments

The Group's principal financial instruments comprise bank borrowings, cash balances and other items, such as trade receivables and trade payables that arise directly from its operations as well as shareholders' equity and deferred consideration arising from acquisitions. The main purpose of these financial instruments is to provide finance for the Group's operations. It is the Group's policy that no speculative trading in financial instruments is undertaken. The main risks arising are liquidity risk and credit risk and the secondary risks are interest rate risk and currency risk. The policies for managing these risks, which have remained unchanged since the beginning of 2021 are set out in note 15 to the financial statements.

Strong trading performance from acquisitions GWP and Carters Packaging.

Pension schemes

The Group's pension scheme surplus at 31 December 2021 was £8.3m (2020: deficit £1.5m). This is sensitive to movements in bond yields, inflation, longevity assumptions and investment returns. The impact of these sensitivities is set out in note 24 to the financial statements. The Board continues to make regular deficit reduction contributions each year based on the triennial actuarial valuation. This, combined with careful stewardship of the investment portfolio by the Trustees, in conjunction with the Group, has helped match the investments with the scheme's liability profile.

Following the triennial actuarial valuation of the scheme at 1 May 2020, the Group agreed a new schedule of contributions with the Pension Scheme Trustees, which assumed a recovery plan period of 4 years. Annual contributions have been £1.3m since 1 May 2021.

The next triennial actuarial valuation will be carried out at 1 May 2023.

Following the sale of Macfarlane Labels Limited, the company ceased to be a sponsoring employer. The Group is in discussions with the trustees regarding a Flexible Apportionment Arrangement to satisfy any obligation arising as a consequence of the sale.

The Group operates a number of defined contribution arrangements for the majority of the employee base. Over 750 of our employees are members of one of our pension scheme arrangements.

International Financial Reporting Standards and accounting policies

The Group continues to comply with all International Financial Reporting Standards adopted by the United Kingdom.

Going concern

The Directors, in their consideration of going concern, have reviewed the Group's cash flow forecasts and profit projections, which are based on the Directors' past experience and their assessment of the current market outlook for the business. The Group's business activities together with the factors likely to affect its future development, performance and financial position are set out in the Chairman's Statement and the Strategic Report on pages 4 to 40. The Directors have carried a detailed scenario analysis over three years to 31 December 2024 as set out in the Viability Statement on page 19.

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

Ivor Gray
Finance Director

24 February 2022

Viability statement

The Board is required to formally assess that the Group has adequate resources to continue in operational existence for the foreseeable future and as such can continue to adopt the going concern basis of accounting. The Board is also required to state that it has a reasonable expectation that the Group will continue in operation and meet its longer-term liabilities as they fall due.

To support this statement, the Board is required to consider the Group's current financial position, its strategy, the market outlook and its principal risks. The Board's assessment of the principal risks facing the Group and how these risks affect the Group's prospects are set out on pages 20 to 23. The review also includes consideration of how these risks could prevent the Group from achieving its strategic plan and the potential impact these risks could have on the Group's business model, future performance, solvency and liquidity over the next three years.

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

Financial modelling and scenarios

The Group's existing bank facilities comprise a £30m committed facility with Lloyds Banking Group, which is available until December 2025. The Group has performed well during 2021, despite the ongoing Covid-19 pandemic and challenging market conditions, which gives confidence in the strength of the underlying business model. The Directors have also considered the longer-term economic outlook for the UK. Given the current uncertainty of the economic outlook we have modelled a 'severe but plausible downside' scenario as described below. In forming conclusions, the Directors have also considered potential mitigating actions that the Group could take to preserve liquidity and ensure compliance with its financial covenants.

A detailed financial model covering a three-year period is maintained and regularly updated. This model enables sensitivity analysis, which includes flexing the main assumptions, including future revenue growth, gross margins, operating costs, finance costs and working capital management. The results of flexing these assumptions, both individually and in aggregate, are used to determine whether additional bank facilities will be required during the three-year period and whether the Group will remain in compliance with the covenants relating to the current facility.

We have modelled a range of scenarios, including a central case, a downside scenario, a severe but plausible downside and a reverse stress test, over the three-year horizon. The 'severe but plausible downside' scenario is conservative in assuming, compared to the central case, revenue reductions of 5% and gross margin reductions at the rate of 2% in each of the three years, with no reduction in costs. Even under this scenario, and before reflecting any mitigating actions available to Group management, the Group would forecast compliance with all financial covenants throughout the period and would not require any additional sources of financing.

The Group has also modelled a reverse stress test scenario. This models the decline in sales that the Group would be able to absorb before breaching any financial covenants. Such a scenario, and the sequence of events that could lead to it, is considered to be remote, as it requires sales reductions of c.15% per annum between 2022 and 2024, compared to the central case, before there is a breach in financial covenants in the period under review and is calculated before reflecting any mitigating actions.

Even in the severe but plausible scenario, Macfarlane Group is forecast to have sufficient liquidity to continue trading, comfortably meeting its financial covenants and operating within the level of its facilities for the foreseeable future. The reverse stress test modelling has shown that a c.30% reduction in sales in 2022 compared to 2021 could lead to a breach of covenants in the period under review. However, in this scenario, management would also be able to take mitigating actions to reduces its costs and conserve cash.

Conclusions

For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

The Board also has a reasonable expectation that the Group will continue in operation and meet its longer-term liabilities as they fall due.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group and the factors mitigating these risks are detailed on pages 20 to 23. These risks are complemented by an overall governance framework including clear and delegated authorities, business performance monitoring and appropriate insurance cover for a wide range of potential risks. There is a dependence on good quality local management, which is supported by an investment in training and development and ongoing performance evaluation.

We continue to evolve our risk management processes to ensure they are robust, effective and integrated within our decision-making processes. We have included a brief description of how we assess that each risk level has changed. For risks shown as ◀▶ the risk level is broadly similar between 2021 and 2020. If the risk is shown as ▲▼ the risk level has increased or decreased respectively during 2021 and is being addressed accordingly through mitigating actions by management.

The business has added Environmental Change as a new risk in 2021. This reflects the changing nature of the markets the Group operates in, with increased expectations from our stakeholders regarding how the Group mitigates the effect of its operations on the environment and responds to wider environmental concerns.

The business has also experienced continued impact from the Covid-19 pandemic and Brexit during 2021.

Response to Covid-19 pandemic ('Covid-19')

The Group continues to respond to Covid-19 with the focus being on the safety and wellbeing of our people, protecting our financial position and limiting the interruption of service to our customers. Covid-19 was not classified as a separate principal risk due to its pervasive effect across all the principal risks and uncertainties. These uncertainties will remain for some time and to date the Group has adapted well to the constantly changing conditions.

Response to Brexit

The new trading arrangement between the UK and the EU came into effect on 1 January 2021. Whilst there has been some disruption to the supply chain and an increased administration burden, the impact on the Group has not been significant – largely due to mitigation measures put in place. We continue to monitor the impact of ongoing negotiations over the Northern Ireland protocol and the full implementation of customs checks at ports which came into effect from January 2022.

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

Risk description	Mitigating factors	Change in risk level
Strategic changes in the market		
Failure to respond to strategic shifts in the market, including the impact of weaknesses in the economy as well as disruptive behaviour from competitors and changing customer needs (e.g. the move towards online retail) could limit the Group's ability to continue to grow revenues. **We monitor this through Net Promoter Score, an annual customer satisfaction survey and interaction with customers at our Innovation Lab.**	• The Group has a well-diversified customer base giving protection from changes in specific industry sectors as well as a flexible business model with a strong value proposition to meet the changing needs of customers. • The Group strives to maintain high service levels for customers ensuring that customer needs are met. The Group continues to invest in electronic trading platforms to further enhance its service offering. • The Group maintains strong partnerships with key suppliers to ensure that a broad range of products is available to respond to customers' requirements, including any changes in their environmental and sustainability priorities.	◀▶ • The Group's supply chain in 2021 has been stressed due to strong market demand for packaging resulting in a shortage of certain products and extended lead times from suppliers. With the support of strategic partners, the Group has continued to provide a good service to its customers in challenging circumstances. We expect these supply chain difficulties to continue into 2022. • During 2021 the Group has made a significant investment in a new Customer Relationship Management system to support customer service teams in managing the complex and changing needs of our customers in an increasingly competitive environment. The full benefit of this investment is expected to be realised from 2022 onwards.

Risk description	Mitigating factors	Change in risk level
Impact of environmental changes (new risk introduced in 2021)		
Customers are increasingly focused on the environmental impacts of packaging, changing their buying behaviours in response to climate and sustainability concerns. **Investors are looking to invest in companies that demonstrate strong Environmental, Social and Governance (ESG) credentials.** **There is increasing regulatory focus around reporting disclosures and new requirements, such as the Plastic Tax being introduced from April 2022.** **If the Group is not proactive and transparent in how it is responding to environmental changes, this could lead to a loss of employees, customers and investors.** **The key measure the Group monitors is Scope 1 and 2 CO_2 emissions.**	• The Group has implemented an ESG working group to examine specifically how we can reduce our impact on the environment. • The working Group is focused on measuring the CO_2 footprint and setting reduction targets for TCFD (Taskforce for Climate-related Financial Disclosures). • The Group has committed to the development of a transition plan towards net-zero, which is continually reviewed and adapted to latest demands and available technologies • Regular reviews of our environmental strategy are to be carried out at Board level to challenge performance against key milestones, as well as to ensure that priorities are aligned with stakeholder objectives.	• The Group recognises the increased significance of our ESG obligations. Our plans include actions to reduce our own carbon footprint, including the introduction of electric trucks to our fleet in 2022, as well as actions to support our customers on how to reduce their CO_2 emissions, including the roll-out of our new 'packaging optimiser' tool. • See Sustainability Report on pages 28 to 39.
Raw material prices		
The Group's businesses are impacted by commodity-based raw material prices and manufacturer energy costs, with profitability sensitive to input price changes including currency fluctuations. **The principal components are corrugated paper, polythene films, timber and foam, with changes to paper and oil prices having a direct impact on the price we pay to our suppliers.** **This risk is monitored through our procurement teams interacting with key suppliers and management regularly reviewing gross margin by customer.**	• The Group works closely with its supplier and customer base to manage effectively the scale and timing of price changes and any resultant impact on profit. Our IT systems monitor and measure effectiveness in these changes. • Where possible, alternative supplier relationships are maintained to minimise supplier dependency. • We work with customers to redesign packs and reduce packing cost to mitigate the impact of cost increases. • The Group has a well-established supplier relationship management process which is subject to periodic management review and auditing.	• Input prices have increased significantly and continuously throughout 2021 primarily due to rising timber, paper and polymer prices. The business has robustly managed these challenges and gross margins have remained strong throughout 2021, reflecting the effort of our teams to mitigate these increases. We expect upward pressure in input prices to continue into 2022. In addition, the Group is preparing for the introduction of the Plastics Tax in April 2022 with action plans being developed to minimise the impact on the Group and our customers through redesign, substitution or reduction in use of the affected products.

Principal risks and uncertainties
(continued)

Risk description	Mitigating factors	Change in risk level
Acquisitions		
The Group's growth strategy has included a number of acquisitions in recent years. There is a risk that such acquisitions may not be available on acceptable terms in the future. **It is possible that acquisitions will not be successful due to the loss of key people or customers following acquisition or acquired businesses not performing at the level expected. This could potentially lead to impairment of the carrying value of the related goodwill and other intangible assets.** **Execution risks around the failure to successfully integrate acquisitions following conclusion of the earn-out period also exist.**	• The Group carefully reviews potential acquisition targets, ensuring that the focus is on high-quality businesses which complement the Group's existing profile and provide good opportunities for growth. • Having completed a number of acquisitions in recent years, the Group has well-established due diligence and integration processes and procedures. • The Group's management information system enables effective monitoring of post-acquisition performance with earn-out mechanisms also mitigating risk in the post-acquisition period. • Goodwill and other intangible assets are tested annually for impairment with the results set out in note 10.	• The Group has made 14 acquisitions since 2014, including two in 2021, all of which continue to perform well. The Group has well-established due diligence and integration processes while only acquiring well established quality businesses which will perform well in the Group.
Property		
The Group has a property portfolio comprising 2 owned sites and 45 leased sites. This multi-site portfolio gives rise to risks in relation to ongoing lease costs, dilapidations and fluctuations in value.	• The Group adopts a proactive approach to managing property costs and exposures. • Where a site is non-operational the Group seeks to assign, sell or sub-lease the building to mitigate the financial impact. • If this is not possible, rental voids are provided on vacant properties taking into consideration the likely period of vacancy and incentives to re-let. • The Group engages with external property advisers to assess the level of provisioning required for dilapidations and negotiate to minimise the final costs.	• Our property consolidation strategy has continued during 2021. Work is ongoing to finalise exit costs following the expiry of three leases and there are known future exits from another three existing operating sites. Provisions have been established to cover the anticipated exit costs. (note 21) • The Group currently has no vacant or sub-let properties.
Cyber-security		
The increasing frequency and sophistication of cyber-attacks is a risk which potentially threatens the confidentiality, integrity and availability of the Group's data and IT systems. **These attacks could also cause reputational damage and fines in the event of personal data being compromised.**	• The Group continually invests in its IT infrastructure to protect against cyber-security threats. This includes regular testing of IT Disaster Recovery Plans. • We engage the services of a cyber-security partner to perform regular penetration tests to assess potential vulnerabilities within our security arrangements. • This is complemented by a program of cyber-security awareness training to ensure that all staff are aware of the potential threats caused by deliberate and unauthorised attempts to gain access to our systems and data.	• Remote working practices introduced in response to Covid-19 have now become the norm, with the Group adopting hybrid home/office flexibility for its employees. This is a feature within the Group's risk to cyber-security attacks. • The Group has continued to invest in prevention/detection software and education programmes to mitigate the risks of cyber-security attacks. • The frequency and sophistication of cyber-attacks is anticipated to continue to evolve, and the Group is committed to continually investing in upgrading its infrastructure to respond to the changing threats.

Risk description	Mitigating factors	Change in risk level
Financial liquidity, debt covenants and interest rates		
The Group needs continuous access to funding to meet its trading obligations and to support organic growth and acquisitions. There is a risk that the Group may be unable to obtain funds and that such funds will only be available on unfavourable terms. **The Group's borrowing facility comprises a committed facility of up to £30m. This includes requirements to comply with specified covenants, with a breach potentially resulting in Group borrowings being subject to more onerous conditions.**	• The Group's borrowing facility comprises a committed facility of £30m with Lloyds Banking Group PLC, which finances our trading requirements and supports controlled expansion, providing a medium-term funding platform for growth. • The Group regularly monitors net bank debt and forecast cash flows to ensure that it will be able to meet its financial obligations as they fall due. • Compliance with covenants is monitored on a monthly basis and sensitivity analysis is applied to forecasts to assess the impact on covenant compliance.	• The Group has proved to be strongly cash generative in 2021 and has operated well within its existing bank facilities throughout the year. • The Group's £30m committed facility with Lloyds Banking Group PLC was extended until December 2025.
Working capital		
The Group has a significant investment in working capital in the form of trade receivables and inventories. There is a risk that this investment is not fully recovered.	• Credit risk is controlled by applying rigour to the management of trade receivables by our Credit Manager and the credit control team and is subject to additional scrutiny from the Group Finance Director. • All aged debts are assessed, and appropriate provisions are made using the Expected Credit Loss model. • Inventory levels and order patterns are regularly reviewed and risks arising from holding bespoke stocks are managed by obtaining order cover from customers.	• Bad debt write-offs in 2021 have reduced from 2020 and this is reflected in the Expected Credit Loss allowance being decreased accordingly (note 14). • However, there continues to be uncertainty over the impact of the withdrawal of Covid-19 government support programmes and the ongoing effect of continuing Covid-19 restrictions on the wider economy and our customers. • Aged stock over 6 months old has increased in 2021 (note 13) due to challenging supply chain conditions. Extended manufacturing lead times and a shortage of some raw materials has required the Group to increase inventories to maintain good service to its customers.
Defined benefit pension scheme		
The Group's defined benefit pension scheme is sensitive to a number of key factors including investment returns, the discount rates used to calculate the scheme's liabilities and mortality assumptions. **Small changes in these assumptions could cause significant movements in the pension surplus/deficit.**	• The scheme was closed to new members in 2002. Benefits for active members were amended by freezing pensionable salaries at April 2009 levels. • A Pension Increase Exchange option is available to offer flexibility to new pensioners in both the level of pension at retirement and the rate of future increases. • The investment profile is regularly reviewed to ensure continued matching of investments with the scheme's liability profile.	• The IAS 19 valuation of the Group's defined benefit pension scheme as at 31 December 2021 estimated the scheme surplus to be £8.3m, compared to a deficit of £1.5m at 31 December 2020. • Deficit repair contributions reduced from £3.0m to £1.3m per annum following the triennial actuarial valuation at 1 May 2020. This reflects continued progress in reducing the deficit.

Stakeholder engagement s172 statement

Stakeholder group: Shareholders

Principal methods of engagement

Members of the Board normally engage with shareholders throughout the year at events such as the Annual General Meeting, the results roadshows and Capital Markets Days. Our Chairman also consults with major shareholders each year. Due to Covid-19 restrictions a mixture of face to face and virtual meetings were held throughout 2021. These meetings gave shareholders a number of opportunities to raise concerns. Presentations to Shareholders are also shared on the www.macfarlanegroup.com website.

Stakeholder group: Employees

Principal methods of engagement

The Board normally holds at least four of its meetings at different Group locations and this provides the opportunity to engage with the local teams and hear their views on working within Macfarlane Group. Due to Covid-19 restrictions in the last year 5 of 7 Board meetings were held virtually and employee representatives were invited to those meetings to engage with the Board on issues affecting employees, including Health & Safety and well-being. In addition, Executive Board members have held monthly communication meetings with teams across the Group to provide an update on key issues and discuss any concerns.

Stakeholder group: Pension members

Principal methods of engagement

The Group Finance Director attends all Trustee Board meetings of the Macfarlane Group PLC Pension & Life Assurance Scheme (1974) and works with the Board of Trustees to ensure the pension is funded in line with UK pension legislation to meet our commitments to the 560 current and former employees who are members of this pension arrangement. Feedback from each of these meetings is provided to the Board for consideration of any actions required in the interests of pension scheme members.

Stakeholder group: Customers

Principal methods of engagement

Teams at all our locations interact with our existing and potential customers in the Local, Core and National customer groups on a daily basis to understand and fulfil their product and service requirements. Using our 'Significant Six' sales approach we work with our customers to optimise their packaging requirements from both a value and sustainability perspective.

Stakeholder group: Suppliers

Principal methods of engagement

Our procurement teams and employees at all our locations interact with both our strategic and operating suppliers on a daily basis to ensure that the supply chain is robust and that the trading relationships with suppliers continue to operate well. In the last year, supply chain issues and shortages have been experienced across the industry and we have worked closely with our suppliers to ensure that their business has been maintained and can continue to serve our customers' requirements. The Group pays suppliers in line with agreed credit terms.

Stakeholder group: Local community

Principal methods of engagement

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 CO_2 emissions. We employ people from the local areas of each of our businesses and invest in their training and development.

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 for the benefit of its members as a whole and have done 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 the members of Macfarlane Group 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. Decisions may not affect all stakeholders equally. Depending on the particular matter requiring Board decision, this can mean that certain stakeholder Groups may be inadvertently adversely affected, but this will not of itself call into question the decisions made.

Given the listed status of the Company and the nature of its operational activities the Directors view the key Company stakeholders and means of engagement as shown in the table to the left.

In all cases, these engagement actions help to keep the Board informed throughout the year in relation to stakeholder concerns and priorities, such that, where appropriate, they can be taken into account within the Board's decision-making.

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 Macfarlane Group employees are empowered to make decisions locally that are aligned with those values but within a control framework which meets Group 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 during the year and the Stakeholder Groups impacted by those decisions.

Board decision: **Sale of the Labels division**

Stakeholder group engagement

- Shareholders
- Employees
- Customers

The Board reviewed the offer for the Labels division made by The Reflex Group Limited ('Reflex') in July 2021 and after robust assessment agreed the terms were good value for shareholders. Heads of terms were agreed and following extensive due diligence the Labels division was sold to Reflex on 31 December 2021 in line with the terms approved by the Board. The Board was regularly updated on progress by the Chief Executive and the Group Finance Director.

The Board, in making its decision to sell the Labels division, considered Reflex's future plans for the business and were satisfied that they were committed to the future success of the business and to maintaining a manufacturing presence and workforce in Scotland and Ireland. With their well-established position and scale in the labels market, the Board believed this created the best opportunity for the Labels division to develop and to continue to serve its customers and suppliers.

The Board concluded that the sale would allow the Group to focus its resources on growing its protective packaging businesses both in the UK and Europe for the benefit of all stakeholders.

Board decision: **Strategy**

Stakeholder group engagement

- Shareholders
- Employees
- Customers
- Suppliers
- Local community

The Board reviews the Group's strategic direction and growth plans during each calendar year. In doing so, it considers the position of its key stakeholder groups.

The Board approved the acquisition of Carters Packaging and GWP Group, concluding that the businesses acquired had a similar customer and business approach to Macfarlane and would be a good strategic fit, providing the Group with a strong packaging distribution presence in Cornwall and a significant strengthening of the Group's protective packaging manufacturing capabilities. As such, the Board concluded that the acquisitions were in the interests of suppliers, customers and employees of both the Group and the acquired businesses.

Each year the Board reviews and approves Corporate Defence documents designed to protect the value of Macfarlane Group and the interests of stakeholders in the event of an unexpected approach.

Board decision: **Performance**

Stakeholder group engagement

- Shareholders
- Employees
- Customers
- Suppliers

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.

At each meeting the Board receives reports from the Chief Executive and the Finance Director. These reports cover 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.

The activities of our competitors are reviewed, along with any potential impact on the Group and its stakeholders.

Stakeholder engagement s172 statement
(continued)

Board decision: Financing

Stakeholder group engagement

- Shareholders
- Employees
- Pension members
- Customers
- Suppliers
- Local community

The Board approves the terms and conditions attaching to the Group's major banking arrangement and receives regular reports confirming compliance with bank covenants. This provides assurance regarding the ability of the Group to continue to operate for the foreseeable future in the interests of all stakeholder groups.

The Board approves the payment of dividends to shareholders, taking into account distributable reserves and likely cash flows and the level of dividends relative to other financing requirements. In doing so, the Board considers the financing and free cashflows available to maintain its operations, to continue to meet its obligations to its employees and members of its pension scheme and to fulfil its strategic objectives in the interests of all stakeholders.

At the conclusion of each triennial actuarial valuation of the pension scheme surplus/deficit, the Board approves the contributions being proposed under the recovery plan for any deficit and ensures that these are within the financing and cashflow capacities of the Group. The formal schedule of deficit reduction contributions, following the conclusion of the actuarial valuation at 1 May 2020 was agreed in February 2021.

The Board approves all location moves, including property exits as well as the terms of new property arrangements, in order to ensure that these are aligned with the interests of all stakeholders and provide sustainable solutions for the long term success of the Group. In 2021, the Board approved the exit from property leases in Glasgow, Wigan and Manchester to move to new larger properties in Glasgow and Middleton to support the growth of the business in Scotland and the North West of England. The new Glasgow lease was for a period of ten years, with a break clause after five years and the Middleton lease is for a period of fifteen years with a break clause after ten years.

The Board considers and approves any items of capital expenditure with a value in excess of £100,000 and contracts which commit the Group to annual operational expenditure in excess of £250,000. During 2021 the major items approved were for four new corrugate box and die-cutting machines and mobile technology to enable hybrid working at a cost of £850,000. Major capital allocation decisions are a matter reserved for the Board, which considers the interests of all relevant stakeholder groups prior to approval.

Board decision: Risk

Stakeholder group engagement

- Shareholders
- Employees
- Pension members
- Customers
- Suppliers
- Local community

The Board reviews and monitors the Company's internal control framework ensuring regular updating of the Group and the business's risk registers. In doing so, it considers the effectiveness of the risk management and internal control systems in terms of the objective of providing reasonable but not absolute assurance against material misstatement relative to the interests of relevant stakeholders.

The Board regularly reviews the Group'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. These reports included measures to ensure the well-being of employees as the Group responded to changing government advice relating to the ongoing Covid-19 pandemic.

The Audit Committee confirms to the Board that the Internal Audit Plan has been completed and that all internal audit reports have been considered and action taken where necessary.

Board decision: **Governance and legal requirements**

Stakeholder group engagement

- Shareholders
- Employees

The Board conducts an annual review of its effectiveness and the effectiveness of the Board Committees, including the adequacy of its decision-making processes with regard to key stakeholder groups.

The Board considers current and future Board composition, with a focus on all forms of diversity and Board capability and reviews succession planning for both Executive and Non-executive Directors to ensure orderly succession.

The Board reviews the Annual Report, confirming that in its view, the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders and other stakeholders to assess the Group's performance, business model and strategy.

The Board reviews and satisfies itself with all other trading updates, including the AGM statement, the half-year report and trading update in the final quarter of the year.

The Board accepted the Audit Committee's recommendation to re-appoint Deloitte LLP as external auditor in 2021.

Board decision: **Culture and organisation**

Stakeholder group engagement

- Shareholders
- Employees

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

The Remuneration Committee reviews the remuneration packages for the Executive Directors and the Chief Executive's key reports each year. The Board reviews annual pay increases for Executive Directors each year, ensuring these are appropriate relative to the wider employee group.

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

The Board consulted with its largest shareholders on the triennial review of its Remuneration Policy on pages 56 to 62.

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.

Board decision: **Response to Covid-19**

Stakeholder group engagement

- Shareholders
- Employees
- Pension members
- Customers
- Suppliers
- Local community

The Board received regular updates on the Group's response to the Covid-19 pandemic from the Chief Executive, the Group Finance Director and the HR Director with particular focus on the health, safety and well-being of employees, service to customers and the Group's financial position.

Board decision: **Environment**

Stakeholder group engagement

- Local community

The Board recognises that the largest contributor to the Group's CO_2 footprint (71%) is the operation of its commercial vehicles used to deliver product to its customers. The Board approved the leasing of five electric commercial vehicles in 2021. The Board is committed to the gradual electrification of its commercial vehicles fleet as technology improves and the existing fleet is due for renewal as this is considered to be the most appropriate means to manage the risk and cost of progressing the Group's sustainability strategies and thereby serving the interests of both financial and wider stakeholders in the Group.

Sustainability report

TCFD report

In line with the listing rule for premium listed companies, the Group reports on its compliance with the Task Force on Climate-related Financial Disclosures ('TCFD'). This report sets out the climate-related financial disclosures in the Group for 2021. The Group is fully committed to the adoption of the TCFD's proposals, and we are keen to demonstrate our clear focus on climate change to investors and wider stakeholders. The report below sets out our progress in each of the four key TCFD reporting areas:

Strategy

In developing its strategy, Macfarlane Group recognises that the future trading landscape could look very different as climate change, including extreme weather events, becomes an increasingly important factor. Increasingly, customers are making choices towards using less packaging where possible, as well as selecting packaging that is more environmentally friendly.

As the leading protective packaging distributor in the UK, we have a responsibility to support our customers to make an informed choice around their packaging requirements, enabling them to achieve their sustainability objectives and meet the needs of their end-customers. The support we provide covers a number of areas:

- The main role of protective packaging is to reduce product damage during both storage and delivery. Product damage and returns create additional, avoidable carbon emissions, therefore minimising product damage is critical in the design and manufacturing service we provide to our customers.
- In designing their packaging, reducing the amount of packaging materials employed is fundamental and we achieve this by ensuring the protective packaging we sell is fit for purpose and also 'right-sized' for its contents, so minimising the amount of void fill in the pack and the amount of material used to carry the product.
- Our designs wherever possible use recycled materials and, where possible, the used pack can also itself be recyclable.
- In addition to ensuring the pack design is environmentally friendly we have a Packaging Optimiser tool that allows us to help reduce the carbon footprint of our customers in areas such as logistics, warehousing and operations.

Macfarlane Group is principally a distribution business and as such is ideally strategically positioned to provide our customers with unbiased advice. We can help them to make informed choices on pack designs, the most environmentally friendly materials and to work with manufacturing partners who themselves operate to a strong environmental agenda.

The risks are that we do not move fast enough for the market, or that we move too fast and alienate sections of the market. With our position in the market, it is vital that we obtain the right balance, demonstrating our environmental credentials by offering customers an informed choice for their protective packaging.

Macfarlane Group's exposure to climate change

We believe our business model is highly resilient to climate change. With our flexible footprint as a consequence of operating from leased facilities, as well as the ability to select which suppliers we partner with, we have a strong base from which to continue to offer customers an informed choice over the best protective packaging to suit their environmental goals.

- Through our Innovation Lab, we can continue to design bespoke packaging that adds value to the customer, and their end consumers – whilst also satisfying carbon reduction goals.
- We operate our own vehicle fleet using route optimisation software that ensures we minimise the miles driven and carbon used for all deliveries. Our performance in this area will improve as we switch our delivery fleet to electric vehicles in line with the planned technological advancements in electric vehicle design.
- Our financial planning takes into account key initiatives and investment required in sustainability in order to meet our CO_2 reduction targets.
- Our risk management process has highlighted both intermediate and longer-term risks relating to climate change. This includes the location of our distribution centres, which may be more likely to suffer extreme weather events such as flooding. In 2022 we plan to introduce scenario planning into our strategic process, to ensure our strategy remains robust and resilient in the face of a potentially very different trading environment in the intermediate and long term.

Going forward, there are opportunities to highlight the particular environmental credentials of the individual products we are selling, enabling targets to be set. This is the next initiative planned for 2022, which will allow us to report our future targets on the profile of the products we are selling, including their recyclability.

Governance

The Board has taken the view that climate change could have a significant impact on the operations of the business. This applies both to the current period, where stakeholders are increasingly aware of this issue, and longer term should extreme weather events increase in frequency.

- ESG is now a standing item on the Board agenda, providing the framework to discuss environmental issues at each meeting – including factoring in these considerations into major decisions. E.g. the proposal to introduce electric trucks in 2022 – a significant commitment, which was subject to Board scrutiny to ensure it is the right way forward for the business in meeting its climate goals.
- The Board considers the reporting of the Company's CO_2 emissions to be fair, balanced and understandable. As a growing Company with an acquisitive strategy, it is appropriate that we continue to assess our carbon emissions on a volume basis. The move to tonnage was seen as the best way to capture this, as a fairer barometer of carbon progress compared to the previous intensity figure based on sales.
- The executive sponsor for ESG is the Company Secretary. In 2022, a Head of Sustainability will be appointed, reporting to the Company Secretary and providing regular updates to the Board. Our ESG committee has a broad range of leaders from a wide spectrum of the business, including sales; procurement; operations and HR. This committee has responsibility for developing the sustainability strategy of the Company, as well as promoting sustainability throughout the Group.
- In 2022, the Board will continue to ensure it has the right skills and expertise on climate related matters – using external speakers where appropriate to bolster the existing personnel. The Board will continue to report against TCFD in the years to come, providing updates on progress made towards our goal of a CO_2 per tonne reduction of 30% by 2030. From 2022 onwards, targets will also be set in relation to the recyclability of our product range and the availability of replacement products which are more environmentally friendly.

Risk Management

Macfarlane has a robust approach to Risk Management, as outlined in the Principal Risks and Uncertainties section on pages 20 to 23 and the Governance section on pages 41 to 72.

- In 2021, a new risk was added to our corporate risk register, having previously only been visible at an operating risk level. This highlights the environmental challenge faced by the Company, both in the intermediate period and longer-term horizon including that of losing market share due to our environmental credentials not being perceived favourably, or even by moving too fast in this area. This transition risk reflects the risk of the market changing considerably in this area.
- There is also the risk of an increased frequency of extreme weather events affecting the operations at our sites. This transition risk and physical risk are only increasing in likelihood and consequently will be subject to regular review by the Board throughout 2022.
- Climate Change risk ties in with other risks faced by the business that could result in overall loss of market share. The risk is inclusive, as it embraces reputational risk from a perception of 'not doing enough' in this area, as well as pressure from shareholders, customers and end-consumers alike. The risk will be considered along with other key corporate risks on a rolling basis in 2022 as part of the regular Board agenda.

The Board has considered a 5-10 year horizon when considering environmental risk. Whilst the risk certainly pervades well beyond this, it is important in reinforcing our requirement to take action now or risk the consequences from acting too late. In line with the core Company value of integrity, our focus is on what clear actions we can take in the next period to 2030. This is why we have set our reduction target for 2030 accordingly, with a clear plan in place on how to achieve the reduction. While the Board fully supports the ultimate achievement of Net-Zero carbon emissions, at present no firm target is in place on when this will be achieved. This is because it is not in our nature to set vague or distant targets without a clear plan on how they can be achieved. Our 2030 target will require significant change and investment therefore that will be our key focus going forward.

Over the longer-term, we consider our business to be resilient and viable in a situation where global temperatures have risen 2 degrees or more. The key to this is the flexibility of our geographic footprint, through our leased facilities – as well as our strategic partnerships with suppliers where we can exercise flexibility as required. In 2022, plans are in place for scenario analysis to be conducted as part of our approach to strategic planning.

Metrics and targets

A detailed review took place in 2021 to determine the best approach for our business in determining appropriate metrics and targets. As the leading UK packaging distributor, we believe that making investments to reduce our own carbon footprint complements our business model and strategy by ensuring we continue to operate with strong and demonstrable sustainability credentials.

Sustainability report
(continued)

The Company has used external expertise from 'EcoAct' in capturing our carbon emissions for the year. From 2022, we also plan to work closely with Renault on their new 16 tonne electric truck, providing data and feedback to them on its performance. This will allow a partnership to develop which could pave the way for future collaboration in a more extended and faster roll-out of our electric truck fleet.

The methodology behind the metrics is similar to other companies in the sector, with CO_2 per tonne deemed the most appropriate measure to capture the planned reductions. Also in 2022, for the first time an environmental objective will be built into the personal objectives of the senior management team. This is a positive step, signifying that real actions and progress are expected in the intermediate period, rather than just talking about green initiatives. At present we have chosen to focus on Scope 1 and 2 CO_2, being the direct emissions that we can fully control. Only once our action plan is embedded and significant progress made towards our planned 2030 target, would we look to perform a review including our Scope 3 emissions.

1. Our carbon footprint

Our own direct (Scope 1 and 2) carbon footprint is the first important metric for us to track. Following a detailed review of our carbon emissions, the following target has been set:

- By 2030, we will have reduced our CO_2 per tonne of sales by 30%.

This target is greatly dependent on further advances in battery technology used in electric trucks, given this currently comprises two thirds of our carbon footprint. In 2022, we will publish our timetable showing the assumptions and investment required to get us to net zero by 2050. The Board's policy is to keep the targets under review, and to be prepared to increase them where this is facilitated by transition in operating cost reductions and advances in technology.

2. Our products

As a packaging distributor, we believe the products we sell and their usage by our customers is a key element of our environmental strategy. Therefore, the aim is to reduce the number of products we sell that are currently not recycled, or have less than 30% recycled content. By 2025, we aim to have 90% of our products containing at least 30% recycled content, and we will report on progress in this each year. We will also include a planned annual target of how we have reduced the CO_2 of our customers operations, through more efficient packaging usage and materials.

3. Other carbon targets

- We aim to have all of our sites FSC certified by 2025 (currently 77%). From 2025-2030, the focus will shift to specific product FSC certification.
- By 2025, 100% of our energy will come from renewable sources.

4. Other natural resources

(i) Water

Our business model requires very little water usage, given our relatively small manufacturing footprint compared to our distribution business. This is a balance we will seek to maintain, therefore keeping our water usage low is of paramount importance in our strategy and business model.

(ii) Waste

Currently 99% of our waste avoids landfill – we plan to maintain this and increase to 100%, as well as continue to promote our recycling arm as an option for customers.

(iii) Land-use

Our use of land is limited to the running of warehouses close to our customers, geographically spread across the UK and Ireland, and expanding into mainland Europe. The flexibility of leased facilities means we do not require any significant alteration of the premises/land where we do business. We plan to maintain this operating model, with limited usage of natural resources.

Summary

Overall, we have made a firm commitment with our 30% reduction in CO_2 per tonne of goods sold. In 2022 we will commence our action plan to begin these CO_2 reduction initiatives, as well as perform a detailed review of our product lines to develop targets on recyclability and % recycled content. Further detail on these environmental targets can be found in the ESG section of our Sustainability Report on pages 32 to 35.

ESG report

Overview and introduction from our CEO

Protecting what matters

At Macfarlane Group we recognise our responsibilities to operate and invest in our business to improve sustainability. We also understand our role in supporting our customers to minimise the impact their operations have on the environment.

Consequently, we have set stretching targets for reducing Macfarlane Group's carbon emissions and are sharply focused on implementing initiatives that help our customers achieve their sustainability objectives.

A particular highlight of the past year has been Macfarlane Group achieving a Gold rating in the EcoVadis sustainability survey. This rating puts the Group in the top 5% of companies assessed globally within our industry for sustainability performance across key areas including environment, labour & human rights, ethics and sustainable sourcing. 2021 also saw us launch our employee assistance programme aimed at improving our response to mental well-being in the workplace.

The next year will see us add electric vehicles to our commercial logistics fleet and increase our sustainable packaging portfolio. This will ensure that, wherever possible, the packaging products that we sell are either sourced from recycled materials or are fully recyclable once they have performed the vital task of protecting our customers' products on their way to market.

The support we offer customers using our Significant Six Programme has and will continue to be a key aid in enabling them to reduce their carbon emissions. By helping our customers reduce damages, minimise their packaging use, optimise their warehouse footprint and decrease vehicle movements we can demonstrate how we can help them achieve their sustainability goals.

In the past year, Macfarlane Packaging's sixth Annual Unboxing Survey has highlighted the need for businesses to respond to the sustainability expectations of their customers. 2022 will see the launch of our latest sustainability initiative, the Packaging Optimiser™. This unique tool will help us demonstrate to customers how packaging innovation can transform supply chains, help reduce material use and make carbon emissions savings – all at the click of a mouse.

In the pages that follow in this first Macfarlane Group Environment, Social and Governance Report we have set out our corporate responsibility goals for the next eight years. I am confident that, the successful execution of the actions we have planned will ensure we make further meaningful progress in contributing to a sustainable future for us all.

Peter Atkinson
Chief Executive Officer

Sustainability report
(continued)

Highlights 2021

- 20.7% CO_2e intensity reduction in 2021 (1.6% absolute reduction).
- Five new electric trucks ordered and being added to the Macfarlane Group delivery fleet in 2022.
- Charitable employee engagement events including supporting Mental Health Awareness Week by encouraging colleagues to reconnect with nature in 2021.
- 99% of Macfarlane Group waste diverted from landfill.
- Helping customers reduce waste & CO_2 through optimised packaging.
- 48 – our average Net Promoter Score for 2021 (2020:53).
- Significant investment in new health & safety management system.
- Macfarlane Group given an EcoVadis Gold rating in 2021.

Protecting what matters…
How we manage Environment, Social and Governance (ESG)

We manage ESG through our ESG committee, which is chaired by our HR Director. The committee meets monthly and reports directly to the Board. Macfarlane's ESG committee is guided by our core values and has clear objectives that drive our ESG strategy.

Our ESG committee objectives

1. To improve the awareness of ESG across the Group.
2. To develop and implement action plans that support the Group's ESG strategy.
3. To ensure that ESG is an integral part of daily operational activities.
4. To monitor and report on ESG performance using agreed key performance indicators.

This report will provide an insight into our ESG focus areas, highlighting the targets and initiatives we are implementing. The report is set out into three key sections: Environment; Social; and Governance.

Environment

Tackling carbon emissions and climate change

What we are doing about it

- Macfarlane currently emits 6,676 tonnes of carbon (2020: 6,786T).
- The major sources of carbon emission are fuel for our fleet (4,809T) and our electricity usage (1,211T).
- By 2030 we will reduce our scope 1 and 2 carbon emissions (CO_2e) by at least 30% per tonne of products sold compared to 2020.

Macfarlane Group initiatives to tackle carbon emissions and climate change

- Aiming to convert the delivery fleet to 50% electric vehicles by 2030. The first five electric vehicles will be introduced to the fleet in 2022. 100% of vehicles of 3.5tn or under will be electric by 2030. All new vehicles have zero emissions. Assuming technology develops allowing greater range and payload we would expect beyond 2030 to have the majority of our fleet converted to electric vehicles. This commitment to electric vehicles has been made despite a significant cost disadvantage over the existing fleet. (Estimated tCO_2e saving of 1,500 tonnes per year)
- Introduction of a driver performance scheme from 2021 to encourage optimal driving behaviour that reduces fuel consumption and emissions. This programme makes use of telematics to track speed, braking and acceleration. (Estimated tCO_2e saving of 250 tonnes per year)
- The Paragon software and vehicle tracking system will be operational at all Macfarlane locations by the end of 2023. This initiative will allow Macfarlane Group to increase Paragon utilisation to 100% to further reduce emissions created by our delivery fleet. (Estimated tCO_2e saving of 15 tonnes per year)
- 50% of Company cars will be electric by 2026. Macfarlane Group commits to offering Company car users more choice of electric vehicles. To support all employees using electric vehicles, 100% of Macfarlane Group sites will have electric vehicle charging points by 2030. (Estimated tCO_2e saving of 180 tonnes per year)
- Solar panels to be installed at one Macfarlane Group site per year, saving an average of 20 tonnes of CO_2e per site. We aim for solar panels to be installed in at least 10 sites by 2030. (Estimated tCO_2e saving of 90 tonnes per year)

Mandatory greenhouse gas reporting 2021

The Group seeks to minimise the impact of our operations on the environment and is committed to reducing its greenhouse gas ('GHG') emissions. This report outlines the Group's GHG emissions for 2021. Using an operational approach, the Group identified its boundaries to ensure all activities and facilities for which it is responsible were being recorded and reported in line with Scope 1 and 2 of the SECR regulation, which applies to Company financial years starting on or after 1st April 2019. Relevant data was provided to an independent consultant, EcoAct. The validity, accuracy and completeness of the data was audited by EcoAct and then used to calculate the GHG for Macfarlane Group. Calculations were completed in accordance with the main requirements of ISO-14064-1 standard and deliver both absolute values and an intensity ratio for Macfarlane's emissions. Activities conducted in the Republic of Ireland, the Netherlands and Sweden, and Scope 3 (Business travel fuel) are now included in the calculations as per the SECR regulations.

The Group used total turnover (£000) in the reporting period to calculate the intensity ratio, as this allows emissions to be monitored over time, taking into account changes in the size of the Group. This method was historically chosen because it provides the greatest degree of accuracy. While the turnover basis allows for business growth to be considered, it can include variances due to material price increases. Therefore, from 2022, we plan to use tonnage as a basis for the intensity.

Type of emissions

Type of emissions	Activity	**2021 Units**	2020 Units	**2021 Tonnes of CO_2e**	2020 Tonnes of CO_2e
Direct (Scope 1)	Natural gas (kWh)	**2,375,152**	2,442,273	**435**	449
	Vehicle fuel (litres)	**2,503,822**	1,850,967	**4,809**	4,785
	Other	**50,627**	86,721	**221**	161
	Sub-total			**5,465**	5,395
Indirect (Scope 2)	Purchased electricity (kWh)	**5,700,248**	5,968,628	**1,211**	1,391
	Sub-total			**1,211**	1,391
Total gross emissions (tCO_2e)				**6,676**	6,786

Intensity ratio

	2021	2020
Total gross GHG emissions (tCO_2e)	**6,676**	6,786
Total sales (£000)	**285,685**	230,029
Carbon intensity (tCO_2e/£000)	**0.0234**	0.0295

Business segment

Business segment	**2021 Tonnes of CO_2e**	2020 Tonnes of CO_2e	**2021 Sales £000**	2020 Sales £000	**2021 tCO_2e/£000**	2020 tCO_2e/£000
Packaging Distribution	**4,949**	5,185	**239,508**	201,739	**0.0207**	0.0257
Manufacturing Operations	**1,727**	1,601	**46,177**	28,290	**0.0374**	0.0566
Total	**6,676**	6,786	**285,685**	230,029	**0.0234**	0.0295

The tables above include the Labels division sold on 31 December 2021.

Protecting natural resources

What we are doing about it

Macfarlane Group is taking a range of actions that aim to conserve natural resources for future generations...

- All sites will be assessed for water stress in 2022. High-risk sites will have action plans put in place to lower water usage. Reminders about conserving water will also be put in place at all sites.
- We aim for 100% landfill avoidance by 2030. Currently, over 99% of waste generated by Macfarlane Group avoids landfill and is re-used or recycled, contributing to a circular economy.
- We will remove half a tonne of paper from Macfarlane Group warehouse operations by the end of 2022. This will be achieved by introducing a digital iWMS system across at least five sites during 2022 alone.
- By the end of 2024, the head office in Coventry will use 75% less paper compared to 2020. Processes will be gradually digitised to reduce paper consumption.
- 100% of Group sites will be FSC® certified (FSC® – C149407) by the end of 2025. This gives us the ability to source all paper and timber products from sustainably managed forestry. Currently 27 sites are FSC certified.
- We aim to have 100% of our energy coming from renewable sources by 2025, and are committed to reducing our overall energy usage.

Closing the loop through better design and sourcing

Why it matters

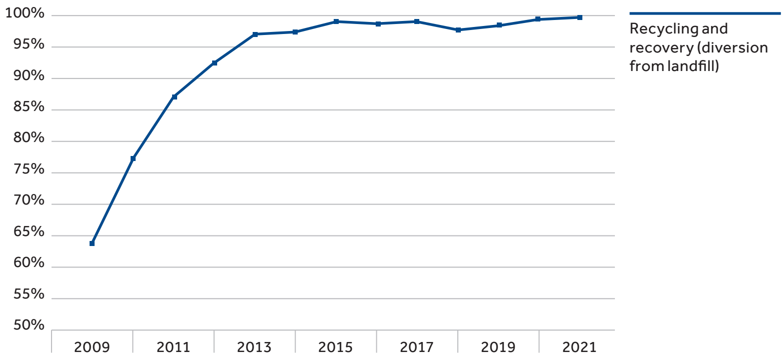
Packaging is an essential component to most supply chains to ensure products arrive at their destination safely and intact to prevent the need for multiple trips. However, it is important that this packaging uses the minimum amount of materials and that these are as recyclable and contain as much recycled content as feasible whilst still performing as required.

What we are doing about it

Macfarlane Group is committed to helping create a circular economy. This is helped by our primary focus on corrugated paper products, which are intrinsically environmentally friendly. They can be recycled up to seven times and are compostable at end of life. We will do this by ensuring better packaging design and sourcing. Our initiatives and goals include:

- By 2025 at least 90% of products will contain recycled content.
- By 2025 at least 90% of products will be recyclable.
- We are committed to applying clear and consistent recycling instructions on any own-brand packaging we supply, to support end-user recycling.

Recycling and recovery rate



Waste management reporting 2021

The Group continues to manage waste generated through its activities in a legal and environmentally responsible manner. Waste generated at our sites is segregated into differing waste streams and manufacturing sites continue to re-use material where possible. This includes recent projects such as the installation of a CAD (computer aided design) cutting machine to maximise the efficient usage of corrugate and reduce waste. The overall waste tonnages increased in line with full year reporting of acquisitions and additional sales within the Group whilst maintaining our waste management objectives to deliver a high recycling and recovery rate.

Leading sustainable change in protective packaging

Why it matters
We recognise our responsibility to lead sustainable change in packaging distribution through ethical and environmentally friendly procurement and sourcing. Packaging should be designed with consideration of its entire lifecycle to help reduce its impact on the planet.

What we are doing about it
- Macfarlane Group will invest in circular design & sustainability requirement training for procurement colleagues and our Innovation Lab teams.
- Macfarlane Group is committed to ethical sourcing – we are a member of Sedex, who provide independent verification of responsible operations and ethical sourcing.

Social

Supporting our customers to build a sustainable future

Why it matters
Our success is dependent on us meeting the needs and aspirations of our customers and their customers. Packaging plays a key part in the sustainability goals for businesses, with many looking to reduce packaging use and minimise material waste.

What we are doing about it
The Group works in partnership with its customers and suppliers to ensure that we provide an expert, independent and tailored approach, which takes into consideration the impact which the products and services we provide have on the environment. To measure how we are supporting customers and continually improving our products and services we have put the following goals and initiatives in place:

- By 2025 we aim for our distribution Net Promoter Score to be 60 to ensure we are providing world class customer satisfaction.
- Macfarlane Group aims for customer satisfaction scores in our annual survey for all divisions to remain above 90%. By 2025, we aim for this to be 95%.

The following improvement projects will be introduced in 2022 to continue to enhance the experience we provide to our customers.

- Microsoft Dynamics will be introduced in 2022 as the new Macfarlane Packaging CRM system. This will allow us to protect and use customer data more effectively to make sure customers are offered products and services that enhance their experience.
- In 2022 we will launch the Packaging Optimiser – an interactive, customer-facing cost and emissions saving tool. The tool calculates the impact that improved packaging can have on a supply chain. It can illustrate savings in financial cost, labour time and CO_2e reduction and will help Macfarlane Group customers make informed choices about their packaging materials and sustainability.
- 100% of front-line distribution sales staff will be trained in 2022 to use the Macfarlane Packaging Optimiser so they can help customers make informed choices about sustainability and packaging.
- In 2022 we will introduce a Microsoft Customer Voice to help provide better customer experience – the software will allow us to analyse and track real-time customer feedback to improve the overall experience we provide to customers.

Net Promoter Score/customer satisfaction

	2021	2020
NPS	**48**	53
Annual customer satisfaction score	**91%**	91%

Commentary
In 2021 the team has been focussed on meeting the needs of our customers in an unprecedented environment including global supply chain challenges and material price increases.

Sustainability report
(continued)

Investing in the community we serve

Why it matters

Engaging with the community and its stakeholders is more than providing financial support. Macfarlane Group believes that understanding the communities within which we operate allows us to serve our people and stakeholders in these local areas better and more sustainably. To support our approach, we give our employees the opportunity to get involved in community projects, including fundraising, and supporting charity initiatives throughout the year.

What we are doing about it

Macfarlane Group has several initiatives aimed at supporting the communities we serve, including:

- We will support our colleagues in raising funds for charitable causes alongside our own pro-active fundraising.
- Our colleagues have the opportunity to spend at least one day per year volunteering through our community engagement scheme.

Protecting our colleagues and culture

Why it matters

Our colleagues make the difference in our business. The value added by each individual ensures Macfarlane Group continues to grow and remain successful. By enabling, encouraging, and empowering our people whilst striving for an inclusive culture where colleagues have the confidence to be themselves, Macfarlane Group is aiming to create a culture where everyone can achieve their full potential.

What we are doing about it

Macfarlane Group has a wide range of initiatives that help to protect and develop our colleagues and culture:

- We protect the wellbeing of our colleagues now and in the future through assistance programmes. This includes independent specialised counselling; Health & Wellbeing 24 hour support line and on-line portal and fully qualified Mental Health First Aiders. There is also dedicated support on issues relating to Covid-19.
- We aim to increase employee engagement and employee voice through our colleague surveys, colleague focus groups and forums.
- We aim to increase the awareness of Diversity, Equity and Inclusion (DEI) through mandatory training for colleagues in leadership roles in 2022.
- 100% of managers will have full DEI training by the end of 2022.
- Each site will have a DEI champion by 2023.

Employee development

Macfarlane Group believes that each employee should be provided with the opportunity to realise their potential. Through several mechanisms, including Career Development Plans, apprenticeship schemes and the Macfarlane Leadership Programme, we provide a platform for personal development and career enhancement whilst also ensuring, through structured training, that employees have the correct skills and knowledge to effectively fulfil their role.

The significant developments in technology within Macfarlane Group over the past two years have enabled us to enhance virtual training programmes, supporting our ability to engage all employees in their development no matter where they are geographically located. The Group has provided an average of 16 hours of training per employee in 2021, an increase on previous years (2020: 10 hours).

Employee engagement

Our aim as a business is to be an inclusive employer of choice. The successful engagement of our employees is not only critical to us achieving this aim but also in ensuring the overall success of the business.

Excellent colleague communication continues to be a key area of focus. We have a framework of internal communication channels which seek to inform, engage and inspire individuals on matters of potential interest to them alongside wider business performance.

We encourage the engagement of every colleague to ensure the delivery of an outstanding service to our customers. This is achieved through a number of tools including business update sessions run by our CEO, functional forums, regular structured meetings, focus groups, informal review meetings and employee surveys. These methods, along with individual one-to-one discussions, provide opportunities for individuals to engage in two-way dialogue covering topics such as the overall well-being of our employees in addition to business and personal performance.

The Group-wide implementation of Microsoft Teams has improved the level of connectivity across the business. Platforms such as this, along with tools such as Yammer, will enable us, to continue to widen our feedback and engagement channels.

Employee well-being

Inspiring and enabling our colleagues to fulfil their potential starts with supporting their overall well-being. We are passionate about creating a culture where all our colleagues feel able to seek support and have access to helpful resources. Throughout the year we raised awareness of mental ill health and encouraged all our colleagues to understand that mental health is an issue for everyone.

Guides, support tools and online training have been made available to all employees with the aim of creating a healthy, supportive working environment. A full Employee Assistance Programme (EAP) is available 24 hours a day to all our colleagues with Mental Health First Aiders available for support in the workplace.

As a Group we understand how important a healthy home life is to an individual's well-being. Flexible working practices, including hybrid working, are adopted whenever possible to support the ability of employees to manage the demands of both work and home.

Diversity

Throughout Macfarlane Group we continue to work to create a more diverse and inclusive culture. This will in turn improve our performance, better reflect the communities we operate within and enhance our employee engagement. In support of this aim we plan to improve the quality of the diversity information we gather on our colleagues over the next 12 months.

The gender breakdown of Directors, Senior Managers and other Group employees at the year-end is shown in the table below.

Gender Pay Gap

Macfarlane Group has previously reported its Gender Pay Gap information for the snapshot date 5 April 2020. As with many organisations there was an impact of furlough on the calculations used to produce the data. However, this was not significant for Macfarlane as the number of males and females placed on furlough were similar.

The report showed men's mean hourly rate to be 5.9% higher than women's and women's median hourly rate to be 4.6% higher than men. As with previous years the median pay gap in favour of women is reflective of our sales function being predominantly female, while the lower earning band of employees in production and logistics is predominantly male.

These results do however change when reviewing the mean pay gap information. This is reflective of the demographics of the Senior Executive team and those Printers (typically male) employed in Macfarlane Labels as skilled professionals, who receive competitive basic pay and a full shift system, offering a significant uplift on standard hourly rates.

Macfarlane Group is a progressive company operating in a traditionally male oriented sector. We continue to engage in initiatives that promote a career in Logistics and Production to those in under-represented groups, and our focus on this area will enable us to build toward having a more diverse organisation in future years.

Macfarlane Group Gender Pay Gap information can be found on our website (www.macfarlanegroup.com).

Human rights

Macfarlane Group does not currently have a specific human rights policy. However, it does have a range of policies which reflect established human rights principles. These include:

- Equality – We are committed to providing equality of opportunity to colleagues and potential colleagues.

This applies to recruitment, training, career development and promotion, regardless of physical ability, gender, sexual orientation or gender reassignment, pregnancy and maternity, race, religious beliefs, age, nationality or ethnic origin. Full and fair consideration is given to employment applications by people with disabilities wherever suitable opportunities exist, having regard to their particular aptitudes and abilities.

Striving to ensure that the work environment is free of harassment and bullying and that everyone is treated with dignity and respect is an important aspect of ensuring equal opportunities in employment and there is a specific Dignity at Work Policy, which deals with these issues. Where an employee becomes disabled, every effort is made to ensure that their employment with the Group continues and that appropriate adjustments are made. Disabled employees receive equal opportunities regarding selection for training, career development and promotion.

- Engagement – the Group recognises the importance of meaningful communication and consultation in maintaining good employee relations. This is achieved through formal and informal meetings across all business units.
- Anti-bribery and corruption – the Group has an anti-bribery and corruption policy, which is supplemented by a gift register and an associated policy on accepting gifts. This was externally reviewed in 2020.

Diversity

	2021		2020	
	Male	**Female**	Male	Female
Directors	**6**	**1**	6	1
Senior Managers	**14**	**8**	11	5
All other employees	**677**	**351**	547	285

- Whistleblowing policy – there is provision for employees to use an independent service if they are not comfortable speaking to anyone within the Group about any matters which give them concern. This service is promoted throughout the Group. This provision was extended during 2020 to include a specific support line linked to Covid-19 and the Health & Safety of every stakeholder.
- Modern Slavery Act – each year, the Group make a statement under the Modern Slavery Act which is supported by internal procedures to ensure that the principles of the act are adhered to.

The statement is available on the website (www.macfarlanegroup.com).

No material breaches of the above policies were noted during 2021, nor were any matters of significant concern reported through our whistleblowing service.

Health & Safety

Macfarlane Group continues to adopt a risk-based approach to our Health & Safety programme. This ensures that resources are directed in the most efficient and effective way possible.

In 2021 we:

- Invested in a new Health and Safety Management System (SHE Assure Software) – to assist with the reporting of Leading and Trailing Indicators and ensuring improvement actions created are tracked and implemented.
- Added a new Regional Health and Safety Advisor to the existing team – to help drive operational safety compliance, deliver training, and help achieve our strategy.
- Reviewed and developed Policies and Procedures around Covid-19 – ensuring our workplaces remain safe.
- Introduced a New Driver and Warehouse employee SOP (Safe Operating Procedure) – this was implemented across the Group and will continue moving forward.
- Continued the integration of acquired businesses into our Management Systems.

Five reportable incidents occurred in 2021 compared to 7 in 2020. All reportable incidents are investigated thoroughly by our Health & Safety team and changes to working practices implemented if required. We also ensure that training in a particular area where incidents have arisen is reinforced.

Slips, trips, and falls are the highest cause of reportable incidents and we continue to review and improve our training and oversight of these activities as part of our ongoing commitment to the safety of our people.

The Accident Frequency Rate ('AFR') representing the number of reportable incidents per 100,000 person-hours worked is shown below.

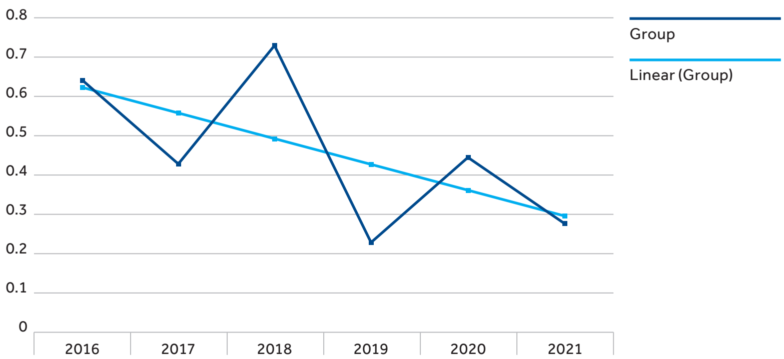
In 2022, our aim is to continue the journey towards zero harm by raising our standards and expectations. This includes implementing a positive safety culture throughout the Group using continuous improvement methodology. We aim to drive this process through:

- Continued implementation and integration of Health & Safety Management System Software (Evotix) to identify any areas of concern, learnings and trends. We will use this information to drive improvement in our Health and Safety Culture.
- Implementing a programme of behavioural safety to drive further focus and improvement.
- Encouraging and promoting good working practices.
- Accident investigation and root cause training.
- Analysis of all incidents, accidents, and high potential near misses.
- New enhanced Operational Safety Audits to be conducted using the Evotix Software.

Accident Frequency Rate (AFR)

	2021	2020	2019	2018	2017	2016
Packaging Distribution	**0.22**	0.18	0.15	0.48	0.53	0.42
Manufacturing Operations	**0.50**	1.17	0.43	1.20	0.22	1.11
Group	**0.28**	0.45	0.23	0.73	0.43	0.64

Group AFR



Governance

Board

Background

- The Board makes decisions in full consideration of their potential effect on the environment, employees and local communities. In 2022 ESG will be embedded as a standing item on the Board agenda. It is clearly understood that only with a firm commitment to sustainability can the Group continue to grow and flourish.

Diversity

- The Board is fully committed to diversity, on the basis that the best quality personnel from a range of backgrounds can enhance the overall quality of our business. This is also fully supported across the Group. The lack of gender pay gap in the organisation is clear evidence of this positive approach.

Executive pay

- Macfarlane Group is proud of its prudent and transparent approach to Executive Remuneration. Further details on this can be found in our Directors Remuneration Report on pages 46 to 55.

Tax

- Macfarlane Group takes a highly conservative and prudent approach to meeting its tax obligations, ensuring it pays the right amount of tax in a transparent manner. This includes no elaborate overseas schemes to avoid tax, with the appropriate tax paid in all the territories in which we operate.

Ethics

- There are clear policies in place to promote strong ethics in the business. This is further supported by our core value of integrity, ensuring that is the basis for our key decisions and interactions.

About this report

How we have measured our carbon emissions

To measure the carbon emissions EcoAct (Atos) has used the main requirements of the standard ISO 14064:2018 Greenhouse gasses – Part 1, specifications with guidance at the organisation level for the quantification and reporting of greenhouse gas emissions and removals.

In this report, the term Carbon emissions not only includes carbon dioxide (CO_2) but all other greenhouse gasses: methane (CH4), nitrous oxide (N_2O), hydrofluorocarbons (HFC), perfluorocarbons (PFC) and sulphur hexafluoride (SF6).

Carbon emissions are calculated and reported in tonnes of CO_2 equivalent (tCO_2e) following recommended best practice.

The carbon footprint calculations use published emission factors and agreed formulae taken from the UK Government Conversion Factors for Company Reporting, Department for Business, Energy and Industrial Strategy (BEIS) 2021 and the International Energy Agency electricity emissions factors 2020.

Non-financial information statement

The table below sets out how the Group has complied with the Non-Financial Reporting Requirements set out in Sections 414C and 414CB of the Companies Act 2006. Where these provisions do not form part of the Strategic Report, they are deemed to be incorporated by cross-reference for the purposes of compliance with these sections.

Reporting requirement	Details including the impact on Macfarlane Group including any risks in relation to these matters and financial and non-financial KPIs
Business model	Our business model is described on page 8.
Outlook and developments	Main trends/factors likely to affect the future development, performance and position of the business including KPIs are set out in the Business and Finance reviews and in the Sustainability report both within the Strategic review on pages 4 to 40.
Principal risks	The principal risks, potential adverse impacts and mitigating actions are set out in the Principal risks and uncertainties section on pages 20 to 23.
Stakeholder engagement	The Stakeholder engagement section on pages 24 to 27 includes details summarising how Directors have had regard to the need to foster the Company's and the Group's business relationships with all stakeholders, and the effect on the principal decisions taken by the Group during the financial year.
Employees	The main policies and interactions with our employees are set out in the Business Review on pages 10 to 15, Principal risks and uncertainties on pages 20 to 23, the Stakeholder engagement section on pages 24 to 27, the Employees section of the Sustainability report on pages 35 to 38 and the Directors' remuneration report on pages 46 to 55.
Environmental matters	Environmental matters are disclosed in the Environmental care section of our Sustainability report on pages 32 to 35 and the Stakeholder engagement section on pages 24 to 27.
Financial risk management	Details of the use of financial instruments and financial risk management are set out in the Finance review on page 18.
Human rights	Details of our policies in these areas are set out in the Human rights section of our Sustainability report on page 37 and the Stakeholder engagement section on page 27.
Social and community matters	Social and community matters are disclosed the Stakeholder engagement section on pages 24 to 27 and the Sustainability report on pages 35 to 38.
Anti-bribery and corruption and whistleblowing	Details of our policies in these areas are set out in the Human rights section of our Sustainability report on page 37.
Post year end events	Details of important events affecting the Group which have occurred since the end of the financial year are included on page 117.
Overseas branches	Details of the Group's overseas branches are included on page 132.

Chairman's introduction to governance

Macfarlane is a proud company which is value-led, and has a strong culture of integrity.

Dear shareholder,

I am pleased to present the Group's Corporate Governance Report for the year ended 31 December 2021. The business aims to apply and maintain the highest standards of Corporate Governance, offering a strong framework that delivers and protects value for all our stakeholders. Further detail on how we engage with our stakeholders, as per s172 of the Companies Act 2006, can be found on pages 24 to 27. A recent example of this comes with our triennial review of remuneration policy, where we consulted with our largest shareholders. This will be submitted to shareholders for consideration at the Macfarlane AGM in 10 May 2022, with details found on pages 56 to 62.

Board effectiveness

The Board undertakes a performance evaluation each year to ensure that the Board and its underlying Committees are operating effectively. Details of this evaluation are covered within the Corporate Governance Report. The findings confirm that the Board has the right balance of skills, experience, knowledge and independence, further reinforced by the appointment of Aleen Gulvanessian on 1 October 2021.

Compliance with the UK Corporate Governance Code

The Board confirms that, during 2021, the Group has complied with the provisions of the Corporate Governance Code (the 'Code'). There is a culture of integrity on the Board, which underpins our transparent approach with our key stakeholders.

There is also a highly transparent approach to Executive Remuneration, as outlined in our Directors' Remuneration Report on pages 46 to 55. With regard to provision 38 of the Code, the Board has taken action to ensure that, by the beginning of 2023, our executive pensions will be in line with the wider workforce. A full version of the Code can be found on the Financial Reporting Council's website **www.frc.co.uk**.

Sustainability

As the leading packaging distributor in the UK, we have a vital role to play in the sustainability of our products and in the circular economy. The Board places great emphasis on this and other Environmental, Social and Governance ('ESG') matters, with ESG now a standing item on the Board agenda. I am pleased that in 2021 the Board approved the leasing of five electric trucks as part of a wider rollout planned across the Group's distribution fleet, demonstrating our commitment to reducing our carbon footprint. I would also highlight our target to reduce the carbon footprint of our CO_2 per tonnage of sold items by 30% by 2030.

Stuart R. Paterson
Chairman

24 February 2022

Board of Directors

Stuart Paterson
Chairman

Stuart joined the Board on 1 January 2013 as a Non-executive Director, becoming Chairman on 29 September 2017. He is a Chartered Accountant and was Chief Financial Officer at Forth Ports Limited until he retired in January 2018. He joined Forth Ports in March 2011 when it was listed on the London Stock Exchange and the company was subsequently acquired by Arcus Infrastructure Partners in 2011. Prior to this role, Stuart was Chief Financial Officer of Johnston Press PLC from 2001 to 2010 and previously worked in senior financial management roles at Motorola Corporation, and as Group Finance Director and then Managing Director Europe for Aggreko PLC. Stuart joined Angel Trains Group Limited as a non-executive Director in September 2019 and chairs the Audit & Risk Committee. He is also a trustee of the Royal Yacht Britannia and a member of their Audit, Risk and Remuneration Committees. He also served as a non-executive Director with Devro PLC from 2006 to 2012, chairing the Audit Committee. He chairs the Nominations Committee and is a member of the Remuneration Committee.

Peter Atkinson
Chief Executive

Peter joined Macfarlane Group as Chief Executive in October 2003. He has a strong sales and marketing background through his career at Procter & Gamble and S.C. Johnson. Peter also has significant general management experience gained during his time at GKN PLC and its joint venture partners where he worked from 1988 to 2001 in a number of senior executive roles in their business-to-business operations. He has a successful track record of both business turnarounds and business development with extensive exposure to international business, having worked in the UK, Europe and the USA.

Ivor Gray
Finance Director

Ivor is a member of The Institute of Chartered Accountants of Scotland and has been with the Group since 1996. He was appointed as a Director on 19 November 2020 and became Finance Director on 1 January 2021. Ivor has been on the Executive Committee since 2005 and was the Group's Company Secretary from 15 May 2020 to 31 December 2020. He was with KPMG LLP for six years before joining Macfarlane Group in 1996.

Bob McLellan
Non-executive Director and Senior Independent Director

Bob joined the Board on 5 March 2013. He was Chief Executive of DS Smith Packaging UK until 2011, latterly as Deputy CEO Packaging (UK and Continental Europe). Bob has spent many years working in the packaging sector and has held leading roles in both the UK and Continental Europe for industry employer associations. He is currently Chairman of the Logson Group and a non-executive director of Swanline Print Limited. Bob chaired the Remuneration Committee until 31 August 2018 when he was appointed as the Group's Senior Independent Director. He is a member of the Nominations, Remuneration and Audit Committees.

James Baird
Non-executive Director

James joined the Board on 8 January 2018. James previously led the Scotland and Northern Ireland business of Deloitte, before becoming Managing Partner of its Audit & Risk Advisory division and Chief Operating Officer, both in Switzerland. An experienced auditor and advisor who has worked with companies in the UK and Europe across a range of industries, he is currently an Honorary Professor at Glasgow University's Adam Smith Business School, a trustee of RS Macdonald Charitable Trust and a member of the Advisory Council of Rainforest Trust UK. James was appointed as chair of the Audit Committee on his appointment on 8 January 2018 and is a member of both the Remuneration and Nominations Committees.

Aleen Gulvanessian
Non-executive Director

Aleen joined the Board on 1 October 2021. Aleen was a corporate partner at Eversheds Sutherland for 30 years before stepping down in May 2019 to become a Consultant on Boards and Governance matters. Aleen is an experienced corporate lawyer who has advised private and quoted UK companies (including cross border transactions) across a range of sectors. Her areas of focus have been mergers and acquisitions, joint ventures, corporate finance transactions and reorganisations, as well as general boardroom and governance advice for quoted companies. Aleen is a member of the Governance Committee of the Institute of Chartered Accountants in England and Wales, to which she was appointed in June 2019.

James Macdonald
Company Secretary

James joined Macfarlane Group in October 2020, becoming Company Secretary on 1 January 2021. He previously worked for The Weir Group PLC, after undertaking his accountancy training at PwC. He is a member of the Institute of Chartered Accountants of Scotland.


Stuart Paterson


Peter Atkinson


Ivor Gray


James Baird


Bob McLellan


Aleen Gulvanessian


James Macdonald

Corporate information

Registration number
No. SC 004221
Registered in Scotland

Company Secretary
James Macdonald

Registered office
3 Park Gardens
Glasgow G3 7YE
Telephone: 0141 333 9666
Email: info@macfarlanegroup.com

Principal bankers
Lloyds Banking Group PLC
110 St. Vincent Street
Glasgow G2 5ER

Solicitors
CMS Cameron McKenna
Nabarro Olswang LLP
1 West Regent Street
Glasgow G2 1AP

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

Stockbrokers
Shore Capital Stockbrokers Limited
Cassini House
57-58 St James's Street
London SW1A 1LD

Independent auditor
Deloitte LLP
110 Queen Street
Glasgow G1 3BX

Registrars
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Report of the Directors

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2021. Pages 4 to 72 inclusive comprise the Directors' Report, which in turn includes the Chairman's Statement and the Strategic Report on pages 4 to 40. These reports have been drawn up and presented in accordance with and in reliance upon applicable company law and any liability of the Directors in connection with these reports shall be subject to the limitations and restrictions provided by such laws.

Corporate governance

The information that fulfils the requirement of the Corporate Governance Statement can be found in the Corporate Governance Report on pages 41 to 72 (and is incorporated into this report by reference) with the exception of the information referred to in the Financial Conduct Authority Disclosure and Transparency Rules 7.2.6, which is located within this report.

Report on greenhouse gas emissions

Details of the Group's emissions and policies are contained within the Sustainability Report on pages 31 to 35.

Cautionary statement

The Chairman's Statement and the Strategic Report have been prepared to provide additional information to members of the Company to assess the Group's strategy and the potential for the strategy to succeed. They should not be relied on by any other party or for any other purpose.

This report and the financial statements contain certain forward-looking statements relating to operations, performance and financial status. By their nature, such statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors, including both economic and business risk factors, which could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements.

These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report. Nothing in this report and the financial statements should be considered or construed as a profit forecast for the Group.

Results and dividends

The Group's profit before tax from continuing activities was £18,665,000 (2020 Restated: £12,433,000). This resulted in a profit for the year of £12,598,000 (2020: £10,171,000).

The Directors declared an interim dividend of 0.87p per share, which was paid on 14 October 2021 (2020: 0.70p per share). The proposed final dividend of 2.33p per share (2020: 1.85p per share) is subject to approval by shareholders at the AGM in May 2022 and has not been included as a liability in these financial statements.

Capital structure

The Group funds its operations from a number of sources of cash, namely operating cash flow, bank borrowings, lease borrowings and shareholders' equity, comprising share capital, reserves and retained earnings. The Group's objective is to achieve a capital structure that results in an appropriate cost of capital whilst providing flexibility in immediate and medium-term funding to accommodate any material investment requirements. All major investment decisions reflect capital allocations which are designed to maintain the Group's objective.

The Company has one class of ordinary share, which carries no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company. There are no restrictions on the size of shareholdings nor on the transfer of shares. Both are governed by the Articles of Association of the Company ('the Articles') and prevailing legislation. The Directors are not aware of any agreements between the Company's shareholders that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid. There were no movements in the issued share capital during the year with details shown in note 19 to the financial statements.

The Company's banking facilities may, at the discretion of the lender, be repayable on a change of control.

The Company is governed by the Articles, the UK Corporate Governance Code (July 2018) and the Companies Act 2006 with regard to the appointment and replacement of Directors. The Articles may be amended by special resolution of the shareholders. The powers of the Directors are detailed in the Corporate Governance report.

The Directors will propose an ordinary resolution at the 2022 AGM seeking authority to allot shares in the Company under section 551 of the Companies Act 2006 up to an aggregate nominal amount of £13,151,000.

At the 2021 AGM, the Directors were given authority to allot further ordinary shares, disapplying any pre-emption rights, beyond those committed to the share option schemes or long-term incentive plans up to an aggregate nominal value of £3,945,300, which expires at the conclusion of the 2022 AGM. Resolutions at the 2022 AGM will seek to renew for a further year the authority over the existing unissued and uncommitted ordinary share capital of £3,945,300.

The Company made no purchases of its own shares during the year and no shares were acquired by forfeiture or surrender or made subject to a lien or charge.

Substantial holdings	Number of shares held	Percentage
Funds managed or advised by Rights & Issues Investment Trust plc	17,250,000	10.9%
Funds managed by Canaccord Genuity Group Inc.	16,636,359	10.5%
Funds managed or advised by Blackrock	10,498,439	6.7%
Funds managed or advised by Charles Stanley	9,773,497	6.2%
Almadon Limited	9,015,429	5.7%
Funds managed or advised by Otus Capital Management	7,984,153	5.1%
Funds managed or advised by BGF Investment Management	6,985,420	4.4%

Employees and employee share schemes

The Company's policies for employees and employee engagement are set out in the Sustainability Report on pages 35 to 38. Option awards are detailed in the Directors' Remuneration Report with those awards outstanding at 31 December 2021 set out on page 51.

The Remuneration Committee supervises the award of long-term share incentives and specifies the performance conditions at the time of the award, having regard to the objectives of the Company and market practice at that time. Further details are given in the Directors' Remuneration Report.

Substantial holdings of shares in the Company

The Company has received notification prior to 24 February 2022 in accordance with Rule 5 of the Financial Conduct Authority's Disclosure and Transparency Rules of the following voting rights as a shareholder of the Company as shown in the table above.

Directors

The names of the Directors in office at 31 December 2021 together with short biographical details, are set out on page 42. The Board considers its three Non-executive Directors to be independent.

All Directors retire by rotation at the AGM in May 2022 and offer themselves for re-election. P.D. Atkinson and I. Gray have service contracts dated 6 October 2003 and 23 December 2020 respectively, with notice periods of twelve months. S.R. Paterson has a letter of appointment dated 29 September 2020 with a notice period of six months. R. McLellan, J.W.F. Baird and A. Gulvanessian each have letters of appointment dated 10 March 2021, 8 January 2021 and 1 October 2021 respectively for periods of three years, with notice periods of three months. J. Love served as an Executive Director until 31 March 2021 and A. Dunstan served as a Non-executive Director until 31 August 2021.

No Director, either during or at the end of the financial year, had an interest in any contract relating to the business of the Company or any of its subsidiaries. The statement of Directors' interests in the ordinary share capital of Macfarlane Group is contained in the Directors' Remuneration Report on page 51.

There are no agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs in the event of change of control.

The Company has maintained Directors' and Officers' liability insurance cover throughout the financial year. The Company has made qualifying third-party indemnity provisions for the benefit of Directors which remain in force.

Political donations

It is the Group's policy not to make donations for political purposes.

Special business

A special resolution will be put to shareholders to renew for a further year the authority in relation to the disapplication of pre-emption rights over the existing unissued and uncommitted ordinary share capital. This authority is limited to a maximum nominal amount of £3,945,300, representing 10% of the current share capital.

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 of which the Company's auditor is unaware. 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. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Independent auditor

A resolution to re-appoint Deloitte LLP as the Company's auditor will be proposed at the AGM in 2022.

Company information

The Company is registered in Scotland (SC004221) and its registered office is at 3 Park Gardens, Glasgow, G3 7YE.

Approval

The Strategic Report on pages 4 to 40 and the Directors' Report on pages 4 to 72 were both approved by the Board on 24 February 2022.

James Macdonald
Company Secretary
24 February 2022

Remuneration report

Remuneration Committee Chair's summary statement

Following my appointment as Chair of the Remuneration Committee in October 2021, I am pleased to present the Directors' Remuneration Report for Macfarlane.

I would like to thank Andrea Dunstan for her work as the previous Remuneration Committee Chair.

This Chair's statement summarises the main areas of activity for the Remuneration Committee in the year and introduces the other sections of the Directors' Remuneration Report, which this year comprises:

- the Annual Report on Remuneration, which sets out the remuneration arrangements and incentive outcomes for the year under review and how the Remuneration Committee intends to implement our Policy in 2022; and
- the Directors' Remuneration Policy which we are seeking to amend and update at our 2022 AGM.

Remuneration in 2021

Group results for 2021 are set out in our Strategic Review. We believe the strong financial results in the year are appropriately reflected in the remuneration of our Executive Directors, as follows:

- Annual bonus outcomes for the CEO and CFO 2021 of 100% and 100% of maximum amounts available respectively (being 50% and 50% of base salary respectively).
- Performance Share Plan ('PSP') awards were made in March 2021, subject to three year EPS growth targets, which the Committee regards as appropriately stretching.

No bonus was payable in the period to J. Love, who retired on 31 March 2021. We have disclosed the performance measures for our 2021 annual bonus plan on pages 50 and 51.

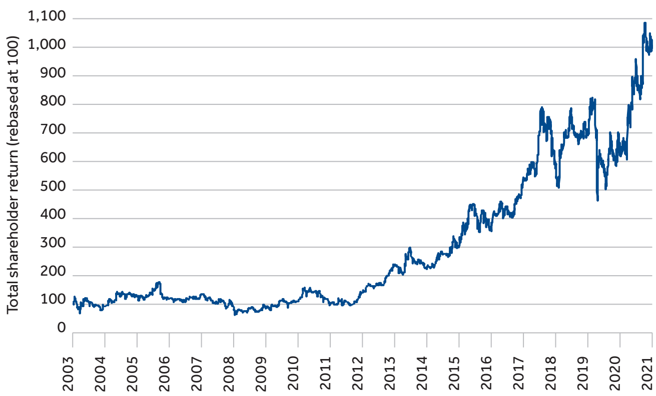
In 2021 our Board maintained its focus on our obligations to our workforce and to other stakeholders, and we were pleased that Company-wide bonuses were at record levels in 2021, with 87% of employees receiving a bonus. Also, during 2021 we maintained full operations without the use of public funds – neither the government's furlough scheme nor its lending support schemes.

With regards to the incentive plan outcomes for our Executive Directors described above, the Remuneration Committee reviewed these against the backdrop of overall performance and the experience of investors and other stakeholders over the period and the Remuneration Committee is satisfied that the total remuneration received by Executive Directors in 2021 is a fair reflection of performance over the period.

The Remuneration Committee exercised what it regards as normal commercial judgement in respect of Directors' remuneration throughout the year (and in all cases in line with the approved remuneration policy) including in relation to:

- Setting performance metrics for normal course annual bonuses and LTIPs in the year; and
- Confirming the outcome of performance metrics for annual bonuses and LTIPs in the year.

TSR since 2003



There were no other exercises of judgement or discretion by the Remuneration Committee save as detailed in this report.

Remuneration in 2022 and renewal of our 3-year Directors' remuneration policy

At Macfarlane we are proud of our overall historic approach to executive remuneration. As examples of this approach:

- our CEO has been in post since October 2003, and for the last 16 years of that period (starting in 2006), our CEO has not received an annual salary increase above the level of employee annual salary increases (2% p.a. in 13 years; 3% p.a. in one year and two years of nil increases).
- the Company's approach to incentive pay for Executive Directors has been measured:
  - annual bonus maximums are 50% of base salary, but in the past 10 years before 2021, in no year was a bonus paid above 60% of maximum – equivalent to 30% of base salary (in 6 of those 10 years, bonuses have been between 40% and 60% of maximum levels);
  - the Company operates a shares based LTIP (annual award over shares worth 100% of base salary). Annual awards under this plan commenced only in 2019.

At the same time, the Company has experienced significant and positive growth, both in terms of sales and profits over a sustained period and in the complexity and size of the organisation. As a wider context, the chart below shows Macfarlane's TSR performance from October 2003, being the month in which our current CEO, Peter Atkinson, was appointed to the role.

Against this background, and as 2022 is a year in which we must renew our Directors' Remuneration Policy at our AGM, the Remuneration Committee considered that it is appropriate to review our current remuneration packages for Executive Directors and specifically our CEO to ensure that we protect shareholders' best interests by:

- paying our CEO appropriately to reflect the performance being delivered at Macfarlane and to ensure his continued retention.
- retaining the balance between fixed pay and incentive opportunities that has served the Company well to date and supported our long-term growth.

Also, as we explained above, with employee-level salary inflation increases being applied from 2006 for our CEO, at no time in that period has the Company's Remuneration Committee sought to recognise the performance and progression delivered under Peter Atkinson's leadership by adjusting his fixed pay. Overall, we believe there will be clear benefits from putting in place a future proofed reward policy that is fair, aligned to our strategy and culture and retains and rewards our Executive Directors for delivering superior performance for all our stakeholders.

We have been careful in putting our proposals together that they are meaningful, but not excessive, and appropriately balanced. Having market rates of pay at Macfarlane will also make us more resilient as a business.

As explained in last year's annual report, our CFO, Ivor Gray, replaced our long-standing former CFO John Love on John's retirement, with Ivor taking on the CFO role on 1 January 2021. As this is Ivor's first CFO role in a PLC, we set Ivor's package on appointment at a level that could allow for appropriate progression with advancement and confirmed performance in the role. Some changes are proposed for Ivor in FY2022 on this basis (see below).

Two points in our approach that we would particularly wish to emphasise are that:

- all increases to salaries will be phased. This will be over two years for the CEO and for the CFO the period will be determined based on continued progression in the role, and may be longer than two years.
- we have consulted with leading independent shareholders in advance of preparing this new policy for approval at the 2022 AGM and received positive support as to the appropriateness of the proposals.

The table below summarises the Remuneration Committee's proposed revisions to our CEO's and CFO's packages which are reflected both in the updated policy and in our proposed implementation of remuneration for 2022 and future years.

Element	Current	Proposed	Comments
Base salary – CEO	CEO – £369,000	CEO – £435,000 Phased over two years: • FY2022 £405,000 • FY2023 £435,000	CEO – phased increase proposed: second element will be confirmed following Remco review of continued appropriateness. Represents a 'market level' salary, but not above FTSE SmallCap expectations. Important for retention to pay the CEO a level of base salary that is consistent with the complexity and size of business that Macfarlane has grown to under his tenure. This is the first re-positioning of the CEO's salary to reflect market levels in 16 years, and when completed the Company's preference will be to return to having any salary increases for our CEO at the rate for firm-wide annual salary reviews.
Base salary – CFO	CFO – £191,000	CFO – £200,550 in FY2022	CFO – proposed increase of 5%. Reflects progression in role since appointment as CFO on 1 January 2021. Overall salary remains modest for a CFO at a business of Macfarlane's size, and in future years (dependent on continued progression and performance) the Committee may seek to make further salary adjustments for the CFO which align his salary closer to market levels.

Remuneration report
(continued)

Element	Current	Proposed	Comments
Pensions	CEO – 25% base salary pension contribution (reduced to 22% for employers' NICs on cash payments) CFO – 8% from appointment	CEO – revised pension contributions as follows: • FY2022 – 15% • FY2023 – 8% CFO – no change	The following disclosure was made in our 2020 DRR: *"All newly appointed Executive Directors will have pension contribution rates consistent with other employees. Pension contributions for I. Gray, who was appointed Finance Director in January 2021, are in line with this new requirement. A commitment is also made to have P.D. Atkinson's pension contribution rate brought in line with those for other employees by 1 January 2023."* The proposals described in this section reflect those commitments.
Benefits	Car allowance and private medical insurance	No changes in benefits provision, although Car allowances have been reviewed and increased modestly by £3k (first review since CEO appointment)	
Annual Bonus	Policy allows for bonus maximum at up to 100% salary p.a. In practice, bonuses for Executive Directors for 2021 are at a maximum level of 50% of base salary. Any outcomes earned are in cash (no deferral). Metrics are PBT (40% of salary) and non-financial measures (10% of salary).	Intending to increase the maximum opportunity for 2022 bonuses for Executive Directors to the 100% of base salary policy level. This is viewed as appropriate and not excessive while seeking to further incentivise delivery of stretching annual performance levels. 25% of all bonus outcomes for any year will be deferred in shares for 2 years (subject to £10k value 'de minimis' threshold for amounts being deferred). Metrics for FY2022 annual bonus intended to be 75% on PBT and 25% on non-financial measures (with non-financial measures to include at least one ESG metric).	Represents a 'market level' bonus opportunity, but not above FTSE SmallCap expectations. Important that the CEO and CFO are incentivised appropriately for retention. The Remuneration Committee will ensure that it maintains its past practice of setting challenging targets (across the period of 10 years to FYE2020, there has never been a bonus outcome of greater than 60% of maximum opportunity at Macfarlane). All bonus outcomes at Macfarlane will remain subject to an overview test by the Remuneration Committee to ensure that they are appropriate considering the interests of all stakeholders. To date Macfarlane has applied a strict 'PBT threshold as gateway' term within its annual bonus; we may be less formulaic in this regard in the future but (as at now) we cannot envisage paying bonuses for non-financial measures without also considering both financial and overall performance.
LTIP	Annual Award – 100% base salary (and annual award limit at 100% base salary). Exceptional award limit of 200% base salary. 3-year vesting period and 2-year post-vesting holding period. 2020 and 2021 metrics were weighted 100% to 3-year EPS growth.	No changes in annual or exceptional award limits. Proposed to maintain 100% weighting to EPS metrics (but see below).	No changes.

Element	Current	Proposed	Comments
Share Ownership Guidelines	In employment – 100% of base salary for Executive Directors. No post-employment guideline within the policy, but details for a post-employment guideline were confirmed in the 2020 DRR. CEO holding estimated at 3 times base salary; CFO is below this having been appointed as a Director in November 2020 only.	In employment – no change. Post-employment – guideline of 100% of salary to apply for all Executive Directors for a 1-year period from leaving. This will reduce to a 50% of salary requirement in the second year. Applies to shares acquired via LTIP awards from 2021 onwards.	Maintains position set out already in 2020 DRR and implemented since 2021.
Other considerations – Introduction of ESG metrics to variable remuneration at Macfarlane: This is seen as particularly relevant for Macfarlane given its business as a packaging company. The Remuneration Committee is working with the full Board to identify appropriate metrics that support the business and the interests of shareholders for inclusion within annual bonus for 2022. We will continue to work on developing our ESG metrics for incentive pay further in coming years.			

Format of matters to be approved at the 2022 AGM

At the 2022 AGM, shareholders will be asked to approve three resolutions related to Directors' remuneration matters.

These resolutions are:

- to approve the Directors' Remuneration Report;
- to approve the updated Directors' remuneration policy;
- to approve a new Deferred Bonus Plan, related to the changes we are making to our policy.

The vote to approve the Directors' Remuneration Report is the normal annual advisory vote on such matters. If approved by our shareholders, the Directors' remuneration policy will apply for a maximum of three years from the 2022 AGM and will replace the Directors' remuneration policy previously approved at the 2019 AGM.

We are happy to receive feedback from shareholders at any time in relation to our remuneration policies and hope to receive your support for the resolutions to approve this Directors' Remuneration Report and the new Directors' Remuneration Policy at the AGM in May 2022. I will be available at the AGM to answer any questions you may have.

Aleen Gulvanessian
Chair of the Remuneration Committee

24 February 2022

Annual report on remuneration

The details set out on page 50 to 52 of this report have been audited by Deloitte LLP.

Single total figure of remuneration for each Director

2021	**Salary and fees £000**	**Taxable benefits £000**	**Pension costs £000**	**Fixed pay £000**	**Bonus £000**	**Variable pay £000**	**Total pay £000**
Chairman							
S.R. Paterson*	**70**	**–**	**–**	**70**	**–**	**–**	**70**
Executive Directors							
P.D. Atkinson	**369**	**16**	**80**	**465**	**184**	**184**	**649**
I. Gray	**191**	**8**	**15**	**214**	**96**	**96**	**310**
J. Love (retired 31 March 2021)	**45**	**2**	**11**	**58**	**-**	**-**	**58**
Non-executive Directors							
R. McLellan*	**35**	**–**	**–**	**35**	**–**	**–**	**35**
J.W.F. Baird*	**35**	**–**	**–**	**35**	**–**	**–**	**35**
A.M. Dunstan (to 31 August 2021)	**23**	**–**	**–**	**23**	**–**	**–**	**23**
A. Gulvanessian (from 1 October 2021)	**9**	**–**	**–**	**9**	**–**	**–**	**9**
Total	**777**	**26**	**106**	**909**	**280**	**280**	**1,189**

2020	Salary and fees £000	Taxable benefits £000	Pension costs £000	Fixed pay £000	Bonus £000	Variable pay £000	Total pay £000
Chairman							
S.R. Paterson	60	–	–	60	–	–	60
Executive Directors							
P.D. Atkinson	362	16	79	457	27	27	484
J. Love	179	10	40	229	13	13	242
I. Gray (appointed 19 November 2020)	18	1	2	21	1	1	22
Non-executive Directors							
R. McLellan	30	–	–	30	–	–	30
J.W.F. Baird	30	–	–	30	–	–	30
A.M. Dunstan	30	–	–	30	–	–	30
Total	709	27	121	857	41	41	898

* The increase in Non-executive Directors' fees reflect the agreed reduction in fees of 25% for six month period in 2020.

Taxable benefits relate to provision of a Company car (or equivalent allowance) and private medical insurance.

Directors' pension entitlements

P.D. Atkinson receives a cash allowance which equates to 25% of his base salary, but reduced for the related employer's national insurance contributions.

I. Gray is a member of one of the Group's defined contribution pension schemes, with an employer contribution of 8% of salary, consistent with other employees in that scheme.

Annual bonus for the year ended 31 December 2021

The 2021 annual bonus plan is based on performance against financial targets and personal objectives as set out in the Remuneration Policy and is paid in cash following Board approval of the Group Accounts. Both the financial targets and personal objectives were satisfied in full and as a result an annual bonus of 50% of salary will be payable to both Executive Directors. The original financial targets for 2021 are shown below:

		2021 profit before tax
Threshold	25% of incentive	£13.4m
Target	50% of incentive	£14.4m
Maximum	100% of incentive	£15.8m
Actual performance		£17.7m

Actual performance includes both continuing and discontinued operations for 2021.

A bonus of up to 10% of base salary is also payable for achievement of personal performance objectives with nothing payable under the personal performance element unless the threshold level of PBT is achieved. As actual PBT performance was above the maximum target for 2021, this underpin was satisfied.

In the year we looked at the following personal objectives and consider them to be achieved:

Peter Atkinson	Ivor Gray
• Effective execution of the growth by acquisition strategy • Complete and execute the strategic review of the Labels division • Recovery programme for Packaging Design & Manufacture • Succession planning in Packaging Distribution • Successful induction of new CFO	• Effective execution of the growth by acquisition strategy • Successful 2021 financial results and shareholder feedback as new CFO • Improved working capital performance • Successful induction of new Group Financial Controller/ Company Secretary

The total bonus payable for 2021 to P.D. Atkinson was £184,439 (50% of salary), and I. Gray £95,500 (50% of salary).

Long term incentives for the year ended 31 December 2021

The Company operates a PSP under which shares are awarded which vest subject to performance over a three-year period. No outstanding awards were due to vest during 2021. Awards were granted on 26 March 2021 over shares worth 100% of salary to each of the Executive Directors (using the three day average market price of 104.42p to the last trading day prior to grant). PSP awards are granted in the form of conditional share awards and are subject to EPS performance conditions, as shown below.

Grant of PSP Award	Threshold (25%)	Maximum (100%)	Year end target date
2021	7.95p	9.43p	31 December 2023
2020	6.53p	7.84p	31 December 2022
2019	6.77p	8.12p	31 December 2021

Vesting of the awards above will also be subject to an underpin assessment by the Remuneration Committee that it must be satisfied regarding overall Group performance before vesting is confirmed. The awards are subject to a two-year post-vesting holding period.

	Awards held at 1 January 2021	Awards granted during the year	Awards exercised during the year	Awards lapsed during the year	**Awards held at 31 December 2021**
P.D. Atkinson	725,795	346,347	–	–	**1,072,142**
I. Gray	181,992	182,921	–	–	**364,913**

Payments to past Directors

No payments were made to former Directors in the year. J. Love retired on 31st March 2021, and was paid his normal monthly salary until this date.

Shareholdings and share interests of the Directors in office at 31 December 2021 were as set out below:

	2021		2020 (or date of appointment if later)	
	Beneficial	**Options**	Beneficial	Options
S.R. Paterson	**120,000**	**–**	120,000	–
P.D. Atkinson	**854,172**	**1,072,142**	854,172	725,795
I. Gray	**66,652**	**364,913**	66,652	181,992
R. McLellan	**102,819**	**–**	102,819	–
J.W.F. Baird	**66,605**	**–**	66,605	–
A. Gulvanessian (from 1 October 2021)	**–**	**–**	–	–
J. Love (retired 31 March 2021)	**800,000**	**139,822**	800,000	359,524
A.M. Dunstan (to 31 August 2021)	**10,000**	**–**	10,000	–

All options above are subject to performance conditions being satisfied. Executive Directors are expected to build up a prescribed level of shareholding equivalent to 100% of base salary. P.D. Atkinson materially exceeds this requirement, with shares worth £1,110,424 at 31 December 2021. I. Gray is currently below this requirement given his recent appointment as a Director in November 2020, with £86,648.

Options held by P.D. Atkinson and I. Gray are in respect of the PSP awards made in 2019, 2020 and 2021. These are unvested and subject to the achievement of performance targets described earlier.

J. Love, who retired on 31 March 2021, is considered a good leaver and therefore entitled to options pro-rated to his date of leaving and subject to performance conditions being achieved.

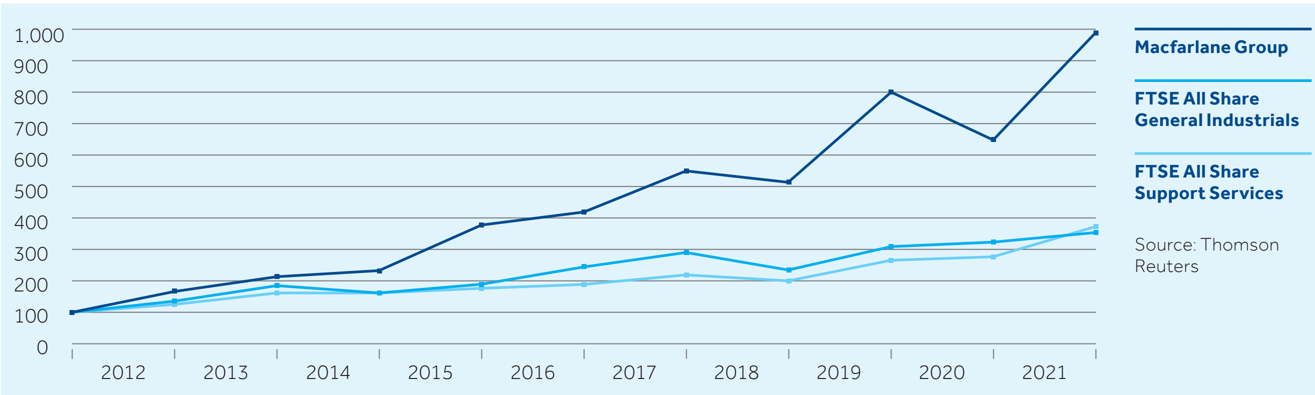
The share price ranged from 82.60p to 145.00p during 2021. The closing share price on 31 December 2021 was 130.00p (2020: 87.50p).

The remainder of the Annual report on remuneration is not subject to audit.

Performance graph and table

The graph below shows Macfarlane Group's performance, measured by Total Shareholder Return, compared with the performance of the FTSE All-Share Index for Support Services, and the FTSE All-Share Index for General Industrials, also measured by Total Shareholder Return for the period since 1 January 2012. Macfarlane Group is a constituent part of the General Industrial Index. The Index for Support Services has also been selected because it includes a range of distributor companies, which the Remuneration Committee considers to be the most appropriate comparison to Macfarlane Group for this purpose.

Total shareholder return index



CEO single figure

		Fixed remuneration £000	Variable remuneration £000	Single figure of total remuneration £000	Annual variable element award vs. maximum opportunity	Long term incentive vesting against maximum opportunity
2021	P.D. Atkinson	465	184	649	100%	n/a
2020	P.D. Atkinson	457	27	484	15%	n/a
2019	P.D. Atkinson	449	81	530	46%	n/a
2018	P.D. Atkinson	440	0	440	0%	n/a
2017	P.D. Atkinson	433	81	514	48%	0%
2016	P.D. Atkinson	424	92	516	55%	n/a
2015	P.D. Atkinson	416	92	508	56%	n/a
2014	P.D. Atkinson	408	* 178	586	46%	n/a
2013	P.D. Atkinson	400	16	416	10%	n/a
2012	P.D. Atkinson	392	70	462	45%	n/a

* This includes £105k in respect of the exercise of options which vested in 2007.

Percentage change in remuneration of Directors and employees

The following table shows the percentage change in remuneration of the Directors and employees of the business between the 2020 and 2021 financial years.

	Employee average	Executive Directors		Non-executive Directors			
		P.D. Atkinson	I. Gray	S.R. Paterson	J.W.F. Baird	R. McLellan	A. Gulvanessian
2020/21							
Salary/fees	2%	2%	2%	2%	2%	2%	–
Benefits	(12%)	0%	27%	–	–	–	–
Bonus	296%	580%	7,188%**	–	–	–	–
2019/20							
Salary/fees	2%	2%	2%	(11%)*	(11%)*	(11%)*	–
Benefits	(6%)	1%	–	–	–	–	–
Bonus	(30%)	(67%)	–	–	–	–	–

* Reduction in Non-executive Directors' fees reflect the agreed reduction in fees of 25% for six month period in 2020.

** I. Gray became an Executive Director in November 2020, therefore the bonus payable in 2020 was for one month of service, capped at 7.5%.

The legal requirement is only to provide details of employees of the parent company, Macfarlane Group PLC. However we have decided to voluntarily disclose the comparison in respect of details for all Group employees.

Relative importance of spend on pay

The change in remuneration for all employees compared to dividends to shareholders is shown below:

	2021 £000	2020 £000	Change
Total employee pay	**38,985**	30,124	29%
Dividend	**4,293**	1,105	289%*

* The decision to cancel the 2020 year-end dividend payable in June 2020 to preserve cash at the commencement of the Covid-19 pandemic is the principal reason for the major increase in dividends from 2020 to 2021.

CEO to employee pay ratio

The table below shows the ratio of total CEO remuneration to that of the lower quartile, median and upper quartile paid employee.

Financial year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2021	**Option B**	**31.4:1**	**24.0:1**	**17.5:1**
2020	Option B	23.1:1	17.8 :1	14.9 :1
2019	Option B	24.6:1	18.9:1	16.4:1

Notes to CEO to employee pay ratio

Option B, using the gender pay gap reporting data to identify the individuals who represent the three quartiles, was chosen as the methodology as this data was readily available on a Group-wide basis and is consistent with 2020.

Total remuneration for the CEO and for the individuals who represent the three quartiles was determined for the year to 31 December 2021. The three individuals are all full-time employees and are considered to be representative of the 25th percentile, median and 75th percentile pay levels in the Group.

Median pay ratios are reflective of Macfarlane Group's policy of not paying excessive salaries to Executive Directors. No PSP awards vested in either year, which resulted in a lower ratio than would otherwise have been the case. Total CEO remuneration was higher for 2021 compared to 2020 due to the CEO receiving an annual bonus for 2021 whereas for 2020 annual bonus for all staff (including the CEO) was capped at 7.5% of base salary.

The table below shows the total pay and benefits and the salary component of total pay for the three quartiles.

	Salary component of total pay and benefits			Total pay and benefits		
Financial year	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
2021	**£19,464**	**£24,480**	**£33,441**	**£20,683**	**£27,063**	**£39,966**

Statement of implementation of remuneration policy in 2022

As is more fully explained in the Remuneration Committee Chair's summary statement introducing the Directors' Remuneration Report, salaries for P.D. Atkinson and I. Gray at 1 January 2022 increased by 10% and 5% to £405,000 and £200,550 respectively.

P.D. Atkinson's pension contribution will reduce from 25% to 15% in 2022, in line with a phased reduction to the level of other employees by 2023.

Executive Directors will be eligible to receive an annual bonus of up to 100% of base salary (2021: 50%), with 75% of salary based on PBT targets and 25% of salary based on personal objectives. 25% of the bonus will also be deferred, payable in shares, subject to a de minimis of £10,000. If the PBT threshold target is not achieved, payment of any element of the annual bonus is only payable at the discretion of the committee. The precise PBT targets for 2022 are considered by the Board to be commercially sensitive. The nature of the targets includes continuing the business on its growth journey both organically and through targeted acquisition of quality protective packaging businesses. The main focus of the personal objectives are business growth; leadership development, ESG and executing effective acquisitions.

Benefits will operate in an unchanged way from 2021, except that car allowance has been increased by £3,000 p.a. for P. D. Atkinson (this benefit has not been increased since 2003).

The Remuneration Committee intends to make awards under the PSP based on the following principles:

- An annual award over shares with a face value of up to 100% of salary (within the existing limit);
- A fixed three-year performance period (with no re-testing);
- A two-year post-vesting holding period; and
- A performance condition based on earnings per share performance with a 25% threshold level for vesting and subject also to an 'underpin' assessment by the Remuneration Committee that it must be satisfied regarding overall Group performance before vesting is confirmed.

The precise targets will be set by the Committee at the time of the award and will be disclosed in next year's Directors' Remuneration Report.

Details of the Remuneration Committee, advisers to the Committee and their fees

The Remuneration Committee currently comprises three independent Non-executive Directors and the Company Chairman. Details of the Directors who were members of the Committee during the year are disclosed on page 42. During the year under review, the Committee, where appropriate, sought advice and assistance from the Executive Directors in connection with carrying out its duties. The Company Secretary acts as the secretary to the Committee.

The Remuneration Committee used the services of FIT Remuneration Consultants LLP to advise on certain aspects of remuneration during 2021 and fees of £16,713 (2020: £11,000) were charged during the year for that advice. FIT's fees were charged on the basis of that firm's standard terms of business for advice provided. The Directors consider FIT Remuneration Consultants LLP to be independent of the Group and objective in their advice. FIT were appointed to advise the Committee in 2016 following a competitive tender process. FIT is a signatory to the Remuneration Consultants Group's Code of Conduct.

Remuneration Committee's reporting obligations

The Remuneration Committee considered its obligations under the 2018 UK Corporate Governance Code and concluded that:

- The Directors' Remuneration Policy, to be approved by shareholders in May 2022, and our implementation of the Policy (including the use of PBT and personal performance measures for the annual bonus and EPS performance measures for the PSP) support the Company's strategy.
- The use of PBT and EPS measures reflect the Company's focus on growing profits and our aims of motivating the Executive Directors to achieve a level of profitability that supports the Company paying an attractive level of dividend, balanced against the need to retain funds in the business to finance growth, make pension scheme contributions, fund acquisitions and meet capital expenditure requirements.
- Remuneration for the Executive Directors remains appropriate and consistent with our policy of not paying excessive salaries. The Remuneration Policy operated as intended, rewarding executives for an excellent performance in 2021.

In addition, the Committee addressed the six factors outlined in Provision 40 of the 2018 Code when determining the Executive Directors' remuneration.

- **Clarity** – Our Remuneration Policy is well understood by the Executive Directors and by those of our major independent shareholders, with whom we engaged with regards to the proposed amendments to our policy in 2022.
- **Simplicity** – The Remuneration Committee is conscious that overly complex remuneration structures are less impactful than simple structures and has strived to keep Executive Directors' pay as simple as possible, whilst also offering a competitive remuneration package.
- **Risk** – Our Policy has been designed to ensure that it does not promote excessive risk taking (for example, the annual bonus and PSP operate on sliding performance scales, rather than relying on binary performance targets) and prevents 'payment for failure' through modest fixed remuneration and the use of stretching financial performance targets. The PSP, which forms the majority of variable pay opportunity, is delivered in shares which vest after three years, with a further two-year holding period, ensuring a link to sustained, long-term performance. Malus and clawback apply to both the annual bonus and the PSP.
- **Predictability** – Incentive plans for Executive Directors are subject to individual and overall caps, ensuring that the Remuneration Committee has control over levels of reward. The weighting of variable pay opportunity towards the PSP means that actual pay outcomes are highly aligned to the experience of shareholders.
- **Proportionality** – All pay levels are appropriately proportionate, not excessive and reflect Macfarlane Group's outlook and culture. Executive Directors' fixed remuneration is set, after consideration of performance external benchmarks, at a level that is competitive but affordable for the Group, with variable pay linked to the achievement of stretching performance targets.
- **Alignment to culture** – The performance targets which are used to measure both the annual bonus and the PSP are stretching, consistent with Macfarlane Group's performance-led culture. We do not believe that variable pay should be paid for poor performance and have a long track record of setting robust performance targets.

The Remuneration Committee receives a report on pay and benefits across the Company which it considers when setting remuneration for Executive Directors. While employees are not directly consulted when setting Executive Directors' remuneration, Aleen Gulvanessian acts as designated Non-executive Director for employee engagement in addition to her role as Remuneration Committee Chair, and so the Remuneration Committee is fully updated on any views on remuneration which arise from the engagement process.

Whenever the Board has engaged with shareholders during the year, it has received generally positive feedback, including on remuneration matters.

Statement of voting at the Annual General Meeting on 11 May 2021

The Directors' Remuneration Report received the following votes from shareholders.

	Total number of votes	% votes cast
For	**68,018,921**	99.94%
Against	**40,674**	0.06%
Total votes cast (for or against)	**68,059,595**	100.00%
Votes withheld	**–**	
Total	**68,059,595**	

Votes received on 11 May 2021 (including votes withheld) amounted to 43.13% of the issued share capital.

Statement of voting at the Annual General Meeting on 14 May 2019

The Directors' Remuneration Policy received the following votes from shareholders.

	Total number of votes	% votes cast
For	**58,469,089**	91.98%
Against	**5,101,010**	8.02%
Total votes cast (for or against)	**63,570,099**	100.00%
Votes withheld	**49,207**	
Total	**63,619,306**	

Votes received on 14 May 2019 (including votes withheld) amounted to 40.38% of the issued share capital.

Directors' remuneration policy

This part of the Directors' Remuneration Report sets out the proposed Directors' remuneration policy for the Company. This Remuneration Policy will be put to a binding shareholder vote at the 2022 AGM on 10 May 2022 and will take formal effect from that date, subject to shareholder approval. The Remuneration Policy will formally apply for three years beginning on the date of approval unless a new policy is presented to shareholders in the interim. Following approval, all payments to Directors will be consistent with the approved Remuneration Policy.

The Remuneration Policy will replace the prior policy approved by shareholders at the 2019 AGM held on 14 May 2019. The main changes from the prior policy are summarised below:

- Pensions – all Executive Directors to move to an employee aligned 8% pension contribution rate by 1 January 2023.
- Annual bonus
  - maximum opportunity within the policy period unchanged at 100% of salary per annum maximum bonus, but this will now be the operational level of maximum bonus also (previously 50% of base salary)
  - deferral of 25% of bonus outcomes in shares for 2 years (subject to £10,000 minimum amount for deferral)

Salary (fixed pay)

Link to strategy	Pay a fair salary commensurate with the individual's role, responsibilities and experience and size and complexity of the business, and having regard to market rates for similar roles in comparable companies.
Operation	The Committee reviews base salaries annually with changes effective from 1 January. This review takes into account practices elsewhere in the Group. Salary is pensionable.
Opportunity	There is no prescribed maximum salary or maximum rate of increase. The Committee takes into consideration the general increase for the broad employee population but on occasion may recognise changes in responsibility, development in the role, changes in the business or specific retention issues.
Performance measures	No performance measures apply to payments of base salary, although performance is considered in the review processes for setting salary rates as described above.

Retirement benefits (fixed pay)

Link to strategy	Provide competitive pension arrangements to aid recruitment/retention of senior executives.
Operation	The Group pays a pension allowance or contributes to a pension scheme for Executive Directors. The Group's legacy defined benefit scheme has been closed to new members since 2002 and the pensionable salary frozen in 2010. Pension contributions for new appointments will be kept under review in line with developing market practice.
Opportunity	Company contribution of up to 8% of base salary, consistent with other employees, or equivalent cash allowance in lieu with all Executive Directors to move to this level by 1 January 2023. In 2022, the CEO's pension contribution will be 15% of base salary (reduced from 25% in 2021).
Performance measures	n/a

Other benefits (fixed pay)

Link to strategy	Provide cost effective benefits to aid recruitment and retention of senior executives and to support the wellbeing of employees.
Operation	Benefits include car allowance or Company car, private medical insurance, permanent health insurance and any other such benefits as the Committee considers appropriate.
Opportunity	The benefits are not subject to a specific cap but represent a small element of total remuneration. Costs to provide these benefits are closely monitored.
Performance measures	n/a

Annual bonus (variable pay)

Link to strategy	Incentivise performance over a 12 month period based on the attainment of financial targets and individual performance objectives agreed by the Remuneration Committee.
Operation	75% of the bonus is paid in cash based on the audited financial results and the Committee's assessment of delivery against personal objectives, with the remaining 25% deferred and payable in shares as described below (provided that if value to be deferred is £10,000 or less, the whole outcome may be paid in cash). Subject to approval by shareholders, deferral will take place under the Company's Deferred Bonus Share Plan ('DBSP'). Under the DBSP, awards of shares are made which vest 2 years after these are awarded; vesting shares will be forfeited in cases of resignation (other than for ill health, agreed retirements or similar cases determined by the Committee) or misconduct. Additional shares representing reinvested dividends may be released following the vesting of any DBSP award. Bonus payments and DBSP awards are subject to malus and clawback provisions for two years following the determination of bonus outcomes.
Opportunity	Maximum bonus potential capped at 100% of base salary, with 100% in place for 2022. The annual bonus is not pensionable.
Performance measures	Performance measures may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate. The annual bonus plan remains a discretionary arrangement and the Committee retains a standard power to apply judgement to adjust the outcome of the plan for any performance measure (from zero to any cap) should it consider that to be appropriate. A graduated scale of targets is set for each measure, with no pay-out for performance below a threshold level of performance, and up to 25% available at threshold.

Long term incentives (variable pay)

Link to strategy	Incentivise delivery of strategic targets and sustained performance over the long-term.
Operation	Conditional awards over shares may be granted each year, which can be earned subject to delivery of performance goals. The performance conditions are for a fixed 3 year period with no re-testing. Shares acquired pursuant to the vesting of awards (net of shares sold to satisfy any tax liability) will be subject to a two-year holding period following the end of the 3-year performance period. LTIP awards are subject to malus and clawback provisions for 3 years following vesting.
Opportunity	Awards are capped at a maximum of 100% of base salary in normal circumstances (200% in exceptional circumstances).
Performance measures	Conditional awards will vest based on three-year performance against challenging financial and other targets set and assessed by the Committee in its discretion. The Committee will set such performance conditions on LTIP awards as it considers appropriate (whether financial or non-financial and corporate, divisional or individual). The Committee also has a standard power to apply its judgement to adjust the formulaic outcome of any LTIP performance measures (from zero to any cap) should it consider that to be appropriate. A maximum of 25% of any element vests for achieving the threshold performance target and 100% for maximum performance.

Share ownership guidelines

Link to strategy	To further align the interests of Executive Directors with those of shareholders.
Operation	Executive Directors are expected to build up a prescribed level of shareholding. Minimum shareholding of 100% of base salary for any Executive Director. The Committee reserves the power to amend, but not reduce, these levels in future years. To the extent that the prescribed level has not been reached, Executive Directors will be expected to retain a proportion of the shares vesting under the Company's share plans until the guideline is met. Any LTIP performance-vested shares subject to a holding period and any shares subject to DBSP awards will be credited for the purpose of the guidelines (discounted for anticipated tax liabilities). In addition to the in-employment shareholding guideline, Executive Directors will be expected to retain the lower of actual shares held at cessation and shares equal to 100% of salary for the first year post-cessation, reducing to 50% of salary for the second year post-cessation. This guideline will apply in respect of any vested shares which vest from LTIP and DBSP awards granted after the 2021 AGM.
Opportunity	n/a
Performance measure	n/a

Clawback/malus in the annual bonus and long term incentives

As detailed above, provisions are in place for both annual bonus, DBSP awards and LTIP arrangements to operate malus and/or clawback in certain exceptional circumstances, including the material misstatement of the Company's results (annual bonus and LTIP), if the assessment of performance on which vesting is based was based on an error (LTIP only) or circumstances which would warrant the summary dismissal of the individual, whether or not the Company has chosen to do so. The periods for the operation of malus and clawback are either prior to vesting for malus (annual bonus; awards under DBSP or LTIP) or for a period after vesting for clawback (2 years from bonus determinations for annual bonus; 3 years from vesting for LTIP).

Outstanding obligations

For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority is given to the Company to honour any commitments entered into with current or former Directors prior to the adoption of this Directors' Remuneration Policy (including under a prior policy).

Consideration of employment conditions elsewhere in the Group

There is a periodic employee survey and the Board receives a regular presentation from the Director of Human Resources, which includes consideration of the Group's remuneration policies. As a result, the Remuneration Committee has not conducted a specific employee consultation exercise on the Directors' remuneration policy.

While appropriate benchmarks vary by role, the Company seeks to apply the philosophy behind this policy across the Group as a whole. Where the Company's pay policy for Directors differs from its pay policies for groups of employees, this reflects the appropriate market rate position and/or typical practice for the relevant roles. The Committee takes into account pay levels, bonus opportunity and share awards across the Group when setting the Remuneration Policy.

Consideration of shareholder views

The Committee considers shareholder feedback received as part of any dialogue with shareholders via the Chairman, executive management or the Company's brokers. Where necessary the Remuneration Committee Chair will engage pro-actively with leading shareholders as has been done recently in advance of the adoption of the Remuneration Policy as proposed for approval at the 2022 AGM.

Approach to recruitment remuneration

The Remuneration Policy aims to facilitate the retention and recruitment of individuals of sufficient calibre to lead the business, to execute the Group's strategy effectively and to promote the long-term success of the Group for the benefit of shareholders and other stakeholders. When appointing a new Executive Director, the Committee seeks to ensure that arrangements are in the best interests of the Group and to pay at the appropriate level.

The Committee will take into consideration a number of relevant factors, which may include the calibre and experience of the individual, the candidate's existing remuneration package, and the specific circumstances of the individual including the jurisdiction from which the candidate was recruited.

When hiring a new Executive Director, the Committee will typically align the remuneration package with the above policy. The Committee may include other elements of pay which it considers are appropriate; however, this discretion is capped and is subject to the principles and the limits referred to below.

- New Executive Directors will be offered a wage consistent with, but not necessarily the same as, existing appointees, reflecting the prudent approach taken to overall Board remuneration.
- For external and internal appointments, the Committee may agree that the Company will meet appropriate relocation and/or incidental expenses (including travel and subsistence) as appropriate and for a period of no more than two years following appointment.
- Annual bonus awards, LTIP awards and pension contributions would not be in excess of the levels stated in the policy table above.
- Depending on the timing of the appointment, the Committee may deem it appropriate to set different annual bonus performance conditions for the first performance year of appointment. An LTIP award can be made following an appointment (assuming the Company is not in a close period).
- Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue according to the original terms, adjusted as relevant to take into account the appointment.
- In addition, the Committee may offer additional cash and/or share-based buyout awards when it considers these to be in the best interests of the Company (and therefore shareholders) to take account of remuneration given up at the individual's former employer. This includes the use of buyout awards made under 9.4.2 of the Listing Rules. Such awards would represent a reasonable estimate of the value foregone and would reflect, as far as possible, the delivery mechanism, time horizons and whether performance requirements are attached to the remuneration elements considered in formulating the buyout. Shareholders will be informed of any such payments at the time of appointment and/or in the next published Annual Report. However, for the avoidance of doubt, the value of buy-out awards is not capped.
- For the appointment of a new Chairman or Non-executive Director, the fee arrangements would be set in accordance with the approved Remuneration Policy.

Service contracts and letters of appointment

Executive service contracts have a standard notice period of 12 months. Executive Directors may accept appointments outside the Company provided the Board's permission is obtained, however the Board may require the fees from these appointments to be accounted for to the Company. Neither P.D. Atkinson, nor I. Gray currently hold any external appointments.

Chairman and Non-executive Director appointments are made using letters of appointment for periods not exceeding three years subject to re-election at the AGM and contain notice periods of six months and three months respectively.

Non-executive Director remuneration policy

Chairman

Link to strategy	To attract and retain a high-calibre Chairman by offering a market competitive fee level.
Operation	The Chairman is paid a single fee for all his responsibilities, which is reviewed periodically by the Committee with reference to other comparable companies.
Opportunity	The current fee is £70,310 and is subject to periodic change under this policy. There is no maximum fee level.

Non-executive Directors

Link to strategy	To attract and retain high-calibre Non-executive Directors by offering a market competitive fee level.
Operation	Non-executive Directors are paid a basic fee. Committee Chairs may be paid a supplement to reflect additional responsibilities. Fee levels are reviewed periodically by the Chairman and the Executive Directors with reference to other comparable companies.
Opportunity	The current fee is £35,155 and is subject to periodic change under this policy. There are currently no supplementary fees paid and there is no maximum fee level.

Payment for loss of office

The principles on which the determination of payments for loss of office will be approached are set out below:

	Policy
Payment in lieu of notice	The Company may terminate the contracts of Executive Directors with immediate effect with or without cause by making a payment in lieu of notice of salary and benefits, including pension contributions, private medical insurance and life assurance (or a payment equivalent to the cost of such benefits), but excluding any bonus. If a payment in lieu of notice is paid in instalments, such payments will be subject to the principles of mitigation. There are no obligations to make payments beyond those disclosed elsewhere in this report.
Annual bonus (including DBSP)	Normally, no annual bonus will be paid to an Executive Director who has either left the Company or is under notice at the time of bonus payment. However, for a 'good leaver', some bonus may be payable at the discretion of the Committee on an individual basis dependent on a number of factors, including the circumstances of the individual's departure and their contribution to the business during the annual bonus period in question. Any annual bonus award amounts paid will normally be prorated for time in service during the annual bonus period and will, subject to performance, be paid at the usual time (although the Committee retains discretion to pay the annual bonus award earlier in appropriate circumstances). Any bonus earned for the year of departure and, if relevant, for the prior year may be paid wholly in cash at the discretion of the Committee. On a change of control, annual bonuses will either continue for the full year or a pro-rata bonus may be paid out to the time of completion. DBSP awards will normally be retained and released at the end of the 2 year vesting period if the person is a 'good leaver'. DBSP awards may also be released early to a good leaver if the Committee considers this appropriate. Leaving for reasons of misconduct or resignation (other than for ill health, agreed retirements or similar cases determined by the Committee) will normally result in forfeiture of DBSP awards. On a change of control, DBSP awards will normally vest in full at the date of the relevant event, subject to rules of the DBSP.
LTIP	The extent to which any unvested award will vest will be determined in accordance with the rules of the LTIP. Any outstanding awards will ordinarily lapse, however in 'good leaver' cases the default treatment is that awards will vest subject to the original performance condition and time proration and the holding period will normally continue to apply. For added flexibility, the LTIP rules allow for the Committee to decide not to pro-rate (or pro-rate to a different extent) if it decides it is appropriate to do so, and to allow vesting to be triggered at the point of leaving by reference to performance to that date, rather than waiting until the end of the performance period if the Committee so decides. On a change of control, any vesting of awards will be subject to assessment of performance against the performance conditions and will normally be pro-rated.
Mitigation	The Remuneration Committee strongly endorses the principle of mitigating any loss on early termination and will seek to reduce the amount payable on termination where it is possible and appropriate to do so. The Committee will also take care to ensure that, while meeting its contractual obligations, poor performance is not rewarded.
Buy-out awards	Where a buy-out award is made then the leaver provisions would be determined at the time of the award.
Other payments	The Group may pay outplacement and professional legal fees incurred by Executives in finalising their termination arrangements, where considered appropriate, and may pay any statutory entitlements or settle compromise claims in connection with a termination of employment, where considered in the best interests of the Company.

Where the Committee retains discretion it will be used to provide flexibility in certain situations, taking into account the particular circumstances of the Director's departure and performance.

Committee discretions

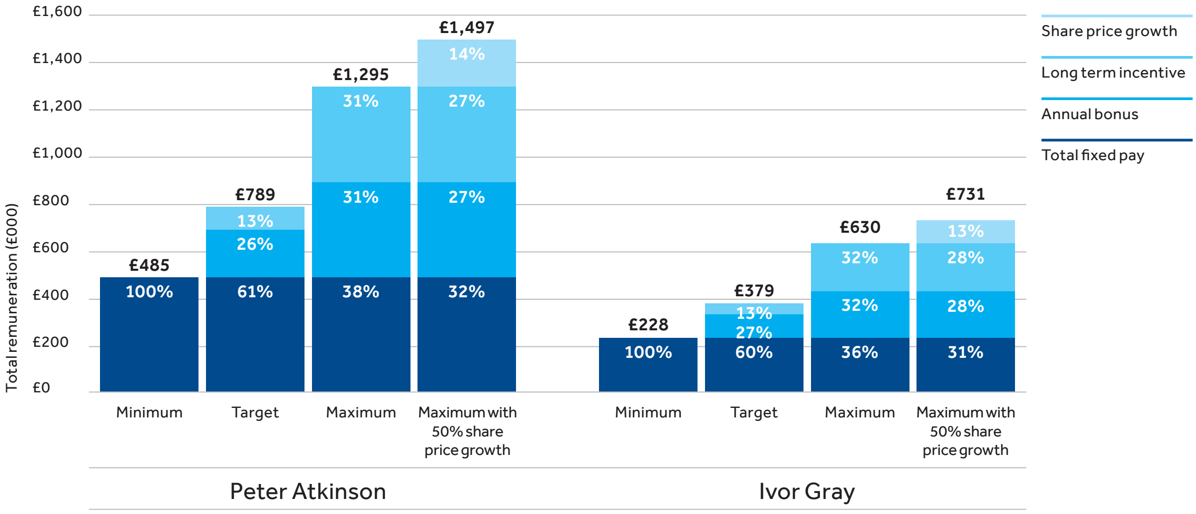
Flexibility, discretion and judgement

The Remuneration Committee operates the annual bonus, DBSP and LTIP according to the rules of each respective plan which, consistent with market practice, include discretion in a number of respects in relation to the operation of each plan. Discretions include:

- who participates in the plan, the quantum of an award and/or payment and the timing of awards and/or payments;
- determining the extent of vesting;
- treatment of awards and/or payments on a change of control or restructuring of the Group;
- whether an Executive Director or a senior manager is a good/bad leaver for incentive plan purposes and whether the proportion of awards that vest do so at the time of leaving or at the normal vesting date(s);
- how and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends);
- what the weighting, measures and targets should be for the annual bonus plan and LTIP awards from year to year;
- the Committee also retains the ability, within the Remuneration Policy, if events occur that cause it to determine that the conditions set in relation to an annual bonus plan or a granted LTIP award are no longer appropriate or unable to fulfil their original intended purpose, to adjust targets and/or set different measures or weightings for the applicable annual bonus plan and LTIP awards. Any such changes would be explained in the subsequent Directors' Remuneration Report and, if appropriate, be the subject of consultation with the Company's major shareholders; and
- the ability to override formulaic outcomes in line with the Remuneration Policy.

All assessments of performance are ultimately subject to the Committee's judgement. Any discretion exercised, and the rationale, will be disclosed in the annual remuneration report.

Illustration of the application of the remuneration policy



Remuneration report
(continued)

The charts on the previous page illustrate how the remuneration policy for the Executive Directors will apply in 2022 based on the following assumptions:

Minimum	Consists of base salary, benefits and pension.				
	Base salary is the salary to be paid in 2022.				
	Benefits are an estimate of benefits to be paid for the full year in 2022.				
	Pension is an estimate of the value of pension contributions or cash allowance to be paid in 2022.				
	£000	Base salary	Benefits	Pension	Total fixed
	P. Atkinson	£405	£19	£61	£485
	I. Gray	£201	£11	£16	£228
Target	Based on what the Director would receive if performance was 'on-target'. This includes: • Fixed pay (as above) • A target bonus payout of 50% of salary (50% of maximum) • A threshold level of vesting under the PSP (25% of maximum, i.e. 25% of salary) excluding share price appreciation and dividends				
Maximum	Based on what the Director would receive if performance was at 'maximum'. This includes: • Fixed pay (as above) • A maximum bonus payout of 100% of salary • A maximum level of vesting under the PSP (100% of salary) excluding share price appreciation and dividends				

An additional bar is shown, representing the maximum assumptions above and including the impact of 50% share price growth over the performance period for the PSP.

Corporate governance

Macfarlane Group is committed to the principles of corporate governance set out in the Financial Reporting Council's ('FRC') UK Corporate Governance Code issued in 2018 ('the Code'). The Company's compliance is set out in the narrative statement on pages 63 to 71 and for Directors' remuneration in the Directors' Remuneration Report on pages 46 to 55.

Compliance

The Company fully complied with all the Code provisions during 2021. In addition to its wider remit under the Listing Rules, the Company's auditor, Deloitte LLP, is required to review whether the above statement reflects the Company's compliance with the provisions of the Code specified for its review by the Financial Conduct Authority's Listing Rules and to report if it does not reflect such compliance.

The Board

The current Board structure is in compliance with the Code, requiring companies outside the FTSE 350 to have at least two independent Non-executive Directors.

The Board currently comprises the Chairman, three independent Non-executive Directors and two Executive Directors. Directors' names, and biographical details illustrating their range of experience and the benefit that each Director's appointment brings to Macfarlane Group, are set out on page 42.

The Directors believe that the Board has an appropriate independent Non-executive Director complement with recent and relevant experience, which brings strong, independent judgement to the Board's deliberations. The Non-executive Directors contribute towards and challenge Group strategy as well as scrutinising performance in meeting agreed objectives and monitoring the reporting of performance. They satisfy themselves as to the integrity of the financial information and that the financial controls, systems of risk management and governance structure are robust and defensible.

Non-executive Directors have access to independent professional advice at the Group's expense, subject to certain limits and procedures, when it is deemed necessary in order for them to effectively fulfil their responsibilities.

Details of Executive Directors' service contracts are given in the Directors' Report with all Executive Directors' service contracts having notice periods of one year.

The Company has maintained Directors' and officers' liability insurance cover throughout the financial year. The Company made qualifying third-party indemnity provisions for the benefit of Directors in 2009, and these have remained in force throughout 2021 and to the time of this report.

The Board confirms that it has considered and authorised any conflicts or potential conflicts of interest in accordance with the Group's existing procedures.

The Chairman's other commitments are shown in his biography on page 42. The Board is satisfied that these do not interfere with the performance of Group duties, which is based on a commitment of approx. 45 days per annum.

The Board considers its Non-executive Directors, Bob McLellan, James Baird and Aleen Gulvanessian, to be independent both in character and judgement. None of these Directors:

- Has been an employee of the Group within the last five years;
- Has, or has had within the last three years, a material business relationship with the Group;
- Receives remuneration other than a Director's fee;
- Has close family ties with any of the Group's advisers, Directors or senior employees;
- Holds cross-directorships or has significant links with other Directors through other companies or bodies;
- Represents a significant shareholder; or
- Has served on the Board for more than nine years from the date of their first election.

The balance of the Board's skills and experience is kept under regular review. The Board's succession plans recognise the need to consider wider diversity within the Group and in Board composition in the medium-term. We are also committed to improving the sustainability both of our operations and of the products that we offer our customers. The Board recognises that both of these objectives are to the benefit of all stakeholders of the Group.

The roles of the Chairman and Chief Executive

The division of responsibilities between the Chairman and the Chief Executive is very clearly defined and has been approved by the Board. The Chairman is responsible for running the Board, ensuring that all Directors receive sufficient and relevant information on financial, business and corporate issues prior to meetings to allow Directors to bring independent judgement to bear on all issues. The Chairman facilitates the effective contribution of Non-executive Directors and ensures effective communication channels with shareholders.

The Chief Executive's responsibilities focus on managing the business and implementing the Group's strategy.

Senior Independent Director

Bob McLellan is the Senior Independent Director. Shareholders may contact him directly if they feel their concerns are not being addressed and resolved through existing mechanisms for investor communication.

Re-election of Directors

At each AGM, all Directors fall due to retire and, being eligible, offer themselves for election. Directors' service contracts and letters of appointment will be available for shareholder review prior to the AGM on 10 May 2022.

Subject to the Company's Articles of Association, the Companies Act and satisfactory performance evaluation, Non-executive Directors are appointed for an initial period of three years. Before the third and sixth anniversary of the Non-executive Director's first appointment, the Chairman will discuss with the Director whether it is appropriate for a further three-year term to be served.

Company Secretary

James Macdonald, the Company Secretary, is responsible for advising the Board through the Chairman on all matters relating to corporate governance. Under the direction of the Chairman, the Company Secretary's responsibilities include ensuring good information flows within the Board and its committees and between executive management and Non-executive Directors. The Company Secretary also facilitates induction and assists with professional development for the Board. All Directors have access to the advice and services of the Company Secretary.

The Articles of Association and the schedule of matters reserved for the Board provide that the appointment and removal of the Company Secretary is a matter for the Board as a whole.

Board procedures

The Group is controlled by the Board of Directors. The Board's main roles are to set the Group's strategic objectives, guide and support executive management in achieving these objectives, create value for and safeguard the interests of all shareholders within the appropriate legal and regulatory framework. The Board met seven (2020: nine) times during 2021 and individual attendance at those and the Board Committee meetings is set out in the table on the following page.

Key members of the management team joined the meetings to further develop the Board's understanding of the business. In the seven Board meetings the Group's response to Covid-19 was reviewed including the measures in place to ensure, the health and well-being of employees, service to customers was being maintained and the financial position of the Company was secure.

The Board has a formal schedule of matters reserved for its approval. The specific matters reserved for the Board include setting the Group's strategy and approving an annual budget, reviewing management performance, approving acquisitions, divestments and major capital expenditure, monitoring returns on investment, reviewing the Group's systems of internal control and risk management, setting and approving ESG objectives and monitoring progress and consideration of significant financing matters. The Board has delegated to executive management responsibility for the development and recommendation of strategic plans, including ESG strategy, for consideration by the Board, the implementation of the strategy and policies of the Group as determined by the Board, the delivery of the operating and financial plan, approval of capital expenditure below Board authority levels and the development and implementation of risk management systems.

Board agendas are set by the Chairman, who consults with the Chief Executive and discusses the agendas with the Company Secretary. A programme of areas for discussion is maintained by the Company Secretary to ensure that all matters reserved for the Board and any other key issues are addressed at the appropriate time.

At each meeting, the Directors receive management information and reports from the Chief Executive and the Finance Director which, together with other papers, enables them to scrutinise the Group and management performance against agreed objectives. These and other regular reports and papers are circulated to the Directors in a timely manner in preparation for Board and Committee meetings and are supplemented by information specifically requested by the Directors from time to time.

Accountability
The Board is responsible for presenting a fair, balanced and understandable assessment of the Group's position and prospects and asks the Audit Committee to consider and advise the Board of its view.

The Board considers that the Annual Report provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Directors' Responsibilities Statement is set out on page 72.

Going concern
Given the significant disruption and economic uncertainty caused by the Covid-19 pandemic, the Directors extended their consideration of going concern with the review of additional scenario analysis as set out in the Viability Statement on page 19. After making these enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least the next twelve months from the date of this report. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Board and Committee meetings
The number of regular Board and Committee meetings attended by each member during 2021 is shown in the table below.

Professional development
On appointment, all Directors complete an induction programme designed to give them a thorough understanding of the Group and its activities. They receive information about the Group, the matters reserved for the Board, the terms of reference and membership of the Board Committees, and the latest financial information. This is supplemented with visits to key locations and meetings with, and presentations from, senior management.

Board performance evaluation
The Board has established a formal process, led by the Chairman, for an annual performance evaluation of the Board, its Committees and individual Directors. All Directors are made aware that their performance will be subject to regular evaluation. The Board has completed a self-assessment questionnaire developed to take account of the areas identified in the FRC '*Guidance on Board Effectiveness*'. This includes specific reference to strategic objectives and the performance and processes of the Board and all Board Committees.

Attendance by Directors at Board and Committee meetings during 2021

		Board	Audit Committee	Remuneration Committee	Nominations Committee
Stuart Paterson	Chairman	7 (7)	4 (4)*	3 (3)	6 (6)
Peter Atkinson	Chief Executive	7 (7)	–	–	–
Ivor Gray	Finance Director	6 (7)	–	–	–
John Love	Executive Director	2 (2)	–	–	–
Bob McLellan	Senior Independent Director	7 (7)	4 (4)	3 (3)	6 (6)
James Baird	Non-executive Director	7 (7)	4 (4)	3 (3)	6 (6)
Aleen Gulvanessian	Non-executive Director	2 (2)	1 (1)	1 (1)	2 (2)
Andrea Dunstan	Non-executive Director	5 (5)	3 (3)	2 (2)	4 (4)

Figures in brackets indicate the maximum number of meetings in 2021 for which the individual was a Board or Committee member. Where a Director cannot attend a Board or Committee meeting, any comments the Director has on the papers being reviewed at that meeting are relayed in advance for consideration.

* The Chairman attends but is not a member of the Audit Committee.

Results are collated by the Company Secretary and reviewed to identify areas for improvement and confirm objectives for the year ahead. The Chairman then holds individual meetings with each Director to review performance and set individual objectives.

The Chairman meets with the Non-executive Directors during the year without the Executive Directors present. The three Non-executive Directors conduct an annual performance evaluation of the Chairman.

Relationships with Shareholders

The Group maintains a corporate website (www.macfarlanegroup.com) containing a wide range of information of interest to institutional and private investors.

Detailed reviews of the performance and financial position are included in the Strategic Report on pages 4 to 40 of this report. The Board uses this, together with the Chairman's Statement on pages 4 to 7 and the remainder of the Report of the Directors, to present its assessment of the Company's position and prospects.

The Chairman seeks to maintain a regular dialogue with shareholders and gives feedback to the Board on issues raised. The Group has regular discussions with institutional shareholders, including meetings led by the Chief Executive and the Finance Director, following the announcement of the annual results in February and the interim results in August. Individual requests for discussions from shareholders are considered.

The Board receives feedback on shareholder meetings, including broker feedback, for the meetings scheduled around the results' announcements. The Senior Independent Director is available to meet with shareholders if they have concerns with contact through the normal channels of Chairman, Chief Executive or Finance Director.

All Directors attend the AGM. All shareholders have an opportunity to raise questions with members of the Board on matters relating to the Group's operations and performance during the meeting and to meet Directors after the formal proceedings have ended. Details of the resolutions to be proposed at the AGM can be found in the Notice of Meeting accompanying the Annual Report and Accounts. The Notice of Meeting is sent out more than 20 days in advance of the meeting. In line with the requirements of the Code, the results of proxy votes are disclosed at the AGM, notified to the Stock Exchange and made available on the Group website following the meeting.

Nominations Committee

The Nominations Committee during 2021 was as follows:

Stuart Paterson (Chair)

Aleen Gulvanessian
(from 1 October 2021)

Andrea Dunstan
(until 31 August 2021)

Bob McLellan

James Baird

The Committee met six times during 2021.

Its terms of reference are available on the Group website (www.macfarlanegroup.com).

The principal work undertaken by the Nominations Committee in 2021 was to consider and recommend that the Company propose for re-election any Directors falling due for re-appointment at the AGM and to oversee the process to identify and appoint a new Non-executive Director.

The Committee's ongoing responsibilities include reviewing the structure, size and composition of the Board and giving full consideration to succession planning for both Executive and Non-executive Directors and other senior executives. The Nominations Committee will continue to consider the mix of skills, experience and diversity that the Board requires and seek the appointment of Directors to meet its assessment of what is required to ensure that the Board is effective in discharging its responsibilities.

Following a Nominations Committee held in 2021 the Committee proposed that all Directors make themselves available for re-election at the AGM on 11 May 2021.

After an extensive process which included a review of a number of candidates, and following a Nominations Committee on 24 August 2021, the Committee approved the appointment of Aleen Gulvanessian as a Non-executive Director with effect from 1 October 2021. Aleen Gulvanessian replaces Andrea Dunstan, who retired on 31 August 2021, as Chair of the Remuneration Committee.

No Director is involved in any decisions regarding their own appointment or re-appointment.

Remuneration Committee

The Remuneration Committee during 2021 was as follows:

Aleen Gulvanessian (Chair) (from 1 October 2021)

Andrea Dunstan (Chair) (until 31 August 2021)

Bob McLellan

James Baird

Stuart Paterson

None of the members of the Remuneration Committee during 2021 has any personal financial interests, other than as a shareholder, in the matters to be decided, conflicts of interests arising from cross-directorships or any day-to-day involvement in running the business.

The Committee met three times during 2021. Its terms of reference are available on the Group website (www.macfarlanegroup.com).

The principal work undertaken by the Remuneration Committee in 2021 was:

(a) To review performance against 2021 financial and personal objectives and to conclude on an appropriate performance related reward under the Annual bonus plan for senior executives including the Executive Directors;
(b) To develop a new Remuneration Policy Statement, including proposed remuneration for Executive Directors, for approval at the AGM on 10 May 2022;
(c) To approve financial and personal objectives for 2022 in relation to the performance related Annual bonus plan;
(d) To consider awards of share-based incentives and determining the performance conditions for these awards; and
(e) To approve the Directors' Remuneration Report.

The work of the Remuneration Committee, including the new Remuneration Policy Statement for approval at the 2022 AGM, is described in the Directors' Remuneration Report and Remuneration Policy on pages 46 to 62.

Audit Committee

During 2021 the Audit Committee comprised:

James Baird (Chair)

Bob McLellan

Aleen Gulvanessian
(from 1 October 2021)

Andrea Dunstan
(until 31 August 2021)

James Baird was appointed as Chair of the Committee on 8 January 2018 given his relevant experience. The remaining Committee members, Bob McLellan and Aleen Gulvanessian, have a wide range of commercial experience as evidenced in their biographical details on page 42. The Committee Chairman will be available to answer questions on any aspect of the Committee's work at the AGM.

The Company Chairman attends meetings to give the benefit of his relevant experience but is no longer a member of the Committee. Executive Directors, members of executive management and internal auditors attend certain meetings at the invitation of the Committee Chair.

The Committee's terms of reference are displayed on the Group website, (www.macfarlanegroup.com) and its principal oversight responsibilities cover the following five areas:

- **Internal control and risk management**
  The Committee reviews annually the Group's system of risk management and internal control and processes for evaluating and monitoring the risks facing the Group. The overall responsibility for the systems of internal control and for reviewing their effectiveness rests with the Board.
- **Internal audit**
  The Committee monitors and reviews the effectiveness of the Group's internal audit function and its terms of reference annually and recommends to the Board any changes required following its review. Reports from internal audit are considered at each meeting and the Committee actively engages in selecting and prioritising areas to be subject to audit.
- **Whistle-blowing**
  The Committee monitors the Group's arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting and other areas including an external whistle-blowing service to take calls from employees.
- **External audit**
  The Committee is responsible for monitoring the effectiveness of the external audit process and recommending to the Board the appointment, re-appointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the Group and the external auditor is maintained, including formal consideration of the independence of the external auditor. The Committee considers the framework for the supply of non-audit services by the external auditor and reviews any proposed non-audit services and fees.
- **Financial reporting**
  The Committee monitors the integrity of the Group's financial statements and the significant judgements contained therein including assessing the fair, balanced and understandable presentation within the reporting. The Committee also considers any other formal announcements relating to the Group's performance. Further details are set out on the following pages.

The Audit Committee met four times during 2021 and its agenda is linked to events in the Group's financial calendar.

The Committee meets privately with the external auditor at least once in each year. In 2021 the Audit Committee discharged its responsibilities by:

- Reviewing its terms of reference;
- Reviewing the Group's draft financial statements and interim results statement prior to Board approval and reviewing the external auditor's reports on the final results and draft financial statements;
- Agreeing the continuing appropriateness of the Group's accounting policies;
- Monitoring compliance with International Financial Reporting Standards;
- Challenging the output from the Group-wide process used to identify, evaluate and mitigate risks and associated mitigating controls;
- Reviewing the effectiveness of the Group's internal controls and disclosures made in the Annual Report;
- Reviewing the effectiveness of the external auditor at the conclusion of the 2020 audit;
- Agreeing the programme of work for the internal audit function taking into account identified risks;
- Discussing reports from the Head of Internal Audit on internal audit reports and management responses to proposals made in these reports, ensuring that the responses are actioned and completed on a timely basis;
- Agreeing the external auditor's plan for the audit of the Group financial statements which includes confirmations of auditor independence and approval of the engagement letter; and
- Reviewing and approving external audit fees and keeping the level and nature of non-audit fees under review.

During 2021 the Audit Committee focused specifically on a number of areas relating to management judgements and the ongoing response to the Covid-19 pandemic to ensure that:

- There was sufficient stress testing of the Group's financial position through a full range of possible scenarios to assess the Group's viability;
- There was a robust review of trade receivables and inventory provisioning to ensure it remained appropriate;
- The internal control environment had been maintained, the risk of inappropriate management override of controls was being monitored and where necessary mitigating or additional controls were implemented; and
- The increased cyber-security risk related to remote working had been considered and additional controls introduced to reduce or mitigate this risk.

Following each Audit Committee meeting, copies of the minutes of the meetings are circulated to all Board Directors and are made available to the external auditors by the Company Secretary, who acts as Secretary to the Committee.

2021 financial statements

Certain accounting policies require key accounting judgements or involve particularly complex or subjective estimates or assumptions which will have a significant effect on the amounts recognised in the financial statements. The Audit Committee receives a report from the Finance Director for each reported set of results, which summarises principal judgements taken by executive management. The Committee discusses and challenges these judgements and considers the report together with the results of the external audit. The Committee then makes a recommendation to the Board on the suitability of the policies and judgements supporting the reported results.

For the 2021 financial statements, the Committee considers the key areas of judgement to be:

Valuation of trade receivables

Trade receivables recorded in the Group's balance sheet comprise a large number of individual balances. The Group reviews all trade receivables and provides against potentially irrecoverable items throughout the year, applying an Expected Credit Loss model. The Group's executive management then reviews local judgements. Whilst every attempt is made to ensure that the Expected Credit Loss allowance 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 uncollectible. At 31 December 2021, the Group retained a provision held against trade receivables of £731,000 (2020: £1,148,000) as set out in note 14.

The Audit Committee receives details of individual receivables > £25,000 twice in each year. The Committee reviews the extent to which year-end balances have been settled in 2021 to date, paying particular attention to receivables outwith terms and any bad debts written off, comparing this with similar analyses produced at previous reporting dates. This is then considered against the level of provision held against trade receivables.

Based on this analysis, the Committee is satisfied that it has challenged management's assumptions appropriately and that the level of provision and the disclosures of items beyond terms is appropriate.

Pension scheme surplus/(deficit)

A net asset/liability is recorded at each reporting date equivalent to the surplus/deficit on the Group's defined benefit pension scheme. This asset/liability is determined in conjunction with advice from the pension scheme actuary and can fluctuate significantly based on a number of assumptions, some linked to market-related factors outwith the control of management. The main actuarial assumptions that impact the deficit are set out in note 24. Investments are valued at bid price.

The Audit Committee has debated the assumptions being used to determine the liabilities in accordance with guidance from a number of actuarial firms and has satisfied itself that the assumptions used fall within an acceptable range reflecting the duration of liabilities in Macfarlane Group's defined benefit pension scheme.

The pension scheme surplus calculated by the actuary and the related disclosures are based on these assumptions and the components of the movement from a deficit at 31 December 2020 to surplus in 2021 have been explained to the Committee's satisfaction. The sensitivities of movements in the key underlying assumptions are clearly set out in note 24. The Committee is also satisfied that a surplus can be recognised as an asset based on legal opinion provided details of which are set out in note 24.

Accordingly the Committee is satisfied that it has challenged management's assumptions appropriately and is comfortable with the reporting of the pension scheme surplus.

Accounting treatment of acquisitions

Acquired businesses are measured at the date of acquisition as the aggregate fair value of assets, liabilities and contingent liabilities. The excess of the cost of acquisition over the fair value of the identifiable net assets is classified as goodwill. The Committee reviews this process for each acquisition undertaken and discusses the methodology and assumptions used with management and concluded that it was satisfied with the basis of accounting in this area and the resulting measurements.

Audit Committee
(continued)

Consideration of other matters

The Committee debates a number of other areas for each reporting period but does not consider these matters to be of such significance as those above. For the 2021 financial statements, the main other areas included:

- The Group's Viability Statement includes 'severe but plausible' scenarios applied in arriving at the conclusions made. The Committee reviewed these scenarios as well as the reverse stress testing applied to the model used (as disclosed on page 19) and was satisfied with the assumptions and judgements applied and the statement made;
- The disposal of the Group's Labels division on 31 December 2021 has been accounted for and disclosed correctly in line with IFRS5;
- Goodwill is allocated to cash generating units ('CGUs') expected to benefit from the synergies of the business combination, for the purpose of impairment testing. Carrying values of goodwill for each CGU Grouping are reviewed at the half year and at the end of the financial year. The Committee reviews and discusses management's approach to impairment testing including the related sensitivity analysis.
  - The Committee concluded at the half year that, based on the assumptions made which reflected a combination of deteriorating trading conditions in 2021 and an indicative price offered for Labels by The Reflex Group Limited there was evidence of impairment of goodwill in the Labels CGU. An impairment charge was made in the 2021 interim results. The Labels CGU was sold on 31 December 2021 and classified as a Discontinued Operation.
  - The Committee was satisfied with the assumptions and judgements applied, concluding that there was no evidence of impairment of goodwill under all reasonable sensitivity scenarios in the Continuing Operations of Distribution and Manufacturing.
- The level and basis for property-related provisions at 31 December 2021 supported, where significant, by external opinions from the Group's property advisers;
- The level of and basis for inventory provisions at 31 December 2021; and
- The review of the Alternative Performance Measure ('APM'), being Operating profit before amortisation, introduced in 2021 including the adequacy of supporting explanations and reconciliations to related statutory performance measures.

For all of these other matters the Audit Committee is satisfied with the approach taken.

The Audit Committee has reviewed the contents of this year's Annual Report and Accounts and has advised the Board that, in its view, the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Committee monitors the Group's arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting and other areas including an external whistle-blowing service to take calls from employees. Details of the arrangements are on the Group website (**www.macfarlanegroup.com**). All concerns are investigated at the earliest opportunity and the employee's anonymity preserved wherever possible.

Relationship with external audit

The Audit Committee is responsible for the development, implementation and monitoring of the Group's position on external audit. The Committee's terms of reference assign oversight responsibility for monitoring the independence, objectivity and compliance of the external auditors with ethical and regulatory requirements to the Audit Committee, and day-to-day responsibility to the Finance Director. The Audit Committee ensures that the Board and external auditor have safeguards in place to prevent auditor's independence and objectivity being compromised. The external auditor also reports to the Committee on the actions that it has taken to comply with professional and regulatory requirements and current best practice in order to maintain independence.

Each year the Audit Committee considers and agrees the scope of the audit proposed by the external auditor, including coverage of identified risk areas. In their review of the 2021 audit scope, the Committee requested that the external auditors report on the following additional areas:

a) Compliance of receivables and inventories provisioning with the Group's approved accounting policies;
b) The adequacy of explanations and disclosures relating to the introduction in 2021 of an Alternative Performance Measure, being Operating profit before amortisation;
c) The suitability of property-related provisions, including the results of independent discussions conducted by the external auditor to corroborate underlying assumptions; and
d) The accounting treatment and disclosures relating to the disposal of the Labels businesses.

The external auditors reported to the Committee on all of these areas on conclusion of the 2021 audit. No adjustments were made to the 2021 financial statements or to the Group's internal controls as a result.

The Committee notes that there are no contractual obligations to restrict the choice of external auditor. In accordance with best practice, the audit partner from the external auditor rotates off the audit engagement every five years.

The Audit Committee monitors non-audit services provided to the Group by the external auditor, recognising that there may be certain non-audit work which the external auditor is best placed to undertake. The Committee's policy is to keep all services provided by the external auditor under review to ensure the independence and objectivity of the external auditor, taking account of relevant professional and regulatory requirements. Non-audit work to be undertaken by the external auditor is approved by the Audit Committee in advance of the work being undertaken. Amounts paid to Deloitte LLP during 2021 for audit and other services are set out in note 2 to the financial statements.

On conclusion of each year's audit, the Audit Committee considers the effectiveness of the external auditor, in particular assessing the level of professional scepticism demonstrated throughout the audit process and in the challenge of management's assumptions. Through the Committee meeting privately with the external auditor and in discussions between the external auditor and the Committee Chair, the actual performance of the auditor is compared to the annual audit plan originally presented to and agreed by the Committee and against the service level commitments made by the external auditor in the 2020 audit tender.

Risk management and internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. It is management's role to implement the Board's policies on risk and control through the design and operation of appropriate internal control systems. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against material mis-statement or loss.

The Board confirms that an ongoing process for identifying, evaluating and managing the significant risks faced by the Group was in place in accordance with the principles of the Code and the related guidance. The process was in place throughout 2021 and has continued to the date of approval of the Annual Report and financial statements.

The Board regularly reviews the Group's system of internal control. The Board's monitoring covers all controls including financial, operational and compliance controls and risk management.

The key elements of the internal control process are:

- Formal Board reporting on a monthly basis by the Chief Executive and the Finance Director;
- Formal Board approval of the annual budget;
- Since 2009, Internal Audit has been staffed in-house. Certain parts of the internal audit plan may be outsourced when specific expertise is required. The Committee challenges and agrees the annual internal audit plan, receives reports on internal audit issues raised, a six-monthly update and an annual report from the Head of Internal Audit;
- Monthly and annual financial control checklists submitted by each business unit;
- Discussion by the Committee of the external auditor's conclusions from its annual audit; and
- A robust risk assessment process as set out below.

Each business's risk register is kept under review during regular review meetings in each business. The Board considers in detail specific risks from the register at each Board meeting and annually carries out a review of the risks facing the Group and ensures that management has identified and implemented appropriate controls, which are acceptable to the Board, to address these risks. The risk register is taken into account in setting the internal audit plan each year.

The Audit Committee has received reports on cyber security matters to emphasise the importance of having robust cyber-security measures in place as part of the controls framework, but also to ensure that employees, customers and suppliers are protected from the impact of cyber security breaches.

During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. No significant corrective actions are outstanding.

The Directors have continued to review the effectiveness of the Group's system of financial and non-financial controls.

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the United Kingdom and have also chosen to prepare the parent Company financial statements in accordance with Financial Reporting Standard 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 Group and parent Company and of their profit or loss for that period.

In preparing the parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 'Reduced Disclosure Framework' has 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.

In preparing the Group financial statements, International Accounting Standard 1 requires that the Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Strategic Report, incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board on 24 February 2022 and signed on its behalf by:

Peter D. Atkinson
Chief Executive

24 February 2022

Ivor Gray
Finance Director

24 February 2022

Independent auditor's report to the members of Macfarlane Group PLC

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Macfarlane Group plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 42.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law, and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

2. 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 Group and the parent 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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and parent company for the year are disclosed in note 2 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Business combinations: valuation and allocation of acquired intangible assets and valuation of contingent consideration
Materiality	The materiality that we used for the Group financial statements was £865k which was determined based on 4.6% of profit before tax.
Scoping	Our audit covered 91% of the Group's revenue, 97% of the Group's net assets and 90% of the Group's profit before tax.
Significant changes in our approach	The valuation of trade receivables, focussed on balances greater than 60 days and the completeness of the expected credit loss model has been removed as a key audit matter in 2021. This is driven by the improving ageing profile and the lower level of bad debt experienced by the Group in the year. This is the only significant change in our approach in the current year.

Independent auditor's report to the members of Macfarlane Group PLC
(continued)

4. Conclusions relating to going concern
In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Comparing the underlying data and key assumptions to past performance on the assumptions applied;
- Evaluating the financing facilities that are in place in the year including the repayment terms and covenants that are in place, and assessing whether these have been appropriately reflected in the model;
- Assessing the sophistication of the model used to prepare the forecasts, testing the clerical accuracy of those forecasts and considering the historical accuracy of the forecasts prepared by management;
- Determining the likelihood of the downside scenarios and sensitivities performed by management; and
- Assessing the adequacy of the going concern disclosures.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Business combinations: valuation and allocation of acquired intangible assets and valuation of contingent consideration

Key audit matter description	**The Group completed two business combinations in the year, GWP Holdings Limited and Carters Packaging (Cornwall) Limited for total consideration of £22.7m (£18.1m and £4.6m respectively). Total consideration comprised cash of £16.1m and £6.6m of contingent consideration. Goodwill of £9.5m and other intangible assets of £9.5m were recognised on acquisition.** Management performed a purchase price allocation exercise to allocate consideration in excess of the net assets to goodwill and other intangibles. Given the judgement involved in valuing acquired intangible assets and in forecasting post-acquisition performance, we have identified a potential for fraud in relation to the valuation and allocation of acquired intangible assets, and of the valuation of contingent consideration. Business combinations are included within note 23 to the financial statements. The Audit Committee's consideration in respect of this risk is included on page 69.

How the scope of our audit responded to the key audit matter	The audit procedures we performed in respect of this matter included: • Gaining an understanding of the process undertaken by management to perform the purchase price allocation and deferred consideration calculation, and gaining an understanding of the relevant controls; • Reviewing share purchase agreements to assess whether each acquisition has been accounted for correctly in the financial statements; • Engaging with our valuation specialists to understand the inputs and methodology and evaluating the assumptions used by management; • Challenging management's assumptions for the inputs to the calculations with reference to comparable company benchmarks; • Assessing the accuracy of forecast revenues used in the calculations; • Evaluating management's assessment of the presence of further intangible assets not identified; and • Assessed management's forecast of post-acquisition performance and recalculated the contingent consideration.
Key observations	We concluded that the assumptions made by management in determining the valuation and allocation of acquired intangible assets, and the valuation of contingent consideration are reasonable.

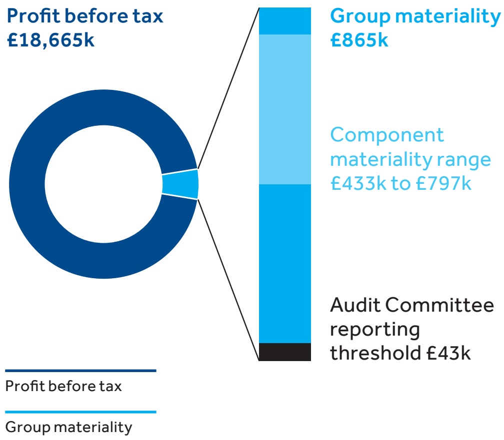
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£865k (2020: £643k)	£433k (2020: £322k)
Basis for determining materiality	4.6% of profit before tax (2020: 4.9% of profit before tax).	0.6% of net assets (2020: 0.5% of net assets), which is capped at 50% (2020: 50%) of Group materiality.
Rationale for the benchmark applied	We have used profit before tax as the benchmark for our determination of materiality as we consider this to be the key performance metric for the Group and one which is a key metric to analysts and investors given the prominence in the Annual Report.	The parent company holds the investments in the Group subsidiaries, the value of which is the key metric for the users of the financial statements. As statutory materiality would have been higher than the component materiality, we have capped materiality to be 50% of Group materiality being £433k. 50% is deemed appropriate based on the Company only contribution to the Group.



Independent auditor's report to the members of Macfarlane Group PLC
(continued)

6.2. Performance materiality
We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2020: 70%) of Group materiality	70% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • Our risk assessment, including the quality of the control environment, and that we considered it appropriate to rely on controls over certain business processes; and • Our past assessment of the audit, including consideration of the number and level of corrected and uncorrected misstatements identified in prior period.	

6.3. Error reporting threshold
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £43k (2020: £32k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

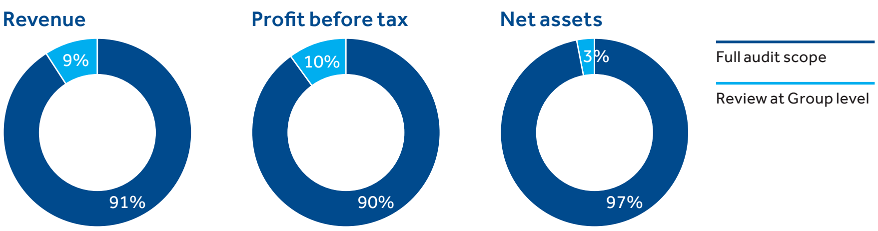
7.1. Identification and scoping of components
Our Group audit was scoped by obtaining an understanding of the Group and its environment through discussion with IT, internal audit, and the Group and component finance teams and by performing walkthroughs of processes across each of these areas, including Group-wide controls, and assessing the risk of material misstatement at a Group level.

For components deemed significant to the Group, full scope audit procedures were performed to materiality levels applicable to each entity, which was lower than the Group materiality level and ranged from £433k to £797k (2020: £322k to £579k). Components deemed significant are as follows:

- Macfarlane Group UK Limited
- Nelsons for Cartons & Packaging Limited
- GWP Holdings Limited

Macfarlane Labels Limited and Macfarlane Group Ireland (Labels & Packaging) Limited were disposed of during the year and the results are included within discontinued operations. As such we no longer assessed these as significant components. GWP Holdings Limited was acquired during the year and has been classified as a significant component.

This provided audit coverage of over 91% (2020: 93%) of the Group's revenue, 97% (2020: 95%) of the Group's net assets and 90% (2020: 87%) of the Group's profit before tax.



The remaining non-significant components were subject to analytical reviews. Our audit work on these components was executed at Group materiality.

At the Group level, we also tested the consolidation process.

All work on the significant components and consolidation process was performed by the Group engagement team.

7.2. Our consideration of the control environment
With the involvement of our IT specialist we obtained an understanding of the relevant IT environment, by performing walkthroughs of key processes and in some instances performed testing on the relevant general IT controls and business cycles. We took a controls reliant approach on the relevant controls for certain components within the revenue, trade receivables, expenditure and trade payables business process cycles.

8. Other information
The other information comprises the information included in the annual report (including the Chairman's statement, Macfarlane Group Business Model and Strategy, Chief Executive's review, Report of the Directors, Remuneration Report, Corporate Governance Report and Statement of Directors' Responsibilities), other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

9. 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 Group's and the parent 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 Group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. 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**. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;

Independent auditor's report to the members of Macfarlane Group PLC
(continued)

- the matters discussed among the audit engagement team and relevant internal specialists, including valuations, pensions, and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: business combinations – valuation and allocation of acquired intangible assets and valuation of contingent consideration. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, and Tax Law.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included UK Employment and Labour Laws.

11.2. Audit response to risks identified
As a result of performing the above, we identified business combinations: valuation and allocation of acquired intangible assets and valuation of deferred consideration as a key audit matter related to the potential risk of fraud or non-compliance with laws and regulations. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with 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 Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 65;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 19;
- the Directors' statement on fair, balanced and understandable set out on page 72;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 20;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 68; and
- the section describing the work of the audit committee set out on page 68.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Independent auditor's report to the members of Macfarlane Group PLC
(continued)

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 12 July 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years, covering the years ending 31 December 2019 to 31 December 2021.

15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16. 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.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard (('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

David Sweeney CA
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom

24 February 2022

Consolidated income statement

For the year ended 31 December 2021

	Note	2021 £000	Restated* 2020 £000
Continuing operations			
Revenue	1	**264,465**	210,227
Cost of sales		**174,998**	140,400
Gross profit		**89,467**	69,827
Distribution costs		**8,651**	7,162
Administrative expenses		**60,761**	49,006
Operating profit	2	**20,055**	13,659
Finance costs	4	**1,390**	1,226
Profit before tax		**18,665**	12,433
Tax	5	**4,917**	2,696
Profit for the year from continuing operations	20	**13,748**	9,737
Discontinued operations			
(Loss)/Profit for the year from discontinued operations	6	**(1,150)**	434
Profit for the year		**12,598**	10,171
Earnings per share from continuing operations	8		
Basic		**8.71p**	6.17p
Diluted		**8.62p**	6.14p
Earnings per share from continuing and discontinued operations	8		
Basic		**7.98p**	6.45p
Diluted		**7.90p**	6.42p

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	Note	2021 £000	2020 £000
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences	20	**(120)**	60
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of pension scheme liability	24	**8,212**	2,112
Tax recognised in other comprehensive income			
Tax on remeasurement of pension scheme liability	18	**(2,054)**	(401)
Corporation tax rate change on deferred tax		**88**	129
Other comprehensive income for the year, net of tax		**6,126**	1,900
Profit for the year		**12,598**	10,171
Total comprehensive income for the year		**18,724**	12,071

Consolidated statement of changes in equity

For the year ended 31 December 2021

	Note	Share capital £000	Share premium £000	Revaluation reserve £000	Translation reserve £000	Retained earnings £000	Total £000
At 1 January 2020		39,453	13,148	70	231	15,835	68,737
Comprehensive income							
Profit for the year		–	–	–	–	10,171	10,171
Foreign currency translation differences	20	–	–	–	60	–	60
Remeasurement of pension scheme liability	24	–	–	–	–	2,112	2,112
Tax on remeasurement of pension scheme liability	18	–	–	–	–	(401)	(401)
Corporation tax rate change on deferred tax	18	–	–	–	–	129	129
Total comprehensive income		–	–	–	60	12,011	12,071
Transactions with shareholders							
Dividends	7	–	–	–	–	(1,105)	(1,105)
Share-based payments	25	–	–	–	–	75	75
Total transactions with shareholders		–	–	–	–	(1,030)	(1,030)
At 31 December 2020		**39,453**	**13,148**	**70**	**291**	**26,816**	**79,778**
Comprehensive income							
Profit for the year		**–**	**–**	**–**	**–**	**12,598**	**12,598**
Foreign currency translation differences	20	**–**	**–**	**–**	**(120)**	**–**	**(120)**
Remeasurement of pension scheme liability	24	**–**	**–**	**–**	**–**	**8,212**	**8,212**
Tax on remeasurement of pension scheme liability	18	**–**	**–**	**–**	**–**	**(2,054)**	**(2,054)**
Corporation tax rate change on deferred tax	18	**–**	**–**	**–**	**–**	**88**	**88**
Total comprehensive income		**–**	**–**	**–**	**(120)**	**18,844**	**18,724**
Transactions with shareholders							
Dividends	7	**–**	**–**	**–**	**–**	**(4,293)**	**(4,293)**
Share-based payments	25	**–**	**–**	**–**	**–**	**685**	**685**
Total transactions with shareholders		**–**	**–**	**–**	**–**	**(3,608)**	**(3,608)**
At 31 December 2021		**39,453**	**13,148**	**70**	**171**	**42,052**	**94,894**

Consolidated balance sheet

At 31 December 2021

	Note	2021 £000	2020 £000
Non-current assets			
Goodwill and other intangible assets	10	**74,902**	60,598
Property, plant and equipment	11	**6,101**	8,640
Right-of-use assets	12	**34,718**	28,584
Trade and other receivables	14	**35**	35
Deferred tax assets	18	**19**	396
Retirement benefit surplus	24	**8,267**	–
Total non-current assets		**124,042**	98,253
Current assets			
Inventories	13	**21,269**	15,858
Trade and other receivables	14	**58,541**	51,371
Cash and cash equivalents	15	**12,315**	7,228
Total current assets		**92,125**	74,457
Total assets	1	**216,167**	172,710
Current liabilities			
Trade and other payables	16	**60,975**	47,755
Provisions	21	**1,730**	1,834
Current tax liabilities		**771**	1,731
Lease liabilities	17	**6,364**	5,784
Bank borrowings	15	**9,840**	7,766
Total current liabilities		**79,680**	64,870
Net current assets		**12,445**	9,587
Non-current liabilities			
Retirement benefit obligations	24	**–**	1,471
Deferred tax liabilities	18	**7,472**	3,072
Trade and other payables	16	**3,695**	19
Provisions	21	**1,848**	592
Lease liabilities	17	**28,578**	22,908
Total non-current liabilities		**41,593**	28,062
Total liabilities	1	**121,273**	92,932
Net assets	1	**94,894**	79,778
Equity			
Share capital	19	**39,453**	39,453
Share premium	20	**13,148**	13,148
Revaluation reserve	20	**70**	70
Translation reserve	20	**171**	291
Retained earnings	20	**42,052**	26,816
Total equity		**94,894**	79,778

The financial statements of Macfarlane Group PLC, Company registration number SC004221, were approved by the Board of Directors on 24 February 2022 and signed on its behalf by

Peter D. Atkinson
Chief Executive

Ivor Gray
Finance Director

Consolidated cash flow statement

For the year ended 31 December 2021

	Note	2021 £000	Restated* 2020 £000
Profit/(loss) before tax from:			
Continuing operations		**18,665**	12,433
Discontinued operations		**(938)**	569
Total operations		**17,727**	13,002
Adjustments for:			
Amortisation of intangible assets		**3,311**	2,520
Impairment of goodwill in discontinued operations		**987**	–
Depreciation of property, plant and equipment		**1,989**	1,719
Depreciation of right-of-use assets		**7,282**	6,740
Loss on disposal of property, plant and equipment		**43**	30
Loss on disposal of subsidiaries		**232**	–
Share-based payment expense		**685**	75
Finance costs		**1,390**	1,342
Operating cash flows before movements in working capital		**33,646**	25,428
(Increase)/decrease in inventories		**(4,848)**	161
(Increase)/decrease in receivables		**(7,892)**	955
Increase in payables		**8,905**	965
Increase in provisions		**1,884**	1,766
Pension scheme contributions (less current service cost)		**(1,533)**	(2,981)
Cash generated from operations		**30,162**	26,294
Income taxes paid		**(4,975)**	(1,728)
Interest paid		**(1,383)**	(1,243)
Net cash inflow from operating activities		**23,804**	23,323
Investing activities			
Acquisitions	23	**(12,238)**	(2,661)
Proceeds from sale of subsidiaries	6	**5,212**	–
Proceeds from disposal of property, plant and equipment		**199**	102
Purchase of property, plant and equipment		**(2,132)**	(804)
Cash outflow from investing activities		**(8,959)**	(3,363)
Financing activities			
Dividends paid	7	**(4,293)**	(1,105)
Drawdown/(Repayment) of bank borrowing facility		**3,889**	(10,225)
Repayment of lease obligations		**(7,539)**	(6,719)
Cash outflow from financing activities		**(7,943)**	(18,049)
Net increase in cash and cash equivalents		**6,902**	1,911
Cash and cash equivalents at beginning of year		**5,221**	3,310
Cash and cash equivalents at end of year		**12,123**	5,221

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

There is no material impact of foreign exchange rate differences on the cash and cash equivalents balance at the end of the current or preceding financial year.

	2021 £000	2020 £000
Reconciliation to consolidated cash flow statement		
Cash and cash equivalents per the consolidated balance sheet	**12,315**	7,228
Bank overdraft	**(192)**	(2,007)
Balances per consolidated cash flow statement	**12,123**	5,221

Bank overdrafts are included in cash and cash equivalents because they form an integral part of the Group's cash management.

Accounting policies

For the year ended 31 December 2021

Basis of preparation

Macfarlane Group PLC is a public company listed on the London Stock Exchange ('the Company'), incorporated and domiciled in the United Kingdom and registered in Scotland. The Company's registered office is 3 Park Gardens, Glasgow, G3 7YE.

Basis of accounting

The principal activities of the Company and its subsidiaries ('the Group') and the nature of the Group's operations are set out in the strategic report on pages 4 to 40. The 2021 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom. These consolidated financial statements are presented in Sterling, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

The financial statements have been prepared on the historical cost basis. The revaluation reserve relates to a period before transition to IFRS.

Going concern

The Directors, in their consideration of going concern, have reviewed the Group's future cash flow forecasts and profit projections, which they believe are based on an appropriate assessment of the market and past experience. The Group's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the Strategic Report on pages 4 to 40.

The Group's principal financial risks in the medium term relate to liquidity and credit risk. Liquidity risk is managed by ensuring that the Group's day-to-day working capital requirements are met by having access to banking facilities with suitable terms and conditions to accommodate the requirements of the Group's operations. The Group has a committed borrowing facility of £30m with Lloyds Banking Group PLC in place until December 2025. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over trade receivables. Credit risk is mitigated by applying considerable rigour in managing the Group's trade receivables. The Directors believe that the Group is adequately placed to manage its financial risks effectively, despite any economic uncertainty.

The Directors are of the opinion that the Group's cash flow forecasts and profit projections, which they believe are based on a prudent assessment of the market and past experience taking account of reasonably possible changes in trading performance given current market and economic conditions, show that the Group should be able to operate within the current facility and comply with its banking covenants. The Directors have modelled a range of scenarios, including a central case, a downside scenario, a severe but plausible downside and a reverse stress test, over a three-year horizon. Details are set out in the Viability statement review on page 19.

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

Critical judgements and 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.

Critical judgements

No significant critical judgements have been made in the current or prior year.

Key sources of estimation uncertainty

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 asset or 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 24. 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. For illustration only, an increase in the average default rate of overdue trade receivables from 1.37% to 2.43% above the historic loss rates observed would lead to an increase of £560,000 in the provision required.

Alternative performance measures

In measuring the financial performance and position, the financial measures used in certain limited cases include those which have been derived from the reported results in order to eliminate factors which due to their unusual nature and size distort year-on-year comparisons to a material extent and/or provide useful information to stakeholders. Where such items arise, the Directors will classify such items as separately disclosed non-recurring items and provide details of these items to enable users of the accounts to understand the impact on the financial statements.

To the extent that a measurement under Generally Accepted Accounting Principles ('GAAP') is adjusted for a separately disclosed non-recurring item, this is referred to as an Alternative Performance Measure ('APM'). We believe that the APM defined below, and the comparable GAAP measurement, provides a useful basis for measuring the financial performance and position.

In addition to the various performance measures defined under IFRS the Group reports operating profit before amortisation as a measure to assist in understanding the underlying performance of the Group and its businesses when compared to similar companies. Operating profit before amortisation is not defined under IFRS and, as a result, does not comply with Generally Accepted Accounting Practice ('GAAP') and is therefore known as an alternative performance measure. Accordingly, this measure, which is not designed to be a substitute for any of the IFRS measures of performance, may not be directly comparable with other companies' alternative performance measures. Operating profit before amortisation is defined as operating profit before customer relationships and brand values amortisation reconciled in the table below.

Continuing operations	**Year to 31 December 2021 £000**	Restated* Year to 31 December 2020 £000
Operating profit before amortisation	**23,366**	16,179
Customer relationships/brand values amortisation	**(3,311)**	(2,520)
Operating profit	**20,055**	13,659

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

Net bank funds/(debt) also represents an Alternative Performance Measure as defined and reconciled to the statutory measure in note 22.

Changes in accounting policies in 2021

There are no new accounting policies applied in 2021 which have had a material effect on these accounts. In addition, the Directors do not consider that the adoption of new and revised standards and interpretations issued by the IASB in 2021 has had any material impact on the financial statements of the Group.

New accounting standards and interpretations

The Group is currently assessing the potential impact of new and revised standards and interpretations issued by the IASB that will be effective from 1 January 2022. None of these have been adopted early.

- Amendments to IFRS3 (reference to the conceptual framework)
- Amendments to IAS16 (proceeds before intended use)
- Amendments to IAS37 (cost of fulfilling a contract)

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

Summary of significant accounting policies

The following accounting policies have been applied consistently for items which are considered to be material in relation to the financial statements.

The consolidated financial statements include the financial statements of the parent company and its subsidiaries, all of which are wholly-owned, to the end of the financial year. The Group does not have any associates or other joint arrangements as defined by IFRS 10 '*Consolidated Financial Statements*'.

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Business combinations

The acquisition of subsidiaries is accounted for under the acquisition method. The acquired business is measured at the effective date of acquisition, defined as the date control is acquired, as the aggregate fair value of assets, liabilities and contingent liabilities as required under IFRS 3 '*Business Combinations*'. Any excess of the cost of acquisition over the fair value of the separately identifiable net assets of the acquired business is represented as goodwill. Contingent consideration classified as a liability will be subsequently re-measured through the consolidated income statement.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal. The consolidated gain or loss on disposal of a subsidiary is the difference between the net proceeds of sale and the Group's share of the subsidiary's net assets together with the carrying value of any related goodwill at the effective date of disposal.

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated on consolidation.

Discontinued operations

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations; or
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

(b) Goodwill and other intangible assets

Goodwill

Goodwill arising on a business combination is recognised as an asset and represents the excess of the cost of acquisition over the net fair values of the separately identifiable assets and liabilities of the acquired business or subsidiary at the effective date of acquisition. Where the cost of an acquisition includes contingent consideration, this is based on our best assessment of the likely level of deferred consideration payable based on the conditions and information available at the time of approving the financial statements.

Goodwill is allocated to cash generating units ('CGUs') expected to benefit from the synergies of the combination, for the purpose of impairment testing. The carrying value of goodwill for each CGU is not amortised but is considered annually and also reviewed where management has reason to believe that a change in circumstances may give rise to any impairment or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Other intangible assets

Other intangible assets comprise separately identifiable intangible assets recognised on the acquisitions of businesses or subsidiary companies. They are recorded at fair value on acquisition less any amortisation and subsequent impairment. These are primarily Brand values, which are calculated on the Relief from Royalty method, and Customer relationship values, which are calculated on the Excess Earnings method based on the net anticipated earnings stream. Brand values are amortised on a straight-line basis of up to five years and Customer relationships are amortised on a straight-line basis over ten years.

Impairment

The carrying values of the Group's assets are reviewed annually to determine if there is any indication of impairment. If any such indication exists, the assets' recoverable values are calculated as the present value of the estimated future cash flows, discounted at appropriate pre-tax discount rates. Impairment losses are recognised when the carrying value of an asset or CGU exceeds recoverable value. Impairment losses are recognised in the consolidated income statement.

(c) Revenue recognition

The Group is engaged in the delivery of packaging materials, packing machinery, labels and labels machinery 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 Group to apportion revenues from customer contracts to separate performance obligations and recognise revenues as each performance obligation is satisfied. The Group's revenue is generated from the delivery of the goods to customers and that this represents a single performance obligation. The Group 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.

(d) Leasing

The Group 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 (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 Group 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 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 Group uses appropriate incremental borrowing rates.

Lease liabilities are presented on two separate lines in the balance sheet for amounts due within one year and amounts due beyond 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.

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 the commencement date of the lease.

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 consolidated income statement.

The Group's incremental borrowing rates applied to lease liabilities in 2021 ranged between 2.75% and 4.34%, with the average rate applied across all leases being 3.19%.

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

Movements in ROU assets and lease liabilities are set out in note 12 and note 17 respectively.

(e) Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the consolidated income statement. Non-monetary assets and liabilities, measured at historical cost in a foreign currency, are translated using the exchange rates at the date of the transaction. Non-monetary assets and liabilities, stated at fair value in a foreign currency, are retranslated to the functional currency at the exchange rates ruling at the dates the fair value was determined.

(e) Foreign currencies (continued)

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at the exchange rates ruling at the balance sheet date. Revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the exchange rates ruling at the dates of the transactions. Exchange differences arising from the translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

(f) Retirement benefits

Defined contribution schemes

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 consolidated income statement in the periods during which services are rendered by employees.

Defined benefit schemes

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 current and prior periods. These benefits are then discounted to determine the present value, and the fair values of any scheme investments, at bid price, are deducted. The net interest on the net retirement benefit obligation for the year is calculated 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 schemes charged in staff costs in the consolidated income statement.

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 consolidated income statement 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 plan or reductions in future contributions and takes into account the adverse effect of the present value of any minimum funding requirements.

The Group's defined benefit pension scheme covers the Group companies at December 2002. The net defined benefit cost of the scheme is apportioned to these participating entities based on the employment history of scheme members, who are allocated to the relevant subsidiary, with any remaining members allocated to the parent company.

(g) Taxation

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

Current tax is payable based on the taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and 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 and any adjustments in respect of prior years.

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 consolidated income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also recorded in the consolidated statement of other comprehensive income.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost, with assets revalued before the date of transition to IFRS recorded at deemed cost.

No depreciation is provided on land. Depreciation is recognised so as to write off the cost of the property, plant and equipment, less their estimated residual values, by equal annual instalments over their estimated useful lives. The rates of depreciation use the straight-line method and vary between 2% and 5% per annum on buildings and 7% and 33% per annum on plant and equipment. Rates of depreciation are reviewed annually to ensure they remain relevant and residual values are reviewed to ensure they remain appropriate once in each calendar year.

(i) Inventories

Inventories are consistently stated at the lower of cost and net realisable value. Cost represents purchase price. In the case of work in progress and finished goods, cost comprises direct materials, direct labour costs and attributable overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling price, less any further costs expected to be incurred to completion and disposal. Inventories are stated less provisions required for slow-moving and obsolete items, where appropriate.

(j) Financial instruments

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

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

Other financial assets comprise trade and other receivables that have fixed or determinable recoveries. The classification takes account of the nature and purpose of the financial assets and is determined on initial recognition. Trade and other receivables are measured at amortised cost less impairment under the Expected Credit Loss ('ECL') 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 receivables 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 receivables where the carrying amount is measured on an expected credit loss model at inception rather than an incurred loss model. When a trade receivable 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 '*Financial Instruments*' changes in the carrying value of the provision are recognised in the consolidated income statement.

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.

(k) Provisions

Property provisions

The Group has a number of property leases. Under IAS 37 an entity must recognise a provision if a present obligation has arisen as a result of a past event, payment is probable and the amount can be estimated reliably. Where it is probable at the balance sheet date that there is a liability in respect of restoring the property to its original condition a provision is made for management's best estimate of the cost of fulfilling any residual repairing obligation for that property lease.

The Group may make the determination to exit a property lease before the expiry date, when it does not have a commercial rationale to continue to occupy the property. In this case the Group could have surplus properties and it would seek to attract a new tenant to obtain rental income from a sub-lease to cover its ongoing liabilities under the remaining period of the head lease. If there is likely to be a rental void for a period of time, then a provision is made at each balance sheet date to cover management's best estimate of the future cost of the likely void period.

(l) Share-based payments

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Details of the determination of the fair value of equity-settled share-based transactions are set out in note 25.

1. Business and geographical segments

(a) Business segments

The segmental information reported below and on the next page does not include any amounts from discontinued operations which are described in more detail in note 6.

The Group's principal business segment is Packaging Distribution, comprising the distribution of packaging materials and supply of storage and warehousing services in the UK, Ireland and Europe. This segment accounts for over 85% of Group revenue and profit.

The Manufacturing Operations segment comprises the design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK.

External revenues from major products and services	2021 £000	Restated* 2020 £000
Packaging Distribution	239,508	201,739
Design, manufacture and assembly of timber, corrugated and foam-based packaging materials	24,957	8,488
External revenues from Continuing operations	**264,465**	210,227

(b) Segmental information

	Packaging Distribution £000	Manufacturing Operations £000	2021 Total £000	Packaging Distribution £000	Restated* Manufacturing Operations £000	Restated* 2020 Total £000
Revenue						
Total revenue	239,508	28,527	268,035	201,739	11,237	212,976
Inter-segment revenue	–	3,570	3,570	–	2,749	2,749
External revenue	239,508	24,957	264,465	201,739	8,488	210,227
Cost of sales	161,896	13,102	174,998	136,177	4,223	140,400
Gross profit	77,612	11,855	89,467	65,562	4,265	69,827
Net operating expenses	57,915	8,186	66,101	49,054	4,594	53,648
Operating profit/(loss) before amortisation	19,697	3,669	23,366	16,508	(329)	16,179
Amortisation	2,642	669	3,311	2,520	–	2,520
Operating profit/(loss)	17,055	3,000	20,055	13,988	(329)	13,659
Net finance costs			1,390			1,226
Profit before tax			18,665			12,433
Tax			4,917			2,696
Profit for the year from continuing operations			13,748			9,737
(Loss)/profit for the year from discontinued operations			(1,150)			434
Profit for the year			12,598			10,171
Capital additions	14,031	15,584	29,615	2,312	47	2,359
Depreciation/amortisation	10,095	1,590	11,685	9,913	234	10,147
Segment assets	185,111	31,056	216,167	152,272	5,482	157,754
Segment liabilities	(110,212)	(11,061)	(121,273)	(80,476)	(3,100)	(83,576)
Net assets	74,899	19,995	94,894	71,796	2,382	74,178

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

Inter-segment revenues are charged at prevailing market prices.

1. Business and geographical segments (continued)

(c) Geographical segments

The Group's operations are primarily located in the UK and Europe.

Packaging Distribution activities are primarily in the UK, with some smaller activity in Europe,

Manufacturing Operations are primarily in the UK.

	Continuing operations UK £000	Continuing operations Europe £000	2021 Total £000	Restated* Continuing operations UK £000	Restated* Continuing operations Europe £000	Restated* 2020 Total £000
External revenue	**259,265**	**5,200**	**264,465**	206,736	3,491	210,227
Operating profit	**19,870**	**185**	**20,055**	13,418	241	13,659
Non-current assets	**124,038**	**5**	**124,043**	91,057	12	91,069
Capital additions	**29,615**	**–**	**29,615**	2,359	–	2,359

(d) Information about major customers

No single customer accounts for more than 10% of the Group's external revenues. Customer dependencies are regularly monitored.

2. Operating profit

Operating profit from continuing operations has been arrived at after charging:	2021 £000	Restated* 2020 £000
Cost of inventories recognised as an expense in the consolidated income statement	**183,507**	138,582
Amortisation of other intangible assets (note 10)	**3,311**	2,520
Depreciation of property, plant and equipment	**1,475**	1,293
Depreciation of right-of-use assets	**6,899**	6,335
Acquisition related costs	**217**	19
Staff costs	**40,201**	30,366

The detailed analysis of auditor's remuneration is provided below:

	2021 £000	Restated* 2020 £000
Audit services		
Fees payable to the auditor for the audit of these financial statements	**57**	44
Fees payable to auditor for the audit of the Company's subsidiaries	**207**	140
Total audit fees	**264**	184
Non-audit services		
Other assurance services for the audit of the Company pension scheme	**11**	11
Total non-audit fees	**11**	11
Total fees paid to auditor	**275**	195

The Audit Committee reviews and approves non-audit work which the auditor performs, including the fees paid for such work, to ensure that the auditor's objectivity and independence is not compromised.

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

3. Staff costs

The average monthly number of employees (including Directors) was:	2021 No.	2020 No.
Production	**245**	179
Sales and distribution	**512**	485
Administration	**281**	246
	1,038	910

The costs incurred in respect of these employees were:	2021 £000	2020 £000
Wages and salaries	**38,985**	30,124
Social security costs	**3,840**	2,928
Pension costs		
Contributions to defined contribution schemes	**1,828**	1,670
Contributions to defined benefit schemes	**130**	230
Share-based payments (note 25)	**685**	75
	45,468	35,027

In accordance with section 411 of the Companies Act 2006 the above noted staff numbers and staff costs combine continuing and discontinued operations. The staff costs from continuing operations are £40,201,000 (2020: £30,366,000) as set out in note 2.

4. Finance costs

	2021 £000	Restated* 2020 £000
Interest on bank borrowings	**414**	455
Interest on leases	**969**	681
Finance cost relating to defined benefit scheme (note 24)	**7**	90
Finance costs from continuing operations	**1,390**	1,226

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

5. Tax

	2021 £000	2020 £000
Current tax		
United Kingdom corporation tax	**3,672**	2,343
Foreign tax	**245**	121
Adjustments in respect of prior years	**72**	(90)
Current tax charge	**3,989**	2,374
Deferred tax		
Current year	**(76)**	37
Adjustments in respect of prior years	**(61)**	53
Change in corporation tax rate	**1,277**	367
Deferred tax charge (note 18)	**1,140**	457
Total tax charge	**5,129**	2,831

The standard rate of tax, based on the UK average rate of corporation tax is 19%. Taxation for other jurisdictions is calculated at the rates prevailing in these jurisdictions.

The actual tax charge varies from the standard rate of tax on the results in the consolidated income statement for the reasons set out below.

5. Tax (continued)

	2021 £000	2020 £000
Profit before tax from continuing operations	**18,665**	12,433
(Loss)/profit before tax from discontinued operations	**(938)**	569
Profit before tax from total operations	**17,727**	13,002
Tax on profit at 19% (2020: 19%)	**3,368**	2,470
Factors affecting tax charge for the year:		
Change in rate for deferred tax from 19% to 25%	**1,277**	367
Non-deductible expenses	**413**	107
Difference on overseas tax rates	**(37)**	(18)
Utilisation of tax losses not previously recognised	**–**	(58)
Changes in estimates related to prior years	**108**	(37)
Tax charge for the year	**5,129**	2,831
Tax charge attributable to continuing operations	**4,917**	2,696
Tax charge attributable to discontinued operations	**212**	135
Tax charge for the year	**5,129**	2,831
Weighted average effective tax rate for the year	**28.9%**	21.8%

Macfarlane Group's corporate tax structure is such that the effective corporation tax rate should be relatively close to the prevailing tax rate with non-deductible expenses usually the principal reason for any variation.

Deferred tax assets and liabilities at 31 December 2021 have been calculated based on a long-term corporation tax rate of 25%, which had been substantively enacted at the balance sheet date. This changed from 19% effective from 24 May 2021.

6. Discontinued operations

On 31 December 2021, the Group entered into a sale agreement to dispose of Macfarlane Labels Limited and its subsidiaries Macfarlane Group Ireland (Labels & Packaging) Limited and Macfarlane Group Sweden AB (collectively 'Macfarlane Labels'). Macfarlane Labels designs and prints high quality self-adhesive and resealable labels, principally for FMCG companies. The proceeds from the sale will be strategically invested in the continuing growth of the Group's protective packaging businesses.

The results of the discontinued operations, which have been included as a single item of (loss)/profit from discontinued operations for the year, were as follows:

	2021 £000	2020 £000
Revenue	**21,220**	19,802
Expenses	**22,158**	19,233
(Loss)/profit before tax	**(938)**	569
Attributable tax expense	**212**	135
(Loss)/profit for the year from discontinued operations	**(1,150)**	434

During the year Macfarlane Labels consumed £3,000 (2020: contributed £84,000) of the Group's net operating cash flows, paid £512,000 (2020: £193,000) in respect of investing activities and received £40,000 (2020: £953,000) in respect of financing activities.

The loss for the year of £1,150,000 is after charging goodwill impairment of £987,000 and costs of disposal of £283,000.

£6,085,000 of the estimated total gross proceeds of £6,338,000 was received on 31 December 2021. The final total gross proceeds are subject to adjustment following finalisation and agreement of the net asset value of Macfarlane Labels at the completion date.

Details of the disposal proceeds in the cash flow statement on page 85 are set out below:

	£000
Estimated total consideration	**6,338**
Estimated deferred consideration	**(253)**
Consideration received	**6,085**
Cash retained by acquirer	**(590)**
Costs of disposal	**(283)**
Proceeds from disposal	**5,212**
Goodwill	**372**
Tangible assets (inc. ROU assets)	**5,158**
Inventories	**1,402**
Trade and other receivables	**4,291**
Cash and cash equivalents	**590**
Trade and other payables	**(2,825)**
Provisions	**(732)**
Current tax liabilities	**(234)**
Lease liabilities	**(1,363)**
Deferred tax liabilities	**(372)**
Net assets disposed	**6,287**
Estimated total consideration	**6,338**
Net assets disposed	**(6,287)**
Costs of disposal	**(283)**
Loss on disposal	**(232)**

7. Dividends

	2021 £000	2020 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for 2020 of 1.85p per share (2019: Nil p per share)	**2,920**	–
Interim dividend for 2021 of 0.87p per share (2020: 0.70p per share)	**1,373**	1,105
	4,293	1,105

As part of the steps taken by the Company to preserve cash at the outbreak of the Covid-19 pandemic in the first half of 2020, the Directors cancelled the 2019 final dividend of 1.76p per share due for payment in June 2020.

A proposed final dividend of 2.33p per share will be paid on 1 June 2022 to shareholders on the register at 13 May 2022. This is subject to approval by shareholders at the Annual General Meeting on 10 May 2022 and therefore is not included as a liability in these financial statements.

8. Earnings per share

	2021 £000	Restated* 2020 £000
Earnings for the purposes of calculating earnings per share		
Profit for the year from continuing operations	**13,748**	9,737
(Loss)/profit for the year from discontinued operations	**(1,150)**	434
Profit for the year from continuing and discontinued operations	**12,598**	10,171

Number of shares in issue	2021 Number of shares '000	2020 Number of shares '000
Weighted average number of ordinary shares to calculate basic earnings per share	**157,812**	157,812
Dilutive effect of Long-Term Incentive Plan awards in issue	**1,627**	703
Weighted average number of ordinary shares to calculate diluted earnings per share	**159,439**	158,515
Basic earnings per share from continuing operations	**8.71p**	6.17p
Diluted earnings per share from continuing operations	**8.62p**	6.14p
Basic earnings per share from discontinued operations	**(0.73)p**	0.28p
Diluted earnings per share from discontinued operations	**(0.72)p**	0.27p
Basic earnings per share from continuing and discontinued operations	**7.98p**	6.45p
Diluted earnings per share from continuing and discontinued operations	**7.90p**	6.42p

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

9. Subsidiary companies

Subsidiary companies, with names, countries of incorporation and registered offices, are shown on page 132.

The Group has agreed to exempt the four companies, Harrison's Packaging Limited (Company number 06999588), Leyland Packaging Company (Lancs) Limited (Company number 03775077), Carters Packaging (Cornwall) Limited (Company number 12994605) and Carters Packaging Limited (Company number 04691446) from the provisions of the Companies Act relating to the audit of individual accounts by virtue of section 479A.

The trade and assets of Harrison's Packaging Limited (Company number 06999588) and Leyland Packaging Company (Lancs) Limited (Company number 03775077) were hived up into the major trading company Macfarlane Group UK Limited ('MGUK') during 2021.

10. Goodwill and other intangible assets

	Packaging Distribution £000	Manufacturing Operations £000	2021 Total £000	2020 Total £000
Goodwill	**46,107**	**7,493**	**53,600**	45,467
Other intangible assets	**14,466**	**6,836**	**21,302**	15,131
Goodwill and other intangible assets	**60,573**	**14,329**	**74,902**	60,598

Goodwill	Packaging Distribution £000	Manufacturing Operations £000	2021 Total £000	2020 Total £000
Fair value on acquisition				
At 1 January	**44,108**	**1,359**	**45,467**	45,303
Additions (note 23)	**1,999**	**7,493**	**9,492**	164
Impairment (note 6)	**–**	**(987)**	**(987)**	–
Disposals (note 6)	**–**	**(372)**	**(372)**	–
At 31 December	**46,107**	**7,493**	**53,600**	45,467
Accumulated impairment losses				
At 1 January	**–**	**–**	**–**	–
At 31 December	**–**	**–**	**–**	–
Carrying value				
At 31 December 2021	**46,107**	**7,493**	**53,600**	
At 31 December 2020	44,108	1,359		45,467

On 26 February 2021, Macfarlane Group UK Limited ('MGUK') acquired 100% of GWP Holdings Limited ('GWP'). Goodwill arising on the GWP acquisition was added to the Manufacturing Operations CGU.

On 31 March 2021, MGUK acquired 100% of Carters Packaging (Cornwall) Limited ('Carters Packaging'). Goodwill arising on the Carters Packaging acquisition was added to the Packaging Distribution CGU.

On 31 December 2021 Macfarlane Group PLC sold 100% of Macfarlane Labels Limited and its subsidiaries Macfarlane Group Ireland (Labels & Packaging) Limited and Macfarlane Group Sweden AB (collectively 'Labels'). At the 30 June 2021 an impairment review was carried out on the Labels CGU, contained within the Manufacturing Operations CGU, comparing the value in use and the indicative offer made by the ultimate acquirer of Labels to the consolidated carrying value of Labels at that date. As a result of this review an impairment charge was taken of £987,000 at the 30 June 2021.

Goodwill related to those businesses included with Manufacturing Operations has been disposed of in 2021.

At 31 December 2021, the Group had two CGU Groupings to which goodwill had been ascribed namely:

(i) Packaging Distribution, comprising goodwill arising on all acquisitions in this segment since 2001; and
(ii) Manufacturing Operations, comprising goodwill arising on the acquisition of GWP.

The recoverable amount of each CGU Grouping is determined using 'value in use' calculations with key assumptions relating to discount rates, sales growth rates, projected gross margin and overhead costs. A post-tax discount rate of 12.2% (2020: 9.0%) is used for both CGU's reflecting the Group's weighted average cost of capital adjusted for appropriate market risk, which is considered to be the most definitive basis for arriving at a discount rate. The Group believes the risk profiles across the markets in which it operates are not significantly different and has therefore deemed it appropriate to apply the same discount rate to both CGUs. The pre-tax discount rate is 15.1% (2020: 11.1%) for each CGU Grouping and the Group's effective tax rate is then applied to give the post-tax discount rate.

Sales growth rates of 1%, changes in gross margin and overhead costs are based on our expectation of future performance in the markets in which we operate. These are consistent with our budgets for 2022 and strategic plans for future years. The assumptions are used to extrapolate cash flows for five years after which a terminal value is calculated assuming no inherent growth.

10. Goodwill and other intangible assets (continued)

The Directors believe the assumptions used are appropriate. In addition they have conducted a sensitivity analysis to determine the changes in assumptions that would result in an impairment of the carrying amount of goodwill. Based on this analysis the Directors believe that any reasonable changes in the key assumptions would maintain a value for each CGU Grouping that exceeds its carrying amount. Therefore at 31 December 2021 no impairment charge is required against the carrying amount of goodwill.

Other intangible assets	Brand values £000	Customer relationships £000	2021 Total £000	2020 Total £000
Fair value on acquisition				
At 1 January	**891**	**27,053**	**27,944**	27,653
Additions (note 23)	**179**	**9,303**	**9,482**	291
At 31 December	**1,070**	**36,356**	**37,426**	27,944
Amortisation				
At 1 January	**823**	**11,990**	**12,813**	10,293
Charge for year	**121**	**3,190**	**3,311**	2,520
At 31 December	**944**	**15,180**	**16,124**	12,813
Carrying amount				
At 31 December 2021	**126**	**21,176**	**21,302**	
At 31 December 2020	68	15,063		15,131

Other intangible assets comprise separately identifiable intangible assets recognised on the acquisitions of businesses and subsidiary companies between 2014 and 2021. They are recorded at fair value on acquisition less subsequent amortisation.

These are primarily Brand values, which are calculated on the Relief from Royalty method and a valuation of Customer relationships, which is calculated on the Excess Earnings method, based on the net anticipated earnings stream. Brand values are calculated on royalty rates of 0.5%, consistent with an assessment of what would be charged in a typical franchise agreement. The valuation of Customer relationships is calculated using our best estimates of customer attrition rates, and returns, based on assessments of performance levels in the markets in which we operate. Brand values and Customer relationship valuations are amortised on a straight-line basis over periods up to five years and over a ten year period respectively.

At 31 December 2021, the Group retained values in respect of:

Year of acquisition	Company/business acquired	Brand	Customer relationships
2014	Packaging business of Lane Packaging Limited		✓
2014	Network Packaging Limited		✓
2015	One Packaging Limited		✓
2016	Packaging business of Colton Packaging Teesside		✓
2016	Packaging business of Edward McNeil Limited		✓
2016	Nelsons for Cartons & Packaging Limited		✓
2017	Packaging business of Greenwoods Stock Boxes Limited and Nottingham Recycling Limited		✓
2018	Tyler Packaging (Leicester) Limited		✓
2018	Harrisons Packaging Limited	✓	✓
2019	Ecopac (U.K.) Limited		✓
2019	Leyland Packaging Company (Lancs) Limited		✓
2020	Packaging business of Armagrip		✓
2021	GWP Group Limited	✓	✓
2021	Carters Packaging Limited	✓	✓

11. Property, plant and equipment

	Note	Property £000	Plant, machinery & vehicles £000	Total £000
Cost				
At 1 January 2020		8,029	28,875	36,904
Additions		145	659	804
Exchange movements		–	182	182
Disposals		(60)	(2,917)	(2,977)
At 31 December 2020		8,114	26,799	34,913
Acquisitions	23	**589**	**3,070**	**3,659**
Additions		**499**	**1,633**	**2,132**
Transfer from Right of Use Assets		**–**	**602**	**602**
Exchange movements		**–**	**(229)**	**(229)**
Disposals		**(1,797)**	**(10,605)**	**(12,402)**
At 31 December 2021		**7,405**	**21,270**	**28,675**
Accumulated depreciation				
At 1 January 2020		4,181	23,102	27,283
Charge for year		421	1,298	1,719
Exchange movements		–	116	116
Disposals		(60)	(2,785)	(2,845)
At 31 December 2020		4,542	21,731	26,273
Acquisitions	23	**476**	**2,319**	**2,795**
Charge for year		**445**	**1,544**	**1,989**
Transfer from Right of Use Assets		**–**	**56**	**56**
Exchange movements		**–**	**(152)**	**(152)**
Disposals		**(1,000)**	**(7,387)**	**(8,387)**
At 31 December 2021		**4,463**	**18,111**	**22,574**
Carrying amount				
At 31 December 2021		**2,942**	**3,159**	**6,101**
At 31 December 2020		3,572	5,068	8,640
At 1 January 2020		3,848	5,773	9,621

The main components of property, plant and equipment are:

(i) Three properties owned in our Manufacturing Operations and tenant's improvements at a number of short and medium-term leases in Packaging Distribution, categorised as Property.

(ii) A significant investment in plant and machinery in Manufacturing Operations, typically corrugated case-making machinery, as well as investments in our IT hardware systems throughout the Group, which are all categorised under the combined heading of Plant, machinery and vehicles.

	2021 £000	2020 £000
Property at net book value comprises:		
Freeholds	**1,001**	1,779
Long leaseholds	**1,820**	1,506
Short leaseholds	**121**	287
	2,942	3,572

Contractual commitments for capital expenditure for which no provision has been made in these accounts amount to £1,778,000 (2020: £919,000).

12. Right of use assets

	Note	Property £000	Plant, machinery & vehicles £000	Total £000
Cost				
At 1 January 2020		25,618	6,460	32,078
Additions		625	1,243	1,868
Exchange movements		136	–	136
Lease modifications		5,713	220	5,933
Disposals		(38)	(470)	(508)
At 31 December 2020		32,054	7,453	39,507
Acquisitions	23	**2,978**	**876**	**3,854**
Additions		**7,738**	**1,365**	**9,103**
Exchange movements		**(174)**	**(2)**	**(176)**
Lease modifications		**1,167**	**(16)**	**1,151**
Transfer to property, plant & equipment		**–**	**(602)**	**(602)**
Disposals		**(2,507)**	**(684)**	**(3,191)**
At 31 December 2021		**41,256**	**8,390**	**49,646**
Accumulated depreciation				
At 1 January 2020		4,707	1,516	6,223
Charge for year		5,107	1,633	6,740
Exchange movements		20	–	20
Lease modifications		(1,482)	(70)	(1,552)
Disposals		(38)	(470)	(508)
At 31 December 2020		8,314	2,609	10,923
Acquisitions	23	**–**	**160**	**160**
Charge for year		**5,564**	**1,718**	**7,282**
Exchange movements		**(50)**	**(1)**	**(51)**
Lease modifications		**(1,480)**	**(44)**	**(1,524)**
Transfer to property, plant & equipment		**–**	**(56)**	**(56)**
Disposals		**(1,233)**	**(573)**	**(1,806)**
At 31 December 2021		**11,115**	**3,813**	**14,928**
Carrying amount				
At 31 December 2021		**30,141**	**4,577**	**34,718**
Carrying amount				
At 31 December 2020		23,740	4,844	28,584

The property portfolio comprises a number of property leases for periods from one to fifteen years, which are subject to rent reviews. The Group also leases the majority of its commercial vehicles, motor vehicles and forklift trucks on leases, with the leases running for periods of up to seven years.

13. Inventories

	2021 £000	2020 £000
Raw materials and consumables	**988**	1,112
Work in progress	**148**	520
Finished goods and goods for resale	**20,133**	14,226
	21,269	15,858

Inventories represent raw materials, work in progress and finished goods held at the year-end in our businesses to respond to customers' requirements. These comprise large numbers of comparatively small balances.

Local teams review inventory levels, older and obsolete inventories and provide against exposures throughout the year. The Group's executive management then reviews these local judgements to ensure they properly reflect movements in absolute inventory levels, ageing of holdings and known obsolescence.

Movement in the provisions for slow-moving and obsolete inventories	2021 £000	2020 £000
At 1 January	**1,289**	713
Acquisitions	**20**	–
Disposals	**(184)**	–
Additional provisions recognised in the consolidated income statement	**571**	1,172
Inventories written off during the year	**(378)**	(596)
At 31 December	**1,318**	1,289

14. Trade and other receivables

	2021 £000	2020 £000
Current		
Trade receivables	**53,267**	47,171
Loss allowance	**(731)**	(1,148)
	52,536	46,023
Other receivables	**4,423**	2,656
Prepayments	**1,582**	2,692
	58,541	51,371
Non-current		
Other receivables	**35**	35

Trade receivables represent amounts owed by customers in respect of revenues for goods or services provided prior to the year end. The Group's credit risk is primarily attributable to trade receivables. The average credit period taken at the reporting date is 54 days (2020: 54 days). No interest is charged on overdue receivables.

The Group uses external credit scoring systems to assess new customers' credit quality and set credit limits for each customer. The Group has a substantial customer base covering a wide range of business segments. No individual customer represents more than 5% of total trade receivables. Receivables balances greater than £25,000 are reviewed by the Board twice in each year.

Since the inception of IFRS 9 'Financial Instruments', the Group has applied a simplified approach to measuring the ECL level. This uses a provision matrix which takes into account historical credit loss experience based on the past-due status of receivables, adjusted to reflect current conditions and management's estimates of future economic conditions and known recoverability issues as a means of measuring the loss allowance.

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

14. Trade and other receivables (continued)

Risk profile category (ageing)	2021 £000	ECL rate	2021 ECL allowance £000	2020 £000	ECL rate	2020 ECL allowance £000
Current	**39,352**	**0.84%**	**329**	35,569	1.59%	567
Overdue						
0–30 days	**11,308**	**1.56%**	**176**	7,107	3.10%	221
30-60 days	**1,772**	**2.43%**	**43**	3,658	4.71%	172
60-90 days	**493**	**8.32%**	**41**	659	13.90%	92
Over 90 days	**342**	**41.50%**	**142**	178	53.84%	96
	53,267		**731**	47,171		1,148

The ECL allowance reflects the Group's prior experience and assessment of the current economic environment. In determining the recoverability of trade receivables and the level of loss allowance, known changes in credit quality or expected credit loss from the date credit was originally granted are taken into account.

	2021 £000	2020 £000
ECL allowance		
At 1 January	**1,148**	310
Acquisitions	**5**	–
Disposals	**(108)**	–
Change in loss allowance for new trade receivables in 2021	**(32)**	1,296
Amounts written off as uncollectible (net of recoveries)	**(282)**	(458)
At 31 December	**731**	1,148

The Directors consider that the carrying amount of trade and other receivables approximate to their fair value.

15. Financial instruments

The Group funds its operations from a number of sources of finance, namely operating cash flows, bank borrowings, finance leases and shareholders' equity, which comprises share capital, reserves and retained earnings. The objective is to achieve a capital structure with an appropriate cost of capital, whilst providing flexibility in immediate and medium-term funding to accommodate any material investment requirements.

The Group's principal financial instruments comprise borrowings, cash and short-term deposits, and other items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations. Throughout the period under review, the Group's policy is that no trading in financial instruments is undertaken for speculative purposes.

There has been no significant change to the Group's exposure to market risks during 2021. Principal risks arising are liquidity risk and credit risk, with secondary risks being interest rate risk and currency risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below and have remained unchanged since the beginning of 2022.

Liquidity risk
The Group's liquidity requirements are met by ensuring adequate access to funds by maintaining appropriate levels of committed bank facilities, which are reviewed regularly. The Group bank borrowing facility with Lloyds Banking Group PLC of £30m was extended in the year and is available until December 2025. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over certain trade receivables' balances. The maturity profile is set out in this note.

Credit risk
The Group's exposure to credit risk is managed by dealing only with banks and financial institutions with good credit ratings and by applying considerable rigour in managing trade receivables. The Group's principal credit risk is primarily attributable to its trade receivables. Amounts presented in the balance sheet are shown net of an ECL allowance, as estimated by the Group's management with details set out in note 14.

Interest rate risk
The Group borrows in the desired currencies at floating rates of interest. It was not considered necessary to cover interest rate exposures by the use of financial instruments during 2021.

A sensitivity analysis has been prepared based on bank interest rate exposures at the year-end date and the stipulated change taking place at the beginning of the financial year and held constant throughout the year. If interest rates had been 50 basis points higher and all other variables held constant, the Group's profit before tax would have decreased by £66,000 (2020: £48,000).

Currency risk

The Group had four overseas subsidiaries in 2021, two operating in Ireland, one operating in Holland and one operating in Sweden. One of the operating subsidiaries in Ireland and the one in Sweden were sold on 31 December 2021. Revenues and expenses are denominated exclusively in Euros and Swedish Krone respectively. Movements in the Euro to sterling exchange rates could affect the Group's sterling balance sheet. Following the sale of the Labels division on 31 December 2021 the Group no longer has balance sheet exposure to Swedish Krone. The Group's policy during 2021 has been to review the need to hedge currency exposures on a regular basis and it was not considered necessary to cover existing currency exposures by the use of financial instruments. The Group continues to review the need to hedge exposures on a regular basis.

The Sterling value of foreign currency denominated assets and liabilities at the year-end is as follows:

	Assets 2021 £000	Assets 2020 £000	**Liabilities 2021 £000**	Liabilities 2020 £000
Euros	**2,326**	6,368	**814**	5,273
Swedish Krone	**–**	1,745	**–**	1,294
	2,326	8,113	**814**	6,567

The Sterling value of the Group's foreign currency denominated profit before tax from continuing operations is as follows:

	2021 £000	2020 £000
Euros	**185**	482
Swedish Krone	**–**	504
	185	986

The following table details the sensitivity to a 5% reduction in Sterling against the respective foreign currencies. The sensitivity of the Group's exposure to foreign currency risk is determined based on the exposure at the year-end and on the change taking place at the beginning of the financial year and held constant throughout the year.

	Result 2021 £000	Result 2020 £000	**Other equity 2021 £000**	Other equity 2020 £000
Euros	**9**	24	**76**	55
Swedish Krone	**–**	25	**–**	23
	9	49	**76**	78

Cash and cash equivalents	**2021 £000**	2020 £000
Currency		
Sterling	**11,777**	5,728
Euros	**519**	975
US Dollars	**19**	5
Swedish Krone	**–**	520
Cash and cash equivalents	**12,315**	7,228
Bank borrowings		
Currency – Sterling	**9,840**	7,766
Bank borrowings	**9,840**	7,766
Net bank (funds)/debt	**(2,475)**	538

15. Financial instruments (continued)

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with an original maturity of three months or less.

The Group bank borrowing facility with Lloyds Banking Group PLC ('Lloyds') of £30m is available until December 2025. Under the facility, trade receivables of the Group's largest trading subsidiary, Macfarlane Group UK Limited are assigned to Lloyds who then fund the Group in advance of the collection of these 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 trade receivables' balances.

The Group has been in compliance with all conditions in relation to its borrowing facility throughout 2021 and has remained in compliance in 2022 to date.

Interest rates

Bank borrowings are held at floating rates of interest. The average effective interest rate on these borrowings approximates to 2.70% per annum (2020: 2.39%).

Fair value of financial instruments

Current assets and liabilities are all held at floating rates. The fair values of cash and cash equivalents and bank borrowings at 31 December 2021 all materially equate to book values.

Borrowing facilities

The Group's committed borrowing facilities, for which all conditions precedent had been met, are as follows:

	2021 £000	2020 £000
Drawn down	**9,840**	7,766
Undrawn	**20,160**	22,234
Committed borrowing facilities	**30,000**	30,000

The Group's borrowing profile is as follows:	2021 £000	2020 £000
At amortised cost		
Bank borrowings – secured	**9,840**	7,766
Lease liabilities	**6,364**	5,784
Current borrowings	**16,204**	13,550
Non-current – lease liabilities	**28,578**	22,908
Total borrowings	**44,782**	36,458
Equity	**94,894**	79,778
Gearing (net debt to equity) ratio	**47%**	46%

Financial instruments carried at fair value

IFRS 7 requires that all financial instruments carried at fair value be analysed under certain levels. The table below analyses financial instruments, into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

Financial instruments which are designated at fair value through profit or loss	**Carrying amount 2021 £000**	**Fair value 2021 £000**	**Level 1 2021 £000**	**Level 2 2021 £000**	**Level 3 2021 £000**
Trade receivables	**52,536**	**52,536**	**52,536**	**–**	**–**
Cash and cash equivalents	**12,315**	**12,315**	**12,315**	**–**	**–**
Trade payables	**(42,147)**	**(42,147)**	**(42,147)**	**–**	**–**
Accruals and deferred income	**(11,703)**	**(11,703)**	**–**	**–**	**–**
Bank borrowings	**(9,840)**	**(9,840)**	**–**	**–**	**–**
Contingent consideration	**(6,625)**	**(6,625)**	**–**	**–**	**(6,625)**

	Carrying amount 2020 £000	Fair value 2020 £000	Level 1 2020 £000	Level 2 2020 £000	Level 3 2020 £000
Trade receivables	46,023	46,023	46,023	–	–
Cash and cash equivalents	7,228	7,228	7,228	–	–
Trade payables	(35,622)	(35,622)	(35,622)	–	–
Accruals and deferred income	(6,977)	(6,977)	–	–	–
Bank borrowings	(7,766)	(7,766)	–	–	–
Contingent consideration	–	–	–	–	–

The following table shows the valuation techniques used for Level 3 fair values, and significant unobservable inputs used for Level 3 items.

Financial instruments measured at fair value	Valuation technique	Significant unobservable inputs (Level 3 only)
Contingent consideration	The expected payment reflects calculated cash outflows under possible earn-out scenarios and is not discounted	Trading performance of acquired subsidiary companies in a period of 12 months following acquisition

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements.

Non-derivative financial instruments		**2021 Contractual cash flows**		
	Total £000	**Due within one year £000**	**Due from 1-5 years £000**	**Due after five years £000**
Secured bank borrowings	**9,840**	**9,840**	**–**	**–**
Lease liabilities	**34,942**	**6,364**	**16,331**	**12,247**
Trade payables	**42,147**	**42,147**	**–**	**–**
Accruals and deferred income	**11,703**	**11,703**	**–**	**–**
Contingent consideration	**6,625**	**2,930**	**3,695**	**–**
	105,257	**72,984**	**20,026**	**12,247**

Non-derivative financial instruments		2020 Contractual cash flows		
	Total £000	Due within one year £000	Due from 1-5 years £000	Due after five years £000
Secured bank borrowings	7,766	7,766	–	–
Lease liabilities	28,692	5,784	16,643	6,265
Trade payables	35,641	35,622	19	–
Accruals and deferred income	6,977	6,977	–	–
	79,076	56,149	16,662	6,265

16. Trade and other payables

	2021 £000	2020 £000
Due within one year		
Trade payables	**42,147**	35,622
Other taxation and social security	**3,905**	4,009
Contingent consideration	**2,930**	–
Other payables	**290**	1,147
Accruals and deferred income	**11,703**	6,977
	60,975	47,755
Due after more than one year		
Contingent consideration	**3,695**	–
Other payables	**–**	19
	3,695	19

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs in all the Group's businesses. No interest is charged on overdue trade payables.

The Directors consider that the carrying amounts for trade and other payables approximate to their fair value.

17. Lease liabilities

	2021 £000	2020 £000
Amounts payable under leases		
Within one year	**6,364**	5,784
Between one and five years	**16,331**	16,643
After more than five years	**12,247**	6,265
Present value of lease liabilities	**34,942**	28,692
Due for settlement within 12 months (current liabilities)	**(6,364)**	(5,784)
Due for settlement after more than 12 months (non-current liabilities)	**28,578**	22,908

	2021 £000	2020 £000
At 1 January	**28,692**	25,967
New leases	**9,103**	1,868
Acquisitions (note 23)	**3,500**	–
Disposals	**(1,363)**	–
Lease modifications	**2,675**	7,485
Exchange movements	**(126)**	91
Interest	**1,034**	761
Repayments under leases	**(8,573)**	(7,480)
At 31 December	**34,942**	28,692

The Directors consider that the carrying amounts for lease liabilities approximate to their fair value. Repayment of lease obligations in the cash flow statement of £7,539,000 consists of repayments under leases of £8,573,000 less interest of £1,034,000.

18. Deferred tax

	Tax losses/ accelerated capital allowances £000	Other intangible assets £000	Retirement benefit obligations £000	Total £000
At 1 January 2020	(40)	(2,951)	1,099	(1,892)
Acquisition (note 23)	–	(55)	–	(55)
(Charged)/credited in income statement	(39)	130	(548)	(457)
Credited in other comprehensive income				
Deferred tax on remeasurement of pension scheme liability	–	–	(401)	(401)
Corporation tax rate change on deferred tax	–	–	129	129
At 31 December 2020	(79)	(2,876)	279	(2,676)
Acquisition (note 23)	**(73)**	**(1,802)**	**-**	**(1,875)**
Disposal	**372**	**-**	**-**	**372**
Transferred to corporation tax	**(168)**	**-**	**-**	**(168)**
(Charged)/credited in income statement	**(371)**	**(387)**	**(382)**	**(1,140)**
Credited in other comprehensive income				
Deferred tax on remeasurement of pension scheme liability	**–**	**–**	**(2,054)**	**(2,054)**
Corporation tax rate change on deferred tax	**–**	**–**	**88**	**88**
At 31 December 2021	**(319)**	**(5,065)**	**(2,069)**	**(7,453)**
2021 deferred tax assets				
Due outwith one year	**19**	**–**	**–**	**19**
2021 deferred tax liabilities				
Due outwith one year	**(338)**	**(5,065)**	**(2,069)**	**(7,472)**
	(319)	**(5,065)**	**(2,069)**	**(7,453)**
2020 deferred tax assets				
Due outwith one year	117	–	279	396
2020 deferred tax liabilities				
Due outwith one year	(196)	(2,876)	–	(3,072)
	(79)	(2,876)	279	(2,676)

Deferred tax balances represent 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 at 31 December 2021 have been calculated based on a corporation tax rate of 25% where it is not anticipated to reverse by 1 April 2023 when the 25% rate comes into effect.

19. Share capital

	Number of 25p shares	2021 £000	2020 £000
Allotted, issued and fully paid:			
At 1 January	**157,812,000**	**39,453**	39,453
At 31 December	**157,812,000**	**39,453**	39,453

The Company has one class of ordinary shares, which carry no right to fixed income.

Each ordinary share carries one vote in any General Meeting of the Company.

20. Reserves

	Share premium £000	Revaluation reserve £000	Translation reserve £000	Retained earnings £000
Balance at 1 January 2020	13,148	70	231	15,835
Profit for the year	–	–	–	10,171
Dividends paid (see note 7)	–	–	–	(1,105)
Foreign currency translation differences – foreign operations	–	–	60	–
Share-based payments	–	–	–	75
Remeasurement of pension scheme liability taken direct to equity	–	–	–	2,112
Deferred tax taken direct to equity	–	–	–	(272)
Balance at 31 December 2020	**13,148**	**70**	**291**	**26,816**
Profit for the year	**–**	**–**	**–**	**12,598**
Dividends paid (see note 7)	**–**	**–**	**–**	**(4,293)**
Foreign currency translation differences – foreign operations	**–**	**–**	**(120)**	**–**
Share-based payments	**–**	**–**	**–**	**685**
Remeasurement of pension scheme liability taken direct to equity	**–**	**–**	**–**	**8,212**
Deferred tax taken direct to equity	**–**	**–**	**–**	**(1,966)**
Balance at 31 December 2021	**13,148**	**70**	**171**	**42,052**

Exchange differences arising in the consolidated accounts on the retranslation at closing rates of the Group's net investments in foreign subsidiary companies are recorded as movements on the translation reserve.

21. Provisions

	Note	Property £000	Other £000	Total £000
At 1 January 2020		467	660	1,127
Additions in the year		1,225	199	1,424
Payments		(125)	–	(125)
At 31 December 2020		1,567	859	2,426
Additions in the year		**1,775**	**–**	**1,775**
Acquisitions	23	**597**	**–**	**597**
Releases		**(187)**	**(127)**	**(314)**
Disposals		**–**	**(732)**	**(732)**
Payments		**(174)**	**–**	**(174)**
At 31 December 2021		**3,578**	**–**	**3,578**
2021 – Due within one year		**1,730**	**–**	**1,730**
2021 – Due after more than one year		**1,848**	**–**	**1,848**
At 31 December 2021		**3,578**	**–**	**3,578**
2020 – Due within one year		975	859	1,834
2020 – Due after more than one year		592	–	592
At 31 December 2020		1,567	859	2,426

Property provisions relate to sums due in respect of dilapidations.

Other provisions related to sums due to customers in respect of backdated duty including interest.

22. Analysis of changes in net debt

	Cash and cash equivalents £000	Bank borrowing £000	Lease liabilities £000	Total debt £000
At 1 January 2020	5,579	(18,253)	(25,967)	(38,641)
Non-cash movements				
New leases	–	–	(1,868)	(1,868)
Exchange movements	–	–	(91)	(91)
Lease modifications	–	–	(7,485)	(7,485)
Cash movements	1,649	10,487	6,719	18,855
At 31 December 2020	**7,228**	**(7,766)**	**(28,692)**	**(29,230)**
Non-cash movements				
New leases	**–**	**–**	**(9,103)**	**(9,103)**
Acquisitions	**–**	**–**	**(3,500)**	**(3,500)**
Disposals	**–**	**–**	**1,363**	**1,363**
Lease modifications	**–**	**–**	**(2,675)**	**(2,675)**
Exchange movements	**–**	**–**	**126**	**126**
Cash movements	**5,087**	**(2,074)**	**7,539**	**10,552**
At 31 December 2021	**12,315**	**(9,840)**	**(34,942)**	**(32,467)**

	Cash and cash equivalents £000	Bank borrowing £000	Net bank funds/(debt) £000
Net bank funds 2021	**12,315**	**(9,840)**	**2,475**
Net bank debt 2020	7,228	(7,766)	(538)

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

The movement in net bank debt is inclusive of the net cash outflow in respect of acquisitions set out in note 23.

23. Acquisitions

On 26 February 2021, Macfarlane Group UK Limited ('MGUK') acquired 100% of GWP Holdings Limited ('GWP'), for a maximum consideration, excluding cash and bank balances acquired, of £15.1m. £10.0m was paid in cash on acquisition, in addition to the cash and bank balances retained by MGUK, and the deferred consideration of £5.1m is payable in the first quarters of 2022 and 2023, subject to certain trading targets being met in the two twelve-month periods ending on 28 February 2022 and 2023 respectively. On 31 March 2021, MGUK acquired 100% of Carters Packaging (Cornwall) Limited ('Carters Packaging'), for a maximum consideration of £4.5m, excluding cash and bank balances acquired. £3.0m was paid in cash on acquisition, in addition to the cash and bank balances retained by MGUK, and the deferred consideration of £1.5m is payable in the second quarters of 2022 and 2023, subject to certain trading targets being met in the two twelve-month periods ending on 31 March 2022 and 2023 respectively. On 6 January 2020, the Group's subsidiary, MGUK acquired the business, trade and assets of Armagrip, a packaging distributor in Durham, for a consideration of approximately £0.9m, paid in cash on acquisition.

Contingent considerations are recognised as a liability in trade and other payables and are remeasured to fair value of £6.6m at the balance sheet date based on a range of outcomes between £Nil and £6.6m. Trading in the post-acquisition period supports the remeasured value of £6.6m.

The impact of the acquisition of GWP on 2021 results was revenue for the year of £15.1m and profit of £2.1m. If the GWP acquisition had been completed on the first day of 2021, revenues for the year would have been £18.1m and profit would have been £2.5m. The impact of the acquisition of Carters on 2021 results was revenue for the year of £5.1m and profit of £0.4m. If the Carters acquisition had been completed on the first day of 2021, revenues for the year would have been £6.8m and profit would have been £0.5m.

23. Acquisitions (continued)

Carters Packaging and Armagrip are packaging distributors, accounted for in the Packaging Distribution segment. Goodwill arising is attributable to the anticipated future profitability of the distribution of the Group's product ranges in the UK and anticipated operating synergies from future combinations of activities with the existing Packaging Distribution network. GWP is a packaging manufacturer, accounted for in the Manufacturing Operations segment. Goodwill arising is attributable to the anticipated future profitability of the manufacture of the Group's product ranges in the UK and anticipated operating synergies from future combinations of activities within the existing Manufacturing Operations. For the purposes of the Group financial statements, GWP and Carters converted from FRS 102 to IFRS, with the only change being the impact of IFRS 16 'Leases' on ROU assets and lease liabilities as incorporated into the fair values noted below. Fair values assigned to net assets acquired and consideration paid and payable are set out below:

	GWP £000	Carters Packaging £000	**2021 Total £000**	2020 Total £000
Net assets acquired				
Other intangible assets (note 10)	7,505	1,977	**9,482**	291
Tangible assets (inc. ROU assets)	3,560	998	**4,558**	–
Inventories	1,125	840	**1,965**	206
Trade and other receivables	2,319	997	**3,316**	282
Cash and bank balances	3,751	126	**3,877**	–
Trade and other payables	(3,252)	(896)	**(4,148)**	–
Current tax liabilities	(302)	(125)	**(427)**	–
Lease liabilities	(2,562)	(938)	**(3,500)**	–
Deferred tax liabilities (note 18)	(1,492)	(383)	**(1,875)**	(55)
Net assets acquired	10,652	2,596	**13,248**	724
Goodwill arising on acquisition (note 10)	7,493	1,999	**9,492**	164
Total consideration	18,145	4,595	**22,740**	888
Contingent consideration on acquisitions				
Current year	(5,125)	(1,500)	**(6,625)**	–
Prior years	–	–	**–**	1,773
Total cash consideration	13,020	3,095	**16,115**	2,661
Net cash outflow arising on acquisitions				
Cash consideration	(13,020)	(3,095)	**(16,115)**	(2,661)
Cash and bank balances acquired	3,751	126	**3,877**	-
Net cash outflow – acquisitions	(9,269)	(2,969)	**(12,238)**	(2,661)

24. Retirement benefit obligations

Introduction

Macfarlane Group PLC sponsors a defined benefit pension scheme for certain active and former UK employees – the Macfarlane Group PLC Pension & Life Assurance Scheme (1974) ('the Scheme'). One of the trading subsidiaries, Macfarlane Group UK Limited is also a sponsoring employer of the Scheme. Macfarlane Labels Limited was a sponsoring employer until 31 December 2021 when the company was sold and ceased to be a sponsoring member. The Group is working with the trustees on a Flexible Apportionment Arrangement in relation to Macfarlane Labels Limited's cessation as a sponsoring employer. The Scheme is currently in surplus and disclosure of the respective proportions of the Group surplus are included and disclosed in the financial statements of each of the three participating employers.

The Scheme is an HMRC registered pension scheme, administered by a Board of Trustees composed of employer-nominated representatives and member-nominated Trustees which is legally separate from the Group. The Scheme's investments 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 administration of benefits. Macfarlane Group PLC, based on legal opinion provided, has an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a wind up of the Scheme. Furthermore, in the ordinary course of business the trustees have no rights to unilaterally wind up the Scheme, or otherwise augment the benefits due to members of the Scheme. Based on these rights, any net surplus in the Scheme is recognised in full.

The Scheme provides qualifying employees with an annual pension of 1/60 of pensionable salary for each completed years' 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 leaving active service a deferred member's pension is revalued from the time of withdrawal until the pension is drawn. Revaluation in deferment is statutory and since 2010 has been revalued on the Consumer Price Index ('CPI') measure of inflation. Revaluation of pensions in payment is a blend of fixed increases and inflationary increases depending on the relevant periods of accrual of benefit. For pensions in payment, the inflationary increase is currently based on the Retail Price Index ('RPI') measure of inflation or based on Limited Price Indexation ('LPI') for certain defined periods of service.

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

Balance sheet disclosures at 31 December 2021

The Scheme's qualified actuary from Aon carries out triennial valuations using the Projected Unit Credit Method to determine the level of deficit/surplus. For the most recent triennial valuation at 1 May 2020, the results of this valuation showed that the market value of the relevant investments of the Scheme was £94,100,000 and represented 91% of the actuarial value of benefits that had accrued to members.

The investment classes held by the Scheme and the Scheme deficit, based on the results of the actuarial valuation as at 1 May 2020, updated to the year-end are as shown below:

Investment class	**Valuation 2021 £000**	**Asset allocation**	Valuation 2020 £000	Asset allocation	Valuation 2019 £000	Asset allocation
Equities						
UK equity funds	**9,392**	**9.4%**	8,351	8.4%	8,913	10.1%
Overseas equity funds	**17,010**	**16.9%**	14,585	14.7%	13,226	15.0%
Multi-asset diversified growth funds	**29,113**	**29.0%**	31,559	31.7%	25,382	28.8%
Bonds						
Liability-driven investment funds	**30,531**	**30.4%**	31,463	31.7%	27,688	31.5%
Other						
European loan fund	**6,778**	**6.7%**	6,493	6.5%	6,379	7.3%
Secured property income fund	**6,995**	**7.0%**	6,254	6.3%	6,192	7.0%
Cash	**604**	**0.6%**	725	0.7%	281	0.3%
Fair value of scheme investments	**100,423**	**100.0%**	99,430	100.0%	88,061	100.0%
Present value of scheme liabilities	**(92,156)**		(100,901)		(94,526)	
Pension scheme surplus/(deficit)	**8,267**		(1,471)		(6,465)	

The Trustees review the scheme's investments on a regular basis and consult with the Company regarding any proposed changes to the investment profile. During 2021 the Trustees maintained the overall allocations in line with the strategic asset allocation in the Trustees' Statement of Investment Principles.

Liability-Driven Investment Funds provide a match of 100% against the impact of inflation movements on pension liabilities and of approximately 85% against the impact of movements in interest rates on pension liabilities.

The ability to realise the Scheme's investments at, or close to, fair value was considered when setting the investment strategy. 86% (2020: 87%) of the Scheme's investments can be realised at fair value on a daily or weekly basis. The remaining investments have monthly or quarterly liquidity, however, whilst the income from these helps to meet the Scheme's cash flow needs, they are not expected to be realised at short notice. The present value of the Scheme liabilities is derived from cash flow projections over a long period and is thus inherently uncertain.

24. Retirement benefit obligations (continued)

Assumptions

The Scheme's liabilities at 31 December 2021 were calculated on the following bases as required under IAS 19:

	2021	2020	2019
Discount rate	**1.90%**	1.35%	2.00%
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 3.30% for LPI. 2.27% post 5 April 2006**	3% or 5% for fixed increases or 2.95% for LPI. 2.15% post 5 April 2006	3% or 5% for fixed increases or 2.95% for LPI. 2.15% post 5 April 2006
Spouse's pension assumption			
Pensioner/active and deferred members	**75%/75%**	75%/75%	70%/80%
PIE take up rate	**65%**	65%	45%
Inflation assumption (RPI)	**3.40%**	3.00%	3.00%
Inflation assumption (CPI)	**2.90%**	2.50%	2.10%
Life expectancy beyond normal retirement age of 65			
Scheme members aged 55			
Male	**22.8 years**	22.8 years	22.6 years
Female	**24.4 years**	24.3 years	24.7 years
Scheme members aged 65			
Male	**22.3 years**	22.2 years	22.0 years
Female	**23.6 years**	23.5 years	24.0 years
Average uplift for GMP service	**0.40%**	0.40%	0.40%

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 surplus/deficit as shown below:

	2021 £000	2020 £000	2019 £000
Assumptions			
Discount rate movement of +0.6%	**8,845**	9,684	9,072
Inflation rate movement of +0.1%	**(470)**	(515)	(482)
Mortality movement of +0.1 year in age rating	**277**	303	284

Positive figures reflect a reduction in scheme liabilities and therefore a reduction in the deficit or increase in the surplus. The sensitivity information has been prepared using the same method as adopted when updating the results of the most recent actuarial valuation to the balance sheet date and is consistent with the approach adopted in previous years.

The level of sensitivities shown reflect average movements in the assumptions in the last three years.

The sensitivity information assumes that the average duration of the scheme's liabilities is seventeen years.

GMP equalisation

In 2018, the Directors made the judgement that the estimated effect of GMP equalisation on the Group's pension liabilities was a past service cost. The average uplift for GMP service for impacted members was reflected through the consolidated income statement in 2018, with any subsequent changes in the estimate to be recognised in other comprehensive income.

Right to surplus

UK pension legislation requires that pension schemes are funded prudently. Following the conclusion of the 2021 actuarial valuation, the scheme's trustees agreed with the Company to a deficit recovery period of 4 years. As part of this agreement, the Group reconfirmed its effective unconditional right to a refund of any surplus, based on and in accordance with the terms and conditions of the defined benefit scheme and minimum funding requirements. Accordingly IFRIC 14 does not require an adjustment to the net pension surplus.

Macfarlane Group PLC paid contributions of £1,992,000 per annum, which along with investment returns from return-seeking assets is expected to make good the actuarial shortfall by April 2024. The estimated contributions in 2022 will be £1,301,000.

The employer contribution rate for active members from 1 May 2020 is 37.4% of pensionable salary and the employee contribution rate is 7.0% of pensionable salary.

Movement in the scheme surplus/(deficit) during the year	2021 £000	2020 £000
At 1 January	**(1,471)**	(6,465)
Current service costs	**(126)**	(143)
Contributions from sponsoring employers	**1,992**	3,211
Past service cost (curtailed due to disposal of business)	**(333)**	–
GMP on transfer values	**–**	(87)
Net finance cost (note 4)	**(7)**	(99)
Remeasurement of pension scheme liability in the year	**8,212**	2,112
At 31 December	**8,267**	(1,471)
Analysis of amounts charged to profit before tax		
Current service cost	**(126)**	(143)
GMP on transfer values	**–**	(87)
Past service cost (curtailed due to disposal of business)	**(333)**	–
Net finance cost	**(7)**	(99)
Pension expense charged to profit before tax	**(466)**	(329)
Analysis of the remeasurement of the pension scheme liability recognised in the statement of other comprehensive income		
Return on scheme investments excluding amount shown in interest income	**1,273**	10,655
Changes due to scheme experience	**850**	2,364
Changes in assumptions underlying the present value of scheme liabilities	**6,089**	(10,907)
Remeasurement of the pension scheme liability recognised in the statement of other comprehensive income	**8,212**	2,112
Movement in the fair value of scheme investments		
At 1 January	**99,430**	88,061
Interest income	**1,332**	1,751
Return on scheme investments (excluding amount shown in interest income)	**1,273**	10,655
Contributions from sponsoring employers	**1,992**	3,211
Contributions from scheme members	**23**	34
Benefits paid	**(3,627)**	(4,282)
At 31 December	**100,423**	99,430
Movement in the present value of scheme liabilities		
At 1 January	**(100,901)**	(94,526)
Current service cost	**(126)**	(143)
GMP on transfer values	**–**	(87)
Past service cost (curtailed due to disposal of business)	**(333)**	–
Interest cost	**(1,339)**	(1,850)
Contributions from scheme members	**(23)**	(34)
Changes due to scheme experience	**850**	2,364
Changes in assumptions underlying the scheme liabilities	**6,089**	(10,907)
Benefits paid	**3,627**	4,282
At 31 December	**(92,156)**	(100,901)

24. Retirement benefit obligations (continued)

The cumulative amount of actuarial losses recognised in other comprehensive income since the date of transition to IAS 19 on 1 January 2004 is £11,042,000 (2020: £19,254,000).

The history of experience adjustments and actual returns on scheme assets and scheme liabilities is as follows:

	2021 £000	2020 £000	2019 £000	2018 £000	2017 £000
Present value of defined benefit obligations	**(92,156)**	(100,901)	(94,526)	(85,592)	(92,783)
Fair value of scheme investments	**100,423**	99,430	88,061	75,827	80,960
Pension scheme surplus/(deficit)	**8,267**	(1,471)	(6,465)	(9,765)	(11,823)
Actual return on scheme investments					
Amount	**2,605**	12,406	13,263	(2,156)	5,795
Percentage of scheme investments	**2.6%**	12.5%	15.1%	(2.8%)	7.2%
Experience adjustment on scheme liabilities					
Amount	**6,939**	(8,543)	(10,617)	4,111	(3,953)
Percentage of scheme liabilities	**7.5%**	(8.5%)	(11.2%)	4.8%	(4.3%)
Experience adjustment on scheme investments					
Amount	**1,273**	10,655	11,154	(4,143)	3,730
Percentage of scheme investments	**1.3%**	10.7%	12.7%	(5.5%)	4.6%

Defined contribution schemes

The Group also operates a number of defined contribution pension arrangements, set up as the Macfarlane Group Personal Pension Plan, including an Auto-enrolment scheme. The assets of these plans are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions paid by the Group to these plans and amounted to £1,828,000 (2020: £1,670,000). Contributions amounting to £219,000 (2020: £168,000) were payable to the plans and are included in trade and other payables at 31 December.

25. Share-based payments

Equity-settled long-term incentive plans **Movements in PSP awards during the year**	**Number of shares 2021**	Number of shares 2020
Outstanding at 1 January	**1,267,311**	604,270
Awarded during the year	**579,547**	716,397
Lapsed during the year	**(219,702)**	(53,356)
Outstanding at 31 December	**1,627,156**	1,267,311

A nil cost option award was granted under The Macfarlane Group PLC Long Term Incentive Plan in March 2021 based on 100% of salary. The performance condition requires EPS in 2023 to be between 7.95p and 9.54p for between 25%-100% of this part of the award to vest, working on a straight-line basis.

A nil cost option award was granted under The Macfarlane Group PLC Long Term Incentive Plan in September 2020 based on 100% of salary. The performance condition requires EPS in 2022 to be between 6.53p and 7.84p for between 25%-100% of this part of the award to vest, working on a straight-line basis.

A nil cost option award was granted under The Macfarlane Group PLC Long Term Incentive Plan in May 2019 based on 100% of salary. The performance condition requires EPS in 2021 to be between 6.77p and 8.12p for between 25%-100% of this part of the award to vest, working on a straight-line basis.

All awards are subject to an underpin based on the Remuneration Committee's view of overall performance in the three-year periods to 31 December 2021, 2022 and 2023 respectively. No re-setting of either award is allowed. Vesting periods are three years and awards vesting then have a holding period of two years after vesting.

The Group recognised an expense of £685,000 (2020: £75,000) in 2021 relating to equity-settled long-term incentive plan awards on the basis that the 2019 awards had an estimated probability of vesting of 100% (2020: 30%), the 2020 awards had an estimated probability of vesting of 100% (2020: 75%) and the 2021 awards had an estimated probability of vesting of 100%.

26. Post balance sheet event

There are no post balance sheet events to be disclosed.

27. Related party transactions

The Group has related party relationships with:

(i) its subsidiaries, listed on page 132,
(ii) its Directors who comprise the Group Board; and
(iii) the Macfarlane Group PLC sponsored pension schemes (see note 24).

Transactions between the Company and its subsidiaries are eliminated on consolidation and are not disclosed.

Key management personnel comprise the Group Board. Their remuneration is set out below in aggregate for each of the categories specified in IAS 24 '*Related Party Disclosures*'.

	2021 £000	2020 £000
Directors' remuneration	**1,189**	898
Employer's national insurance contributions	**150**	124
	1,339	1,022

Further details of Directors' individual and collective remuneration are set out in the Directors' Remuneration Report on page 50. The details provided in the Directors' Remuneration Report address the Companies Act disclosure requirements relating to Directors' remuneration.

Details of Directors' shareholdings in the Company are shown on page 51 and total dividends of £33,000 were paid in respect of these shareholdings in 2021 (2020: £14,000).

Disclosures in relation to the pension schemes are set out in note 24.

The Directors have considered the implications of IAS 24 '*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.

Company balance sheet

At 31 December 2021

	Note	2021 £000	2020 £000
Non-current assets			
Property, plant and equipment	29	**48**	54
Right-of-use assets	30	**104**	119
Investments	31	**23,085**	26,935
Deferred tax assets	32	**–**	111
Retirement benefit obligations	41	**2,894**	–
Trade and other receivables	33	**30,997**	33,545
Total non-current assets		**57,128**	60,764
Current assets			
Trade and other receivables	33	**3,825**	3,858
Current tax asset		**59**	–
Cash and cash equivalents		**5,895**	2,731
Total current assets		**9,779**	6,589
Total assets		**66,907**	67,353
Current liabilities			
Trade and other payables	34	**1,106**	494
Current tax liabilities		**–**	135
Lease liabilities	36	**14**	14
Bank borrowings		**63**	–
Total current liabilities		**1,183**	643
Net current assets		**8,596**	5,946
Non-current liabilities			
Retirement benefit obligations	41	**–**	589
Deferred tax liabilities	32	**726**	–
Lease liabilities	36	**99**	114
Provisions	35	**825**	–
Total non-current liabilities		**1,650**	703
Total liabilities		**2,833**	1,346
Net assets		**64,074**	66,007
Equity			
Share capital	37	**39,453**	39,453
Share premium	38	**13,148**	13,148
Profit and loss account	38	**11,473**	13,406
Total equity	39	**64,074**	66,007

The Company has taken advantage of Section 408 of the Companies Act 2006 and consequently a separate profit and loss account for the parent company is not presented as part of these financial statements.

The Company's loss for the year is £633,000.

The accompanying notes are an integral part of this Company balance sheet.

The financial statements of Macfarlane Group PLC, Company registration number SC004221, were approved by the Board of Directors on 24 February 2022 and signed on its behalf by

Peter D. Atkinson
Chief Executive

Ivor Gray
Finance Director

Company statement of changes in equity

For the year ended 31 December 2021

	Note	Share capital £000	Share premium £000	Retained earnings £000	Total £000
At 1 January 2020		39,453	13,148	10,888	63,489
Comprehensive income					
Profit for the year		–	–	2,122	2,122
Remeasurement of pension scheme liability	41	–	–	1,698	1,698
Tax on remeasurement of pension scheme liability	32	–	–	(323)	(323)
Corporation tax rate change on deferred tax		–	–	51	51
Total comprehensive income		–	–	3,548	3,548
Transactions with shareholders					
Dividends	7	–	–	(1,105)	(1,105)
Share-based payments	25	–	–	75	75
Total transactions with shareholders		–	–	(1,030)	(1,030)
At 31 December 2020		**39,453**	**13,148**	**13,406**	**66,007**
Comprehensive income					
Loss for the year		**–**	**–**	**(633)**	**(633)**
Remeasurement of pension scheme liability	41	**–**	**–**	**3,031**	**3,031**
Tax on remeasurement of pension scheme liability	32	**–**	**–**	**(758)**	**(758)**
Corporation tax rate change on deferred tax	32	**–**	**–**	**35**	**35**
Total comprehensive income		**–**	**–**	**1,675**	**1,675**
Transactions with shareholders					
Dividends	7	**–**	**–**	**(4,293)**	**(4,293)**
Share-based payments	25	**–**	**–**	**685**	**685**
Total transactions with shareholders		**–**	**–**	**(3,608)**	**(3,608)**
At 31 December 2021		**39,453**	**13,148**	**11,473**	**64,074**

The accompanying notes are an integral part of this statement of changes in equity.

28. Significant accounting policies

Macfarlane Group PLC is a public company listed on the London Stock Exchange, incorporated and domiciled in the United Kingdom and registered in Scotland.

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 United Kingdom ('Adopted IFRSs') but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. 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 and tangible assets;
(iii) Disclosures in respect of transactions with wholly owned subsidiaries;
(iv) The effects of new but not yet effective IFRSs;
(v) Disclosures in respect of the compensation of Key Management Personnel; and
(vi) Disclosures in respect of capital management.

As the consolidated financial statements for Macfarlane Group PLC include the equivalent disclosures, the Company has also applied the exemptions available under FRS 101 in respect of certain disclosures required by;

(i) IFRS 2 *Share Based Payments* in relation to Group-settled share-based payments;
(ii) IFRS 3 *Business Combinations* relating to business combinations undertaken by the Company; and
(iii) IFRS 7 *Financial Instruments*.

Going concern

The Directors, in their consideration of going concern, have reviewed the Company and Group's future cash flow forecasts and revenue projections, which they believe are based on a prudent assessment of the market and past experience as set out on page 19.

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.

Critical judgements and 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.

Critical judgements

No significant critical judgements have been made in the current or prior year.

Key sources of estimation uncertainty

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 for the Group deficit is provided in note 24. The Directors consider that these sensitivities represent reasonable sensitivities which could occur in the next financial year.

Changes in accounting policies and application of revised standards and interpretations

There are no new accounting policies applied in 2021 which have had a material effect on these accounts.

The Directors do not consider that the adoption of new and revised standards and interpretations issued by the IASB in 2021 has had any material impact on the financial statements of the Group.

Accounting policies

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. 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.

Tangible assets
Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated 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 in note 31 at cost less any provision for 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.

IFRS 16 'Leases'
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 (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 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 the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease liabilities are presented on two separate lines in the balance sheet for amounts due within one year and amounts due beyond 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 lease modification is not accounted for as a separate lease. The Company did not make any such adjustments during the period presented.

Right-of-use assets comprise the initial measurement of the corresponding lease liability and are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use 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 right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

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 the profit and loss account.

The Company's incremental borrowing rate applied to lease liabilities in 2021 is 3.0%.

Movements in lease liabilities during 2021 are set out in note 36.

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for management services provided to Group undertakings, net of VAT. Revenue is recognised over time as the related charges are made.

28. Significant accounting policies (continued)

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, are recognised and derecognised on the effective date where the purchase or sale of an investment is under a contract whose terms require the delivery of the investment within the timeframe established. They are initially measured at fair value, net of transaction costs except for those financial assets classified at fair value through the income statement, which are initially measured at fair value.

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

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

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.

Contingent consideration classified as a liability will be subsequently re-measured through the income statement under the requirements of the revised IFRS 3.

Taxation

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

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

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

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

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

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

Retirement benefit costs

Defined contribution schemes

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 profit and loss account in the periods during which services are rendered by employees.

Defined benefit schemes

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 current and prior periods. These benefits are then discounted to determine the present value, and the fair values 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 profit and loss account.

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 profit and loss account 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 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 allocated to the parent company.

Property provisions

The Company has obligations for two property leases. Under IAS 37 an entity must recognise a provision if a present obligation has arisen as a result of a past event, payment is probable and the amount can be estimated reliably. Where it is probable at the balance sheet date, that there is a liability in respect of restoring the property to its original condition a provision is made for management's best estimate of the cost of fulfilling any residual repairing obligation for that property lease.

The Company may make the determination to exit a property lease before the expiry date, when it does not have a commercial rationale to continue to occupy the property. In this case the Company could have surplus properties and it would seek to attract a new tenant to obtain rental income from a sub-lease to cover its ongoing liabilities under the remaining period of the head lease. If there is likely to be a rental void for a period of time, then a provision is made at each balance sheet date to cover management's best estimate of the future cost of the likely void period.

Share-based payments

The fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. Details of the determination of the fair value of equity-settled share-based transactions are set out in note 25.

29. Property, plant and equipment

	Plant and equipment £000	Total £000
Cost		
At 1 January 2021 and 31 December 2021	**173**	**173**
Depreciation		
At 1 January 2021	**119**	**119**
Charge for the year	**6**	**6**
At 31 December 2021	**125**	**125**
Net book value		
At 31 December 2021	**48**	**48**
At 31 December 2020	54	54

30. Right of use assets

Property	£000
Cost	
At 1 January 2021 and 31 December 2021	**148**
Depreciation	
At 1 January 2021	**29**
Charge for year	**15**
At 31 December 2021	**44**
Net book value	
At 31 December 2021	**104**
At 31 December 2020	119

31. Investments

	2021 £000	2020 £000
Investment in subsidiaries at cost		
At 1 January	**26,935**	29,989
Disposals	**(3,850)**	–
Group transfers	**–**	(3,054)
At 31 December	**23,085**	26,935

The parent company sold its investment in Macfarlane Labels Limited on 31 December 2021 (note 6).

The parent company transferred its investment in Leyland Packaging Company (Lancs) Limited to Macfarlane Group UK Limited in December 2020.

Details of the principal operating subsidiaries are set out on page 132.

32. Deferred tax (liability)/asset

	2021 £000	2020 £000
Deferred tax on pension scheme deficit		
At 1 January	**111**	439
Charged to reserves	**(723)**	(271)
Charged to profit and loss account	**(114)**	(57)
At 31 December	**(726)**	111

33. Trade and other receivables

	2021 £000	2020 £000
Due within one year		
Amounts owed by subsidiary undertakings	**3,000**	3,580
Other receivables	**651**	11
Prepayments and accrued income	**134**	248
Other taxation and social security	**21**	–
Deferred tax asset (see below)	**19**	19
	3,825	3,858
Deferred tax asset – Corporation tax losses		
At 1 January	**19**	38
Charged to profit and loss account	**–**	(19)
At 31 December	**19**	19

	2021 £000	2020 £000
Due after more than one year		
Amounts owed by subsidiary undertakings	**30,997**	33,545

Amounts owed by subsidiary undertakings attract interest at normal commercial rates.

34. Trade and other payables

	2021 £000	2020 £000
Trade creditors	**526**	47
Other taxation and social security	**–**	57
Accruals and deferred income	**580**	390
	1,106	494

The Company is a party to the Group bank borrowing facility with Lloyds Banking Group PLC, a committed facility of £30m now available until December 2025. 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 receivables of Macfarlane Group UK Limited, the principal trading subsidiary.

The Company and certain subsidiaries have given inter-company guarantees to secure the drawdown on this facility. The drawdown at 31 December 2021 by the subsidiary company, Macfarlane Group UK Limited amounted to £9.8m (2020: £5.8m).

35. Provisions

	Total £000
At 1 January 2021	–
Additions in the year	825
At 31 December 2021	**825**

The provision is due after more than one year. Property provisions relate to sums due in respect of dilapidations.

36. Lease liabilities

	2021 £000	2020 £000
Amounts due under leases		
Within one year	14	14
Between one and five years	63	61
After more than five years	36	53
Total amount due	113	128
Due within one year	(14)	(14)
Due after more than one year	99	114
At 1 January	128	141
New leases	–	–
Repayments under leases	(15)	(13)
At 31 December	**113**	128

37. Share capital

	Number of 25p shares	2021 £000	2020 £000
Called up, allotted and fully paid:			
At 1 January	157,812,000	39,453	39,453
At 31 December	**157,812,000**	**39,453**	39,453

The Company has one class of ordinary shares, which carry no right to fixed income.

Each ordinary share carries one vote in any General Meeting of the Company.

38. Reserves

	Share premium £000	Profit and loss account £000	Total £000
Balance at 1 January 2020	13,148	10,888	24,036
Profit for the year	–	2,122	2,122
Dividends paid (note 7)	–	(1,105)	(1,105)
Post-tax actuarial gain in pension scheme taken direct to reserves	–	1,426	1,426
Share-based payments (note 25)	–	75	75
Balance at 1 January 2021	13,148	13,406	26,554
Loss for the year	**–**	**(633)**	**(633)**
Dividends paid (note 7)	**–**	**(4,293)**	**(4,293)**
Post-tax actuarial gain in pension scheme taken direct to reserves	**–**	**2,308**	**2,308**
Share-based payments (note 25)	**–**	**685**	**685**
Balance at 31 December 2021	**13,148**	**11,473**	**24,621**

39. Reconciliation of movements in shareholders' funds

	2021 £000	2020 £000
Profit for the year	**(633)**	2,122
Dividends to equity holders in the year	**(4,293)**	(1,105)
Post-tax actuarial gain in pension scheme taken direct to equity	**2,308**	1,426
Share-based payments	**685**	75
Movements in shareholders' funds in the year	**(1,933)**	2,518
Opening shareholders' funds	**66,007**	63,489
Closing shareholders' funds	**64,074**	66,007

40. Operating profit

		2021 £000	2020 £000
Operating profit for the parent company has been arrived at after charging:			
Depreciation		**6**	7
Depreciation on right-of-use assets		**15**	15
Auditor's remuneration	Audit services	**57**	44
	Non-audit services	**11**	11

	2021 No.	2020 No.
Staff costs		
The average monthly number of employees was:		
Administration	**10**	10

	2021 £000	2020 £000
The costs incurred in respect of these employees were:		
Wages and salaries	**1,451**	924
Social security costs	**188**	130
Other pension costs	**42**	61
Share-based payments (note 25)	**685**	75
	2,366	1,190

41. Retirement benefit obligations

Introduction

Macfarlane Group PLC sponsors a defined benefit pension scheme for certain active and former UK employees – the Macfarlane Group PLC Pension & Life Assurance Scheme (1974) ('the Scheme'). One of the trading subsidiaries, Macfarlane Group UK Limited is also a sponsoring employer of the Scheme. Macfarlane Labels Limited was a sponsoring employer until 31 December 2021 when the company was sold and ceased to be a sponsoring member. The Group is working with the trustees on a Flexible Apportionment Arrangement in relation to Macfarlane Labels Limited's cessation as a sponsoring employer. The Scheme is currently in surplus and disclosure of the respective proportions of the Group surplus/deficit are included and disclosed in the financial statements of each of the three participating employers.

The Scheme is an HMRC registered pension scheme and is administered by a Board of Trustees composed of employer-nominated representatives and member-nominated Trustees which is legally separate from the Group. The Scheme's investments 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 administration of benefits. Macfarlane Group PLC, based on legal opinion provided, has an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a wind up of the Scheme. Furthermore, in the ordinary course of business the trustees have no rights to unilaterally wind up the Scheme, or otherwise augment the benefits due to members of the Scheme. Based on these rights, any net surplus in the Scheme is recognised in full.

The Scheme provides qualifying employees with an annual pension of 1/60 of pensionable salary for each completed years' 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. The Scheme was closed to new entrants during 2002.

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

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

Balance sheet disclosures at 31 December 2021

The Scheme's qualified actuary from Aon 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 2020, the results of this valuation showed that the market value of the relevant investments of the Scheme was £94,100,000 and represented 91% 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 actuarial valuation as at 1 May 2020, updated to the year-end to reflect amounts attributable to Macfarlane Group PLC, the parent company, are as shown below:

Investment class	**2021 £000**	2020 £000	2019 £000
Equities	**9,241**	9,175	8,855
Multi-asset diversified funds	**10,189**	12,624	10,153
Liability-driven investment funds	**10,686**	12,585	11,075
European loan fund	**2,372**	2,598	2,477
Secured property income fund	**2,449**	2,501	2,552
Cash	**211**	288	113
Fair value of scheme investments	**35,148**	39,771	35,225
Present value of scheme liabilities	**(32,254)**	(40,360)	(37,811)
Pension scheme surplus/(deficit)	**2,894**	(589)	(2,586)

The Trustees review the Scheme's investments on a regular basis and consult with the Company regarding any proposed changes to the investment profile. During 2021 the Trustees maintained the strategic asset allocation in the Trustees' Statement of Investment Principles.

Liability-Driven Investment Funds provide a match of 100% against the impact of inflation movements on pension liabilities and of approximately 85% against the impact of movements in interest rates on pension liabilities.

The ability to realise the Scheme's investments at, or close to, fair value was considered when setting the investment strategy. 86% (2020: 87%) of the Scheme's investments can be realised at fair value on a daily or weekly basis. The remaining investments have monthly or quarterly liquidity, however, whilst the income from these helps to meet the Scheme's cash flow needs, they are not expected to be realised at short notice. The present value of the Scheme liabilities is derived from cash flow projections over a long period and is thus inherently uncertain.

The Scheme's liabilities at 31 December 2021 were calculated on the following bases as required under IAS19:

Assumptions	**2021**	2020	2019
Discount rate	**1.90%**	1.35%	2.00%
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 3.30% for LPI. 2.27% post 5 April 2006**	3% or 5% for fixed increases or 2.95% for LPI. 2.15% post 5 April 2006	3% or 5% for fixed increases or 2.95% for LPI. 2.15% post 5 April 2006
Spouse's pension			
Pensioner/active and deferred members	**75%/75%**	75%/75%	70%/80%
PIE take up rate	**65%**	65%	45%
Inflation assumption (RPI)	**3.40%**	3.00%	3.00%
Inflation assumption (CPI)	**2.90%**	2.50%	2.10%
Life expectancy beyond normal retirement age of 65			
Members aged 55			
Male	**22.8 years**	22.8 years	22.6 years
Female	**24.4 years**	24.3 years	24.7 years
Members aged 65			
Male	**22.3 years**	22.2 years	22.0 years
Female	**23.6 years**	23.5 years	24.0 years
Average uplift for GMP service	**0.40%**	0.40%	0.40%

Movement in scheme surplus/(deficit) during the year	**2021 £000**	2020 £000
At 1 January	**(589)**	(2,586)
Current service cost	**(31)**	(18)
GMP on transfer values	**–**	(35)
Company contributions	**485**	391
Net finance cost	**(2)**	(39)
Remeasurement of pension scheme liability in the year	**3,031**	1,698
At 31 December	**2,894**	(589)
Analysis of amounts charged to operating profit		
Current service cost	**(31)**	(18)
GMP on transfer values	**–**	(35)
Pension cost charged to operating profit	**(31)**	(53)
Analysis of amounts charged to other financial charges		
Expected return on pension scheme investments	**467**	700
Interest cost of pension scheme liabilities	**(469)**	(739)
Other financial charges	**(2)**	(39)
Analysis of the remeasurement of the scheme surplus/(deficit)		
Return on scheme assets (excluding amount shown in interest income)	**(4,311)**	5,164
Changes in assumptions underlying the present value of the scheme's liabilities	**7,342**	(3,466)
Remeasurement of the pension scheme deficit	**3,031**	1,698

41. Retirement benefit obligations (continued)

	2021 £000	2020 £000
Movement in the fair value of scheme assets		
At 1 January	**39,771**	35,225
Interest income	**467**	700
Return on scheme assets (excluding amounts shown in interest income)	**(4,311)**	5,164
Contributions from the Company	**485**	391
Contributions from scheme members	**5**	4
Benefits paid	**(1,269)**	(1,713)
At 31 December	**35,148**	39,771
Movement in the present value of scheme liabilities		
At 1 January	**(40,360)**	(37,811)
Service cost	**(31)**	(18)
GMP on transfer values	**–**	(35)
Interest cost	**(469)**	(739)
Contributions from scheme members	**(5)**	(4)
Actuarial gain/(loss) in the year	**7,342**	(3,466)
Benefits paid	**1,269**	1,713
At 31 December	**(32,254)**	(40,360)

The cumulative remeasurement of pension liabilities since IAS19 transition is a gain of £3,611,000 (2020: £580,000).

	2021 £000	2020 £000	2019 £000	2018 £000	2017 £000
Present value of defined benefit obligations	**(32,254)**	(40,360)	(37,811)	(34,238)	(37,113)
Fair value of Scheme investments	**35,148**	39,771	35,225	30,330	32,383
Pension scheme surplus/(deficit)	**2,894**	(589)	(2,586)	(3,908)	(4,730)
Return on scheme investments	**(3,844)**	5,864	6,179	(22)	3,355
Percentage of scheme investments	**(10.9%)**	14.7%	17.5%	(0.1%)	10.4%
Experience adjustment to scheme investments	**(4,311)**	5,164	5,336	(817)	2,529
Percentage of scheme investments	**(12.3%)**	13.0%	15.2%	(2.7%)	7.8%
Experience adjustment on scheme liabilities	**7,342**	(3,466)	(4,298)	1,587	(1,634)
Percentage of scheme liabilities	**22.8%**	(8.6%)	(11.4%)	4.6%	(4.4%)

Defined contribution schemes

The Company also participated in a defined contribution scheme, the Macfarlane Group Personal Pension Plan. Contributions to the plan for the year were £31,000 (2020: £8,000) with contributions £3,000 (2020: £3,000) of payable to the plan at the balance sheet date.

42. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation in the Group financial statements. The Directors have considered the implications of IAS 24 '*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.

Five year record

Continuing and discontinued operations	**2021 £000**	2020 £000	2019 £000	2018 £000	2017 £000
Turnover	**285,685**	230,029	225,246	217,129	195,818
Operating profit before separately disclosed items	**19,207**	14,369	13,487	11,878	9,924
Net interest payable	**1,480**	1,367	1,625	823	837
Profit before separately disclosed item	**17,727**	13,002	11,862	11,055	9,087
Separately disclosed item	**–**	–	–	330	–
Profit before tax	**17,727**	13,002	11,862	10,725	9,087
Taxation	**5,129**	2,831	2,262	2,114	1,803
Profit for the financial year	**12,598**	10,171	9,600	8,611	7,284
Basic earnings per ordinary share	**7.98p**	6.45p	6.09p	5.47p	5.12p
Dividends	**4,293**	1,105*	3,689	3,387	2,854
Dividends paid per ordinary share	**2.72p**	0.70p*	2.34p	2.15p	2.00p
Dividend cover	**2.9**	9.2*	2.6	2.5	2.6

* This reflects the cancellation of the dividend of 1.76p payable in June 2020.

This table reflects the five-year record for the Group's operations as classified at 31 December 2021.

Principal operating subsidiaries and related undertakings

Company name	Principal activities	Country of registration
Macfarlane Group UK Limited [1] Coventry Tel: 02476 511511	Supply and distribution of all forms of packaging materials and equipment. Design and manufacture of specialist packaging.	England
Nelsons for Cartons & Packaging Limited [1] Leicester Tel: 0116 2641050	Supply and distribution of all forms of packaging materials and equipment.	England
Carters Packaging Limited [1] Redruth Tel: 01209 204777	Supply and distribution of all forms of packaging materials and equipment.	England
Ecopac (U.K.) Limited [1] Aylesbury Tel: 01296 652700	Supply and distribution of all forms of packaging materials and equipment.	England
GWP Group Limited [1] Swindon Tel: 01793 754444	Design and manufacture of specialist packaging.	England
Nottingham Recycling Limited [1] Nottingham Tel: 0115 986 7181	Recovery of waste paper and corrugated board for recycling.	England
Macfarlane Group B.V. [2] Hoofddorp Tel: 00 31 235689207	Supply and distribution of all forms of packaging materials and equipment.	The Netherlands
Macfarlane Packaging Ireland Limited [3] Wicklow Tel: 00 353 1281 0234	Supply and distribution of all forms of packaging materials and equipment.	Ireland

All the above subsidiaries are wholly owned either by Macfarlane Group PLC or one of its subsidiary companies and operate in the country of registration. The Group controls 100% of the ordinary share capital of each subsidiary.

The Group's other related undertakings are the dormant subsidiary undertakings disclosed below. In all cases the Company listed as owner controls 100% of the issued share capital of the dormant subsidiary undertaking.

Company name	Company number	Country of registration
Owned by Macfarlane Group PLC		
National Packaging Group Limited [1]	01355867	England
Adhesive Labels Limited [1]	00723320	England
Owned by Macfarlane Group UK Limited		
Online Packaging Limited [1]	02903657	England
Macfarlane Packaging Limited [4]	SC041678	Scotland
Abbott's Packaging Limited [1]	00372831	England
Mitchell Packaging Limited [1]	00535311	England
Greenwoods Stock Boxes Limited [4]	SC576825	Scotland
Network Packaging Limited [1]	03400627	England
One Packaging Limited [1]	09647045	England
Tyler Packaging (Leicester) Limited [1]	03460830	England
Harrisons Packaging Limited [1]	06999588	England
Leyland Packaging Company (Lancs) Limited [1]	03775077	England
Owned by GWP Group Limited		
Eastman Packaging Limited [1]	03837450	England
The Great Western Packaging Co. Limited [1]	02455095	England
Corstat Containers Limited [1]	02454197	England
Owned by Harrisons Packaging Limited		
Temperature Controlled Packaging Limited [1]	06896225	England
Owned by Network Packaging Limited		
Networkpack Limited [1]	07076439	England

Registered offices

[1] Siskin Parkway East, Middlemarch Business Park, Coventry, CV3 4PE
[2] Siriusdreef 17, 2132 WT, Hoofddorp, The Netherlands
[3] 6th Floor, South Bank House, Barrow Street, Dublin 4
[4] 3 Park Gardens, Glasgow, G3 7YE

Financial diary

Financial results
Interim: Announced – August
Final: Announced – February

Accounts and Annual General Meeting
Report and financial statements – Posted to shareholders on 1 April 2022
Annual General Meeting – Held in Glasgow on 10 May 2022

Shareholder enquiries
Macfarlane Group PLC's ordinary shares are classified under the 'Industrial – General' section of the Industrial Sector on the London Stock Exchange.

Enquiries regarding shareholdings, dividend payments, dividend mandate instructions, lost share certificates, tax vouchers, changes of address, transfers of shares to another person and other administrative matters should be addressed to the Company's registrars,

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex, BN99 6DA

Telephone: 0371 384 2439
Website: www.shareview.co.uk

The Company's website, www.macfarlanegroup.com provides details of all major Stock Exchange announcements, details of the current share price and information about Macfarlane Group's business.

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