Correx® – reusable packaging

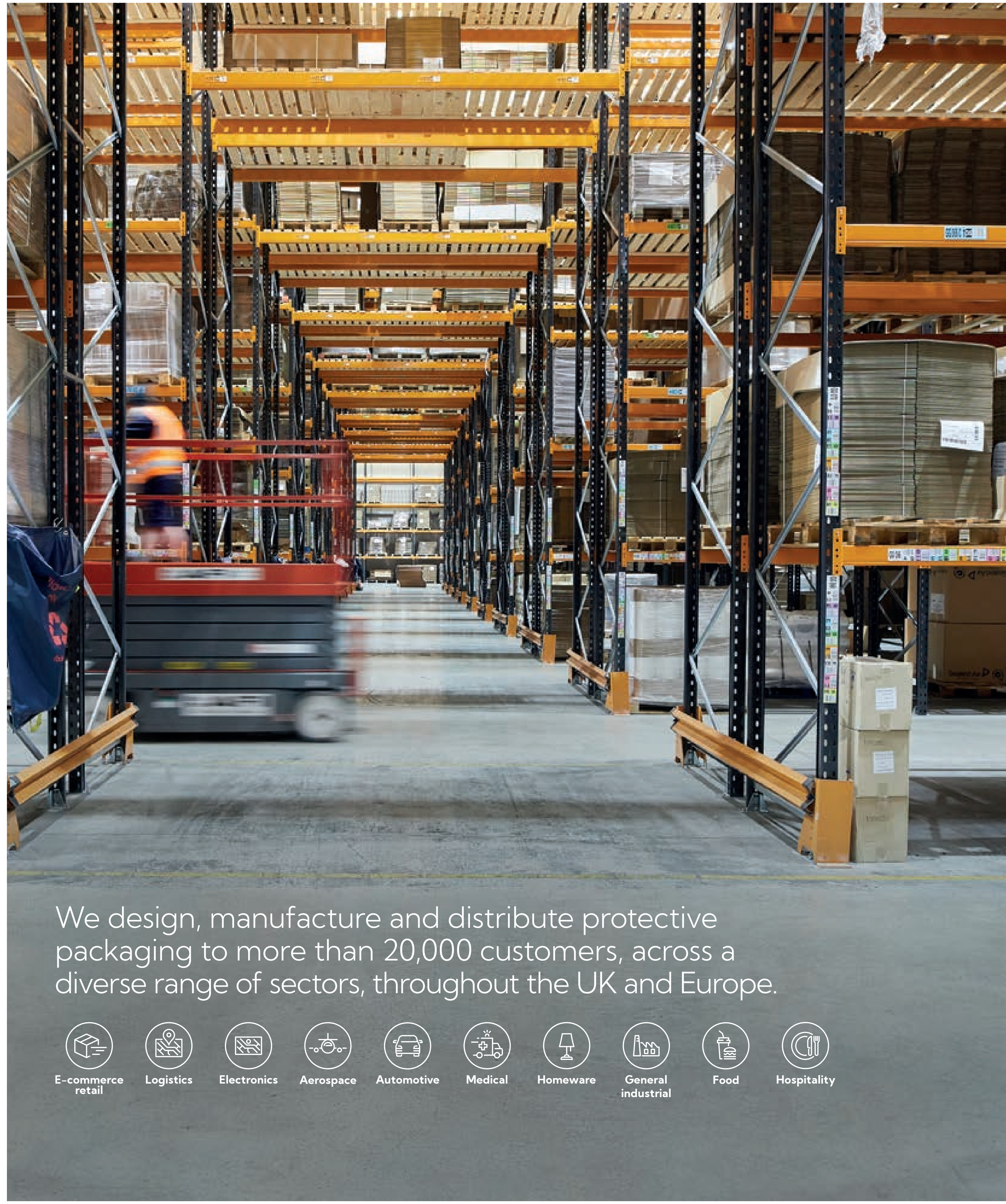
Head Office

Macfarlane Group PLC
First Floor
3 Park Gardens
Glasgow G3 7YE
t. 0141 333 9666
e. investorinfo@macfarlanegroup.com
www.macfarlanegroup.com

Macfarlane Group PLC Annual Report and Accounts 2023

MACFARLANE GROUP

Annual Report and Accounts 2023

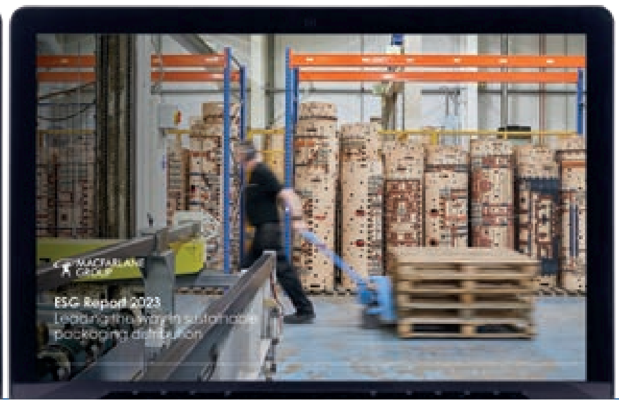


We design, manufacture and distribute protective packaging to more than 20,000 customers, across a diverse range of sectors, throughout the UK and Europe.

E-commerce retail | Logistics | Electronics | Aerospace | Automotive | Medical | Homeware | General industrial | Food | Hospitality

Contents

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



2023 Group performance at a glance

Revenue[1]

£280.7m

2022 **£290.4m**

2021 **£264.5m**

Adjusted operating profit[1,2]
(% of revenue)

9.8%

2022 **8.6%**

2021 **8.8%**

Adjusted profit before tax[1,2]

£25.8m

2022 **£23.5m**

2021 **£22.0m**

Gross margin[1]
(% of revenue)

37.6%

2022 **33.8%**

2021 **33.8%**

Operating profit[1]
(% of revenue)

7.9%

2022 **7.4%**

2021 **7.6%**

Profit before tax[1]

£20.3m

2022 **£19.9m**

2021 **£18.7m**

Diluted earnings per share[1]

9.34p

2022 **9.84p**

2021 **8.62p**

Dividend per share

3.59p

2022 **3.42p**

2021 **3.20p**

Carbon intensity
(tCO_2e per £m of revenue – market based)

18.1

2022 **19.0**

2021 **21.4**

GHG emissions
(market based)

5,083 tCO_2e

2022 **5,504 tCO_2e**

2021 **6,121 tCO_2e**

Accident Frequency Rate
('AFR')

0.22

2022 **0.23**

2021 **0.28**

1 From continuous operations.
2 See page 90 for reconciliation of alternative profit measures (before amortisation and deferred contingent consideration adjustments) to statutory measures.

Chair's statement

Aleen Gulvanessian

I am pleased to report that, against a backdrop of challenging market conditions, Macfarlane Group PLC[1] has once again demonstrated the resilience of its business model and achieved another year of profit growth in 2023. In addition, we have made good progress against our ESG objectives.

Trading

Group profit before tax in 2023 was ahead of the previous year. This profit growth has been achieved through the completion of three high quality acquisitions, effective management of input prices, good progress in Europe and stronger new business momentum which has offset weak customer demand in the UK and Ireland, sales price deflation and inflation in operating costs.

We funded £16.6m (2022: £11.9m) of acquisition and capital investment activity through our existing bank facilities due to the Group's continued strong operating cash flows. Net bank funds at 31 December 2023 were £0.5m.

The pension scheme remains in surplus and, following conclusion of the latest triennial valuation, Company contributions have been reduced to £nil.

This robust performance has been achieved through the continued commitment and dedication of all our Macfarlane colleagues and I thank them for their efforts.

Environment, Social and Governance ('ESG')

Our updated ESG Strategy focuses on: reducing the environmental impact of our operations; guiding and supporting our customers to achieve their sustainability objectives; caring for our colleagues; and investing in and engaging with our communities.

In 2023, the Group made progress on our commitment to reducing the Group's impact on the environment through: further electrification of our delivery fleet; extending the use of renewable energy; increasing the support we offer to our customers, including on sustainable packaging, through the opening of our second Innovation Lab; and improving our portfolio of sustainable packaging products.

Board changes

Bob McLellan, Senior Independent Director, retired from the Board at the end of December 2023 and the Board would like to thank Bob for his invaluable contribution over the past 10 years. The recruitment process for a Non-Executive Director has commenced and an announcement will be made in due course when a suitable candidate has been appointed.

James Baird, Audit Committee Chair, has been appointed Senior Independent Director.

Proposed dividend

The Board proposes a final dividend of 2.65 pence per share, amounting to a full year dividend of 3.59 pence per share (2022: 3.42 pence per share), an increase of 5%. Subject to the approval of shareholders at the Annual General Meeting on Tuesday 7 May 2024 the final dividend will be paid on Thursday 30 May 2024 to those shareholders on the register at Friday 10 May 2024 (ex dividend date 9 May 2024).

Outlook

We expect the year ahead to remain challenging due to uncertainty over customer demand. However, we are confident that we will continue to make progress in 2024 through strong new business momentum, a well-developed pipeline of potential acquisitions, the continued effective management of input prices and operational efficiencies.

Aleen Gulvanessian, Chair

29 February 2024

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

Key financial highlights 2023

The key financial highlights of Macfarlane Group 2023 are set out below:

- Group revenue reduced by 3% versus 2022 to £280.7m.
- Adjusted Group profit before tax grew 10% from £23.5m to £25.8m.
- Group profit before tax at £20.3m increased by 2% after charging £1.5m for deferred contingent consideration related to the acquisition of PackMann Gesellschaft fur Verpackungen und Dienstleistungen mbH ('PackMann'), which delivered a stronger operating performance than previously anticipated.
- Basic and diluted earnings per share were 9.44p per share (2022: 9.89p per share) and 9.34p per share (2022: 9.78p per share) respectively largely due the higher tax rate of 23.5% in 2023 (2022: 19.0%).

Packaging Distribution

Packaging Distribution revenue decreased by 6% to £244.9m (2022: £259.7m).

Weak demand from customers in the UK and Ireland and sales price deflation were partially offset by a stronger new business performance, good sales momentum in Europe and the benefits of the acquisitions of PackMann in May 2022 and Gottlieb Packaging Materials Limited ('Gottlieb') in April 2023, which are both performing well.

Gross margins increased to 35.7% (2022: 32.1%) reflecting effective management of input price changes which has offset inflationary increases in some operating costs.

Adjusted operating profit increased by 6% to £21.0m (2022: £19.9m) and operating profit decreased by 3% to £16.5m (2022: £17.1m), after charging £1.5m for deferred contingent consideration adjustments.

Manufacturing Operations

Manufacturing Operations delivered revenue growth of 16% to £35.8m (2022: £30.8m).

A.E. Sutton Limited ('Suttons'), acquired in February 2023, and B&D 2010 Group Limited ('B&D Group'), acquired at the end of September 2023, made strong contributions offsetting the slower demand in certain industrial markets.

Adjusted operating profit increased by 27% to £6.6m (2022: £5.2m) and operating profit increased by 26% to £5.6m (2022: £4.4m).

Group

Net cash inflow from operating activities of £33.5m (2022: £18.0m) reflects strong working capital management.

Net bank funds were £0.5m on 31 December 2023, following a net cash inflow of £4.0m in the year, even after £16.6m (2022: £11.9m) of investment in acquisitions and capital expenditure.

The Group is operating well within its bank facility of £35.0m and relevant covenants which run until 31 December 2025.

Pension Scheme surplus of £9.9m at 31 December 2023 (31 December 2022: £10.2m). Following conclusion of the 2023 triennial valuation nil contributions are required from 1 January 2024 forward.

Board proposes a final dividend of 2.65p per share (2022: 2.52p per share) payable on 30 May 2024, taking the total dividend for 2023 to 3.59p per share (2022: 3.42p per share) up 5% on 2022.

Group performance

	2023 £000	2022 £000	Increase/ (decrease) %
Statutory measures			
Revenue	**280,714**	290,431	**(3%)**
Gross profit	**105,681**	98,057	**8%**
Operating profit	**22,068**	21,496	**3%**
Profit before tax	**20,280**	19,934	**2%**
Profit for the year	**14,974**	15,637	**(4%)**
Interim and proposed final dividend (pence)	**3.59p**	3.42p	**5%**
Basic earnings per share (pence)	**9.44p**	9.89p	**(5%)**
Alternative performance measures[1]			
Adjusted operating profit	**27,637**	25,073	**10%**
Adjusted profit before tax	**25,849**	23,511	**10%**

1 See page 90 for reconciliation of Alternative Performance Measures (before charging amortisation and deferred contingent consideration adjustments) to Statutory Measures.

Our business model and strategic focus

How we create value from innovative packaging solutions

Our inputs

The key capabilities and resources we have which provide sustainable competitive advantage in our marketplace.

Financial

The funds available to us

Our consistent cash generation; the strength of our balance sheet and our financial discipline provide us with the capital to re-invest in the business and make quality acquisitions.

Operations

Infrastructure, capability and tools

We stay close to our customers through our local service centres, and have flexible manufacturing capability as well.

Value and quality

Organisational, knowledge-based intangibles

We use our packaging industry experience and skills to create sustainable packaging products and solutions for our customers.

Human

The skills and know-how of our employees

The commitment, expertise and diversity of our people, are the main drivers of our business and the key to our continued success.

Social and environmental

Our relationships with our stakeholders

We have a unique culture that is embedded throughout our business. We also actively engage with our key stakeholders.

→ Our business model

The fundamental activities of our business that utilise these resources and capabilities.

Our purpose

Ensuring our customers' products are effectively and sustainably protected in storage and transport.

What we do

We design, manufacture and distribute protective packaging across a diverse range of sectors, throughout the UK and Europe.

How we do it

- Adapting our flexible geographic footprint to stay close to our customers
- Adopting a 'stock and serve' approach
- > 1,000 global suppliers of protective packaging
- Effective in-house specialist manufacturing supply

> 1,000 global suppliers of protective packaging

39 sites

> 20,000 customers throughout the UK

→ Creating value

By employing our capabilities and resources, we create the following value for our stakeholders including our customers, people, shareholders, suppliers, employees and the communities we operate within.

Financial

14 years of consecutive profit growth, and consistent strong cash generation.

9.8%

adjusted operating profit[1]

- 37.6% gross margin (2022: 33.8%)
- Adjusted operating profit[1] up 10% to £27.6m
- £5.4m in taxes paid
- £5.5m in dividends paid to our shareholders
- £33.5m cash generated from operations

Operations

Leading UK protective packaging distributor, with 27 Regional Distribution Centres ('RDC').

European expansion

Strong organic growth from 'follow the customer' strategy and benefit of PackMann acquired in 2022.

Growing manufacturing capability

Acquisition of Suttons and B&D Group during 2023 and growing partnership with Packaging Distribution.

- Providing just-in-time service to our customers through 'stock and serve' distribution model
- Utilising manufacturing division as a flexible support to distribution
- Ensuring safety of customer products through protective packaging
- Expanding our European offering through the 'follow the customer' strategy and acquisitions

Value and quality

Our customers value our people, and their passion for our products.

Retention

Strong staff retention at management level.

- Enhancing career opportunities through training
- Improving knowledge through innovation
- Empowering customers through training and education
- NPS score of 60 (2022: 50)

Human

Our diversity is our strength, demonstrated by our lack of a gender pay gap. Our employees continue to deliver solutions and strong service to customers.

31%

Female proportion of senior leadership team

- Protecting the health of employees through Operational Integrity excellence and wellbeing programmes
- Promoting from within where possible, creating growth opportunities in the Company
- Enhanced Employee Assistance Programme ('EAP') including 24/7 support and focus on mental health

Social and environmental

We are fully committed to supporting local communities and the environment.

91%

of our sites are now FSC certified (FSC® C149407)

- Reduced our absolute CO_2 footprint by 8%
- Achieved Ecovadis Gold Rating
- Supporting local communities through > 750 volunteering hours
- 40% female representation on Board including Chair

This business model is underpinned by our five strategic focus areas:

Profitable organic growth

We are committed to growing organically through offering innovative and sustainable packaging solutions to customers in target markets.

Acquisition growth

We have an active pipeline of opportunities in both the UK and mainland Europe, and aim to execute around two per year.

Operational efficiency

We invest to make all our assets more productive – property, transport and people.

People development

Our people are our greatest asset, and we look to invest in our people at all levels to up-skill them to take on greater roles within the Company.

For more information on our people development see page 43.

Environmental excellence

We are committed to reducing our environmental footprint, and supporting the communities we operate in.

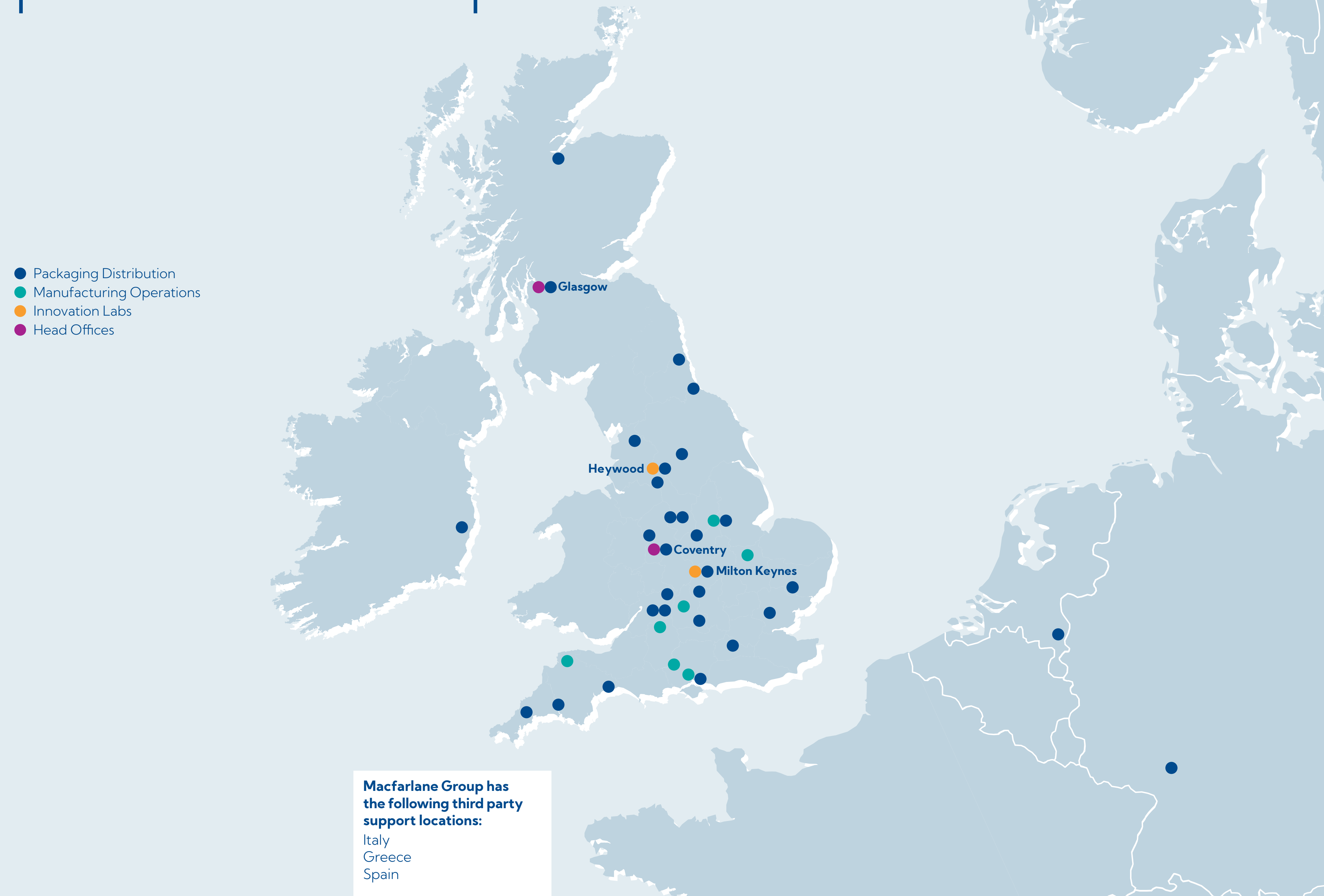
For more information on our environmental excellence see pages 34 to 42.

Note: In addition to the financial KPIs disclosed on this page and on page 1, the Group also uses the following non-financial KPIs: Net Promoter Score, GHG Emissions (tCO_2e), Carbon Intensity (tCO_2e per £m of revenue) and Accident Frequency Rate.

1 See page 90 for reconciliation of alternative profit measures (before amortisation and deferred contingent consideration adjustments) to statutory measures.

Our business at a glance

We are focused on customer needs with an established footprint in the UK and a growing presence in Europe.



Macfarlane Group has the following third party support locations:
Italy
Greece
Spain

Revenue by business segment (%)

2023

Packaging Distribution (£244.9m) **87%**

Manufacturing Operations (£35.8m) **13%**

2022

Packaging Distribution (£259.7m) **89%**

Manufacturing Operations (£30.8m) **11%**

Revenue by region (%)

2023

UK (£258.5m) **92%**

Europe (£22.2m) **8%**

2022

UK (£274.0m) **94%**

Europe (£16.4m) **6%**

Employees by business segment (%)

2023

Packaging Distribution (777) **72%**

Manufacturing Operations (306) **28%**

2022

Packaging Distribution (768) **77%**

Manufacturing Operations (234) **23%**

Employees by region (%)

2023

UK (1,042) **95%**

Europe (51) **5%**

2022

UK (961) **95%**

Europe (51) **5%**

Chief Executive's review

Group

Peter Atkinson

Group revenue reduced by 3% and we grew adjusted operating profit by 10% in 2023 with weak demand from customers in the UK and Ireland, sales price deflation, and inflation in operating costs being offset by an improved new business performance, effective management of changes in input prices, strong organic growth in Europe, and the execution of three good quality acquisitions.

Operating profit grew by 3% after a charge of £1.5m for deferred contingent consideration related to the acquisition of PackMann, which delivered a stronger operating performance than previously anticipated. The Group has also made progress against its ESG objectives which is set out on pages 31 to 48.

2024 outlook

The Group's businesses all have strong market positions with low customer concentration and differentiated product and service offerings, providing both value and sustainability to our customers. We have a flexible business model, and we effectively implement 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 revenue and managing input prices, increasing efficiencies, and bringing high quality acquisitions into the Group. There will continue to be challenges in 2024. However, our strategy and business model have proved to be resilient and despite these challenges we expect 2024 to be another year of growth for the Group.

Peter D. Atkinson, Chief Executive

29 February 2024

A resilient business

We have a resilient business model, as outlined in the areas below.

- **Breadth of customers and markets served**
- **Range of long established supplier relationships**
- **Focus and depth of expertise in protective packaging**
- **Performance driven culture**
- **Value added proposition**
- **Bespoke product and service range**

Key events of 2023

We opened our Northern Innovation Lab, in what has been a busy year.

Here are the key events.

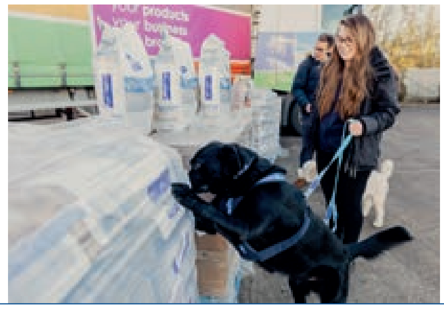
March
Acquisition of Suttons Packaging, enhancing our UK manufacturing capabilities.

April
Our first customers visited our new Innovation Lab in Heywood.

May
Acquisition of Gottlieb Packaging, enhancing our distribution offering in the North West.

August
We reach 1m pets fed, through our logistics support to Blue Cross.

September
Acquisition of B&D Group, enhancing our UK manufacturing capabilities in aerospace and defence.



December
Continued progress against sustainability objectives, including obtaining Ecovadis Gold status, first full year of 16T electric truck and solar panels roll-out.

Group performance

	Revenue 2023 £000	Adjusted operating profit[1] 2023 £000	Operating profit 2023 £000	Revenue 2022 £000	Adjusted operating profit[1] 2022 £000	Operating profit 2022 £000
Segment						
Packaging Distribution	**244,938**	**21,044**	**16,511**	259,651	19,868	17,094
Manufacturing Operations	**35,776**	**6,593**	**5,557**	30,780	5,205	4,402
Group total	**280,714**	**27,637**	**22,068**	290,431	25,073	21,496
% of revenue		**9.8%**	**7.9%**		8.6%	7.4%

1 See page 90 for reconciliation of Alternative Performance Measures (before charging amortisation and deferred contingent consideration adjustments) to Statutory Measures.

We have a flexible business model and we effectively implement our strategic plan, which is reflected in consistent profit and cash generation over a sustained period.

Chief Executive's review (cont)

Macfarlane Group's trading activities comprise Packaging Distribution and Manufacturing Operations.

Packaging Distribution

Revenue

£244.9m

2022 **£259.7m**

2021 **£239.5m**

Operating profit

£16.5m

2022 **£17.1m**

2021 **£17.1m**

Return on sales

6.7%

2022 **6.6%**

2021 **7.1%**

Macfarlane's Packaging Distribution business is the UK's leading specialist distributor of protective packaging materials, with a growing presence in Europe. Macfarlane operates a stock and serve supply model in the UK, Ireland, the Netherlands, and Germany from 27 Regional Distribution Centres ('RDCs') and three 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 and 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 offering and through the recruitment and retention of high-quality staff with good local market knowledge. On a national and international basis, Macfarlane has market focus, expertise and a breadth of product and service knowledge, all of which enable 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'[1] sales approach we reduce our customers' 'Total Cost of Packaging', improving their sustainability performance, and reduce their carbon footprint. This is achieved through supplying effective packaging solutions, optimising warehousing and transportation, reducing damages and returns, and improving packaging efficiency.

2023 trading

The main features of Packaging Distribution's performance in 2023 were:

- Decrease in revenue of 6% versus 2022 resulting from:
  - Some weakness in demand from customers in the UK and Ireland due to the cost-of-living impact;
  - More normalised e-commerce revenue post-Covid;
  - Sales price deflation as experienced across the industry;
  - Strong organic growth in Europe through the 'Follow the Customer' strategy; and
  - Revenue growth from the acquisitions of PackMann in May 2022 and Gottlieb in April 2023.
- New business increased by 24% versus 2022 with a positive impact from the opening of the new Northern Innovation Lab.
- Effective management of input price changes has enabled us to improve gross margins to 35.7% (2022: 32.1%).

New business increased by 24% versus 2022 with a positive impact from the opening of the new Northern Innovation Lab.

- Operating costs increased by 4%, particularly reflecting inflation in energy and labour costs and represented 27.1% of revenue (2022: 24.5%).
- Adjusted operating profit increased by 6% versus 2022 and as a percentage of revenue has improved to 8.6% (2022: 7.7%).
- Operating profit has reduced by 3% due to a charge of £1.5m for deferred contingent consideration related to the acquisition of PackMann, which has delivered a stronger operating performance than previously anticipated.

Future

Our plans for 2024 are focused on growing revenue and improving profitability through the following actions:

- Accelerate new business momentum through effective use of our leading sales tools and processes – 'Packaging Optimiser'[2], Significant Six and our Innovation Labs.
- Accelerate the progress we have made in Europe through our 'Follow the Customer' programme and the PackMann acquisition.
- Execute our second major site consolidation in the East Midlands.
- Supplement organic growth through progressing further high-quality acquisitions in the UK and Europe.
- Support our customers to reduce their carbon footprint through offering more sustainable packaging solutions.
- Continue to effectively manage input price changes.
- Strengthen our key supplier relationships.
- Develop both sales and cost synergies through the relationship with our Manufacturing Operations.
- Achieve benefits from our information technology investments in Microsoft Dynamics, and Warehouse Management.
- Introduce improvements to our web-based solutions to provide customers with more effective online access to our full range of products and services.
- Reduce operating costs through efficiency programmes in sales, logistics and administration.
- Maintain our focus on working capital management to facilitate future investment and manage effectively the ongoing bad debt risk within the current economic environment.

1 'Significant Six' represents the six key costs in a customers' packing process being transport, warehousing, administration, damages and returns, productivity and customer experience.

2 Packaging Optimiser is a Macfarlane developed software tool that measures the financial and carbon benefits of the Significant Six selling approach.

Packaging Distribution performance

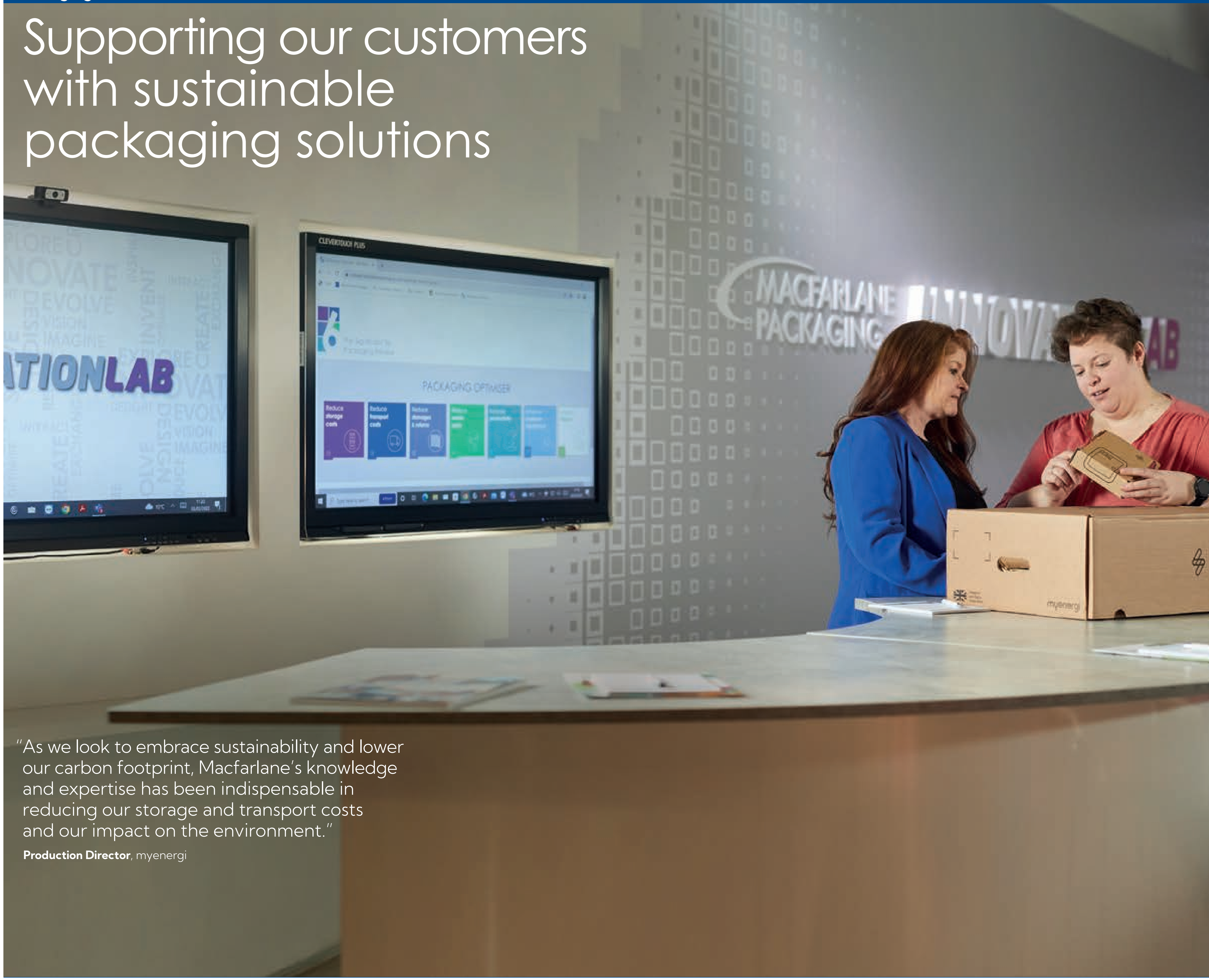
	2023 £000	2022 £000	2023 change
Revenue	**244,938**	259,651	**(6%)**
Cost of sales	**157,458**	176,193	**(11%)**
Gross margin	**87,480**	83,458	**5%**
Operating expenses	**66,436**	63,590	**4%**
Adjusted operating profit*	**21,044**	19,868	**6%**
Amortisation	**2,983**	2,774	
Deferred contingent consideration adjustment	**1,550**	–	
Operating profit	**16,511**	17,094	**(3%)**

* See page 90 for reconciliation of Alternative Performance Measures (before charging amortisation and deferred contingent consideration adjustments) to Statutory Measures.

Chief Executive's review (cont)

Packaging Distribution (cont)

Supporting our customers with sustainable packaging solutions



"As we look to embrace sustainability and lower our carbon footprint, Macfarlane's knowledge and expertise has been indispensable in reducing our storage and transport costs and our impact on the environment."

Production Director, myenergi

A sustainable packaging partnership

myenergi supply homes and businesses globally with renewable energy products and smart devices.

With their business fast outgrowing existing premises and the imminent launch of products into Europe, Macfarlane were an excellent fit as a packaging partner, with stock and drip delivery and an existing European network.

Multi-faceted packaging solutions

myenergi required packaging re-engineering to improve product presentation, sustainability, operational cost, and productivity and to meet sharp increases in their customer orders. Our solution was an internal box fitment, which was not only quicker to pack, but could be standardised across their range of boxes too. This delivered a faster, simpler packing process and increased throughput by 38%. We also reduced the overall amount of packaging material and printing ink used, to improve pack sustainability.

We are now switching their plastic tape to a custom branded paper version, further improving pack sustainability and recyclability and equivalent to 180kg saving of CO_2e.

Chief Executive's review (cont)

Manufacturing Operations

Revenue

£35.8m

2022 **£30.8m**

2021 **£25.0m**

Operating profit

£5.6m

2022 **£4.4m**

2021 **£3.0m**

Return on sales

15.5%

2022 **14.3%**

2021 **12.0%**

Manufacturing Operations comprises our Macfarlane Packaging Design and Manufacture business, GWP, acquired in February 2021, Suttons acquired in February 2023, and B&D Group acquired in September 2023.

Manufacturing Operations designs, manufactures, assembles, and distributes bespoke protective 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 six manufacturing sites, in Grantham, Westbury, Swindon, Salisbury, Chatteris and Southampton, 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.

2023 trading

Good growth in adjusted operating profit of 27% and operating profit of 26% in Manufacturing Operations has been achieved, despite slowing demand in certain industrial sectors and sales price deflation as experienced across the industry.

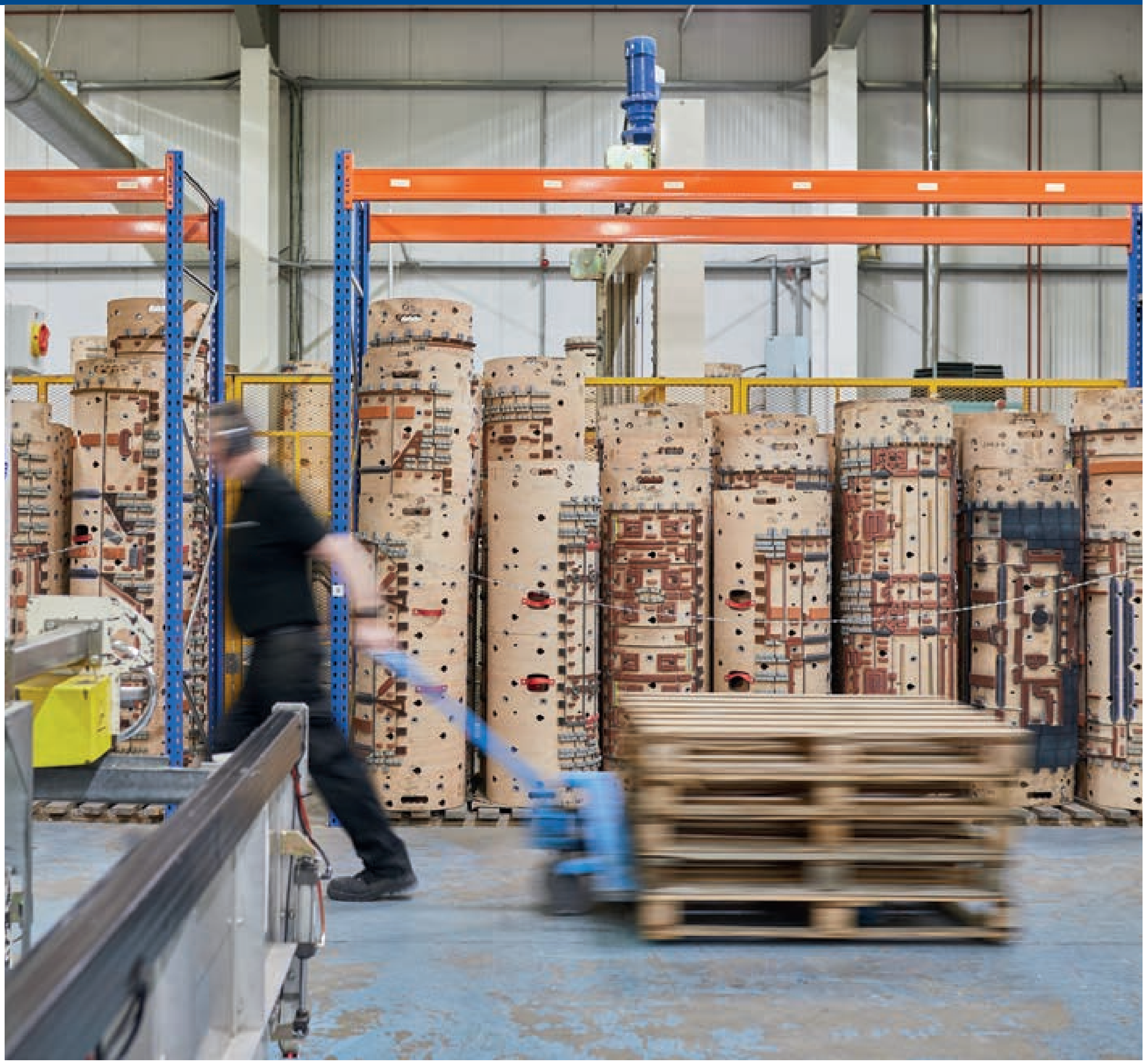
The main features of the performance of Manufacturing Operations in 2023 were:

- A strong contribution from the acquisitions of Suttons in February 2023 and B&D Group in September 2023.
- New business increased by 11% in 2023.
- Some weakness in demand from existing customers.
- Effective management of input pricing to offset increasing operating expenses, particularly energy and labour.
- GWP developing as an in-house supplier to Macfarlane Packaging Distribution.

Future

Priorities for Manufacturing Operations in 2024 are to:

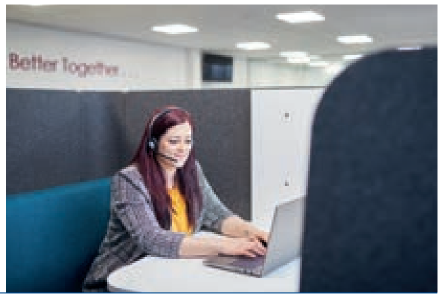
- Increase momentum of new business growth in target sectors, e.g. medical, aerospace and defence.
- Prioritise new sales activity in our higher added-value bespoke composite pack product range.
- Work with our customers to effectively manage material price changes.
- Continue to strengthen the relationship with our Packaging Distribution businesses to create both sales and cost synergies.
- Achieve both sales and cost synergies through closer working with the recently acquired businesses – Suttons and B&D Group.
- Supplement organic growth through progressing further high-quality acquisitions in the UK.



Manufacturing Operations performance

	2023 £000	2022 £000	2023 change
Revenue	**40,929**	35,045	**17%**
Inter-segment revenue	**5,153**	4,265	**21%**
External revenue	**35,776**	30,780	**16%**
Cost of sales	**17,575**	16,181	**9%**
Gross margin	**18,201**	14,599	**25%**
Operating expenses	**11,608**	9,394	**24%**
Adjusted operating profit*	**6,593**	5,205	**27%**
Amortisation	**1,051**	803	
Deferred contingent consideration adjustment	**(15)**	–	
Operating profit	**5,557**	4,402	**26%**

* See page 90 for reconciliation of Alternative Performance Measures (before charging amortisation and deferred contingent consideration adjustments) to Statutory Measures.



Chief Executive's review (cont)

Manufacturing Operations (cont)

Delivering an enhanced offer to our customers through acquisition

"The Astroscale project will be the world's first commercial removal of a client's inactive spacecraft and has the ability to remove multiple inactive spacecraft one at a time, thus making the sector more sustainable."

David Frame, Group MD, B&D Group

Developing new markets, customers and solutions

Macfarlane made three acquisitions in the year, all of which are positively contributing to the Group's performance.

One of these, B&D Group Ltd, has been a trusted partner to Astroscale for several years and had previously designed and manufactured a DELTA style container for the earlier qualification space model.

A sustainable solution for space debris

Astroscale is a private orbital debris removal company headquartered in Japan with international presences in the USA, France, Israel and recently a new facility in the UK.

The company is developing satellite end-of-life and active debris removal services to mitigate the growing and hazardous build-up of debris in space.

The latest contract was for the supply of a fully fabricated container suitable for the safe transportation of the mission payload both within the UK and internationally.

Following an initial contract in 2022 B&D received a follow on contract in 2023 for the design and manufacture of a custom designed fully fabricated aluminium satellite container for Astroscale's ELSA-M project. This was successfully accepted and delivered in Q4/2023 ahead of anticipated satellite launch in 2024.

Finance review

Ivor Gray

Trading review

The Group saw a reduction in revenue of 3% during 2023, driven by weakness in demand from existing customers in Packaging Distribution (9%) and Manufacturing Operations (3%) offset by a strong contribution from the acquisitions made in 2022 and 2023. Group revenue was £280.7m, a decrease of £9.7m from 2022. Profit before tax for 2023 increased to £20.3m (2022: £19.9m). This was after charging £1.5m for deferred contingent consideration related to the improving performance of the PackMann business acquired in 2022. Adjusted profit before tax[1] increased by 10% to £25.8m (2022: £23.5m).

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 revenue for gross margin, payroll and related employment costs, property costs, other overheads and operating profit. The resultant operating profit by location is also compared to the original budget and prior year performance.

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

Taxation

The tax charge for 2023 was £5.3m, a rate of 26.2%, above the prevailing rate of 23.5% mainly due to the share option costs, acquisition related costs not being deductible for tax purposes and deferred tax being applied at the long-term corporation tax rate of 25%. This compared with a tax charge of £4.2m on the 2022 profit before tax, a rate of 21.2%.

The Group has no uncertain tax treatments with HMRC in the UK.

Earnings per share

Basic and diluted earnings per share amounted to 9.44p (2022: 9.89p) and 9.34p (2022: 9.78p) respectively, broadly reflective of the movement in profitability. The calculations take account of the dilution caused by the issue of LTIP awards and deferred bonus payable in shares.

Dividends

A dividend of 0.94p per share was paid on 12 October 2023. A further dividend of 2.65p per share is subject to approval by shareholders at the AGM in May 2024 and is not included as a liability in these financial statements.

Dividend cover is 2.6 times (2022: 2.9 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, fund acquisitions and meet capital expenditure requirements.

The facility accommodates increased working capital requirements from 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.

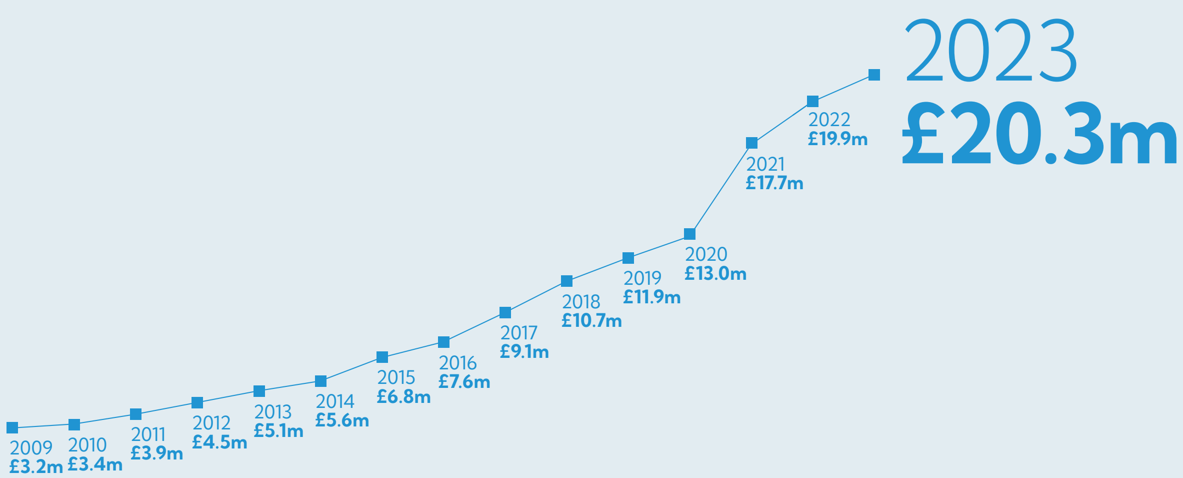
Cash flow and net bank debt

The Group's debt facility with Bank of Scotland PLC, a subsidiary of Lloyds Banking Group PLC, comprises a committed borrowing facility of up to £35.0m, an increase of £5.0m from 31 December 2022, secured over part of Macfarlane Group's trade receivables which extends 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 2023 and 2024 to date.

Group net bank funds was £0.5m at 31 December 2023, a cash inflow of £4.0m from 2022 as set out in note 21. 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 £14.5m on acquisitions in 2023 (2022: £8.7m) and £2.2m on capital expenditure in 2023 (2022: £3.3m).

We will continue to invest where there are needs or opportunities to meet future growth plans. The Group will strive to ensure that in 2024, cash generation from operations is broadly in line with operating profit. The Group will remain prudent in its assessment of the likely returns from capital expenditure and potential acquisitions.

Profit before tax (£m) from total operations



Dividend per share

3.59p

2022 **3.42p**

2021 **3.20p**

Diluted earnings per share[2]

9.34p

2022 **9.84p**

2021 **8.62p**

Acquisitions in 2023

On 3 March 2023, the Group's subsidiary Macfarlane Group UK Limited ('MGUK') acquired 100% of A.E. Sutton Limited ('Suttons'), for a total potential consideration of £13.7m and inherited net cash/bank balances of £5.3m. Potential contingent consideration of £2.5m is payable in the second quarters of 2024 and 2025, subject to certain trading targets being met in the two twelve-month periods ending on 29 February 2024 and 28 February 2025 respectively.

On 28 April 2023, MGUK acquired 100% of A & G Holdings Limited, the parent company of Gottlieb Packaging Materials Limited ('Gottlieb'), for a total potential consideration of £4.3m and inherited net cash/bank balances of £0.9m. Potential contingent consideration of £0.8m is payable in the second quarters of 2024 and 2025, subject to certain trading targets being met in the two twelve-month periods ending on 30 April 2024 and 2025 respectively.

On 29 September 2023, MGUK acquired 100% of B&D 2010 Group Limited ('B&D Group'), for a total potential consideration of £5.4m and inherited net cash/bank balances of £1.8m. Potential contingent consideration of £0.55m is payable in the fourth quarter of 2024, subject to certain trading targets being met in the twelve-month period ending on 30 September 2024.

We expect to pay the full deferred contingent consideration on the Gottlieb and B&D Group acquisitions which is supported by the strong trading performance post acquisition. We expect to pay 50% of the full deferred contingent consideration on the Suttons acquisition due to an anticipated reduction in spend from one of their key customers.

Acquisitions in prior years

Following a strong trading performance from GWP Holdings Limited in their second-year post acquisition a contingent consideration payment of £2.1m was made in 2023, after holding back £0.8m which is subject to conclusion of an outstanding warranty claim.

Following a strong trading performance from Carters Packaging (Cornwall) Limited in their second-year post acquisition a contingent consideration payment of £0.8m was made in 2023.

Both payments were in line with the amounts recognised as deferred contingent consideration at 31 December 2022.

2023 represents the Group's fourteenth consecutive year of growth in its profit before tax.

1 See page 90 for reconciliation of Alternative Performance Measures to Statutory Measures.
2 From continuous operations.

Finance review (cont)

After a reassessment of the value of deferred contingent consideration related to the acquisition of PackMann which was estimated at £nil in 2022, a charge of £1.5m has been made in 2023 and a corresponding liability recognised at 31 December 2023. This reflects an improvement in the financial performance of PackMann during 2023 which was not foreseen at the time of the acquisition and the resultant deferred contingent consideration is now estimated to be payable in 2024 for the two years ending 31 May 2024.

Market capitalisation and share price movements

The number of shares in issue at 31 December 2023 was 158,952,000, an increase of 615,000 from 31 December 2022. On 30 August 2023, the Company issued 615,000 ordinary shares of 25p to settle 2020 share awards under the Company's 2016 Performance Share Plan.

At the year-end the Company's market capitalisation was £186.0 million, compared with £164.7m last year. The share price at 31 December 2023 was 117.00p, compared with 104.00p at 31 December 2022. The range of transaction prices for Macfarlane Group shares during 2023 was 98.38p to 119.00p for each ordinary share of 25p.

Following the triennial actuarial valuation of the scheme at 1 May 2023, the Group has no requirement to continue to pay further contributions into the scheme.

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 contingent 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 2023 are set out in note 14 to the financial statements.

Pension schemes

The Group's pension scheme surplus at 31 December 2023 was £9.9m (2022: £10.2m). This is sensitive to movements in bond yields, inflation, longevity assumptions and investment returns.

The impact of these sensitivities is set out in note 23 to the financial statements. 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 conclusion of the triennial actuarial valuation effective at 1 May 2023 it has been agreed with the trustees that the Group's contributions until the next triennial valuation will be £nil.

The next triennial actuarial valuation will be carried out at 1 May 2026.

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 Chair's Statement and the Strategic Report on pages 2 to 56. The Directors have carried out a detailed scenario analysis over three years to 31 December 2026 as set out in the Viability Statement on page 21.

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
29 February 2024

Cash generated from operations

£33.5m

2022 **£18.0m**

2021 **£23.8m**

Pension scheme surplus

£9.9m

2022 **£10.2m**

2021 **£8.3m**

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 26 to 30. 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 (starting from 1 January 2024).

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 £35m committed facility, an increase of £5m during 2023, with Bank of Scotland PLC, which is available until December 2025. The Group has performed well during 2023, despite the ongoing 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. Whilst the current facilities are committed until December 2025 we have assumed the Group will be able to negotiate a new facility or extend the existing facility on terms similar to those currently in place beyond this time.

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 10% 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 forecasts 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 revenue 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 revenue reductions of c.22% per annum between 2024 and 2026, 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.26% reduction in revenue in 2024 compared to 2023 could lead to a breach of covenants in the period under review. However, in this scenario, management would also be able to take significant mitigating actions to reduce its costs, conserve cash and prevent a breach in financial covenants.

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.

Stakeholder engagement s172 statement

Section 172

The Board of Macfarlane Group PLC, in good faith, promotes the success of the Group for the benefit of its members as a whole, having regard to:

The likely consequences of any decision in the long term

- Our business model: pages 4 and 5
- Our strategy: pages 4 and 5
- Task Force on Climate Related Disclosures ('TCFD') report: pages 49 to 55

The interests of the Group's employees

- Stakeholder engagement: page 23
- Diversity, equity and inclusion: page 44
- Environment, Social and Governance ('ESG') report: pages 31 to 48

The need to foster the Group's business relationships with suppliers, customers and others

- Stakeholder engagement: pages 23 and 24
- ESG report: pages 31 to 48

- Supplier Code of Conduct available at www.macfarlanegroup.com
- Modern Slavery Statement available at www.macfarlanegroup.com

The impact of the Group's operations on the community and the environment

- Stakeholder engagement: page 24
- ESG report: pages 31 to 48
- TCFD report: pages 49 to 55

The desire of the Group to maintain a reputation for high standards of business conduct

- Governance report: pages 57 to 76
- Independent auditor's report: pages 77 to 83
- Whistle blowing: page 48
- Non-financial and sustainability information statement: page 56

The need to act fairly as between members of the Company

- Stakeholder engagement: page 23

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 a 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.

The Board view the key stakeholder groups as our Shareholders, our Customers, our Employees, our Pension Members, our Suppliers, and our Community and the Environment. Engagement with stakeholders is primarily carried out at an operational level and reported to the Board, with direct engagement by the Board taking place where relevant.

We set out on the pages 23 and 24 why we engage with each stakeholder, how we engage, the issues our stakeholders are experiencing and the outcomes of engagement.

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 set out the key Board decisions taken in 2023 and the Stakeholder Groups impacted by those decisions on page 25.

Shareholders

The Group has a wide range of prospective and existing shareholders, from large institutions and private wealth funds to smaller retail investors.

Why we engage

Understanding the needs of shareholders ensures we can access funding, when required, to support the organic and acquisitive development of the Group and helps the Board decide on the best way to allocate capital.

How we engage

- Annual General Meeting.
- Investor Roadshows following Interim and Full Year results announcements.
- Investor days at our Innovation Labs in Heywood and Milton Keynes.
- 'Investor Meet Company' presentation of Interim results to provide access to retail investors.
- Adhoc meetings with existing and prospective shareholders as requested.
- Investor presentations and house broker reports accessible through the Group website www.macfarlanegroup.com.
- Meetings with major shareholders to discuss capital allocation priorities.

Stakeholder engagement issues

- Business performance with focus on revenue growth, operating margins and cash flows
- Progress on acquisitions
- Understanding the Group's strategy and resilience of the business model given the current economic uncertainties and inflationary environment
- Allocation of capital priorities
- Progress on the Group's Environment, Social and Governance ('ESG') agenda

Outcomes of engagement

Feedback to the Board through minutes of meetings and independently from the shareholders allows the Board to identify areas where there needs to be greater clarity and focus.

Based on the feedback, the Board has found shareholders supportive of the Group's progress on strategy, performance and ESG.

Some shareholders requested clarity on the Group's capital allocation policy. After seeking input from the Group's major shareholders the Board clarified its capital allocation priorities (see Key Board Decision on page 25).

Customers

The Group supplies over 20,000 customers with bespoke and standard protective packaging solutions across a wide range of industry sectors.

Why we engage

Understanding the varying and changing needs of our customers is critical to ensuring the Group continues to grow through retention of existing and winning new customers. In addition, the Group needs to ensure its Significant Six proposition evolves to continue to add value and reduce the carbon footprint of its customers.

How we engage

- Annual customer satisfaction surveys.
- Regular Net Promoter Score ('NPS') surveys.
- Communication through our websites and social media platforms.
- Board visit to the new Innovation Lab at Heywood to understand how the Significant Six sales proposition is bringing increased value and reduced carbon footprint to our customers.
- Presentations from senior management involved with customers at Board meetings covering key customer trends.
- An update provided to the Board by the Chief Executive on key customer issues and trends at every Board meeting.

Stakeholder engagement issues

- Reduce customers' total cost of packing operations
- Reduce customers' carbon footprint
- Respond to current and future regulatory changes
- Quality of product and service delivery

Outcomes of engagement

Engagement with our customers gives valuable feedback on where the Group needs to invest its resources, adjust its product portfolio or focus its proposition. As a result of this feedback the Group has opened up a new Innovation Lab in Heywood in 2023 to give more capacity and access to customers in the North of England and Scotland, employed specialists in automation and stretch film, provided advice/support on existing and pending regulation and made a decision to invest in a new software platform to bring a better online experience to our customers.

Employees

The Group employs over 1,000 staff across the United Kingdom, Ireland, the Netherlands and Germany.

Why we engage

To deliver the Group's strategy it is essential we attract, train, reward and retain the best talent. The Group is also fully committed to ensuring the health and wellbeing of our employees.

How we engage

- Annual Colleague Engagement Survey.
- The Chair of Remuneration Committee attends a working committee meeting reviewing annual pay awards.
- Board visits two operational sites per annum to engage with the local teams and hear their views on working within the Group.
- Local managers and regional Directors are invited to Board meetings to engage with the Board on issues affecting employees, including health & safety and wellbeing.
- Executive Directors hold regular communication meetings with teams across the Group to provide an update on key issues and discuss any concerns.
- The HR Director attends one Board meeting during the year to present the Colleague Engagement Survey and any other pertinent challenges facing our employees.
- The Board holds a formal discussion on succession planning once a year which reviews all key management positions, assessing internal readiness or external recruitment requirements.

Stakeholder engagement issues

- Cost of living
- Flexible working
- Health and wellbeing
- Succession planning

Outcomes of engagement

By engaging with our employees we were able to provide a cost of living increase in 2023 which supported our lowest paid employees (see Key Board Decision on page 25), improved benefits, enhanced our flexible working practices and provided wellbeing support where required to both employees and their families through the Group's Employee Assist Programme available 24/7, private counselling support and in-house qualified mental health first aiders.

Succession plans are in place for all senior management positions in the Group.

Stakeholder engagement s172 statement (cont)

Pension members

Over 500 former and current employees are members of the Company defined benefit scheme (Macfarlane Group PLC Pension & Life Assurance Scheme (1974).

Why we engage

To provide support to the scheme required by pension legislation and to ensure the pensions of our former and current employees, who are members of the scheme, are fully funded.

How we engage

- The Finance Director attends four trustee meetings per annum, at which an update on the Group's financial performance and position is provided. Feedback from each of these meetings is provided to the Board for consideration of any actions required in the interests of pension scheme members.
- The Finance Director works with the trustees and their advisers to ensure the pension scheme is funded in line with the requirements of triennial valuations, the latest of which was completed in February 2024.
- The Finance Director consults with the trustees on any matters that could be detrimental to the scheme.
- The Group is supporting the scheme on the actions required to prepare it for a buy-out should that option be available at an acceptable price.

Stakeholder engagement issues

- Ensuring the scheme is adequately funded to meet all members' pensions as they fall due
- Ongoing updates of the Group's financial performance and position
- Preparing the scheme for buy-out

Outcomes of engagement

The trustees are comforted by the strong financial performance and position of the Group.

The trustees and their advisers were consulted on changes to Group's banking facilities during 2023 (see Key Board Decision on page 25) to allow them to assess whether there was any detriment to the scheme. No mitigation action was required.

Following completion of the latest triennial valuation no further deficit contributions are required by the scheme due to its positive funding position.

Suppliers

The Group partners with over 1,000 suppliers to ensure we can provide a full range of over 20,000 bespoke and standard protective packaging solutions to our customers.

Why we engage

Suppliers are critical to the products and service we provide our customers including the design and development of new products, competitive pricing, service delivery and on-site support.

How we engage

- The Chief Executive has regular dialogue with the senior executives from all the Group's strategic suppliers during the year.
- An update is provided to the Board by the Chief Executive on key supplier issues and trends at every Board meeting.
- Presentations from senior management, responsible for procurement in the Group at Board meeting covering key supplier trends.
- Senior executives from strategic suppliers are invited to Board meetings to discuss future developments in the packaging industry.

Stakeholder engagement issues

- Reliability of supply
- Management of volatility on pricing
- Environment and social impact of the supply chain

Outcomes of engagement

The Group issued a Code of Conduct (available on at www.macfarlanegroup.com) to the majority of suppliers during 2023. This will be rolled out to all suppliers in 2024.

The Group has strengthened its supplier governance during the year to enhance the quality and consistency of assurance received on suppliers' operations.

Through good engagement and communications with our suppliers the Group has been able to effectively manage the impact of volatility in pricing over the last two years.

Community and the environment

The Group operates from 39 sites located throughout the United Kingdom and also in Ireland, the Netherlands and Germany, supporting local communities through employing local staff, buying from local suppliers and selling to local customers.

The Group also has a carbon footprint from its internal warehouse and distribution operations, its outsourced distribution partners and suppliers who are local, national and international.

Why we engage

We are committed to minimising the impact we have on the environment to secure the long-term future of the Group and we recognise that we have a social responsibility to engage with the communities we operate in.

How we engage

- The Board receives regular updates from the Head of Sustainability on progress against ESG targets.
- The Board considers and approves investments that support the Group's reduction in carbon emissions e.g investment in electric commercial vehicles and solar panels.
- The HR Director provides the Board updates on social initiatives being undertaken across the Group including:
  - Partnerships with national charities
  - Local volunteering initiatives
  - Apprenticeship programmes.

Stakeholder engagement issues

- Carbon footprint reduction, including Scope 3 emissions
- Supporting local community programmes
- Sourcing from local businesses
- Employing local talent

Outcomes of engagement

Head of Sustainability joined the Group in January 2023.

A new Sustainability Strategy was approved by the Board (see Key Board Decision on page 25) in 2023. See details of actions taken to support the Group ESG agenda on pages 31 to 48.

The Group has commenced a programme to map its Scope 3 emissions, which mainly encompasses the activities of our suppliers. This will be completed during 2024.

Details of the Group's social initiatives are provided within the ESG Report on pages 43 to 47.

Key Board decisions in 2023

The Board approved a graded increase in 2023 which ensured lower paid employees received an 8% increase and higher paid employees a 3% increase. The decision was taken to provide assistance to our employees who most needed support during the cost of living challenges in 2023.

Stakeholder impacted
Employees

Following a review of the Group's capital allocation policy the Board agreed that the Group should continue to prioritise the allocation of capital, after essential, non-discretionary spend, firstly to earnings enhancing capital investment and acquisitions, and secondly to paying dividends to shareholders in line with historic cover. Where the business has surplus beyond those investment priorities, cash share buybacks may be used to return capital to shareholders. To facilitate the possibility of share buybacks, should they be determined at a future date by the Board to be appropriate, the Board decided to seek approval from shareholders at the 2024 AGM to authorise the Group to buy its own shares. The Board further approved the purchase of shares through an EBT to satisfy vesting of LTIPs and deferred Executive Director bonuses from 2024 onwards.

Stakeholder impacted
Shareholders

The Board approved an increase to the Group's bank facility from £30m to £35m during 2023 with security provided over the assets of Macfarlane Group PLC and its trading subsidiaries Macfarlane Group UK Limited and GWP Limited. As part of the process of making this decision the Board consulted with the trustees and their advisers to ensure that members were not detrimentally affected by this decision.

Stakeholders impacted
Shareholders
Pension members

The Board approved the leasing of four additional electric vehicles during 2023 which are due for delivery in 2024 as part of the ongoing commitment to reduce its carbon footprint.

Stakeholders impacted
Customers
Community and the environment

In 2023, the Board approved the acquisitions of Suttons, Gottlieb and B&D Group as part of the Group's growth strategy. The Board concluded that the acquired businesses had a similar customer and business approach to Macfarlane and would be a good strategic fit, expanding the Group's Packaging Distribution presence in the North West England and significantly strengthening the Group's protective packaging manufacturing capabilities and are consistent with our strategic sustainability aspirations. As such, the Board concluded that all three acquisitions were in the interests of shareholders, suppliers, customers and employees of both the Group and the acquired businesses.

Stakeholders impacted
Shareholders
Employees
Customers
Suppliers

The Board approved a number of capital expenditure investments in the year, the main items being a water treatment plant at the GWP operation in Swindon to replace collection and treatment by a third party off-site at a cost of £0.1m, machinery at our manufacturing facility in Nottingham to increase capacity and improve efficiency at a cost of £0.2m and the installation of boards into racking at five sites to enhance the safety environment at a cost of £0.2m.

Stakeholders impacted
Shareholders
Employees
Community and the environment

The Board approved the Group's new online digital strategy with investment in a new software platform which will improve the experience for our customers buying over the web through improved navigation and access to the products they are searching for and enable the website to be easily configurable to respond to the changing requirements of search engine providers.

Stakeholders impacted
Shareholders
Customers

The Group's Head of Sustainability presented the new Sustainability Strategy to the Board which is set out in the ESG Report on pages 31 to 48. The Board endorsed the strategy with regular updates to be provided on progress against agreed targets and initiatives, including the measurement of Scope 3 emissions and setting of targets.

Stakeholders impacted
Shareholder
Employees
Customers
Suppliers
Community and the environment

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group and the factors mitigating these risks are detailed on pages 26 to 30. These risks are addressed within 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.

Risks are identified and assessed through a range of 'top down' and 'bottom up' analyses that are updated on a regular basis. This in turn provides the basis for making informed risk-based decisions regarding the scope and focus of assurance work, as described in the report of the Audit Committee on page 63. In addition to scheduled updates from Finance, Health & Safety, IT, Sales, Procurement and other business functions, the Board and Audit Committee may seek assurance work in other areas from time to time, either from internal sources or externally commissioned work.

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 2022 and 2023. If the risk is shown as the risk level has increased or decreased respectively during 2023 and is being addressed accordingly through mitigating actions by management.

We recognise the need to constantly review the risks and uncertainties faced by the Group and ensure that any emerging risks are being identified and actions being taken to mitigate. We have not added any new risks in 2023. However, we recognise that Artificial Intelligence ('AI') is an emerging technology that is likely to have an impact on the Group. At this stage we view AI as an opportunity for the Group to improve the efficiency and effectiveness of our operations. The Group is introducing AI, through its Customer Relationship system, to identify patterns in customer needs which will allow our customer service teams to respond more effectively with packaging solutions that the customer needs when they are required. We will keep AI under review to assess the likely risk and benefit to the Group going forward.

Risk governance framework

Strategic changes in the market

Risk description

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. changing customer priorities between online and physical buying) could limit the Group's ability to continue to grow revenues.

We monitor this through Net Promoter Score (see ESG Report page 39), an annual customer satisfaction survey (see ESG Report page 39) and interaction with customers at our Innovation Labs.

Mitigating factors

- 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 information technology, including its Customer Relationship Management and Warehouse Management systems, while also enhancing its service offering and range of products. These tools are intended to strengthen our business model by supporting customer service teams in managing the complex and changing needs of customers and to respond to the increasingly competitive and dynamic operating environment.
- 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. Maintaining close relationships with key suppliers in the protective packaging market enables us to understand and evaluate key trends and adapt our business model accordingly.

Change in risk level

- Group businesses have been impacted by inflation in operating costs and have continued to experience volatility in input prices across all product categories. These challenges are being managed effectively. The Group's improvement in adjusted operating profit margin demonstrates the effectiveness of the management's ability to manage these market dynamics.
- During 2023 the Group has experienced weaker demand from customers across most industry sectors. This is offset by organic growth in Europe, improvement in new business performance, strong cost control and effective management of changes in input prices.
- During 2024, the Group expects to continue realising the benefits of its investments in information technology tools, particularly through the continued roll-out and refinement of our Customer Relationship Management and Warehouse Management systems.

Impact of environmental changes

Risk description

The markets we operate in are changing, with:

- **customers increasingly aware of the environmental impact of their packaging;**
- **increasing environmental regulatory requirements for packaging suppliers, such as the Plastic Tax introduced from April 2022 and the introduction of the Extended Producer Responsibility ('EPR') requirements;**
- **increasing likelihood of disruption to the operations of the Group through extreme weather events such as flooding, storm damage and water stress, impacting the business directly and disrupting supply chains;**
- **investors looking to invest in companies that demonstrate strong environmental credentials; and**
- **UK Government's commitment to net zero carbon emissions by 2050 and the profound changes this will drive across the economy.**

If the Group is not proactive and transparent in how it is responding to this agenda, this could lead to a loss of employees, customers and investors. Additionally, there is a transition risk, i.e. that we do not progress our strategy at the right pace; or we take actions that prove to be incorrect as technology advances.

The key measure the Group monitors is Scope 1 and 2 CO_2 emissions. The Group is currently in the process of measuring its Scope 3 emissions and is aiming to report those during 2024.

Mitigating factors

- Sustainability considerations are central to the organisation's value proposition as a distributor, utilising our resource, expertise and business assets to support customers to use less packaging and more sustainable alternatives through our Significant Six selling proposition.
- A full-time Head of Sustainability joined us in January 2023. He chairs the Environment, Social and Governance ('ESG') committee consisting of senior managers from across the Group.
- The Group has committed to the development of a transition plan towards net-zero and, on an ongoing basis, reviews all relevant developments and available technologies to support that transition.
- A new sustainability strategy has been developed setting out the key priorities for the Group that are most relevant to the business and which will be key to mitigating both the transition and physical risks in this area (see ESG Report on pages 31 to 48).
- The ESG committee oversees progress against this strategy and the associated targets, addressing challenges proactively. The committee reports directly to the Board.

Regular reviews of our sustainability strategy are carried out at Board level to challenge performance against key milestones, as well as to ensure that priorities are aligned with stakeholder objectives. This is overseen via Key Performance Indicators and regular reporting from the Head of Sustainability to the Executive on progress against our priorities.

Change in risk level

The Group recognises the increased significance of our environmental obligations and has continued to make progress, including:

- Extending the introduction of fully electric trucks to our fleet to 9 in 2024 (2023: 5);
- Investment in solar panels at sites with high energy use. Solar panels were installed during 2023 at the Group's manufacturing site in Grantham with a target of installing solar panels at the Group's Swindon manufacturing site during 2024 subject to a viability study;
- Opening our Northern Innovation lab to significantly expand capacity to support customers in meeting their sustainability requirements;
- The Group's Head of Sustainability leading on the impact of environmental regulatory change, focusing on preparing the business for compliance with the UK's EPR regulations and the Group's capability to support customers;
- Ongoing actions to support our customers to reduce their CO_2 emissions, including using our 'Packaging Optimiser' tool; and
- Undertaking Scope 3 mapping to baseline our entire carbon footprint and to develop reduction targets aligned to a net zero pathway.

See the detailed ESG Report on pages 31 to 48.

Raw material prices

Risk description

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 the effectiveness of our price change programmes by monitoring gross margins by customer.

Mitigating factors

- The Group works closely with its supplier and customer base to effectively manage the scale and timing of price changes and any resultant impact on profit. Our IT systems monitor and measure effectiveness of 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, including switching to alternative products to minimise the impact of the Plastic Tax introduced in April 2022.
- The Group has a well-established supplier relationship management process which is subject to periodic management review and internal audit.

Change in risk level

- Input prices have continued to change throughout 2023 primarily due to volatility in timber, paper and polymer prices and the impact of rising fuel and energy costs. The business has managed these challenges robustly and gross margins have improved throughout 2023, reflecting the effort of our teams to mitigate these increases.
- Pricing during 2023 stabilised and, in the case of paper, reduced markedly. However, this remains uncertain due to the general economic landscape.
- We continue to work on educating our customers about Total Cost Management as the method to add value/reduce costs.

Principal risks and uncertainties (cont)

Acquisitions

Risk description

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.

This is monitored through regular reporting of acquisition prospects and post-acquisition performance by executive management, with reporting to the Board.

Mitigating factors

- 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, while only acquiring well-established quality businesses which will perform well in the Group.
- 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 9.

Change in risk level

- The Group has made 18 acquisitions since 2014, including three in 2023.
- The Group has a strong pipeline of potential protective packaging acquisition opportunities in both the UK and Northern Europe.
- European acquisitions are inherently higher risk due to cultural differences, challenges in realising operational synergies and, in some cases, less depth in local management expertise and support compared to previous UK-based acquisitions. However, there are also important strategic opportunities for the Group in terms of extending service coverage for existing and new customers as well as integration synergies.

Property

Risk description

The Group has a property portfolio comprising 1 owned site and 52 leased sites. This multi-site portfolio gives rise to risks in relation to ongoing lease costs, dilapidations, and fluctuations in value.

This risk is monitored on a regular basis and reported to the Board through internal reporting and input from external advisors.

Mitigating factors

- 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.

Change in risk level

- Our property consolidation strategy has continued during 2023. There is no outstanding work on finalising exit costs following the expiry of leases. There are known future exits from three existing operating sites. Provisions have been established to cover the anticipated exit costs (see note 20).
- The Group currently has no vacant or sub-let properties.

Cyber-security

Risk description

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.

This risk is monitored through an ongoing program of compliance and controls auditing with input from external advisors.

Mitigating factors

- 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.

Change in risk level

- Remote working practices are 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 continues 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.
- The Group continues to perform regular assessments of its cyber-security resilience and make changes to our defences.

Financial liquidity, debt covenants and interest rates

Risk description

The Group needs 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 £35m. This includes requirements to comply with specified covenants, with a breach potentially resulting in Group borrowings being subject to more onerous conditions.

Mitigating factors

- The Group's borrowing facility comprises a committed facility of £35m with Bank of Scotland PLC, which finances our trading requirements and supports controlled expansion, providing a medium-term funding platform for growth. The facility runs until 31 December 2025.
- 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.

Change in risk level

- The Group has proved to be strongly cash generative in 2023 and has operated well within its existing bank facilities throughout the year.
- Interest rates payable by the Group have increased from 5.25% at 31 December 2022 to 7.00% at 31 December 2023. Interest rates are expected to remain high for some time. The increases in rates, which are in line with the market, do not increase the risk of the Group being unable to obtain funds and the Group operates well within the specific covenant which requires the Group to generate EBITDA on a rolling twelve-month basis greater than 3 times interest cost.

Working capital

Risk description

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.

This risk is monitored through detailed reporting to local and executive management, which is reviewed in summary form by the Board.

Mitigating factors

- Credit risk is controlled by applying rigour to the management of trade receivables by Head of Credit Control and the credit control team and is subject to additional scrutiny from the Group Finance Director and Group Financial Controller in line with the Group's credit risk process.
- All aged debts are assessed using the Expected Credit Loss model, and appropriate provisions are made.
- Customers in sectors likely be significantly impacted by the current economic challenges, particularly those exposed to reduced consumer demand and significant increases in operating costs (e.g. energy, fuel etc) are closely monitored and, where necessary, actions taken to reduce exposure to potential bad debts or stock write-offs.
- Inventory levels and order patterns are regularly reviewed and risks arising from holding bespoke stocks are managed by obtaining order cover from customers.

Change in risk level

- Bad debt write-offs in 2023 have increased from 2022, albeit still at a relatively low level.
- The Expected Credit Loss allowance reflects the low level of historic bad debts in the Group (note 13).
- Aged stock over 6 months old has decreased in 2023 (note 12) primarily due to weaker demand across most of the sectors the Group serves. The Group is continually working to reduce stock over 6 months and has adequate provisioning to cover any potential stock obsolescence.
- The economic environment will remain challenging in 2024. Management will continue to take all appropriate steps to mitigate this risk and limit the need for additional provisions or write-offs.

Principal risks and uncertainties (cont)

Defined benefit pension scheme

Risk description

The Group's defined benefit pension scheme is sensitive to a number of key factors including volatility in equity and bond/gilt markets, 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.

This risk is monitored through regular input from external pension advisors, including six monthly IAS19 reviews and triennial actuarial valuations.

Mitigating factors

- 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 scheme invests in Liability Driven Investments ('LDI') which hedge the scheme against movements in the discount rate and inflation. These are leveraged instruments which require active investments and divestments to maintain the level of leverage.
- The scheme was closed to future accrual during 2022.

Change in risk level

- The IAS 19 valuation of the Group's defined benefit pension scheme as at 31 December 2023 estimated the scheme surplus to be £9.9m, compared to a surplus of £10.2m at 31 December 2022 (note 23).
- The triennial actuarial valuation at 1 May 2023 was completed in February 2024. Due to the positive funding position of the scheme, there is no requirement for the Group to make further deficit repair contributions.
- The Group is working with trustees to prepare the scheme for buy-out. This process is not expected to be completed during 2024.

Uncertain economic environment

Risk description

Given the range of prolonged geopolitical and economic uncertainties within the UK and other markets, there is an ongoing risk this will adversely affect our ability to deliver upon agreed strategic initiatives. We may also need to adapt our business quickly in order to limit the impact upon the Group's results, prospects and reputation.

This risk is monitored through regular review of trading forecasts and market conditions, considered at executive management and Board level.

Mitigating factors

- A twice yearly viability assessment and sensitivity analyses is performed by management.
- The Group's borrowing facility comprises a committed facility of £35m with Bank of Scotland 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 scope to curtail capital expenditure and acquisition investment to preserve cash, if required.
- In the event of a significant reduction in customer demand the Group would take rigorous actions to reduce operating costs and working capital investment.

Change in risk level

- The UK economy has experienced challenging economic conditions during 2023 and there is no expectation that the current low growth environment will improve significantly in 2024.
- As seen across many of the markets in which the Group operates, the Group has experienced a reduction in demand for its products in 2023 and has responded through control of operating costs, effective management of input prices and accelerating new business performance. The Group is prepared to continue to manage its cost base should demand remain challenging in 2024.
- The Group is experiencing rising operating costs particularly, energy, fuel and employee costs and increased interest rates. While the risk of further inflation remains, the year on year impact has been reducing and the impact on 2024 is expected to reduce.
- To mitigate this risk, executive management monitors monthly revenue and cost performance and market trends closely and has action plans to respond to any significant or prolonged trading pressures.

There are a number of other risks that we manage which are not considered key risks. These are mitigated in ways common to all businesses and not specific to Macfarlane Group.

Environment, Social and Governance ('ESG') report

Overview

Our performance at a glance

37% reduction in carbon emissions intensity since 2019	**89%** of electricity sourced from renewables[1] during	**4** onsite solar arrays in operation
11% driver efficiency improvement (MPG average 2023 vs 2022)	**0.22** Accident Frequency Rate[2]	**100+** customers supported in our Innovation Labs
60 customer Net Promotor Score	**750+** hours volunteering	**1/3** females in leadership positions
200+ deliveries made on behalf of our strategic charity partner	**0%** gender pay gap	

1 Based on information supplied by the Group's energy suppliers.
2 Reportable incidents per 100,000 staff hours worked.

Our commitment to sustainability

At Macfarlane Group we believe that a successful business should be built on responding to the needs of all our stakeholders, taking responsibility for the impact of our operations and doing all that we can to ensure sustainable success. Across the Group, we are committed to taking actions that will support us on the journey to a more sustainable future – adopting a leading role in our industry and responding to the broader transformational shifts that will be required.

Sustainability is core to our business. As the UK's largest protective packaging distributor, we are uniquely placed to support our customers in delivering against their sustainability goals; providing independent and expert advice that they can trust and solutions that deliver real environmental benefits.

I am pleased to report that 2023 marks a year of progress across many aspects of our Environmental, Social and Governance ('ESG') agenda: from further electrification of our fleet and investment in renewables through to broadening our strategic charity partnership with Blue Cross – the national animal welfare charity. During the year we have also significantly scaled up the support we offer to our customers to find more sustainable packaging solutions – opening our second Innovation Lab; investing in further specialist resources and extending our sustainable packaging portfolio.

At the same time, we have developed our new Sustainability Strategy, which is based around six strategic pillars, acting not just on our own environmental impact but also the impact of our suppliers and customers; caring for our colleagues and investing in our communities. All of which is underpinned by a strong governance foundation and acting with integrity in everything that we do. Our strategy will help ensure that we focus our efforts on the areas that are most relevant to our customers and that matter most to our stakeholders. This will help us build on our current progress but will also extend our ambition to meet the scale of the challenges ahead. We are pleased to take this opportunity to update you on our progress so far, as well as our future plans.

Although broader economic conditions have remained challenging during the year, the demand for more sustainable packaging solutions from our customers has continued to grow. We believe this trend will continue and forthcoming environmental regulation will serve to accelerate this further.

The Board and I remain committed to a clear ESG agenda, not just because it is the right thing to do, but because it is fundamental to the long-term success of our business.

Peter D. Atkinson,
Chief Executive

Environment, Social and Governance ('ESG') report (cont)

Overview (cont)

Headline progress summary against our six strategic pillars

Strategic pillar	Strategic goal	Headline progress
Environment		
1. Reducing the environmental impact of our operations	Transforming our operations to minimise the environmental impact for which we are directly responsible	• Five fully electric trucks now operational with four more on order for delivery in 2024. • Installed solar panels at our Grantham manufacturing site. • 89% of our electricity was sourced from renewables in 2023. • Driver performance programme embedded to improve fuel efficiency – achieved an 11% average improvement in MPG. • 22% reduction in absolute carbon emissions relative to our 2019 baseline.
2. Supporting our customers	Providing our customers with expert and independent advice that they can trust and enabling them to deliver against their sustainability objectives	• Opened our new Northern Innovation Lab, expanding our capacity to support our customers reduce the environmental impact of their packaging. See case study on pages 40 and 41. • Extended our range of sustainable packaging products across the Group. • Provided support to our customers on forthcoming UK Government environmental packaging regulations. • Improved our customer Net Promotor Score to 60 (2022: 50).
3. Partnering with suppliers	Collaborating with our suppliers to reduce their environmental impact and, over time, pivoting our supply base towards those that can demonstrate the highest standards	• Commenced Scope 3 mapping exercise to baseline total carbon emissions across our value chain. • Committed to disclosing Scope 3 emissions during 2024 and setting associated reduction targets. • New Supplier Code of Conduct developed to set minimum ESG expectations across our supply chain. • Strengthened our supplier audit and assurance arrangements.
Social		
4. Caring for our colleagues	Prioritising the wellbeing of our colleagues, focusing on colleague development, engagement and striving to create a supportive, safe and inclusive culture	• 66% reduction in accident frequency rates, since 2016 with continual improvement across the Group. • 80% of managers across the organisation have now completed our Diversity, Equality and Inclusion training programme. • Supporting staff with a range of measures, including looking after our lowest paid through the cost-of-living crisis and made further progress against our gender pay gap – 0% average gap (prior year: 2.4%). • Implemented our 'You said, we are taking Action' initiative to address improvement areas highlighted by our Annual Employee Survey.
5. Investing in the community	As a business connected within local communities we will continue to invest in those communities and support our colleagues to do the same	• Extensive support to our strategic charity partner, Blue Cross, including providing critical logistics across the country. • Over 750 volunteering hours provided during the year to a wide range of local community initiatives. • Launched a network of 23 Community Champions who are dedicated to supporting our colleagues and community initiatives at each of our local sites.
Governance		
6. Doing things the right way	We will continue to be led by our core values, embracing best practice for an organisation of our size and maintaining the highest standards of governance	• ESG Committee well established with senior business leaders and direct reporting line to the Board. • Chief Executive and majority of the senior management team have personal performance objectives on ESG. • Completed our second full disclosure to CDP (see ESG Report page 34) and remain committed to the upmost transparency going forward. • Extending our consideration and disclosure of climate-related risks under the Task Force on Climate Related Disclosures ('TCFD'), best practice framework.

External initiatives and benchmarks

Alignment to Sustainable Development Goals

The Sustainable Development Goals (SDGs) consist of 17 overarching goals which set out the global blueprint for sustainable development. While no individual company or state can deliver on these goals by themselves, all organisations have a role that they can play to support progress. Below we have set out the SDGs, where we believe we can play a role and how they link to our strategy.

13 CLIMATE ACTION

Focus
Taking urgent and transformative action to combat climate change and its impacts.

Why it is important to Macfarlane?
As a responsible business we believe we have an obligation to take action on climate change and help drive the transformation that is required. That is why we are investing in fully electric trucks, renewable energy and efficiency measures and why we will seek to go further working with our customers and suppliers to reduce their carbon footprints.

8 DECENT WORK AND ECONOMIC GROWTH

Focus
Promoting sustained, inclusive and sustainable economic growth, productive employment and decent work for all.

Why it is important to Macfarlane?
We employ over 1,000 people, serve over 20,000 customers and work with more than 1,000 suppliers, many of whom are small and medium sized enterprises. We have strong growth ambitions and remain focused on growing in the right way, reducing our environmental impact, investing in innovation and new technology and being an employer of choice for our colleagues.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Focus
Ensuring more sustainable consumption and production patterns that respect the boundaries of the natural world.

Why it is important to Macfarlane?
Sustainability is already deeply embedded within our business, as we deploy our resources and expertise to help our customers use less resources within their packaging operation. Our knowledge of the market, packing techniques and operational excellence allows us to offer expert and independent advice to our customers to support them in achieving their sustainability objectives.

5 GENDER EQUALITY

Focus
Achieving gender equality and empowering all women and girls.

Why it is important to Macfarlane?
As a business we recognise that gender inequality is still prevalent across society and are committed to providing better opportunities for females, at all levels. Through a series of progressive measures, we are pleased to have women representing 1/3 of senior leaders in our business and to have made further progress on our gender pay gap.

10 REDUCED INEQUALITIES

Focus
Reducing inequalities within and among countries.

Why it is important to Macfarlane?
Across the Group we value diversity and are committed to being an equal opportunities employer of choice. We provide access to quality employment across the UK and in Europe. We have developed a progressive business culture that values and respects all individuals. We believe this is an intrinsic part of creating a great place to work.

Environment, Social and Governance ('ESG') report (cont)

Overview (cont)

External initiatives and benchmarks (cont)

Alignment to the leading external standards on ESG

As a Group we are committed to being held accountable to the leading external standards on ESG, providing ourselves and our stakeholders with assurance that we are continuing to make demonstrable progress.

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

We are committed to reporting our climate disclosures in line with the Task Force on Climate Related Financial Disclosures ('TCFD') framework. This supports the Group to embed climate related risks and opportunities further into its core risk management practices and provides further transparency to all stakeholders. See this year's disclosure on pages 49 to 55.

CDP DISCLOSURE INSIGHT ACTION

CDP is an international not-for-profit charity that runs the leading global disclosure system on environmental impacts. CDP's primary purpose is to raise disclosure standards and create increased transparency across all economic sectors – driving companies to make meaningful and demonstrable progress. We are pleased to have undertaken our second full disclosure to CDP and will continue to do so.

ecovadis

Ecovadis is one of the world's most trusted sustainability ratings agencies, ranking organisations on their progress across environmental, social and governance agendas, through a consistent scoring methodology. Macfarlane have been members of Ecovadis since 2014 and remain committed to the scheme going forward to provide our stakeholders with further independent assurance. We currently have Gold status.

SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals adopted by the United Nations set out the global blueprint for a more sustainable future. They consist of 17 overarching goals that seek to address the primary sustainability challenges facing the world today, encompassing inequality, poverty and climate change. Macfarlane have set out how we believe we can support the delivery of these goals on page 33.

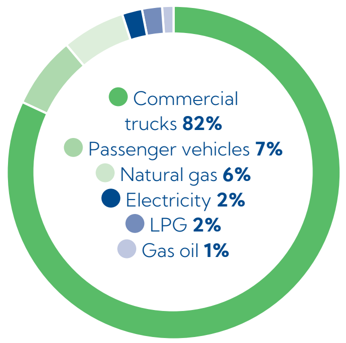
Environment

1. Reducing the environmental impact of our operations

Transforming our operations to minimise the environmental impact that we are directly responsible for.

Our most material environmental impact is in the carbon we produce through the fuel required for our national fleet of delivery trucks. Beyond fuel, our energy use is relatively low. However we recognise that this has risen in significance over recent years due to the growth of our Manufacturing Operations within the Group – increasing the importance of efficiency measures and renewable sourcing. The chart below provides a breakdown of our internal carbon emissions for 2023.

Macfarlane's carbon footprint



	CO_2e tonnes	Percentage %
Commercial trucks	4,150	82%
Passenger vehicles	376	7%
Natural gas	275	6%
Electricity	114	2%
LPG	111	2%
Gas oil	57	1%
Total	**5,083**	**100%**

We are focussed on three key areas to reduce the Group's impact on the environment, namely: (i) transitioning our delivery fleet away from fossil fuels, (ii) ensuring 100% of the energy we use is from renewable sources and (iii) striving towards more efficient practices across our operations. We have set ourselves headline targets against each of these measures which are summarised, alongside our progress, below.

Progress summary

	Headline target	2023 update	Rating
Scope 1 and 2 emission source: Commercial vehicles	50% of delivery fleet to be fully electric by 2030	Five fully electric vehicles are now operational with a further four contracted for 2024 delivery	On track
	Driver performance programme rolled out across the Group	Training and new incentive scheme rolled out across the majority of Packaging Distribution sites, driving an 11% improvement in MPG fuel efficiency	On track

Commercial vehicles

Our commercial vehicles are the biggest contributor to our Scope 1 and 2 footprint and action here is critical if we are to minimise our impact. Although significant uncertainty remains around the future viability and efficiency of electric commercial vehicles, we believe they offer the best current opportunity, for us to decarbonise our commercial vehicle fleet. We have five fully electric trucks operational within the delivery fleet and will look to add another four in 2024. However, there are significant challenges to this transformation including: significant cost; maintaining operational capacity; and dealing with limitations to charging infrastructure, both at our sites and nationally. We continue to learn as we rollout these vehicles across our delivery fleet and believe that, with sufficient Government support and increased economies of scale, these targets are stretching but achievable.

Another important element of reducing the impact of our delivery fleet will be to continue improving the efficiency of how we operate. There are several elements that drive the efficiency of logistics, from how well we plan routes, how well our vehicles are driven, through to how frequently our customers need deliveries.

Historically, the Group has invested significantly in industry-leading systems that allow data to be collected on route planning to ensure the most efficient delivery route possible is selected, minimising fuel consumption. We have added a further three sites to this system during the year, enabling further efficiencies to be achieved.

We have also extended our driver performance programme, putting additional focus on fuel efficiency and aligning our driving training and incentive scheme to reward best practice. This has enabled us to deliver an efficiency saving across all of our sites within the programme, delivering an overall average fuel saving of 11%, equating to 417 tonnes of avoided carbon emissions.

Finally, we have rolled out our first internal carbon report across the business to help our colleagues better understand what drives our emissions and identify opportunities to mitigate those. We plan to build on this further next year by enhancing our data collection and reporting, specifically around logistics, whilst building further on our efficiency programme.

Company cars

We are continuing to increase the proportion of our Company car fleet that is electric. Commencing in 2019, we now have 32% of the fleet that is fully electric (2022: 18%). Despite the barrier of slowly developing infrastructure, we have encouraged participation through increasing the allowance we provide for these vehicles and also taken measures to improve staff awareness of the choices available. We plan to install additional on-site charging points during 2024 and are in discussions with our leasing partner on further collaboration to accelerate uptake.

In addition to the full transition to electricity, we have increased the use of hybrid vehicles with 74% of our fleet now having some electric capability. We have also set a CO_2 emissions cap on both Company cars and the cars our staff can purchase through the car allowance scheme.

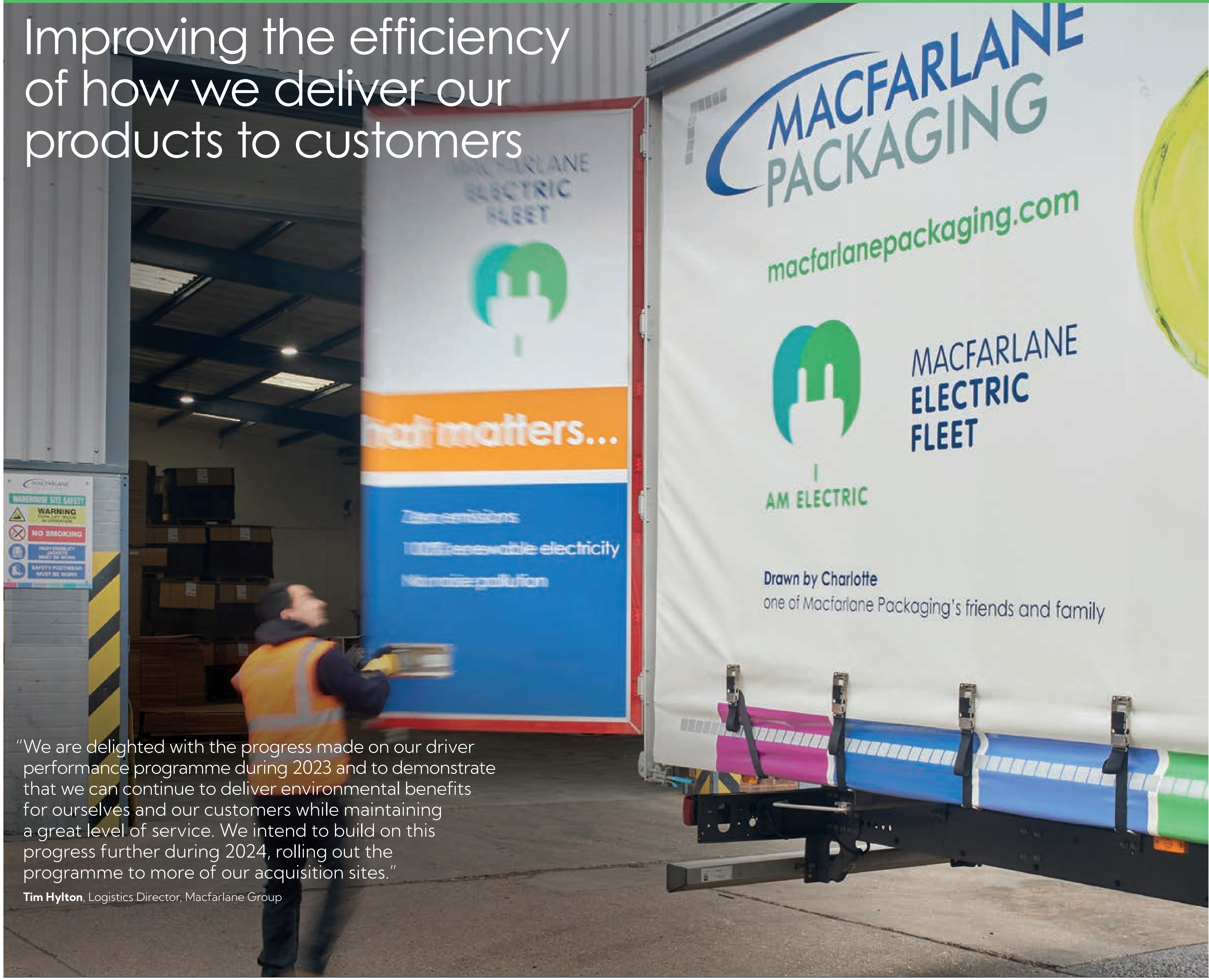
Progress summary

	Headline target	2023 update	Rating
Scope 1 and 2 emission source: Company cars	50% of Company car fleet to be fully electric by 2026	32% of our Company car fleet is now fully electric (2022: 18%)	Good progress but behind original schedule – considered recoverable

Environment, Social and Governance ('ESG') report (cont)

Environment (cont)

Improving the efficiency of how we deliver our products to customers



"We are delighted with the progress made on our driver performance programme during 2023 and to demonstrate that we can continue to deliver environmental benefits for ourselves and our customers while maintaining a great level of service. We intend to build on this progress further during 2024, rolling out the programme to more of our acquisition sites."

Tim Hylton, Logistics Director, Macfarlane Group

Reducing the impact of our operations

Across the Group we remain committed to reducing the impact of our operations upon the environment.

An important element of this is improving the efficiency of how we deliver our products, while still maintaining excellent levels of customer service.

Increasing the focus on fuel efficiency

During 2023, we extended our driver performance programme to put an increased focus on fuel efficiency and align our driver training and incentive scheme to reward best practice.

This enabled us to deliver an average fuel saving of 11% across all 23 participating sites, saving 166,000 litres of fuel that would have otherwise been required and therefore avoiding 417 tonnes of carbon emissions, representing 8% of our total footprint.

Our Wolverhampton site delivered a further 12% improvement during the year to continue as one of our most efficient operations within the Group.

Environment, Social and Governance ('ESG') report (cont)

Environment (cont)

Progress summary

	Headline target	2023 update	Rating
Scope 1 and 2 emission source: Renewable energy	100% of electricity we control to be sourced from renewables by 2025	89% of Group electricity was sourced from renewables during 2023. As of 31 December 2023, 91% of sites under Group control were procuring certified renewables (88%: 2022)	On track
	Solar panels to be installed at one site per year	Solar panels installed at our Grantham manufacturing site in 2023, meaning we now have panels at four Group sites	On track

Renewable energy

We have driven a step change in the amount of electricity that we source from renewables over recent years from 67% of Group controlled sites in 2019 to 91% of Group controlled sites in 2023. This means that 89% of Group electricity is now generated from a certified renewable source. As at 31 December 2023 only three sites have still to transition to a renewable tariff (two of which relate to acquisitions made during the year).

We have installed solar panels at our Grantham manufacturing site during the year, taking the amount of solar arrays across the Group to four. We plan to undertake further installations in coming years, both directly and in partnership with our landlords, where appropriate.

At most of our sites our energy usage is relatively low, providing inherently less opportunity for further efficiencies. The Group uses more energy within the Manufacturing Operations and during 2023 we have reduced our electricity demand through installation of light sensors at our Grantham manufacturing site. We have also undertaken an energy efficiency audit across the Group to help identify further material energy efficiency opportunities.

Greenhouse Gas Reporting 2023

Emissions here are reported using the 'market basis GHG Protocol methodology' to reflect renewable electricity purchased by the Group.

Despite significant business growth, the Group has made good progress in reducing its absolute carbon emissions. From our 2019 baseline, absolute emissions have reduced by 1,420 Tonnes (22%). Over the same period revenues have grown by 25% meaning a 37% reduction in carbon intensity. This reduction has been driven through our investment in renewables, the sale of our Labels division in 2021 and other operational efficiencies.

Carbon reporting (market based)	2023	2019 (baseline)	Movement
Absolute carbon emissions (Scope 1 and 2) (tCO_2e)	**5,083**	6,503	-22%
Carbon intensity (carbon emissions over £m revenue)	**18**	29	-37%

CO_2 per annum market based	2023	2022	2021
Packaging Distribution	**4,210**	4,626	4,867
Manufacturing Operations	**873**	878	1,254
Overall	**5,083**	5,504	6,121

In line with best practice, the Group will continue to report on both the 'market based' and 'location based' carbon reporting methodologies – see detailed reporting on pages 53 and 54. The Group plans to use the 'market based' as its primary measurement going forward. Whilst the Group will continue to advance efficiency measures and invest in local solar arrays it remains reliant on the continuing decarbonisation of the National Grid.

Progress so far has allowed the Group to record an improvement in carbon intensity, although in addition to underlying progress this has also been helped by a high inflationary environment that was not anticipated when targets were set. As a result, next year the Group intends to refresh its Scope 1 and 2 mid-term targets as part of a wider review of our environmental targets, including scope 3 emissions.

The Group has delivered an absolute carbon reduction in both the distribution and manufacturing operations over recent years, as set out within the table above.

Waste and use of natural resources

Waste management

The Group continues to minimise the environmental impact of waste across its operations. Well established processes are in place to minimise and reuse materials where practical, e.g. with transit pallets. Where waste is unavoidable, materials are clearly segregated on-site to minimise any contamination and improve recyclability.

During 2023 around 92% of the Group's waste materials were separately segregated for recycling purposes, with the balance used to create energy from waste. As in prior years the Group continues to avoid sending waste to landfill.

In addition to managing its own waste the Group also operates a recycling division that collects waste on behalf of our customers and supports increased recycling across our value chain. The Group offers this across a range of products including paper, card, flexible plastics and also plastic foam. During 2023 the division recycled 7,332 tonnes of packaging waste on behalf of our customers, an increase of 292 tonnes on the prior year.

Water and other natural resources

Given the nature of the business, the direct use of other natural resources is low across the Group. We do recognise however that climate change will continue to accelerate water stress, particularly in certain areas of the country. We have therefore undertaken water stress audits across our sites during 2023 and identified no high-risk sites. The Group's manufacturing sites have higher water usage, with processes in place to reduce usage where possible. The Board approved capital investment during 2023 to install an on-site water treatment plant at our GWP manufacturing site, eliminating the future need for any transport of the used water by road, to an external processing facility.

During 2023 the Group used 4,475 m^3 of fresh water within its manufacturing operations, equating to a water intensity of 0.13 m^3 for every £1,000 of revenue.

2. Supporting our customers

Providing our customers with expert and independent advice, that they can trust and enabling them to deliver against their sustainability objectives.

Supporting our customers to deliver on their sustainability objectives is fundamental to our Significant Six value proposition. We support over 20,000 customers with different sustainability requirements and key to our success is being able to service these needs effectively. Our optimised packaging approach, via our Packaging Optimiser, is available to our customers and offers the opportunity to drive both environmental and financial savings. This is achieved by removing materials that are not required, both reducing the volume of packaging used and minimising operational and logistics requirements whilst ensuring the packaging fulfils its critical role of protecting the product it carries.

To support this, we opened our new Northern Innovation Lab this year, providing our customers with an industry leading service, designed to consider all stages of the packaging life cycle. The environmental impact is considered at each of those stages; from initial design and manufacturing, all the way through to what happens at the end of the package's life.

We now have two state-of-the-art Innovation Labs within the Group and have been delighted to welcome more than 100 customers to innovation sessions during 2023, providing them with expert support to make their packaging more sustainable whilst still meeting their other operational requirements. See our case study at pages 40 and 41, for a recent example.

As an independent provider of packaging solutions, we are not tied to specific suppliers or packaging materials. We can therefore source the best sustainable solutions for our customers across the entire market and provide them with expert advice that they can trust on the advantages and disadvantages of each approach.

As the largest protective packaging distributor in the UK, and growing in mainland Europe, we benefit from our scale and experience when sourcing goods. We work hard to engage with the latest in packaging innovation and to provide our customers with the greatest possible choice of packaging options. We introduced new packaging lines to our portfolio this year, including extending our paper-based consumables range, increasing the recycled content on a range of plastic products, providing new packaging automation options and more reusable packaging across our customer base. We also launched our most sustainable stock box range yet, making it lighter and significantly increasing the use of recycled content, reducing our annual demand for virgin cardboard by approximately 1,700 tonnes.

These advances, alongside our work with customers and suppliers to increase the recycled content within our packaging products and their end-of-life recyclability, continues the improvement in our product environmental credentials, as shown below.

We have invested in additional skills across the business, including in sustainability, automation and in particular product areas like stretch film, all of which allows us to improve the products and services that we can provide our customers, enabling them to achieve more with less. We have rolled out training across our sales teams and our customers on upcoming environmental regulation that we believe will increasingly shape the market. Lastly, we have commenced the rollout of sustainability training across the business to improve climate literacy and further equip our colleagues to support our customers.

These and our other customer service improvement initiatives have helped us increase our annual customer satisfaction score to 96% (2022: 92%) and achieved a customer Net Promoter Score of 60 (2022: 50). Our customers will always be at the heart of everything we do and striving to continually serve them better will remain deeply ingrained across all our operations.

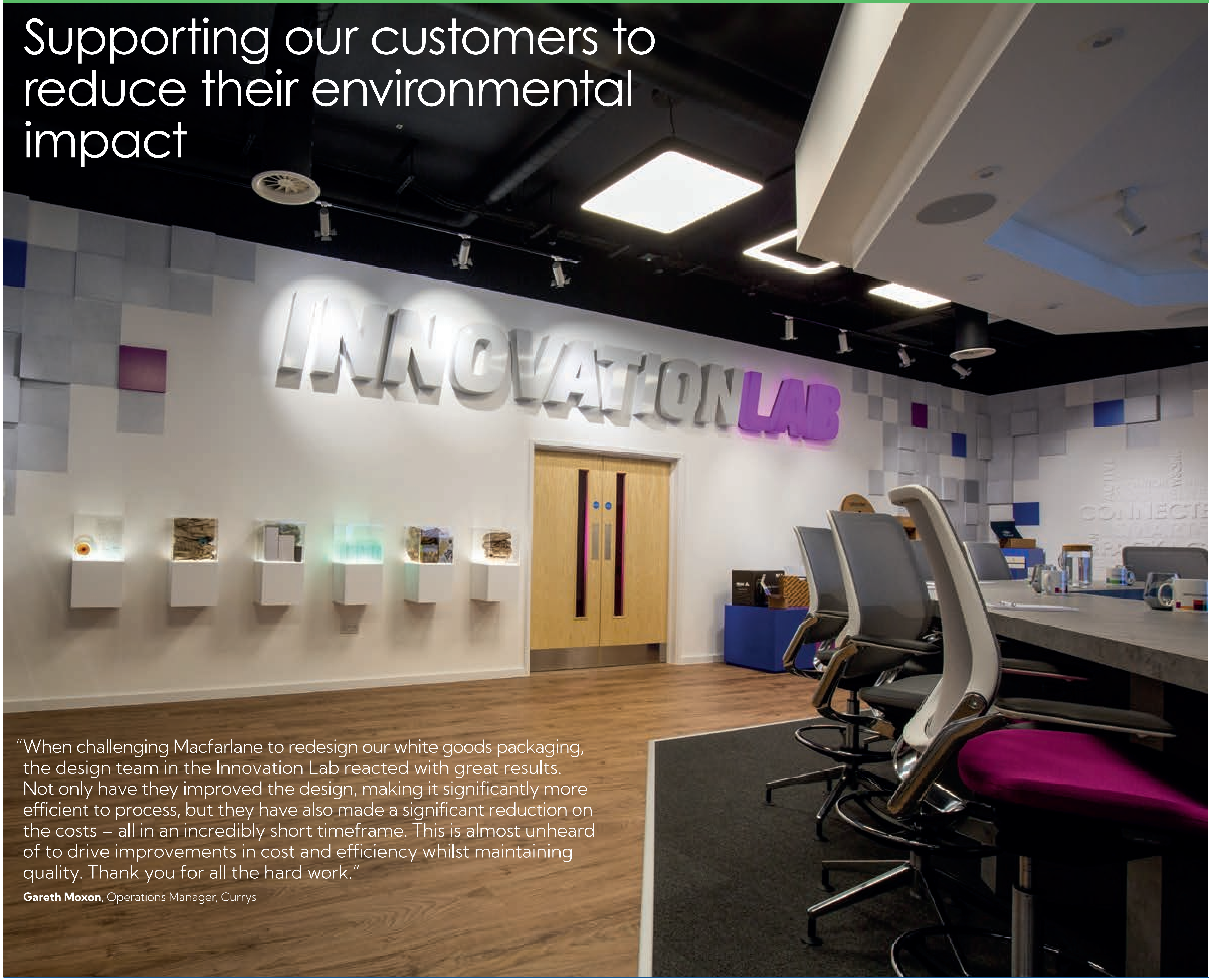
Progress summary

	Headline target	2023 update	Rating
Product environmental impacts	By 2025 at least 90% of products in Packaging Distribution will contain recycled content	86% of products across Packaging Distribution now contain recycled content (2022: 77%)	On track
	By 2025 at least 90% of products in Packaging Distribution will be recyclable	88% of Packaging Distribution products our now recyclable, as defined by the independent OPRL guidelines (2022: 89%)	On track

	Headline target	2023 update	Rating
Customer satisfaction	To obtain a customer Net Promoter Score of 60 in our Packaging Distribution division by 2025	Net Promoter Score of 60 was achieved for 2023 – the average for a B2B business is currently 35	Delivered
	To achieve annual customer satisfaction scores of above 95% in all divisions by 2025	Overall customer satisfaction was 96% for 2023 with 71% of customers giving an excellent rating	Delivered

Environment (cont)

Supporting our customers to reduce their environmental impact



"When challenging Macfarlane to redesign our white goods packaging, the design team in the Innovation Lab reacted with great results. Not only have they improved the design, making it significantly more efficient to process, but they have also made a significant reduction on the costs – all in an incredibly short timeframe. This is almost unheard of to drive improvements in cost and efficiency whilst maintaining quality. Thank you for all the hard work."

Gareth Moxon, Operations Manager, Currys

Our new Innovation Lab in Heywood, near Manchester

Our Innovation Labs provide a dedicated space that allows us to bring all of our resources and expertise together and offer industry leading support to our customers, enabling them to minimise the environmental impact of their packaging.

Consideration of the full life-cycle environmental impact of packaging

We call this approach Packaging Optimisation and it allows us to consider the full life-cycle environmental impact of the packaging, from material extraction and design, right through to end-of-life.

Currys are one of our customers who have recently benefited from visiting our Innovation Labs, where we have supported them in redesigning the packaging that they use within their repairs and refurbishment business, that directly supports a more circular economic model.

Through multiple optimisation projects we managed to completely remove 38 tonnes of plastic and 18 tonnes of cardboard from their packaging – saving the customer an estimated 133 tonnes of carbon annually.

Environment, Social and Governance ('ESG') report (cont)

Environment (cont)

3. Partnering with suppliers

Collaborating with our suppliers to reduce their environmental impact and, over time, pivoting our supply base towards those that can demonstrate the highest standards.

As a distributor and specialist manufacturer of protective packaging, the majority of our environmental impact rests within our supply chain, where packaging materials are extracted, manufactured and transported through the early stages of their life cycle. As a business we have deep relationships with our strategic suppliers, many of whom are already taking transformational action to decarbonise their operations and reduce their environmental impact. Our sustainability strategy recognises that although the actions of our supply chain partners are ultimately not within our control, we can do more to work with our suppliers to ensure that collectively we are making the necessary progress.

As such we have commenced a full Scope 3 mapping exercise to baseline the carbon emissions across our whole supply chain. We plan to conclude this during 2024 and then move towards setting reduction targets for both ourselves and our suppliers. We are committed to reporting on our Scope 3 footprint publicly during 2024 and regularly reporting on our progress in supporting reduction efforts across our entire supply chain.

During 2023 we have developed a new Code of Conduct for suppliers to set out clear expectations on key environmental, social and governance matters. The Code reaffirms our commitment to undertake business the right way: treating people with respect; reducing our environmental impact; and acting with integrity. We intend to build on these principles, particularly through working with our partners to reduce carbon in our industry.

We have strengthened our supplier on-boarding and ongoing audit processes to increase the assurance we have over our suppliers' operations. These processes have been refined, allowing us to focus on the areas of highest risk within our supply chain. We are also now mandating that all our high risk, overseas suppliers must be members of Sedex and comply fully with their audit programme, providing us with a consistent approach through one of the industry leading providers of supply chain assurance.

In addition to increasing the amount of recycled content within our products, we have increased our capacity to provide additional assurance to our customers on the sustainable sourcing of paper materials, through Forest Stewardship Council certification ('FSC') on our products. 91% of our Group sites are now fully FSC certified and all of our stock catalogue products now come with FSC certification as a default.

Progress summary

	Headline target	2023 update	Rating
Sustainable sourcing	100% of Group sites will be FSC certified by the end of 2025	91% of our sites are now fully FSC certified (85% in 2022)	On track

Social

4. Caring for our colleagues

Prioritising the wellbeing of our colleagues, focusing on colleague development, engagement and striving to create a supportive, safe and inclusive culture.

In our commitment to caring for our colleagues in 2023, we've made good progress across various key areas. Our goal is to enhance colleague engagement, nurturing a supportive, safe, and inclusive culture, which helps us to be an employer of choice. An overview of our achievements during 2023 and our future plans is set out below.

Health and Safety

Caring for our colleagues starts with keeping them safe from harm and that is why Health and Safety remains our number one priority across all our sites. We are pleased to have reduced our Accident Frequency Rate ('AFR') by 66% across the Group since our baseline year of 2016 – driving a step change improvement in performance across both our Distribution and Manufacturing divisions across this time.

This result is particularly pleasing in the light of the significant growth within the Group during that time and also the challenge of integrating acquired businesses to a central system.

We have worked hard to create a strong Health and Safety culture across the Group's operations. A risk-based approach is taken to the Group's Health and Safety Programme, ensuring that resources are directed in the most efficient and effective way possible. All reportable incidents are investigated thoroughly by our Health & Safety team and changes to working practices implemented, if required. Additionally, we ensure that colleague training in any particular area where incidents have arisen is reinforced.

During 2023 we completed over 200 hours of Accident Reporting and Claims Management Training with our senior management; as well as developing our Logistics Inspections and introducing digital Commercial Vehicle checks. We also undertook detailed analysis of all lagging and leading indicators to spot trends and further promote best practice. As part of this we were pleased to see a significant improvement in our safety observations across the business, helping us identify and manage emerging risks more proactively. This was all in addition to integrating further acquisitions into our Health and Safety Management System.

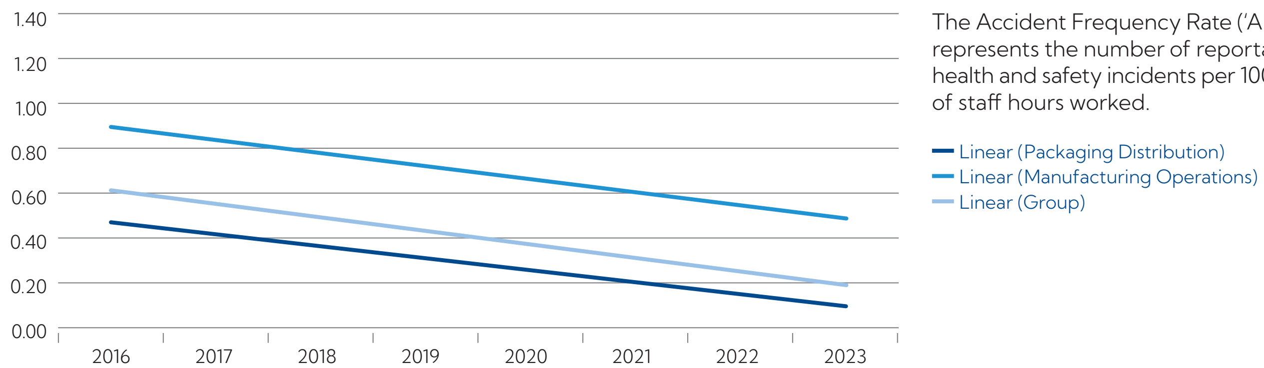
We are determined not to become complacent about our progress to date and, in 2024, our aim is to continue the journey towards zero harm by raising our standards and expectations further. This includes targeting areas of concern through trend analysis, enhancements to our Health and Safety IT system to improve local accountability and standardisation and further promotion of good working practices.

Colleague engagement

We understand that having an engaged workforce has positive impacts across our entire organisation, boosting productivity, reducing turnover costs, enhancing colleague and customer satisfaction, and contributing towards our goal to be an employer of choice.

We refreshed our Group-wide Colleague Engagement Survey during 2022 to help us understand how staff were feeling and what we needed to do to improve their work experience further. During 2023 we have reflected on the results of that survey and taken a number of steps under our 'You said, we are taking Action' initiative

Accident Frequency Rate ('AFR') for Macfarlane Group



The Accident Frequency Rate ('AFR') represents the number of reportable health and safety incidents per 100,000 of staff hours worked.

	2016	2017	2018	2019	2020	2021	2022	2023
Packaging Distribution	0.42	0.53	0.48	0.15	0.18	0.22	0.15	**0.15**
Manufacturing Operations	1.11	0.22	1.20	0.43	1.17	0.50	0.49	**0.41**
Group	0.64	0.43	0.73	0.23	0.45	0.28	0.23	**0.22**

Environment, Social and Governance ('ESG') report (cont)

Social (cont)

to address improvement areas. This included introducing a new internal recognition scheme, improving our internal communication forums and improving our corporate guides on a range of areas from line management through to employee benefits.

We ran a further Colleague Engagement Survey during 2023 and were pleased to see an improving trajectory across multiple areas, including line management, wellbeing, and general engagement levels. We also managed to maintain a good level of participation across the organisation, with 58% of colleagues taking part. The results of the survey, alongside the staff focus groups that we have established, will help us shape our 2024 improvement priorities.

There is provision for employees to use an independent whistleblowing 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.

Diversity, equality and inclusion

In collaboration with ACAS, we rolled out the second phase of our Diversity, Equality and Inclusion ('DEI') training programme during the year, which provided our staff with the skills and tools required to have difficult conversations with employees and manage unconscious biases more effectively. 80% of managers across the organisation have now completed the course.

Additionally, we have improved our recruitment resources to raise awareness of DEI best practice and revised our induction and on-boarding toolkits to help colleagues from all backgrounds to feel included, from the start of their Macfarlane careers. We have also launched internal training on the importance of DEI across the business and focused on celebrating more significant cultural events across the year to help raise awareness and promote positive conversations.

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.

We are pleased to have strong female representation across our leadership and management teams – consistent with prior years, approximately one third of our senior managers and Board are female. Following a review and uplift to the wages of our lowest paid positions, we have supported staff who needed assistance most during the cost-of-living crisis, as well as making further progress on our gender pay gap. For the last reporting period we recorded a 0% mean average pay gap (prior year: 2.4% in favour of men). Meanwhile our median pay gap was reduced to -9.4% (prior year: -12.1%), in favour of women. The median favours women as we have a higher proportion of females in sales roles where they can qualify for relatively higher performance linked bonuses.

	2023		2022	
	Male	Female	Male	Female
Directors	5	2	5	2
Senior managers	11	6	12	6
All other employees	680	440	616	327

Colleague support

We have a wide range of benefits and initiatives in place to support our colleagues. We have formalised our hybrid working policy this year to provide our colleagues with more flexibility, adding to our range of flexible benefits which include an additional holiday purchase scheme, career breaks, shared parental leave and enhanced maternity and paternity pay.

We continue to provide all colleagues with full access to our employee assistance programme, providing them with confidential support and advice on all manner of life challenges, 24 hours a day. We have extended this support further through enhancing our partnership with MIND, the national mental health charity and also through creating a network of mental health first aiders across the organisation, to act as a front line of support.

Colleague development

We remain committed to supporting our colleagues to learn and develop, enabling them to have flourishing careers across the Group and helping them to fulfil their potential. We have an established Apprenticeship Scheme and an in-house Leadership Development Programme which provides a structured and broad training curriculum and seeks to grow our employees within the organisation, preparing them for the next step.

We remain committed to learning and development across the organisation and have rolled out a variety of training programmes to staff, including Microsoft Dynamics Academy, Cyber Security Essentials, Extended Producer Responsibility and Health and Safety.

We have also designed a new Performance Development Toolkit, featuring learning and growth conversations and how to get more out of one-to-one line management meetings, which we intend to roll out across the organisation next year. This will be complemented by developing a formalised set of Group behaviours. We will seek to integrate these within our overarching approach to performance management, emphasising the importance of how people behave as well as what they deliver.

5. Investing in the community

As a business connected within local communities we will continue to invest in those communities and support our colleagues to do the same.

In 2023, the Group continued its commitment to understanding and engaging with the communities we serve. We actively supported the idea that making a positive impact is not just a responsibility but also an opportunity. Our focus on community involvement was exemplified through various key achievements. Throughout the year, we have championed a sense of community and social responsibility among our colleagues, encouraging volunteering, and contributing to a wide range of important causes.

This year, we were delighted to scale up our support with our first ever strategic charity partner, Blue Cross: an animal welfare charity; raising awareness as well as vital funds and providing our partner with vital logistics support, directly enabling them to achieve their goal of feeding 1 million pets across the country during the year. See more details on pages 46 and 47. We have also strengthened our partnership with MIND: the national mental health charity, providing them with direct support, raising funds and enabling our colleagues to access critical mental health support.

As a business already embedded within our local communities, we have a long history of supporting a wide range of local initiatives. In addition to developing our strategic national partnerships this local engagement is something that we continue to nurture. We have therefore established a network of 23 Community Champions across the business who will act as a focal point for these local initiatives, raising awareness, supporting colleagues to get involved and helping to develop synergies with wider corporate initiatives. These colleagues will also play a key role in supporting our other social initiatives, including mental health and diversity, equality and inclusion.

Our commitment to community involvement also includes the introduction of volunteer days for all staff, with over 750 hours registered during 2023. This initiative empowers and supports our colleagues to actively volunteer their time and skills for community projects that have the most meaning to them. Colleagues have been involved with a wide range of initiatives this year, as shown to the right.

We are delighted to continue our charity partnerships with BlueCross and Mind moving into 2024. In the past year, we have been committed to raising funds, deploying our business assets and dedicating our time to the invaluable causes championed by these charities. Looking ahead, we are also pleased to announce our commitment to corporately match any individual fundraising efforts organised locally up to the value of £500 for each instance, reinforcing our continuous support for all of our charity partners.

In summary, our journey towards understanding and serving our communities is a continuous and evolving one. We remain committed to making a positive and lasting impact, with a strong foundation of achievements in 2023 and a clear roadmap for increasing engagement in the future.

1: Our Glasgow Headquarters team who spent a day volunteering at a local Trussell Trust Foodbank.

2: Our Human Resources team who spent the day supporting the Prevention of Cruelty to Animals in Coventry.

3: Our Gloucester team who spent the day helping Blue Cross at one of their animal centres.

4: Victoria Butterworth, Buyer and Inventory Coordinator, who ran a marathon for Blue Cross.

Scan this code for the 2023 charity celebration video

Environment, Social and Governance ('ESG') report (cont)

Social (cont)

Providing local and national support to the communities where we operate

"Macfarlane has been instrumental in helping our charity to get vital suppliers of pet food to food banks and owners in need across the country. We're very grateful for their continued support of our project which is needed more than ever to keep families and their beloved pets together as people feel the pressure of the increasing cost of living."

Chris Burghes, Chief Executive, Blue Cross

Investing in our communities

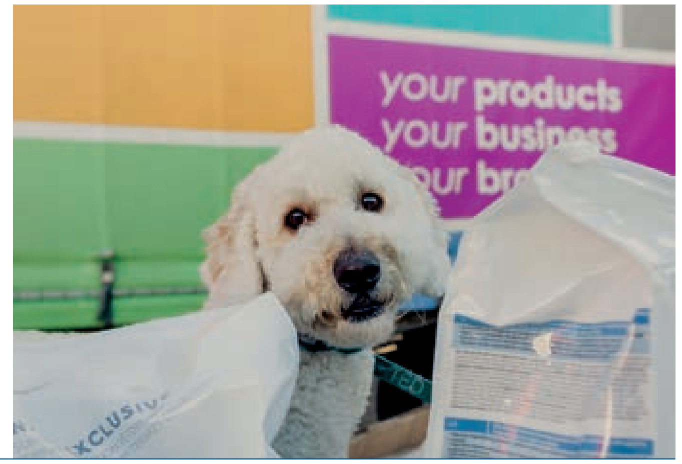
As a business we are proud to provide tangible support to the communities where we operate both at a local and national level. During 2023 we were delighted to scale up our support to our first ever strategic charity partner, Blue Cross.

Support for pets and their owners

Blue Cross is a national animal welfare charity who provide specialist care, services and support for pets and their owners throughout their lives. They have been operating across the UK for over 125 years.

Like many charities Blue Cross has found itself operating in extremely challenging circumstances during the cost-of-living crisis and alongside growing service demands, has faced particular issues with logistics to get food supplies to where they are needed most.

Macfarlane's logistics division has therefore stepped in to play a critical role, providing complimentary storage and transport solutions and helping the charity achieve its goal to feed over 1 million pets. Overall, Macfarlane Group have made over 200 deliveries for the charity.



Environment, Social and Governance ('ESG') report (cont)

Governance

6. Doing things the right way

We will continue to be led by our core values, embracing best practice for an organisation of our size and maintaining the highest standards of governance.

At the heart of Macfarlane is the drive to do business in the right way, responding to our stakeholders, recognising our broader responsibilities and acting with integrity in everything that we do. Fundamental to that is embedding the highest standards of governance and striving for best practice for an organisation of our size. ESG and climate-related risks are already firmly established in the organisation's management processes. The Governance section on pages 57 to 76 covers the broader governance of the Group in more detail and our Stakeholder engagement statement on pages 22 to 24 covers how we strive to communicate effectively with all our key stakeholders. We primarily focus here on how we govern ESG across the organisation and how we are responding to climate related risks which are set out in the TCFD Report on pages 49 to 55.

In January 2023, the Group welcomed our new Head of Sustainability who now oversees our ESG agenda across the Group, chairing our ESG committee comprising senior leaders across the business and reporting directly to the Board. We have developed a Sustainability strategy during the year to help ensure that we are making sufficient progress in key areas where we can make the biggest difference. ESG remains a key priority for the Group, continuing to be a standing item on the Board agenda and the environment is recognised as one of our principal risks and uncertainties (see page 26). Our Chief Executive and the majority of Senior Managers have explicit ESG objectives within their personal performance objectives and we will seek to build on this further next year by rolling these out across the broader management team.

The Group also recognises its broader social and regulatory responsibilities, with regards to the following areas:

- Human Rights: the Group is committed to respecting everyone's human rights, ensuring that all individuals are treated with dignity and respect and will try to find and prevent human rights impact caused by our business activities. The Company's Human Rights policy is available at www.macfarlanegroup.com.
- Modern Slavery Act: each year, the Group makes a public 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 also available at www.macfarlanegroup.com.
- 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 to mitigate the risk of any conflicts of interest. The Group provides an independent whistleblowing service, available both internally and externally, that is actively promoted.
- Executive pay: the Group has a prudent and transparent approach to Executive Remuneration, ensuring that a robust and evidenced-based process is followed, and that remuneration does not become excessive. Further details of this process can be found within the Directors Remuneration Report on pages 67 to 73.
- Tax: the Group takes a conservative and prudent approach to meeting its tax obligations, ensuring it pays the right amount of tax in a transparent manner and avoids elaborate schemes that seek to distort economic reality and avoid tax that is rightly due. The Group's tax strategy is also available at www.macfarlanegroup.com.

We take a fully transparent approach to how we manage ESG matters across our operations. We consider integrity and authenticity on this agenda as critical to enabling progress and this is why we continue to welcome external accreditation and associations, like CDP and Ecovadis. It is also why we will continue to embrace the Task Force on Climate-related Financial Disclosures ('TCFD') reporting framework, widely regarded as industry best practice for the disclosure of climate-related risks.

TCFD report

Introduction

The Group is fully committed to proactively managing climate-related risks and opportunities and providing our stakeholders with the utmost transparency around how we believe these issues will impact us and how we are seeking to address them. The report below sets out our key considerations and progress against each of the four TCFD reporting pillars– 1) Governance, 2) Strategy, 3) Risk Management and 4) Metrics & Targets. We believe that this disclosure provides a fair and balanced reflection of our progress to date and satisfies the requirements set out in Listing Rule 9.8.6R for Premium Listed Companies and the Companies (Strategic Report) Climate-related Financial Disclosure Regulations, 2022 ('CFD').

This report complies with the TCFD recommendations in 9 out of the 11 reporting areas. The two areas where we are not yet compliant are on Scope 3 emissions, as required by Section 4B and quantification of financial impacts, as required by Section 2B. This is due to the lack of available data and the extensive work involved in meeting these recommendations. Work is currently underway to address this and we expect to be able to report Scope 3 emissions within our 2024 Annual Report. We anticipate that the quantification of our financial impacts will take longer but we plan to set out a specific timescale within our 2024 Annual Report. Whilst the Group has made progress in 2023 as set out in the disclosures below, further specificity and granularity will be forthcoming in future annual reports as our quantification and scenario analysis develops.

1. Governance

Disclose the organisation's governance around climate-related risks and opportunities.

1A. The Board's oversight of climate-related risks and opportunities

The Board has ultimate responsibility for overseeing governance across the Group, including assessing how the Group is responding to climate-related risks and opportunities. The Group recognises the impact of Environment, Social and Governance ('ESG') changes, including climate-related risks and opportunities, as one of the principal uncertainties facing the organisation and has developed a range of measures in response.

These considerations have been highly influential in shaping the Group's overarching business strategy and approach to market over recent years, which seeks to actively support customers in reducing the environmental impact of their packaging. These factors and the anticipated growing customer demand for this were pivotal in the Board's approval of a second Innovation Lab to significantly extend this support to customers.

ESG remains a standing item on the Board's agenda and a key consideration across all decision making, including setting strategy and the development of budgets and business plans. The Board formally reviews climate-related issues in detail at least twice per year, including a separate detailed review of climate-related risks, which is integrated into the Group's core risk management processes as set out on page 26. This review includes an update on overall progress against key climate-related metrics and targets, although the Board would also be notified of any material changes between these reviews.

During 2023 the Board approved a new sustainability strategy which seeks to accelerate progress and leave the Group better placed to succeed in a changing operating environment. The Board continued to resource this area accordingly and approved the investment in a further 4 electric trucks and other sustainability resources and investments during the year, including scope 3 emissions mapping as part of the budget process. Explicit ESG and climate considerations are now formally incorporated into all capital expenditure and new business acquisitions, ensuring these matters are fully reflected within the decision-making process.

The Board has extensive experience in ESG and climate-related matters: the Chair of the Audit Committee, James Baird, is a long-serving Trustee with the Rainforest Trust UK and chairs RS Macdonald Charitable Trust; and our Non-executive Director, Laura Whyte, chairs the ESG Committee at Capital and Regional plc and brings extensive experience of working on the corporate and social responsibility agenda in other organisations.

1B. Management's role in assessing and managing climate-related risks and opportunities

The Executive and senior management are responsible for the day-to-day management of all risk and opportunities across the organisation and delivering an effective response, aligned to the strategic framework agreed with the Board. Our Head of Sustainability commenced employment with the Group in January 2023 and now chairs the ESG Committee, reporting directly to the Board. The Committee meets monthly and is made up of senior leaders from across the business. Its objective is to oversee and drive forward the ESG agenda across the Group, develop a clear strategic framework, ensure sufficient progress against key priorities and the effective implementation of key mitigation measures for sustainability and climate-related risks. Although the Committee oversees the ESG agenda, its primary focus is on environmental and climate-related matters.

The Committee has developed a Sustainability Strategy during the year, which is set out within this ESG report on pages 31 to 48. This strategy seeks to accelerate our progress in key areas but also increases our ambition, to help prepare the organisation for transition towards a net zero economy and the growing requirements for effective climate adaptation.

This strategy is underpinned by a range of priorities across the areas of sustainability that are most material and relevant to the Group's operations. Every month, the ESG Committee reviews progress against deliverables and the Head of Sustainability reports to the Executive on overall progress and escalates any key issues that require attention.

Our Head of Sustainability has brought additional expertise in the management of climate issues which helps inform the Committee, Executive and the Board on these matters. Raising the awareness of climate-related issues and the impact upon the business more broadly is also an important pillar of our sustainability strategy and we commenced the rollout of staff training during the year which we will extend further during 2024.

Our Chief Executive and the majority of senior managers have specific ESG targets within their personal performance objectives and we will seek to build on this further in 2024 by rolling out to all managers.

TCFD report (cont)

2. Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisations business, strategy and financial planning where such information is material.

2A. Describe the climate-related risks and opportunities the organisation has identified in the short, medium and long term

The impact of climate-related risks and opportunities are considered to grow over time, with the most profound impact to the Company's operations viewed to be in the long term. However, the Company also considers the significant time-lags that are required in order to transform operations in response to climate-related issues and the need therefore to be taking substantive action now.

Within the table below (Section 2B) the Group has set out those key climate-related risks and opportunities that it has identified, alongside the associated timescales around which management consider these issues are likely to become material. Materiality in this context is defined as those issues that are relevant to the Group's business in that they could have a significant impact upon operations. The Group has deliberately chosen to focus on those issues that it believes will become most relevant in the short to medium term future (prior to 2030) and the demonstrable actions it can take during that period to support the longer-term transition.

Short-term relates to issues that are material now or anticipated to become so within the next 2 years. This period has been chosen to align with the Group's operating and budgetary cycle. Medium-term relates to issues that the Group anticipate will become material within the next 3-6 years and aligns with the Group's 2030 targets. Long-term relates to issues that are anticipated to become material beyond 6 years and aligns with the longer-term transition towards a net zero economy. Issues that have been identified as having a material impact within a short to medium time frame are expected to evolve and continue to be material over the long-term.

This is the first year that the Group has presented this level of disclosure and management will therefore continue to refine and enhance this on an ongoing basis.

2B. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning

Sustainability and climate-related issues have been central to the organisations core planning processes for some time. A key part of the organisation's value proposition is our ability to deploy our resources and expertise to optimise packaging to help our customers to use less packaging materials while ensuring the packaging can still perform its critical role of protecting the product it carries and therefore minimising the overall environmental impact. This approach has led to significant investment in our route-optimisation software, our two state-of-the-art packaging Innovation Labs which support our Significant Six selling proposition and a rolling programme of capability building with our colleagues to provide them with the tools and knowledge they need to support our customers effectively.

The Group has also increasingly invested in specialist expertise, creating a dedicated sustainability role and employing experts in automation as well as in specific product areas, like stretch film. We believe demand for expertise in these areas will only grow as our customers develop their own sustainability ambitions and demand increases for optimised and more sustainable packaging.

As the UK's largest independent packaging distributor, working across all packaging materials and suppliers, we are not tied to any particular supply chain and believe that we are uniquely well placed to provide our customers with independent and expert advice, across all of their packaging challenges.

Alongside this the Group will continue to minimise the impact of its own operations through transitioning to electrification, investment in renewables and advancing further efficiency measures. The Group will also increasingly seek to influence the management of climate issues within its supply chain, working with strategic suppliers to mitigate climate impacts.

The potential impact of the key climate issues facing the Group has been set out within the table below. The impact upon Group assets and liabilities is inherently more limited due to the businesses leasing model and non-capital-intensive nature of the Group's operations. Data and methodologies are not available to the Group that would allow for a reasonable quantification of financial impacts and these impacts are therefore disclosed on a qualitative basis only. We will explore how we could start to quantify these issues in a helpful manner and plan to set out a timescale for implementing this within our 2024 Annual Report.

We have set out how these issues tie to our metrics and targets within Section 4A.

Risk and/or opportunity	Time horizon	Detailed description	Potential impact	Mitigation
1. Increasing environmental regulation (transition risk)	Short-term, medium-term and long-term (to 2050)	Increasing environmental regulation from the UK Government is likely to drive a material shift to pricing, compliance and customer behaviour	• Consumers are expected to become increasingly conscious of excessive packaging, fuelling demand for optimisation • As experienced through the introduction of the plastic packaging tax, regulation will drive customers towards more sustainable packaging	• Proactive strategy to support customers in using less packaging through optimisation utilising the Group's Innovation Labs and design resources • Training for staff to build knowledge of key forthcoming environmental regulation and how we can support customers • Development of data and reporting systems to service increasing reporting demands
2. Changing customer demand (transition risk and opportunity)		Customers are increasingly focused on the environmental impact of packaging which is shifting buying behaviour	• A growing number of customers are making purchasing decisions, based in part on environmental considerations • For some customers making environmental progress is a pre-requisite to doing business • This creates new revenue opportunities for the Group but also creates risk to existing revenue	• A clear and ambitious sustainability strategy has been developed to help ensure that the Group continues to make sufficient progress • Sustained investment in our people and business assets to help ensure we can meet and exceed the growing expectations of customers • Improving the environmental credentials of the Group's product portfolio, to offer customers the widest possible range of sustainable protective packaging products available
3. Impact of new technology (transition risk)		New technology will need to be embedded in the Group's operations at pace to support decarbonising of the economy	• New technology provides an opportunity to take an industry leading position and accelerate environmental progress however still comes at a significant cost premium and is unproven at scale	• The Group will seek to strike the right balance between rolling out new technology ambitiously and committing too early • The Group will continue to actively review the markets in which it operates for new innovations that offer potential • The Group will continue to pursue an asset leasing model to provide flexibility
4. Growing investor expectations (transition risk and opportunity)	Medium-term and long-term (to 2050)	Investors' expectations are growing on what is expected of organisations to mitigate climate change and reduce environmental impact	• Listed companies are increasingly expected to demonstrate material progress on their ESG agendas with a certain level of progress a pre-requisite of certain funding streams • As expectations on investors grow, the expectations on companies are likely to ratchet up further, potentially inhibiting the Group's ability to access financing if it is not able to demonstrate sufficient progress	• Regular two-way engagement with investors to understand and respond to evolving expectations • Prioritisation of leading external accreditations to provide stakeholders with independent assurance on progress • Maintenance of a diverse shareholder base
5. Increasing extreme weather events (acute physical risk)		Increasing frequency and severity of extreme weather events such as flooding, storms and drought	• Business disruption leading to a reduction in revenue and profit • Increasing costs through insurance premiums, repairs and damaged stock • Additional capital required to develop flood prevention measures	• Regional operating model, with a wide range of sites across the country • Warehouse leasing model with a preference towards medium term leases to increase flexibility • Enhance business continuity measures to mitigate impacts over the medium term
6. Supply chain disruptions (acute physical risk)		Climate issues are likely to lead to growing production and supply chain disruption and potential price rises	• Physical climate issues are likely to increasingly disrupt supply chain causing business disruption and potentially lost revenue • Climate issues within the supply chain could lead to cost increases	• Strengthened governance of suppliers across the Group, particularly strategic suppliers to help identify and manage shared risks proactively • Strong relationships and well diversified supplier base, mitigating exposure to isolated disruptions
7. Fundamental shifts in market (transition risk and opportunity)	Long-term (to 2050)	The drive for more environmentally friendly packaging could fundamentally reshape the packaging market	• Growth in reusable packaging and service models • Removal of unsustainable materials from packaging • Innovation and market disruptors with new offerings	• Continue to be a multi-material, independent provider of packaging that supports customers to make an informed choice • Continue to improve the environmental credential of the portfolio – bring innovation to market where it offers a scalable solutions • Continue to monitor market trends, including in reusable packaging
8. Transition to a net zero economy (transition risk and opportunity)		The shift towards a net zero economy is likely to drive profound shifts across the UK economy	• Decline of current industries and customers that fail to remain competitive, reducing revenue and profit • Growth of new entrants and industries that are better prepared for transition • Growing taxes on carbon intensive activities increasing operating costs	• Maintain a highly diversified customer base, avoiding excessive concentration at a customer or industry level • Continual review of broader economic trends and focus on business development across all key sectors • Continue to make substantial progress in decarbonising Group operations • Continue to develop the Group's product offering towards more sustainable solutions

TCFD report (cont)

2. Strategy (cont)

2C. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

In light of the transformational changes that will be required to decarbonise the global economy, the Group has chosen to focus its efforts on the demonstrable actions it can take in the short and medium-term to effectively manage climate issues. The Group's strategy of electrification of the delivery fleet, investing in renewables and efficiency, supporting customers and optimising its supplier base is all intended to help the Group transition towards its 2030 goals at a viable pace, leaving the Group well placed for the longer-term transition to net zero by 2050.

We anticipate the long-term impacts of climate change to be profound, leading to a very different economic landscape and operating environment. Three different scenarios have been modelled within the table below, based on the Representative Concentration Pathways ('RCP') that were developed in parallel with the Intergovernmental Panel on Climate Change ('IPCC'). Each predicts different average global temperature rises over the course of the century. The RCP scenarios have been used as they provide a wide range of climate scenarios and as they are widely recognised and used and therefore more relatable to stakeholders.

Scenario 2, which currently we consider the most likely, involves increasingly significant customer pressure to decarbonise, growing physical risks to business assets, material impacts to Gross Domestic Product ('GDP') and growing supply chain disruption – particularly over the long term. We believe in this scenario there will be market winners and losers as the operating environment for businesses that are not sufficiently decarbonising will become increasingly untenable. Although the broader impacts of this scenario on the entire economy are likely to be significant, we believe that we are better placed to mitigate these through our diverse customer base, geographically dispersed operating model, strong supplier base and sustainability-focused approach. This, alongside successful implementation of the Group's sustainability strategy is why management consider that its current approach is resilient and allows the Group to mitigate its exposure to climate change, across all scenarios.

Scenario	Average temperature rise by 2100	Forecast environmental changes	Forecast impact
Scenario 1) RCP 2.6	Average global temperatures increase of 1.6°C by 2100	Significant changes to the physical environment and economic landscape	The Group face significant and growing market pressure from customers to decarbonise and growing regulatory costs from Government if not proactively managing climate-related issues.
Scenario 2) RCP 4.5	Average global temperatures increase 2.4°C by 2100	Increased physical risks both in scale and frequency and delayed but ultimately more material shifts in the economic landscape	Impacts in scenario 1) are delayed in timescale but more significant when they materialise. Physical impacts of climate changes are considered to be worse in this scenario with more direct impact to the Group's business assets and also more market disruption due to the material impacts to GDP that would be considered likely.
Scenario 3) RCP 8.5	Average global temperature increase of 4.3°C by 2100	Profound changes to physical environment, economic and social conditions	Impacts in above scenarios delayed in timescale but more significant when they materialise. This scenario is anticipated to lead to permanently constrained global GDP growth, significant supply chain disruption and fundamental consumption shifts, impacting across the economy.

3. Risk management

Disclose how the organisation identifies, assesses and manages climate-related risks.

3A. Describe the organisation's process for identifying and assessing climate-related risks

The Head of Sustainability is responsible for overseeing and assessing all climate-related risks across the organisation, including how this risk is evolving and any new risks that are emerging, at a Group level. He is supported by the senior management team, the ESG Committee, environmental advisors and informal networks. The Executive reviews these emerging risks with the Head of Sustainability on an ongoing basis, considering the size and scope of the risk and the most appropriate mitigating action. The Board retains ultimate responsibility for the management of climate-related risks and undertake a quality assurance and oversight role of this process, to help ensure new material risks are identified and acted upon within a timely basis. This is an ongoing process but with a formal review on at least an annual basis. Additionally, a climate-risk assessment has been introduced into our capital expenditure and acquisition approval process during 2023 to help ensure that any material risks here are identified as part of the decision-making process.

The Group considers climate risks to be material where they could have a significant impact upon operations. The Executive and Board consider the significance of climate-related risks and mitigating activities alongside all other Group risks to help ensure a balanced and proportionate approach across all relevant risks.

The Group has already experienced the impact on operations of increasing environmental regulation through the introduction of the UK Plastic Packaging Tax and the associated impact upon customer decision-making. The Group believes that forthcoming environmental regulation will have an even more material impact upon the Group's customers and operations and is therefore undertaking a range of measures to help prepare and mitigate the effects.

3B. and 3C. Describe the organisation's process for managing climate-related risks and how that process is integrated into the organisations overall risk management

The management of climate-related risk is fully integrated into the Group's overall risk management approach and treated in the same manner as other principal risks and uncertainties facing the organisation. The Group risk management process is described in detail within the principal risks and uncertainties section of this report, on page 26. The Group recognises the impact of ESG changes, and in particular climate-related risks, as one of the principle risks facing the organisation and has developed a set of mitigation measures in order to address that, as set out within the ESG section on pages 31 to 48 and within the environmental risk set out on page 27.

The Head of Sustainability is responsible for the ongoing management of climate-related risks and evaluating the ongoing appropriateness of mitigation measures. The Executive which oversees the management of all Group risks meet on a monthly basis and discuss any material changes to this position.

The Board has ultimate responsibility for overseeing risk management and internal controls across the Group, this includes a formal assessment of the Group's environmental risk on at least an annual basis, where the ongoing effectiveness of mitigation measures is considered.

The Audit Committee, chaired by an independent Non-Executive Director, supports the Board in this role, undertaking a review of the risk management process and associated internal controls. Both are supported in their role by the Group's internal audit department, who consider risk independently, challenge management's approach, as required, and provide recommendations for continual improvement. Further details of the work of the Audit Committee is set out on pages 63 to 66.

4. Metrics and targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

4A. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process

The Group uses a range of metrics to assess the progress that is being made in the management of climate related issues. Key metrics are included in table 1 below, alongside a reference to the most relevant climate-related issue, that are set out in detail within Section 2B.

Not all of the Group's climate-related risks and opportunities can be readily measured by a single quantifiable metric, for example the impact of forthcoming environmental regulations. The Group therefore uses both a qualitative and quantitative assessment when evaluating ongoing progress. The Group continually assesses the ongoing appropriateness of these metrics and will look to add Scope 3 GHG emissions within its 2024 Annual Report.

The Group has considered the cross-industry climate-related categories as recommended by TCFD and currently reports on those it considers relevant: GHG Carbon Emissions, Climate-related Opportunities (percentage of products sold that contain recycled content or are recyclable) and Remuneration (proportion of executive management with remuneration linked to climate considerations). The Group does not currently use any internal carbon prices and other cross-industry categories are not considered relevant, in light of the nature of the Group's operations.

During 2023, the Group Chief Executive Officer (representing 50% of the Executive) had a personal performance objective tied to sustainability and the effective management of climate-related issues. The majority of senior management also have an explicit ESG objective within their personal performance objectives – these objectives were tailored to the individual's roles but mostly relate to the effective management of climate-related issues.

4B. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 Greenhouse gas ('GHG') emissions and the related risks

The Group seeks to minimise the impact of our operations on the environment and is committed to reducing its GHG emissions. Tables 2 to 4 outline the Group's Scope 1 and Scope 2 GHG emissions for 2023. As the majority of the Group's operations are in Packaging Distribution, the Scope 3 emissions that sit outside management's direct control are likely to be significant. The Group has commenced a project during the year to baseline its Scope 3 emissions for the first time, which is due to conclude in 2024. Once these Scope 3 details are available the Group intends to publicly disclose those emissions within its 2024 Annual Report.

Table 1: Key climate-related metrics

Macfarlane key metric	Relevant climate-related issue risk/opportunity reference
Total carbon emissions: absolute Scope 1 and Scope 2 GHG market-based carbon emissions	2) Changing customer demand 4) Growing investor expectations 8) Transition to a net zero economy
Carbon intensity: Scope 1 and Scope 2 GHG market-based emissions on a revenue intensity basis	
Number of fully electric commercial vehicles that are operational within the delivery fleet	2) Changing customer demand 3) Impact of new technology
Number of fully electric Company cars as a proportion of the Group fleet	3) Impact of new technology
Percentage of electricity that is generated from certified renewables	2) Changing customer demand
Number of onsite solar arrays currently operational within the Group	3) Impact of new technology
Percentage of products that include recycled content (measured in revenue terms)	1) Increasing environmental regulation 2) Changing customer demand 7) Fundamental shifts in market
Percentage of products that are recyclable (measured in revenue terms)	

TCFD report (cont)

4. Metrics and targets (cont)

The Group believes that measuring carbon intensity as well as absolute carbon movements is important, particularly in light of the organic and acquisitive growth strategy, of the business and its future growth plans. Product tonnage was initially considered the best way to measure this but consistency challenges with legacy data and new acquisitions have led the Group to conclude that, although not perfect, sales data will provide the most reliable and meaningful proxy of Group size and will be used for our intensity calculation going forward.

The Group uses the 'market based' reporting methodology as its primary reporting measure. However, in line with best practice, we will continue to also report on a 'location based' methodology. The 'market based' methodology is considered the most appropriate as the Group is transforming its operations and its energy requirements to electricity, being currently the most viable pathway towards net zero. Although the Group will continue to advance efficiency measures and invest in local renewable solutions, wherever feasible, it will under any scenario remain reliant on buying renewable electricity from the national markets and is therefore dependent on the ongoing decarbonisation of the national grid.

4C. Disclose the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

The Group has a range of targets against key metrics to allow it to measure progress in managing the climate-related issues set out in section 2B. Management considers that good progress has been made against these targets and that the Group remains on track, against original plans. Targets in the short to medium term were deliberately chosen by the Group to allow it to focus on demonstrable action that it could take immediately. The Group will review targets during 2024 and consider the value of any longer-term targets or additional targets that would be helpful.

Table 2: Total GHG carbon emissions for 2023 and 2022

Type of emission	Activity	2023 tonnes of CO_2e	2022 tonnes of CO_2e	% change
Direct (Scope 1)	Natural gas (kWh)	275	255	8%
	Commercial truck fuel (litres)	4,150	4,439	-7%
	Passenger vehicle fuel (litres/miles)	376	395	-5%
	LPG (litres)	111	125	-11%
	Gas oil (litres)	57	53	8%
	Scope 1 subtotal	**4,969**	**5,267**	**-6%**
Indirect (Scope 2) market based	Purchased electricity (kWh)	114	237	-52%
	Scope 2 subtotal	**114**	**237**	**-52%**
Total Scope 1 and Scope 2 gross emissions (tCO_2e) market based	**Scope 1 and Scope 2**	**5,083**	**5,504**	**-8%**
Indirect (Scope 2) location based	Purchased electricity (kWh)	783	644	22%
	Scope 2 subtotal	**783**	**644**	**22%**
Total Scope 1 and Scope 2 gross emissions (tCO_2e) location based	**Scope 1 and Scope 2**	**5,752**	**5,911**	**-3%**

Scope 3 emissions relating to business travel in rental cars or employee owned vehicles where the Group purchased fuel amount to 21 tonnes of CO_2e during 2023 (2022: 14 tonnes).

Table 3: Total GHG carbon emissions for 2023 by division

Business segment	2023 tonnes of CO_2e – market based	2022 tonnes of CO_2e – market based	Revenue 2023 (£m)	Revenue 2022 (£m)	2023 tCO_2e/£m revenue	2022 tCO_2e/£m revenue
Packaging Distribution	**4,210**	4,626	**245**	260	**17**	18
Manufacturing Operations	**873**	878	**36**	31	**24**	28
Total	**5,083**	5,504	**281**	291	**18**	19

Table 4: Historic GHG carbon emissions since 2019 baseline

tCO_2e per annum by Scope	2023	2022	2021	2020	2019
Scope 1	**4,969**	5,267	5,465	5,395	5,312
Scope 2 location based	**783**	644	1,211	1,391	1,440
Scope 2 market based	**114**	237	656	956	1,191
Total location based	**5,752**	5,911	6,676	6,786	6,752
Total market based	**5,083**	5,504	6,121	6,351	6,503

Table 5: Total Group energy usage for 2023 in KwH equivalent

Emissions type	Unit of original measure	2023 units by original measure	Energy equivalent in KwH	2023 tonnes of CO_2 market-based
Natural gas	KwH	1,501,877	1,501,877	275
Commercial truck fuel	Litres	1,652,114	16,331,144	4,150
Passenger vehicles	Litres	48,021	452,804	111
Passenger vehicles	Miles	990,166	1,099,528	265
Electric passenger vehicles	Miles	203,396	79,748	17
LPG	Litres	71,243	483,443	111
Gas oil	Litres	20,816	207,889	57
Electricity	KwH	3,645,600	3,645,600	97
Total			**23,802,033**	**5,083**

Table 6: Targets and progress to date

Metric	Target	2023 progress	2022 progress	Baseline position (2019)	Relevant climate-related issue reference
Carbon intensity	30% reduction in Group carbon intensity by 2030 (total market-based carbon tonnes over £m revenue)	18 tonnes per £m	19 tonnes per £m	29 tonnes per £m	2) Changing customer demand 4) Growing investor expectations 8) Transition to a net zero economy
Electric commercial vehicles	50% of delivery fleet to be fully electric by 2030 (currently equates to 74 trucks)	5	1	0	2) Changing customer demand 3) Impact of new technology
Electric Company cars	50% of Company car fleet to be fully electric by 2026	32%	18%	0%	3) Impact of new technology
Renewable electricity	100% of energy we control to be sourced from certified renewables by 2025	89%	64%	63%	2) Changing customer demand
Installation of solar panels	Solar panels to be installed at one site per year	4 solar arrays	3 solar arrays	1 solar array	3) Impact of new technology
Products that include recycled content	By 2025 at least 90% of products (by revenue) in Packaging Distribution will contain recycled content	86%	77%	Not available	1) Increasing environmental regulation 2) Changing customer demand 7) Fundamental shifts in market
Products that are recyclable	By 2025 at least 90% of products (by revenue) in Packaging Distribution will be recyclable	88%	89%	Not available	1) Increasing environmental regulation 2) Changing customer demand 7) Fundamental shifts in market

Data methodology and 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. Data was collected and calculations were undertaken by Macfarlane Group initially. These calculations were then shared with an external consultant EcoAct who undertook an independent expert review to provide assurance that the data being presented was accurate and free from any material errors. Calculations were completed in accordance with the requirements of The Greenhouse Gas Protocol and align with the Global Reporting Initiative. Both absolute values and an intensity ratio for the Group's emissions have been calculated. Activities conducted in the Republic of Ireland, the Netherlands and Germany are included below to represent the Group's full global Scope 1 and 2 footprint. Scope 3 emissions tied to business travel fuel are included separately as per the SECR regulations.

All data is generated from invoices and purchases of energy. Some electricity data has been generated by landlords; where meters are shared across multiple tenants each part of the site is allocated a proportion of total consumption. Some invoices are only issued after the reporting period. These invoices are estimated, but do not cover greater than 5% of total energy consumption. Estimated usages are based on the preceding months' consumption data.

In this report, the term 'Carbon emissions' not only includes carbon dioxide (CO_2) but all other greenhouse gases, including methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFC), perfluorocarbons (PFC) and sulphur hexafluoride (SF_6). Carbon emissions are calculated and reported in tonnes of CO_2 equivalent (tCO_2e) in accordance with recommended best practice.

The carbon footprint calculations use published emission factors and agreed formulae taken from the latest (2023) UK Government Conversion Factors for Company Reporting, provided by the Department for Business, Energy and Industrial Strategy ('BEIS') and the International Energy Agency electricity emissions factors (2023).

Non-financial and sustainability information statement

The table below sets out how the Group has complied with the Non-Financial and Sustainability 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 4.
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 Report on pages 1 to 55.
Principal risks	The Principal Risks, potential adverse impacts and mitigating actions are set out in the Principal Risks and Uncertainties section on pages 26 to 30.
Stakeholder engagement	The Stakeholder Engagement section on pages 22 to 25 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 8 to 17, Principal Risks and Uncertainties on pages 26 to 30, the Stakeholder Engagement section on pages 22 to 25, the Employee section of the ESG Report on pages 43 to 44 and the Directors' Remuneration Report on pages 67 to 73.
Environmental matters	Environmental matters are disclosed in the Environment sections of our ESG Report on pages 34 to 42 and the Stakeholder Engagement section on pages 22 to 25 and TCFD report on pages 49 to 55.
Financial risk management	Details of the use of financial instruments and financial risk management are set out in the Finance review on page 20.
Human rights	Details of our policies in these areas are set out in our ESG Report on page 48.
Social and community matters	Social and Community matters are disclosed in the Stakeholder Engagement section on pages 22 to 25 and the ESG Report on pages 31 to 48.
Anti-bribery & corruption and whistleblowing	Details of our policies in these areas are set out in the Human Rights section of our ESG Report on page 48.
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 131.

Chair's introduction to governance

Aleen Gulvanessian

Macfarlane is a company proud of our history, 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 2023. 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 22 to 25.

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.

Compliance with the UK Corporate Governance Code

The Board confirms that, during 2023, the Group has complied with the provisions of the UK Corporate Governance Code (the 'Code'), with the exception of;

- Provision 10 which relates to the independence of Non-Executive Directors. One Non-Executive Director, who retired on 31 December 2023, served on the Board for more than nine years and this is explained in the Corporate Governance report on page 60.
- Provision 38 which relates to alignment of Executive Director pension contribution rates to those available to the workforce. During 2023, the Executive Directors received pension contributions equivalent to 8% of basic salary in line with other senior managers. However this was not aligned to the majority of the workforce. Effective from 1 January 2024 the Executive Directors pension contributions have been reduced to 5% of basic salary in line with the majority of the workforce in compliance with 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 67 to 73. A full version of the Code can be found on the Financial Reporting Council's website www.frc.org.uk.

Sustainability

As the leading packaging distributor in the UK, we have a vital role to play in the sustainability of our products, including focusing on carbon reduction; increased recyclability and contributing to the circular economy. The Board places great emphasis on this and other Environmental, Social and Governance ('ESG') matters. As set out on page 49 of the TCFD Report the Board has extensive experience in ESG matters and through Board meetings and regular interaction with members of the ESG Committee, which is Chaired by the Group's Company Secretary, exerts strong governance over the Group's actions and closely monitors its progress. I am pleased that in 2023 our new Head of Sustainability, David Patton, has driven further progress across this agenda, including the development of our Sustainability Strategy, the increased roll-out of electric trucks and reduction in our absolute carbon emissions.

Aleen Gulvanessian

Aleen Gulvanessian, Chair

29 February 2024

Board of Directors

Aleen Gulvanessian
Chair
● Chair ● ●

Aleen joined the Board on 1 October 2021, becoming Chair on 1 October 2022 following a year as Remuneration Committee Chair. Aleen was a corporate partner at Eversheds Sutherland for 30 years before stepping down to become a Consultant on Board and Governance matters. Aleen is an experienced corporate lawyer who has advised quoted and large private companies across a range of sectors. Her areas of focus have been mergers and acquisitions (including cross border), 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. Aleen chairs Xitus Insurance Limited and its holding company, an insurance business focused on run-off liabilities, which is regulated by the FCA and PRA and she also serves on a not-for-profit board.

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.

James Baird
Non-Executive Director and Senior Independent Director
● ● ● Chair

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 Professor of Practice at Glasgow University's Adam Smith Business School, chair of trustees of RS Macdonald Charitable Trust, a trustee of Rainforest Trust UK and chair of the ICAS Research Panel. 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. Following the retirement of Bob McLellan as Non-Executive and Senior Independent Director on 31 December 2023, James was appointed the Group's Senior Independent Director.

Laura Whyte
Non-Executive Director
● ● Chair ●

Laura joined the Board on 1 October 2022. Laura had a long-standing career at John Lewis where she served on the Management Board for over ten years, latterly as HR Director. She led several business initiatives in support of retailing, with a particular focus on the customer experience. Since 2014 she has worked as a non-executive director with several organisations. Her roles include Capital and Regional plc, where she chairs the Remuneration and ESG Committees and is a member of the Audit and Nominations Committees, and the Old Naval College Greenwich.

● Nominations Committee
● Remuneration Committee
● Audit Committee

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.

The number of Board and Committee meetings attended by each member during 2023 was:

		Board	Audit Committee	Remuneration Committee	Nominations Committee
Aleen Gulvanessian	Chair	7 (7)	4 (4)[1]	4 (4)	6 (6)
Peter Atkinson	Chief Executive	7 (7)	3 (4)[1]	–	–
Ivor Gray	Finance Director	7 (7)	4 (4)[1]	–	–
Bob McLellan	Senior Independent Director	7 (7)	4 (4)	4 (4)	6 (6)
James Baird	Non-Executive Director	7 (7)	4 (4)	4 (4)	6 (6)
Laura Whyte	Non-Executive Director	7 (7)	4 (4)	4 (4)	6 (6)

1 The Chair, CEO and Finance Director attend but not as members of the Audit Committee.
Figures in brackets indicate the maximum number of meetings in 2023 for which the individual was a Board or Committee member.

As set out in the table below the Group has met the requirements of LR 9.8.6 (9) R.

Gender	Number	%	Senior positions held per LR 9.8.6 (9) (a) (ii) R
Female	2	40%	Chair
Male	3	60%	Senior Independent Director, Chief Executive, Finance Director
Total	5	100%	

One member of the Board has a minority ethnic background meeting the requirement of LR 9.8.6 (9) (a) (iii) R. The data on gender and ethnicity of the Board was collected through a survey sent to each member of the Board by the Group's HR Director.

Our Board

Aleen Gulvanessian

Peter Atkinson

Ivor Gray

James Baird

Laura Whyte

Company Secretary

James Macdonald

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 60 to 66 and for Directors' remuneration in the Directors' Remuneration Report on pages 67 to 73.

Compliance

The Company fully complied with all the Code provisions during 2023, with the exception of:

- Provision 10 which relates to the independence of Non-Executive Directors. One Non-Executive Director, who retired on 31 December 2023, served on the Board for more than nine years and this is explained in the Corporate Governance report on page 60.
- Provision 38 which relates to alignment of Executive Director pension contribution rates to those available to the workforce. During 2023, the Executive Directors received pension contributions equivalent to 8% of basic salary in line with other senior managers. However this was not aligned to the majority of the workforce. Effective from 1 January 2024 the Executive Directors' pension contributions have been reduced to 5% of basic salary in line with the majority of the workforce in compliance with the Code.

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.

Following the retirement of Bob McLellan on 31 December 2023, the Board comprises the Chair, two 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 58.

While a search is ongoing to appoint a further Non-Executive Director to replace Bob McLellan, the Directors believe that the Board has an adequate independent Non-Executive Director complement to fulfil all necessary responsibilities, 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, including confirming that the financial controls, systems of risk management and governance structure are robust and defensible.

The Chair's other commitments are shown in her biography on page 58. 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, James Baird and Laura Whyte, 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.

Bob McLellan, who served on the Board throughout 2023 before retiring on 31 December 2023, served on the Board for more than nine years from the date of his first election on 7 May 2013. The Board considered that the input provided by Bob McLellan, with his extensive packaging industry experience, remained both valuable and independent. Bob demonstrated his independence through constructive and robust challenge to the Executive.

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 2023 and to the date of this report.

The Board confirms that it considers and authorises any conflicts or potential conflicts of interest in accordance with the Group's existing procedures. There were no conflicts of interest requiring consideration in 2023.

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. With Aleen Gulvanessian as the Group's Chair and Laura Whyte as a Non-Executive Director, the Group has female representation on the Board of 40%.

We are also committed to continuous improvement in 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 Chair and Chief Executive

The division of responsibilities between the Chair and the Chief Executive is very clearly defined and has been approved by the Board. The Chair 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 Chair 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

James Baird is the Senior Independent Director, replacing Bob McLellan on his retirement on 31 December 2023. Shareholders may contact him directly if they feel their concerns are not being addressed and resolved through the normal channels of Chair, Chief Executive or Finance Director.

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 7 May 2024.

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 Chair will discuss with the Director whether a further three-year term is to be served.

Company Secretary

James Macdonald, the Company Secretary, is responsible for advising the Board through the Chair on all matters relating to corporate governance. Under the direction of the Chair, 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 (2022: eight) times during 2023 and individual attendance at those and the Board Committee meetings is set out in the table on page 58.

Key members of the management team joined the meetings to further develop the Board's understanding of the business.

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 strategic, financing or ESG 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 Chair, 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.

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 number of Board and Committee meetings attended by each member during 2023 is set out on page 58.

Accountability

The Board is responsible for presenting a fair, balanced and understandable assessment of the Group's position and prospects in the Annual Report 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 76.

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, other performance and ESG 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 Chair, 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.

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

The Chair meets with the Non-Executive Directors during the year without the Executive Directors present. The Non-Executive Directors conduct an annual performance evaluation of the Chair led by the Senior Independent Director.

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, business model, ESG matters and financial position are included in the Strategic Report on pages 1 to 56 of this report. The Board uses this, together with the Chair's Statement on pages 2 and 3 and the remainder of the Report of the Directors, to present its assessment of the Group's position and prospects.

The Chair 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.

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

Corporate governance (cont)

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.

Compliance with listing rule 9.8.4R

The Directors have considered the requirements of Listing Rule 9.8.4R and have nothing to report.

Going concern

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 from the date of this report. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Given the economic uncertainties, the Directors have also extended their consideration of going concern with the review of additional scenario analyses set out in the Viability Statement on page 21.

Nominations Committee

The Nominations Committee during 2023 was as follows:

Aleen Gulvanessian, Chair
Bob McLellan (retired on 31 December 2023)
James Baird
Laura Whyte

The Committee met six times during 2023.

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

The principal work undertaken by the Nominations Committee in 2023 was to consider and recommend that the Company propose for re-election any Directors falling due for re-appointment at the AGM, and its ongoing responsibilities to review the structure, size and composition of the Board and give 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 2023 the Committee proposed that all Directors make themselves available for re-election at the AGM on 9 May 2023.

Following Bob McLellan's decision to retire from the Board during 2023 a process has been ongoing to find a suitable candidate with relevant commercial experience, preferably in the packaging or distribution sectors. The Nominations Committee is following a rigorous process, involving third party input where appropriate, to identify a candidate who brings knowledge, experience and capability that is incremental and complementary to other members of the Board.

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

Remuneration Committee

The Remuneration Committee during 2023 was as follows:

Laura Whyte, Chair
Aleen Gulvanessian
Bob McLellan (retired on 31 December 2023)
James Baird

None of the members of the Remuneration Committee during 2023 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 four times during 2023. Its terms of reference are available on the Group website (www.macfarlanegroup.com).

The principal work undertaken by the Remuneration Committee in 2023 was:

(a) To review performance against 2022 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 approve financial and personal objectives for 2023 in relation to the performance related Annual Bonus Plan;
(c) To consider awards of share-based incentives and determine the performance conditions for these awards;
(d) To approve the vesting of shares to the Executive Directors after reviewing the performance achieved compared to the conditions set when the shares were awarded in 2020; and
(e) To approve the Directors' Remuneration Report.

The work of the Remuneration Committee is described in the Directors' Remuneration Report and Remuneration Policy on pages 67 to 73.

Audit Committee

During 2023 the Audit Committee comprised:

James Baird, Chair
Bob McLellan (retired on 31 December 2023)
Laura Whyte

James Baird was appointed as Chair of the Committee on 8 January 2018 given his relevant experience. The remaining Committee members, Bob McLellan (up to 31 December 2023) and Laura Whyte, have a wide range of commercial experience as evidenced in their biographical details on page 58. The Committee Chair will be available to answer questions on any aspect of the Committee's work at the AGM.

The Company Chair attends meetings to give the benefit of their relevant experience but is not a member of the Committee. Executive Directors, members of executive management, internal auditors and external 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.

Under an Audit and Assurance Policy formalised in 2022, the Executive Committee, senior managers and both internal and external assurance providers are required to provide the Audit Committee with regular updates on a range of topics to enable the Committee to form a view on the adequacy of the planned assurance work in relation to the Group's principal risks (set out on page 26), risk mitigation plans and any significant new risks, themes or developments. The Group's external auditors are expected to assess financial risks and the controls to mitigate them, i.e. those likely to impact on their audit of the financial statements, with consideration of the risk profile and strategy of the business and the assessment performed by the Audit Committee. Internal audit is also required to form an independent view of the effectiveness of risk management and internal control arrangements where they are within the agreed scope of internal audit work.

The Audit Committee met four times during 2023. 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 2023 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 2022 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 confirmation of auditor independence and approval of the engagement letter;
- Reviewing and approving external audit fees and keeping the level and nature of non-audit fees under review;
- Reviewing the Audit and Assurance Policy (referred to on page 63); and
- Reviewing the Group's response to any significant developments or enquiries in relation to financial and corporate reporting and the related Board and Directors' responsibilities.

During 2023 the Audit Committee focused specifically on a number of areas relating to management judgements 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 going concern and viability and to confirm the adequacy of impairment testing for goodwill and other intangibles;
- There was a robust review of trade receivables and inventory provisioning to ensure it remained appropriate;
- Appropriate provisions were recorded in respect of dilapidation and other property-related obligations under the Group's agreed accounting policy;
- Acquisition accounting entries, including the fair valuation of assets and liabilities acquired as well as initial and deferred contingent consideration, were appropriate and properly disclosed;

Corporate governance (cont)

Audit Committee (cont)

- The disclosures related to the use of Alternative Performance Measures, being adjusted operating profit and adjusted profit before tax, and the presentation of reported profit with associated narrative were appropriate; and
- 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.

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.

2023 financial statements

Certain accounting policies require key accounting judgements or involve particularly complex or subjective estimates or assumptions which can 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 the 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 2023 financial statements, the Committee considers the key area of judgement to be:

Accounting treatment of acquisitions

Acquired businesses are measured at the date of acquisition as the aggregate fair value of assets and 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. Having reviewed the acquisitions accounted for in 2023, including a review of the purchase price allocation and measurement of the likelihood of contingent consideration being payable based on facts that existed at the acquisition date, the Committee has concluded that it is satisfied with the basis of accounting in this area and the resulting measurements.

The Committee also reviewed the assumptions used by management in valuing the deferred contingent consideration from acquisitions completed prior to 2023 and any resultant charge or credit to the income statement. The accounting for deferred contingent consideration on acquisitions was reviewed, with specific reference to the £nil value estimated in the prior period in relation to the PackMann acquisition and the adjustment recorded in the current year to reflect that the liability under the earn-out arrangement has been reassessed to a value of £1.5m as a result of events in 2023 that could not have been foreseen in the prior period. The Committee considered the basis of each of the prior and current period estimates relative to the information available at the time and concluded that the accounting and associated disclosures were appropriate. The Committee has concluded that it is satisfied with the basis of accounting in this area and the resulting adjustments made in 2023.

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 similar significance to those above. For the 2023 financial statements, the main other areas that were considered included:

- The Group reviews all trade receivables and provides against potentially irrecoverable items throughout the year, applying an Expected Credit Loss ('ECL') model and reviewing local judgements in their assessment of the provision required. At 31 December 2023, the Group retained an ECL allowance held against trade receivables of £458,000 (2022: £795,000) as set out in note 13. The 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 2024 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 relative to the level of provision held against trade receivables. Based on this analysis, the Committee is satisfied that it has challenged management's assumptions and that the level of provision and the disclosures of items beyond terms is appropriate;
- A net asset is recorded at each reporting date equivalent to the surplus on the Group's defined benefit pension scheme. This asset 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 surplus are set out in note 23. The Committee has debated the assumptions used to determine the liabilities in accordance with guidance from the pension scheme's actuarial adviser 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 Committee is also satisfied that the surplus can be recognised as an asset based on legal opinion received, details of which are set out in note 23. Accordingly the Committee is satisfied that it has challenged management's assumptions and the reporting of the pension scheme surplus is appropriate;
- 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 (as disclosed on page 21) and was satisfied with the assumptions and judgements applied and the statement made;
- Goodwill is allocated to the cash generating units ('CGUs') expected to benefit from the synergies of the business combination for the purpose of impairment testing. The carrying values of goodwill and other operating assets for each CGU Grouping are reviewed at the half year and at the end of the financial year. The Committee reviews management's approach to impairment testing for each CGU Grouping, including the related sensitivity analysis. 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;
- The level of, and basis for, property-related provisions at 31 December 2023. The Committee considered the provisions recorded based on the circumstances of each relevant property and concluded that management's assessment of the provision, supported, where significant, by external opinions from the Group's property advisers, was appropriate;
- The level of, and basis for, inventory provisions at 31 December 2023; and
- The review of the Alternative Performance Measures ('APM'), being adjusted operating profit and adjusted profit before tax, including the consideration of the narrative presentation of performance during the year, the consideration of disclosure of any non-recurring elements and 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 and has reported this to the Board.

The Group received a letter from the FRC in November 2023 following a review of the Group's Annual Report and Accounts 2022. The FRC specifically noted that the Group did not provide a clear statement setting out whether the report included climate-related financial disclosures consistent with the recommendations and recommended disclosures of the Taskforce for Climate-related Financial Disclosures ('TCFD'), as required by the Listing Rules. The FRC also noted that the report did not include all the disclosures required in circumstances where a listed company's report is not consistent with all of the TCFD recommendations and recommended disclosures. The Group has addressed all matters raised by the FRC in our TCFD report set out on pages 49 to 55. The Committee reviewed the FRC letter and the Group's response and was satisfied that the additional disclosures provided in the current year TCFD report addressed all the matters raised.

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 the auditor's independence and objectivity being compromised. The external auditor also reports to the Committee on the actions 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 2023 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 suitability of property-related provisions, including the results of independent discussions conducted by the external auditor with the Group's property adviser to corroborate underlying assumptions;
c) The appropriateness of disclosures related to the Alternative Performance Measures, adjusted operating profit and adjusted profit before tax, including the consideration of the narrative presentation of performance during the year, the disclosure of any non-recurring elements and the adequacy of supporting explanations and reconciliations to related statutory performance measures;
d) The appropriateness of certain Head Office management review controls, including confirmation of related segregation of duties considerations; and
e) Include A.E. Sutton Limited in the 2023 audit testing.

The external auditors reported to the Committee on all of these areas on conclusion of the 2023 audit. No adjustments were made to the 2023 financial statements following the external auditors' report. The Committee approved changes to the policy regarding certain IT controls in response to a recommendation received from the external auditor (see page 66), while noting that the IT controls had operated consistently with the prior year and that any impact from the deficiency was mitigated by higher level management review controls.

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 firm rotates off the audit engagement every five years. The 2023 audit is the fifth year for the current audit partner. The Committee has led a process with the external auditors to review a number of potential audit partners to lead the Group audit from the conclusion of the 2023 audit. During this process the Chair of the Committee and the Finance Director met with each candidate and satisfied themselves as to the candidate's commitment to robust audit quality, operational audit efficiency and an open proactive working relationship between management, the external auditors and the Audit Committee. Following this process, it has been agreed that David Mitchell CA will assume the Group and Company lead audit partner role from 2024.

The Audit Committee monitors non-audit services, if any, 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 2023 for audit and other services are set out in note 2 to the financial statements. The only non-audit work undertaken by the external auditor in 2023 related to the audit of the Report and Financial Statements of the Group's defined benefit pension scheme for the year-ended 30 April 2023.

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.

Corporate governance (cont)

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 misstatement 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 2023 and has continued to the date of approval of the Annual Report and Accounts.

The Board regularly reviews the Group's system of internal control, utilising, where appropriate, the work of the Audit Committee. 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 Executive;
- Formal Board approval of the annual budget;
- 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;
- Completion of Internal Audit work in accordance with an agreed annual plan, with all reports and related recommendations reviewed by the Audit Committee after discussion with executive management; 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, ensuring that management has identified and implemented appropriate controls, which are acceptable to the Board, to address these risks.

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. The risk register is taken into account in setting the Internal Audit plan each year.

The Committee receives regular reports on cyber security matters in recognition of the importance of having robust cyber security measures in place as part of the controls framework. Monitoring reviews and compliance audits are undertaken with the involvement of external specialists to ensure that employees, customers and suppliers are protected to the extent practical 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. Some weaknesses in the Group's IT controls were identified by the external auditors during the course of their work which were reported to management and the Committee. As a consequence the external auditors did not take controls reliance in their testing. These weaknesses were rectified shortly after being identified and the Committee was satisfied that there were adequate mitigating controls in place at all times to mitigate any potential wider impact.

Based on the reports received from the Audit Committee, Internal Audit and the Board's consideration of the system of risk assessment, taking account of any observations from the external auditors, the Board has concluded that the Group's risk management and internal control processes were effective throughout the year.

Remuneration report

Remuneration Committee Chair's summary statement

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for Macfarlane.

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. The Directors' Remuneration Report comprises both this statement and 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 2024.

Remuneration in 2023

Group results for 2023 are set out in our Strategic Review. We believe the financial results in the year are appropriately reflected in the remuneration of our Executive Directors, as follows:

- Annual bonus outcomes for the CEO and Finance Director for 2023 of 92% and 90% of maximum amounts available respectively (maximum being 100% of base salary);
- Performance Share Plan ('PSP') awards made in March 2023, subject to three-year EPS growth targets, which the Committee regards as appropriately stretching; and
- PSP vesting in relation to the 2020 PSP awards, with a maximum pay-out made to the CEO and Finance Director, as well as an award to the former Finance Director. This was the second vesting of the scheme introduced in 2019, and we are pleased that the award reflected contribution of the Executive Directors to the significant growth in the business during the period.

We have disclosed the performance measures for our 2023 annual bonus plan on pages 68 and 69.

In 2023 our Board maintained its focus on our obligations to our workforce and to other stakeholders, with 90% of our employees receiving a bonus (2022: 94%).

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 2023 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 PSP awards in the year; and
- Confirming the outcome of performance metrics for annual bonuses and PSP awards in the year.

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

Following a thorough review, including consideration of relevant external benchmarks and consultation with our external remuneration advisors, our Non-Executive Director's base fee level was raised to £47,500 per annum (from £37,300). The Board (excluding the Non-Executive Directors) determined that this fee level was appropriate, particularly as the Company does not also pay additional fees for either acting as the Chair of the Audit or Remuneration Committees or for acting as the Senior Independent Director. The review did not include the Company Chair's fees.

Remuneration in 2024

The key components of executive remuneration at Macfarlane in 2024 are as follows:

- Base Salaries – base salaries for 2024 have increased by 4% (CEO) and 13.8% (Finance Director). The proposed salary increase for 2024 for the workforce is 4%. The Finance Director was appointed in January 2021 and the Remuneration Committee has noted his considerable development and contribution since appointment. The Committee accordingly reviewed his base salary and have increased it to £235,000 for the 2024 year (from £206,566). This increase in base salary reflects the Finance Director's contribution and performance. In setting this salary level, we consulted relevant market data for CFO pay levels in comparable FTSE SmallCap companies. While the salary level proposed is competitive, the Committee may undertake a further review of the Finance Director's salary for the 2025 financial year and consider relevant market benchmarks if considered appropriate in the context of continued personal and Company performance.
- Benefits – The CEO is receiving an increase of £3,500 to his car allowance, which was last reviewed three years ago and is considered a reasonable market-based increase.
- Annual bonus – in 2024 there is again a maximum payment opportunity of 100% of salary, with 75% of salary based on Profit before tax ('PBT') and 25% based on personal objectives, including an ESG metric.
- Pension – the CEO and Finance Director pension contributions are now 5% of base salary (from 8%), in line with the majority of the employees at the Company.
- PSP vesting will occur in 2024 relating to the 2021 PSP awards, with a maximum pay-out based on EPS growth over three-years also expected due to the resilient performance in the three-year period ended 31 December 2023.
- Long term Incentives – the Committee's intention is to make further PSP awards in 2024. The level of PSP awards for Executive Directors will again be over shares with a value equivalent to up to 100% of base salaries. Vesting will again be subject to three-year EPS growth conditions with a further underpin vesting condition based on overall Group performance over the three-year period. Details of these awards will be set out in the 2024 Directors' Remuneration Report.

I do hope that you will feel able to support the resolution to approve this Directors' Remuneration Report at the AGM in May 2024. We are happy to receive feedback from shareholders at any time in relation to our remuneration policy and I will also be available at the AGM to answer any questions you may have and look forward to meeting those attending.

Laura Whyte
Chair of the Remuneration Committee
29 February 2024

Remuneration report (cont)

Annual report on remuneration

The details set out on pages 68 to 70 of this report have been audited by Deloitte LLP.

Single total figure of remuneration for each Director

2023	Salary and fees £000	Taxable benefits £000	Pension costs £000	Fixed pay £000	Bonus £000	LTIP vesting £000	Variable pay £000	Total pay £000
Chair								
A. Gulvanessian	**82**	**–**	**–**	**82**	**–**	**–**	**–**	**82**
Executive Directors								
P.D. Atkinson	**435**	**21**	**35**	**491**	**400**	**470**	**870**	**1,361**
I. Gray	**207**	**5**	**17**	**229**	**186**	**148**	**334**	**563**
Non-Executive Directors								
R. McLellan	**47**	**–**	**–**	**47**	**–**	**–**	**–**	**47**
J.W.F. Baird	**47**	**–**	**–**	**47**	**–**	**–**	**–**	**47**
D.L. Whyte	**47**	**–**	**–**	**47**	**–**	**–**	**–**	**47**
Total	**865**	**26**	**52**	**943**	**586**	**618**	**1,204**	**2,147**

2022	Salary and fees £000	Taxable benefits £000	Pension costs £000	Fixed pay £000	Bonus £000	LTIP vesting £000	Variable pay £000	Total pay £000
Chair								
S.R. Paterson (to 30 Sep 2022)	54	–	–	54	–	–	–	54
A. Gulvanessian (from 1 Oct 2022)[1]	47	–	–	47	–	–	–	47
Executive Directors								
P.D. Atkinson	405	18	61	484	266	411	677	1,161
I. Gray	201	8	16	225	129	71	200	425
Non-Executive Directors								
R. McLellan	36	–	–	36	–	–	–	36
J.W.F. Baird	36	–	–	36	–	–	–	36
D.L. Whyte (from 1 Oct 2022)	9	–	–	9	–	–	–	9
Total	788	26	77	891	395	482	877	1,768

1 £27,000 was paid in fees for the 9 month period to 30 September 2022 for role as Non-Executive Director and £20,000 was paid in fees for the 3 month period to 31 December 2022 for role as Chair.

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

Directors' pension entitlements

P.D. Atkinson received a cash allowance which equates to 8% of his base salary (5% from 1 January 2024), 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 base salary (5% from 1 January 2024), consistent with other employees in that scheme.

Annual bonus for the year ended 31 December 2023

The 2023 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 and deferred shares following Board approval of the Group Accounts. Both the financial targets and personal objectives were partially met and, as a result, an annual bonus of 92% of salary will be payable to the CEO and 90% of salary will be payable to the Finance Director. The original financial targets for 2023 are shown below:

		2023 PBT
Threshold	25% of incentive	£20.0m
Target	50% of incentive	£20.5m
Maximum	100% of incentive	£22.0m
Actual performance		£21.8m[1]
% of PBT element payable		91%
% of base salary		68.1%

1 Actual performance is before deduction of deferred contingent consideration adjustments in the year of £1.5m which the Remuneration Committee consider to be an accounting adjustment relating to the initial acquisition unrelated to the operating performance of the business in 2023.

A bonus of up to 25% of base salary is also payable for achievement of personal performance objectives with the Remuneration Committee being required to consider financial and overall performance before this element is paid.

In the year we looked at the following personal objectives. The CEO achieved 4.75 out of five objectives and the Finance Director achieved 3.5 out of four objectives:

Peter Atkinson	Ivor Gray
• Execute two earnings enhancing acquisitions • PackMann Profit Improvement Plan • Onboarding and integration of Packaging Distribution MD • Create and agree medium term strategy for our Manufacturing Operations • Accelerate Sustainability Programme both internally and externally	• Support IT Director to ensure successful E7 transition at Greenwoods Stock Boxes • Complete two acquisitions • Manage cash to achieve a £3m over Budget performance • Develop and agree programme to improve private shareholder engagement

The total bonus payable for 2023 to P.D. Atkinson was £399,548 (92% of salary), and I. Gray £185,859 (90% of salary). 25% of this bonus is payable in shares and deferred for two years, in line with the new Remuneration Policy approved at the 2022 AGM.

Long term incentives for the year ended 31 December 2023

The Company operates a PSP under which shares are awarded which vest subject to performance over a three-year period.

Vesting outcomes for 2020 PSP awards

Performance measure	Target range	Performance achieved	Vesting outcome	% of total award vesting
Earnings per share growth (100%)	Target range between 6.53p (25% vests) and 7.84p (100% vests)	9.78p	100%	100%

The Committee confirmed that the underpin performance condition relating to the overall Group performance in the 2020 to 2022 period was met, given the strong growth during this time.

PSP awards made in 2023

Awards were granted on March 2023 over shares worth 100% of salary to each of the Executive Directors (using the three day average market price of 105.50p 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 in the below table of existing awards. EPS is measured by dividing the profit after tax from total operations by the weighted average number of ordinary shares used to calculate diluted EPS.

Grant of PSP Award	Threshold (25%)	Maximum (100%)	Year end target date
2023	10.80p	12.95p	31 December 2025
2022	10.16p	12.19p	31 December 2024
2021	7.95p	9.54p	31 December 2023

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.

Summary of PSP awards held

	Awards held at 1 January 2023	Awards granted during the year	Awards exercised during the year[1,2]	Awards lapsed during the year	**Awards held at 31 December 2023**
P.D. Atkinson	1,055,972	412,322	(395,672)	–	**1,072,622**
I. Gray	463,112	195,798	(124,726)	–	**534,184**

1 The 2020 PSP vesting at 100% and dividend equivalent awarded in shares were confirmed by the Remuneration Committee at its meeting on 23 August 2023. The total number of shares vesting were 395,672 and 33,122 shares delivered in respect of dividend equivalent for Peter Atkinson; 124,726 shares vesting and 10,441 shares delivered in respect of dividend equivalents for Ivor Gray.

2 Of the amounts shown in the Single Figure Table in respect of 2020 PSP awards, share price growth in the period to vesting (reflecting a share price at vesting on September 2023 of 109.50p and a share price at award of 91.40p) represents £77,826 of the amount disclosed for Peter Atkinson and £24,533 of the amount disclosed for Ivor Gray.

Payments to past Directors

As part of the 2020 PSP vesting John Love, former Finance Director, received a pro-rated award of 37,768 shares vesting and 3,162 shares delivered in respect of dividend equivalents, being 100% of the maximum pro-rated to his retirement date on 31 March 2021.

Shareholdings and share interests of the Directors in office at 31 December 2023 were as set out below:

	2023		2022	
	Beneficial	**Options**	Beneficial	Options
P.D. Atkinson	**1,271,484**	**1,133,480**	1,035,047	1,055,972
I. Gray	**186,232**	**563,727**	116,076	463,112
J.W.F. Baird	**66,605**	**–**	66,605	–
A. Gulvanessian	**15,553**	**–**	15,553	–
D.L. Whyte	**9,200**	**–**	9,200	–

Remuneration report (cont)

Options above are subject to performance conditions being satisfied, except for the deferment of bonus from 2022 as detailed below. 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 £1,487,636 at 31 December 2023. I. Gray also exceeds this requirement with £217,891.

Options held by P.D. Atkinson and I. Gray are in respect of the PSP awards made in 2021, 2022 and 2023. These are unvested and subject to the achievement of performance targets described earlier.

Options also include the share equivalent of 25% deferment of annual bonus from 2022 for P.D. Atkinson of 60,858 shares and I. Gray of 29,543.

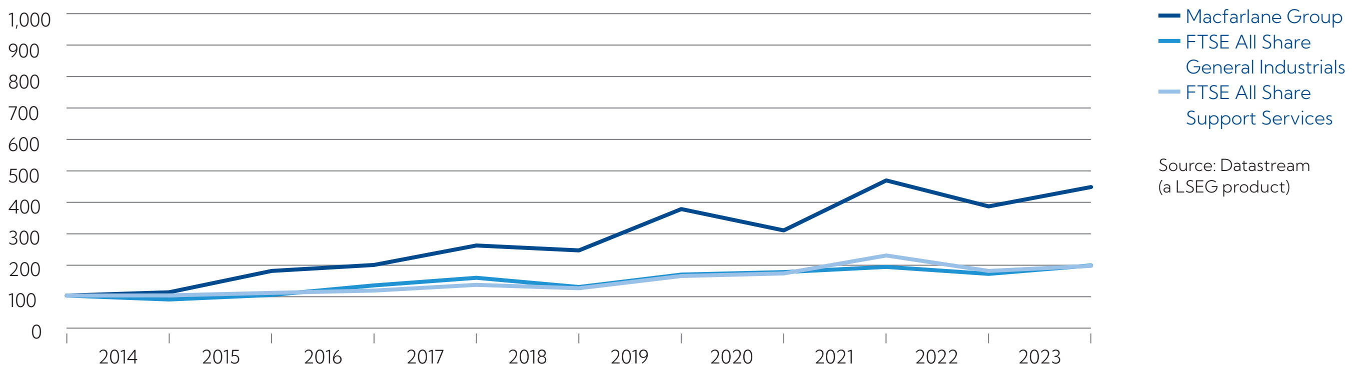
The share price ranged from 98.38p to 119.00p during 2023. The closing share price on 31 December 2023 was 117.00p (2022: 104.00p).

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



Source: Datastream (a LSEG product)

CEO single figure

		Single figure of total remuneration £000	Annual variable element award vs. maximum opportunity	Long term incentive vesting against maximum opportunity
2023	P.D. Atkinson	1,361[2]	92%	100%
2022	P.D. Atkinson	1,161[2]	60%	100%
2021	P.D. Atkinson	649	100%	n/a
2020	P.D. Atkinson	484	15%	n/a
2019	P.D. Atkinson	530	46%	n/a
2018	P.D. Atkinson	440	0%	n/a
2017	P.D. Atkinson	514	48%	0%
2016	P.D. Atkinson	516	55%	n/a
2015	P.D. Atkinson	508	56%	n/a
2014	P.D. Atkinson	586[1]	46%	n/a

1 This includes £105k in respect of the exercise of options which vested in 2007.
2 This includes £411,000 vesting of 2019 PSP in 2022 and £470,000 vesting of 2020 PSP in 2023.

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 2022 and 2023 financial years.

		Executive Directors		Non-Executive Directors			
	Employee average	P.D. Atkinson	I. Gray	A. Gulvanessian	J.W.F. Baird	R. McLellan	D.L. Whyte
2022/23							
Salary/fees	7%	7%	3%	3%	31%[1]	31%[1]	31%[1]
Benefits	35%	(30%)	(8%)	–	–	–	–
Bonus	(3%)	50%	44%	–	–	–	–
2021/22							
Salary/fees	3%	10%	5%	3%	3%	3%	–
Benefits	2%	(17%)	3%	–	–	–	–
Bonus	(33%)	44%	35%	–	–	–	–
2020/21							
Salary/fees	2%	2%	2%	2%	2%	2%	–
Benefits	(12%)	0%	27%	–	–	–	–
Bonus	296%	580%	7,188%[2]	–	–	–	–

1 See explanation on page 67.
2 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:

	2023 £000	2022 £000	Change
Total employee pay	**40,765**	37,502	8.7%
Dividend	**5,484**	5,102	7.5%

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
2023	**Option B**	**54.1:1**	**46.3:1**	**36.0:1**
2022	Option B	46.2:1	41.5:1	15.8:1
2021	Option B	31.4:1	24.0:1	17.5:1

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 2022.

Total remuneration for the CEO and for the individuals who represent the three quartiles was determined for the year to 31 December 2023. 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. The ratio this year reflects the vesting of the 2020 PSP award and the ratio for 2022 reflected the vesting of the 2019 PSP award.

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
2023	**£24,167**	**£28,000**	**£30,098**	**£25,133**	**£29,361**	**£37,779**

Remuneration report (cont)

Statement of implementation of remuneration policy in 2024

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 2024 increased by 4% and 13.8% to £452,400 and £235,000 respectively.

Executive Directors will be eligible to receive an annual bonus of up to 100% of base salary (2023: 100%), 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 2024 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 earnings enhancing acquisitions.

Benefits will operate in an unchanged way from 2023, with the exception of the car benefit for P.D. Atkinson which will increase by £3,500 as set out on page 67.

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 two independent Non-Executive Directors and the Company Chair. Details of the Directors who were members of the Committee during the year are disclosed on page 62. 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 2023 and fees of £4,302 (2022: £29,160) 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, 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 a resilient performance in 2023 and further strategic progress.

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 are equally weighted, and 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 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 Group which it considers when setting remuneration for Executive Directors. While employees are not directly consulted when setting Executive Directors' remuneration, Laura Whyte 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 supportive feedback, including on remuneration matters.

Statement of voting at the Annual General Meeting on 9 May 2023

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

	Total number of votes	% votes cast
For	79,253,155	96.72%
Against	2,686,025	3.28%
Total votes cast (for or against)	**81,939,180**	100.00%
Votes withheld	5,000	
Total	**81,944,180**	

Votes received on 9 May 2023 (including votes withheld) amounted to 51.75% of the issued share capital.

Statement of voting at the Annual General Meeting on 10 May 2022

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

	Total number of votes	% votes cast
For	88,218,747	96.81%
Against	2,903,465	3.19%
Total votes cast (for or against)	**91,122,212**	100.00%
Votes withheld	43,628	
Total	**91,165,840**	

Votes received on 10 May 2022 (including votes withheld) amounted to 57.77% of the issued share capital.

Directors' remuneration policy

The Directors' Remuneration Policy for Executive and Non-Executive Directors for the three-year period expiring at the Company's 2025 AGM, and which was approved by shareholders at the 2022 AGM, can be found within the Company's Annual Report and Accounts for 2021 which is available on the Company's website at www.macfarlanegroup.com/investors/accounts.

Report of the Directors

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2023. Pages 1 to 76 inclusive comprise the Directors' Report, which in turn includes the Chair's Statement and the Strategic Report on pages 1 to 56. 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.

The Company has chosen to disclose the following information in other sections of the Annual Report:

- Details of the use of financial instruments and financial risk management by the Group (page 20).
- Details of important events affecting the Group which have occurred since the end of the financial year (page 117).
- Details of how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others and the effect of that regard on the principal decisions taken by the Group during the financial year (pages 22 to 25).
- An indication of likely future developments in the business of the Group (pages 8 to 17).
- Details of the Group's overseas branches (page 131).

Corporate governance

The information that fulfils the requirement of the Corporate Governance Statement can be found in the Corporate Governance Report on pages 60 to 66 (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 Environment, Social and Governance Report on pages 31 to 48. The Group's Taskforce on Climate-related Financial Disclosures are set out in detail on pages 49 to 55.

Cautionary statement

The Chair'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 £20,280,000 (2022: £19,934,000). This resulted in a profit for the year of £14,974,000 (2022: £15,637,000).

The Directors declared an interim dividend of 0.94p per share, which was paid on 12 October 2023 (2022: 0.90p per share). The proposed final dividend of 2.65p per share (2022: 2.52p per share) is subject to approval by shareholders at the AGM in May 2024 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. A total of 615,000 shares were issued in 2023 in relation to the vesting of the 2020 award under the 2016 Performance Share Plan to Executive Directors. Further details of this can be seen in note 18 to the financial statements.

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 2024 AGM seeking authority to allot shares in the Company under section 551 of the Companies Act 2006 up to an aggregate nominal amount of £13,246,000.

At the 2023 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 2024 AGM. Resolutions at the 2024 AGM will seek to renew for a further year the authority over the existing unissued and uncommitted ordinary share capital of £3,973,800 – being 10% of the current share capital.

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.

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

Substantial holdings

	Number of shares held	Percentage
Funds managed or advised by Canaccord Genuity Group Inc.	13,200,000	8.3%
Funds managed by Blackrock	11,916,743	7.5%
Funds managed or advised by Jupiter Asset Management	11,680,653	7.3%
Funds managed or advised by Charles Stanley	10,800,966	6.8%
Funds managed or advised by Otus Capital Management	7,335,398	4.6%
Funds managed or advised by BGF Investment Management	6,985,420	4.4%

Engagement with key stakeholders

Details of how the Company engages with key stakeholders are set out in the s172 statement on pages 22 to 25.

Employees and employee share schemes

The Company's policies for employees and employee engagement are set out in the Environment, Social and Governance Report on pages 43 and 44. Option awards are detailed in the Directors' Remuneration Report with those awards outstanding at 31 December 2023 set out on page 69.

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 29 February 2024 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.

Directors

The names of the Directors in office at 31 December 2023 and to the date of this report together with short biographical details, are set out on page 58. The Board considers its two Non-Executive Directors to be independent.

All Directors retire by rotation at the AGM in May 2024 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. A. Gulvanessian has a letter of appointment dated 27 September 2022 with a notice period of six months. J.W.F. Baird and L. Whyte each have letters of appointment dated 8 January 2024 and 13 September 2022 respectively for periods of three years, with notice periods of three months.

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 69.

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 £3,973,800, 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 2024.

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 1 to 56 and the Directors' Report on pages 1 to 76 were both approved by the Board on 29 February 2024.

James Macdonald
Company Secretary
29 February 2024

Statement of Directors' responsibilities

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 29 February 2024 and signed on its behalf by:

Peter D. Atkinson
Chief Executive
29 February 2024

Ivor Gray
Finance Director
29 February 2024

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 2023 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;
- the material accounting policy information; and
- the related notes 1 to 41.

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 deferred contingent consideration.
Materiality	The materiality that we used for the Group financial statements was £1.00m which was determined on the basis of 5% of profit before tax.
Scoping	Our audit covered 88% of the Group's revenue, 85% of the Group's net assets and 85% of the Group's profit before tax.
Significant changes in our approach	There have been no significant changes in our approach. Whilst consistent with prior year, the key audit matter relates to acquisitions made in the current year and the valuation of the deferred contingent consideration relating to Packmann, which was acquired in 2022. A.E. Sutton Limited was included in full audit scope for the period from acquisition in March 2023.

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

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:

- Obtaining an understanding of the relevant controls over the Directors' process for evaluating the Group's and parent company's ability to continue as a going concern;
- Comparing the underlying data and key assumptions to past performance on the assumptions applied; key assumptions include revenue growth, gross margin, operating costs, finance costs and working capital management;
- Assessing 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 cash flow forecast model;
- Evaluating 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 the Directors;
- Assessing the likelihood of the downside scenarios and sensitivities performed by the Directors; and
- Assessing the appropriateness of the going concern disclosures in the financial statements.

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 deferred contingent consideration.

Key audit matter description	The Group acquired three companies during the year: • A.E Sutton Ltd (Suttons) in March 2023 for total consideration of £12.5m. Goodwill of £3.7m and other intangible assets of £4.1m were recognised on acquisition. Management's estimate of the fair value of deferred contingent consideration at the acquisition date was £1.3m. • A&G Holdings Ltd (Gottlieb) in April 2023 for total consideration of £4.2m. Goodwill of £1.7m and other intangible assets of £2.0m were recognised on acquisition. Management's estimate of the fair value of deferred contingent consideration at the acquisition date was £0.7m. • B&D 2010 Group Ltd (B&D) in September 2023 for total consideration of £5.4m. Goodwill of £2.0m and other intangible assets of £2.4m were recognised on acquisition. Management's estimate of the fair value of deferred contingent consideration at the acquisition date was £0.5m. In line with IFRS 3, the Directors have performed a purchase price allocation exercise to allocate consideration in excess of the net assets to goodwill and other intangibles. Given the judgement around the assumptions 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 deferred contingent consideration. As required by IFRS 9, the Directors have performed a reassessment of the fair value of deferred contingent consideration held for the three acquisitions above, and for the prior year acquisition of PackMann Gesellschaft für Verpackungen und Dienstleistungen GmbH ('Packmann') at the balance sheet date. This resulted in a charge to the consolidated income statement of £1.5m in the current year with respect to deferred contingent consideration held for Packmann. Business combinations are included within note 23 to the financial statements with relevant accounting policies disclosed on page 91. The assessment of the fair value of deferred contingent consideration has been included as a key source of estimation uncertainty on page 89. The Audit Committee's consideration in respect of this risk is included on page 64.
How the scope of our audit responded to the key audit matter	The audit procedures we performed in respect of this matter included: • Obtaining an understanding of the process and relevant controls over the price allocation and deferred contingent consideration calculation; • 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 assess the assumptions used by the Directors; • Evaluating how the requirements of IFRS 3 have been considered by the Directors in accounting for each business combination; • Challenging the assumptions for the inputs to the calculations with reference to comparable company benchmarks; • Assessing the accuracy of forecast revenues used in the calculations and the determination of the fair value of deferred contingent consideration at the acquisition date; • Evaluating the assessment of the presence of further intangible assets not identified; and • Assessing the forecast of post-acquisition performance and valuation of the deferred contingent consideration at the balance sheet date for both current and prior year acquisitions, in accordance with IFRS 9.
Key observations	We concluded that the assumptions made by the Directors in determining the valuation and allocation of acquired intangible assets, and the valuation of deferred contingent consideration are reasonable.

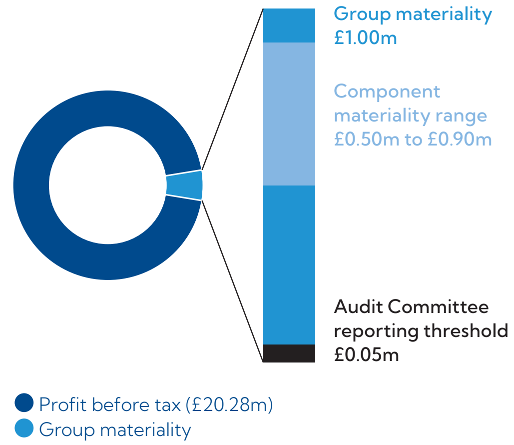
6. Our application of materiality

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	£1.00m (2022: £0.98m)	£0.50m (2022: £0.49m)
Basis for determining materiality	5% of profit before tax (2022: 4.9% of profit before tax).	0.8% of net assets (2022: 0.7% of net assets), which is capped at 50% (2022: 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 £0.50m. 50% is deemed appropriate based on the parent company's contribution to the Group.



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	60% (2022: 70%) of Group materiality	60% (2022: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • the quantum and nature of uncorrected misstatements identified in the prior year audit; • our assessment of the potential for uncorrected misstatements in the current year; and • our risk assessment, including the quality of the control environment. In the prior year, we relied on the automated controls in place across both the revenue and expenditure cycles. In the current year, due to IT control deficiencies identified, no such reliance was placed on these controls. In response, we have reduced performance materiality from 70% to 60% of Group materiality.	

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

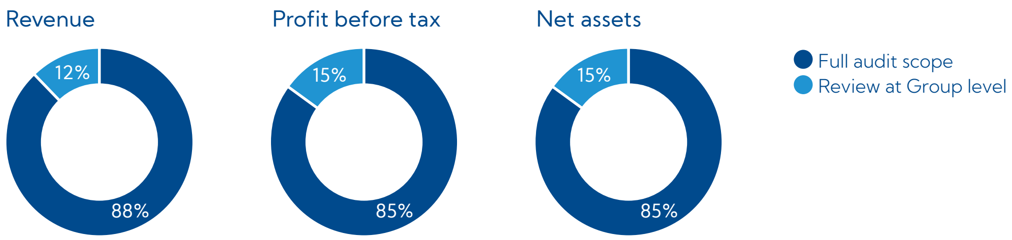
6.3. Error reporting threshold
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £50k (2022: £48k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee 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 component, which was lower than the Group materiality level and ranged from £501k to £901k (2022: £488k to £877k). Components deemed significant are as follows:

- Macfarlane Group UK Limited
- GWP Holdings Limited
- Nelsons for Cartons & Packaging Limited
- A.E Sutton Limited



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
The Group operates an IT system, Enterprise 7, which underpins the financial reporting process within Macfarlane Group UK Limited. We planned to rely on the relevant IT controls associated with this system and the relevant controls within the following business processes: revenue, trade receivables, expenditure, and trade payables. However, we identified deficiencies in the IT environment and therefore modified our audit approach so that we did not place any reliance on IT controls in the above business processes. This changed the nature, timing and extent of our substantive audit procedures over these balances.

The Audit Committee discusses their review of the effectiveness of risk management and internal control on page 66.

7.3. Our consideration of climate-related risks
In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements. We have considered management's own assessment of the related risks and opportunities as described on page 27, together with our cumulative knowledge and experience of the Group and environment in which it operates. The Directors have assessed that climate change does not have a significant impact on the financial statements as disclosed within the accounting policies. We performed our own risk assessment including inspecting the Group's risk register and Board minutes and did not identify any additional risks of material misstatement.

We involved internal Environmental, Social and Governance ('ESG') specialists to review the climate related disclosures on page 49 to 55. We further considered those disclosures related to climate made in the other information within the annual report and ascertained whether the disclosures are materially consistent with the financial statements and our knowledge obtained during our audit.

8. Other information
The other information comprises the information included in the annual report (including the Chair's Statement, Macfarlane Group Business Model and Strategy, Business Review, Finance Review, Viability Statement, s172 statement, ESG Report, TCFD Report, Corporate Governance Report, Remuneration Report, Report of the Directors 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, the Directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's sector;
- 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; and
- 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 accounting for business combinations.

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 legislation.

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, and environmental regulations.

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

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 contingent consideration as a key audit matter related to the potential risk of fraud. 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;
- reviewing the disclosures in note 22 relating to business combinations; 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 76;
- 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 21;
- the Directors' statement on fair, balanced and understandable set out on page 76;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 26;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 66; and
- the section describing the work of the audit committee set out on page 63.

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.

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 5 years, covering the years ending 31 December 2019 to 31 December 2023.

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') 4.1.15R – DTR 4.1.18R, these financial statements form part of the Electronic Format Annual Financial Report filed on the National Storage Mechanism of the FCA in accordance with DTR 4.1.15R – DTR 4.1.18R. This auditor's report provides no assurance over whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R.

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

29 February 2024

Consolidated income statement

For the year ended 31 December 2023

	Note	2023 £000	2022 £000
Continuing operations			
Revenue	1	**280,714**	290,431
Cost of sales		**175,033**	192,374
Gross profit		**105,681**	98,057
Distribution costs		**10,485**	10,736
Administrative expenses		**73,128**	65,825
Operating profit	2	**22,068**	21,496
Finance costs	4	**1,788**	1,562
Profit before tax		**20,280**	19,934
Tax	5	**5,306**	4,210
Profit for the year from continuing operations	19	**14,974**	15,724
Discontinued operations			
Loss for the year from discontinued operations		**–**	(87)
Profit for the year		**14,974**	15,637
Earnings per share from continuing operations	7		
Basic		**9.44p**	9.94p
Diluted		**9.34p**	9.84p
Earnings per share from continuing and discontinued operations	7		
Basic		**9.44p**	9.89p
Diluted		**9.34p**	9.78p

Consolidated statement of comprehensive income

For the year ended 31 December 2023

	Note	2023 £000	2022 £000
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences	19	**(45)**	45
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of pension scheme liability	23	**(1,967)**	(82)
Tax recognised in other comprehensive income			
Tax on remeasurement of pension scheme liability	17	**492**	21
Other comprehensive expense for the year, net of tax		**(1,520)**	(16)
Profit for the year		**14,974**	15,637
Total comprehensive income for the year		**13,454**	15,621

Consolidated statement of changes in equity

For the year ended 31 December 2023

	Note	Share capital £000	Share premium £000	Revaluation reserve £000	Own shares £000	Translation reserve £000	Retained earnings £000	Total £000
At 1 January 2022		39,453	13,148	70	–	171	42,052	94,894
Comprehensive income								
Profit for the year		–	–	–	–	–	15,637	15,637
Foreign currency translation differences	19	–	–	–	–	45	–	45
Remeasurement of pension scheme liability	23	–	–	–	–	–	(82)	(82)
Tax on remeasurement of pension scheme liability	17	–	–	–	–	–	21	21
Total comprehensive income		–	–	–	–	45	15,576	15,621
Transactions with shareholders								
Dividends	6	–	–	–	–	–	(5,102)	(5,102)
New shares issued		131	425	–	(7)	–	(549)	–
Share-based payments	24	–	–	–	–	–	607	607
Total transactions with shareholders		131	425	–	(7)	–	(5,044)	(4,495)
At 31 December 2022		**39,584**	**13,573**	**70**	**(7)**	**216**	**52,584**	**106,020**
Comprehensive income								
Profit for the year		**–**	**–**	**–**	**–**	**–**	**14,974**	**14,974**
Foreign currency translation differences	19	**–**	**–**	**–**	**–**	**(45)**	**–**	**(45)**
Remeasurement of pension scheme liability	23	**–**	**–**	**–**	**–**	**–**	**(1,967)**	**(1,967)**
Tax on remeasurement of pension scheme liability	17	**–**	**–**	**–**	**–**	**–**	**492**	**492**
Total comprehensive income		**–**	**–**	**–**	**–**	**(45)**	**13,499**	**13,454**
Transactions with shareholders								
Dividends	6	**–**	**–**	**–**	**–**	**–**	**(5,484)**	**(5,484)**
New shares issued	18/19	**154**	**408**	**–**	**(9)**	**–**	**(553)**	**–**
Share-based payments	24	**–**	**–**	**–**	**–**	**–**	**586**	**586**
Total transactions with shareholders		**154**	**408**	**–**	**(9)**	**–**	**(5,451)**	**(4,898)**
At 31 December 2023		**39,738**	**13,981**	**70**	**(16)**	**171**	**60,632**	**114,576**

Consolidated balance sheet

At 31 December 2023

	Note	2023 £000	2022 £000
Non-current assets			
Goodwill and other intangible assets	9	**87,495**	75,685
Property, plant and equipment	10	**9,210**	7,863
Right-of-use assets	11	**35,001**	33,938
Trade and other receivables	13	**35**	38
Deferred tax assets	17	**335**	105
Retirement benefit surplus	23	**9,921**	10,199
Total non-current assets		**141,997**	127,828
Current assets			
Inventories	12	**17,523**	22,608
Trade and other receivables	13	**53,792**	59,347
Current tax asset		**225**	675
Cash and cash equivalents	14	**7,691**	5,706
Total current assets		**79,231**	88,336
Total assets	1	**221,228**	216,164
Current liabilities			
Trade and other payables	15	**50,623**	54,577
Provisions	20	**401**	1,769
Current tax liabilities		**983**	304
Lease liabilities	16	**7,307**	6,641
Bank borrowings	14	**7,164**	9,143
Total current liabilities		**66,478**	72,434
Net current assets		**12,753**	15,902
Non-current liabilities			
Deferred tax liabilities	17	**9,472**	8,222
Deferred contingent consideration	15	**504**	–
Provisions	20	**1,329**	1,560
Lease liabilities	16	**28,869**	27,928
Total non-current liabilities		**40,174**	37,710
Total liabilities	1	**106,652**	110,144
Net assets	1	**114,576**	106,020
Equity			
Share capital	18	**39,738**	39,584
Share premium	19	**13,981**	13,573
Revaluation reserve	19	**70**	70
Own shares	19	**(16)**	(7)
Translation reserve	19	**171**	216
Retained earnings	19	**60,632**	52,584
Total equity		**114,576**	106,020

The financial statements of Macfarlane Group PLC, company registration number SC004221, were approved by the Board of Directors on 29 February 2024 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 2023

	Note	2023 £000	2022 £000
Profit/(loss) before tax from:			
Continuing operations		**20,280**	19,934
Discontinued operations		**–**	(87)
Total operations		**20,280**	19,847
Adjustments for:			
Amortisation of intangible assets	9	**4,034**	3,577
Depreciation of property, plant and equipment	10	**1,720**	1,498
Depreciation of right-of-use assets	11	**7,854**	7,542
Deferred contingent consideration adjustment		**1,535**	–
(Profit)/loss on disposal of property, plant and equipment		**(3)**	71
Loss on disposal of subsidiaries		**–**	87
Share-based payment expense		**586**	607
Finance costs	4	**1,788**	1,562
Operating cash flows before movements in working capital		**37,794**	34,791
Decrease in inventories		**5,733**	1,025
Decrease in receivables		**7,453**	285
Decrease in payables		**(7,021)**	(9,027)
Decrease in provisions		**(1,599)**	(249)
Pension scheme contributions (less current service cost)		**(1,179)**	(1,838)
Cash generated from operations		**41,181**	24,987
Income taxes paid		**(5,374)**	(5,251)
Interest paid		**(2,298)**	(1,738)
Net cash inflow from operating activities		**33,509**	17,998
Investing activities			
Acquisitions	22	**(14,466)**	(8,655)
Proceeds from sale of subsidiaries		**–**	166
Proceeds from disposal of property, plant and equipment		**90**	181
Purchase of property, plant and equipment		**(2,175)**	(3,285)
Cash outflow from investing activities		**(16,551)**	(11,593)
Financing activities			
Dividends paid	6	**(5,484)**	(5,102)
Repayment of bank borrowing facility		**(2,323)**	(865)
Repayment of lease obligations		**(7,510)**	(7,215)
Cash outflow from financing activities		**(15,317)**	(13,182)
Net increase/(decrease) in cash and cash equivalents		**1,641**	(6,777)
Cash and cash equivalents at beginning of year		**5,346**	12,123
Cash and cash equivalents at end of year		**6,987**	5,346

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.

	2023 £000	2022 £000
Reconciliation to consolidated cash flow statement		
Cash and cash equivalents per the consolidated balance sheet (note 14)	**7,691**	5,706
Bank overdraft (note 14)	**(704)**	(360)
Balances per consolidated cash flow statement	**6,987**	5,346

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 2023

Material accounting policy information

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 1 to 56. The 2023 financial statements have been prepared in accordance with United Kingdom adopted international accounting standards. 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 1 to 56.

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 £35m with Bank of Scotland 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 21.

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

As detailed in note 20, property provisions of £1.7m have been recognised as at 31 December 2023 (2022: £3.3m), representing the Directors' best estimate of dilapidations on property leases. The Directors have made the judgement that no provision is required for certain property leases where there is no intention to exit, having considered a number of factors including the extent of modifications to the property, the terms of the lease agreement, and the condition of the property.

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

Key sources of estimation uncertainty

The key sources of estimation uncertainty that could have significant effect on the carrying amounts of assets and liabilities in the next twelve months 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 and inflation rate assumptions, for which a sensitivity analysis is provided in note 23. The Directors consider that those sensitivities represent reasonable sensitivities which could occur in the next financial year.

Valuation of deferred contingent consideration

The valuation of deferred contingent consideration at both acquisition date and the balance sheet date is measured at fair value. This involves the assessment of forecast future cash flows against earn-out targets agreed with the sellers of acquired businesses over a period of up to two years. This assessment is based on the Directors' best estimate using the information available at the effective dates outlined above. However, there remains a risk that the actual payment differs from the amount assumed as consideration within the PPA accounting as detailed in note 22 and from the amount recorded as a liability at the balance sheet date as detailed in note 15. Deferred contingent considerations are recognised as a liability in trade and other payables in note 15 and are remeasured to fair value of £4.0m at the balance sheet date, of which £0.5m is due in more than one year, based on a range of outcomes between £Nil and £5.4m. Trading in the post-acquisition period supports the remeasured value of £4.0m.

Accounting policies (cont)

For the year ended 31 December 2023

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 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 item, this is referred to as an Alternative Performance Measure ('APM'). We believe that the APMs 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 adjusted operating profit and adjusted profit before tax as measures to assist in understanding the underlying performance of the Group and its businesses when compared to similar companies. Adjusted operating profit and adjusted profit before tax are not defined under IFRS and, as a result, do not comply with Generally Accepted Accounting Practice ('GAAP') and are therefore known as APMs. Accordingly, these measures, which are not designed to be a substitute for any of the IFRS measures of performance, may not be directly comparable with other companies' APMs.

Adjusted operating profit is defined as operating profit before customer relationships and brand values amortisation, and deferred contingent consideration adjustments.

Adjusted profit before tax is defined as profit before tax, customer relationships and brand values amortisation, and deferred contingent consideration adjustments.

	Alternative performance measures £000	Customer relationship/ brand values amortisation £000	Deferred contingent consideration adjustments £000	Statutory measures £000	
Year to 31 December 2023					
Adjusted operating profit	**27,637**	**(4,034)**	**(1,535)**	**22,068**	**Operating profit**
Adjusted profit before tax	**25,849**	**(4,034)**	**(1,535)**	**20,280**	**Profit before tax**
Year to 31 December 2022					
Adjusted operating profit	25,073	(3,577)	–	21,496	Operating profit
Adjusted profit before tax	23,511	(3,577)	–	19,934	Profit before tax

Net bank funds/(debt) also represents an APM as defined and reconciled to the statutory measure in note 21.

Changes in accounting policies in 2023

There are no new accounting policies applied in 2023 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 2023 has had any material impact on the financial statements of the Group.

New accounting standards and interpretations

In the current year, the Group has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- IFRS 17 *Insurance Contracts (including the June 2020 and December 2021 Amendments to IFRS 17)*
- Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements – Disclosure of Accounting Policies*
- Amendments to IAS 12 Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 12 Income Taxes – International Tax Reform – Pillar Two Model Rules
- Amendments to IAS 8 *Accounting Polices, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates*

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective:

- Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to IAS 1: *Classification of Liabilities as Current or Non-current*
- Amendments to IAS 1: *Non-current Liabilities with Covenants*
- Amendments to IAS 7 and IFRS 7: *Supplier Finance Arrangements*

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 fair value of deferred contingent consideration payable based on the conditions and information available at the date of acquisition and then subsequently reviewed at each balance sheet date.

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 of up to fifteen years and are expensed through administration expenses in the income statement.

Accounting policies (cont)

For the year ended 31 December 2023

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 and packing 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 2023 ranged between 2.75% and 8.75%, with the average rate applied across all leases being 4.35%.

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 11 and note 16 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.

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 Macfarlane Group PLC and Macfarlane Group UK Limited at December 2023. 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.

Accounting policies (cont)

For the year ended 31 December 2023

(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 statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

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. The entity always recognises lifetimes expected credit losses (ECL) for trade receivables as estimated using a provision matrix based on the Group's historic credit loss experience. 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 in accordance with the substance of the contractual arrangements.

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Financial liabilities,that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

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 the 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 the 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 24.

(m) Climate accounting policy

In preparing these consolidated financial statements, management have considered the impact of climate change, particularly in the context of the risks identified in the TCFD disclosures on pages 49 to 55. There has been no material impact identified on the financial reporting judgements and estimates. In particular, management considered the impact of climate change in respect of the following areas:

- Assessment of impairment of goodwill, other intangible and tangible assets
- Assessment of impairment of financial assets
- Going concern and viability disclosures
- Impact on useful economic lives of assets
- Preparation of budgets and cash flow forecasts

Given the nature of the short to medium term risk assessment in the TCFD report, no material climate change related impact was identified in the above areas. Management are however, aware of the changing nature of risks associated with climate change and will regularly assess these risks against judgements and estimates made in preparation of the Group's financial statements.

Notes to the financial statements

For the year ended 31 December 2023

1. Business and geographical segments

(a) Business segments

The Group's principal business segment is **Packaging Distribution**, comprising the distribution of packaging materials in the UK, Ireland and Europe. This segment accounts for 87% of Group revenue and 75% of Group operating profit.

The **Manufacturing Operations** segment comprises the design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK. This segment accounts for 13% of Group revenue and 25% of Group operating profit.

External revenues from major products and services	2023 £000	2022 £000
Packaging Distribution	244,938	259,651
Manufacturing Operations	35,776	30,780
External revenues	**280,714**	290,431

(b) Segmental information

	Packaging Distribution £000	Manufacturing Operations £000	2023 Total £000	Packaging Distribution £000	Manufacturing Operations £000	2022 Total £000
Revenue						
Total revenue	244,938	40,929	285,867	259,651	35,045	294,696
Inter-segment revenue	–	(5,153)	(5,153)	–	(4,265)	(4,265)
External revenue	244,938	35,776	280,714	259,651	30,780	290,431
Cost of sales	157,458	17,575	175,033	176,193	16,181	192,374
Gross profit	87,480	18,201	105,681	83,458	14,599	98,057
Net operating expenses	66,436	11,608	78,044	63,590	9,394	72,984
Adjusted operating profit	21,044	6,593	27,637	19,868	5,205	25,073
Amortisation	2,983	1,051	4,034	2,774	803	3,577
Deferred contingent consideration adjustments	1,550	(15)	1,535	–	–	–
Operating profit	16,511	5,557	22,068	17,094	4,402	21,496
Net finance costs			1,788			1,562
Profit before tax			20,280			19,934
Tax			5,306			4,210
Profit for the year			14,974			15,724
Capital additions	8,377	12,663	21,040	12,125	67	12,192
Depreciation/amortisation	11,297	2,289	13,586	10,694	1,923	12,617
Segment assets	176,740	44,488	221,228	188,866	27,298	216,164
Segment liabilities	(94,757)	(11,895)	(106,652)	(102,937)	(7,207)	(110,144)
Net assets	81,983	32,593	114,576	85,929	20,091	106,020

Inter-segment revenues are charged at prevailing market prices.

(c) Geographical segments

The Group's operations are primarily located in the UK and Europe. No individual country in Europe accounts for more than 10% of Group external revenue. Europe revenue below originates from the Group's subsidiaries in Germany (57%), the Netherlands (28%) and Ireland (15%). Europe non-current assets below relates to the Group's subsidiaries in Germany (94%) and the Netherlands (6%).

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

Manufacturing Operations are primarily in the UK.

	Continuing operations UK £000	Continuing operations Europe £000	2023 Total £000	Continuing operations UK £000	Continuing operations Europe £000	2022 Total £000
External revenue	258,464	22,250	280,714	273,996	16,435	290,431
Operating profit	20,588	1,480	22,068	20,545	951	21,496
Non-current assets[1]	126,063	5,643	131,706	123,003	4,825	127,828
Capital additions	20,953	87	21,040	7,198	4,994	12,192

1 Excludes deferred tax assets and retirement benefit surplus.

(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:	2023 £000	2022 £000
Cost of inventories recognised as an expense in the consolidated income statement	169,002	187,829
Amortisation of other intangible assets (note 9)	4,034	3,577
Depreciation of property, plant and equipment (note 10)	1,720	1,498
Depreciation of right-of-use assets (note 11)	7,854	7,542
Acquisition related costs	219	186
Staff costs (note 3)	48,665	43,850

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

Audit services		
Fees payable to the auditor for the audit of these financial statements	69	59
Fees payable to auditor for the audit of the Company's subsidiaries	282	216
Total audit fees	351	275
Non-audit services		
Other assurance services for the audit of the Company pension scheme	16	16
Total non-audit fees	16	16
Total fees paid to auditor	367	291

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.

3. Staff costs

The average monthly number of employees (including Directors) was:	2023 No.	2022 No.
Production	234	189
Sales and distribution	572	550
Administration	287	273
	1,093	1,012

The costs incurred in respect of these employees were:	2023 £000	2022 £000
Wages and salaries	40,765	37,502
Social security costs	4,278	3,996
Pension costs		
Contributions to defined contribution schemes	3,036	1,704
Contributions to defined benefit schemes	–	41
Share-based payments (note 24)	586	607
	48,665	43,850

Notes to the financial statements (cont)

For the year ended 31 December 2023

4. Finance costs

	2023 £000	2022 £000
Interest on bank borrowings	**878**	616
Interest on leases	**1,420**	1,122
Finance income relating to defined benefit scheme (note 23)	**(510)**	(176)
Finance costs	**1,788**	1,562

5. Tax

	2023 £000	2022 £000
Current tax		
United Kingdom corporation tax	**5,615**	3,680
Foreign tax	**460**	253
Adjustments in respect of prior-years	**(38)**	(21)
Current tax charge	**6,037**	3,912
Deferred tax		
Current year	**(731)**	207
Adjustments in respect of prior-years	**–**	91
Deferred tax charge (note 17)	**(731)**	298
Total tax charge	**5,306**	4,210

The standard rate of tax, based on the UK average rate of corporation tax is 23.5% (2022: 19%). The increase in 2023 is due to the corporation tax rate increasing from 19% to 25% effective from 1 April 2023. 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.

	2023 £000	2022 £000
Profit before tax from continuing operations	**20,280**	19,934
Loss before tax from discontinued operations	**–**	(87)
Profit before tax from total operations	**20,280**	19,847
Tax on profit at 23.5% (2022: 19%)	**4,766**	3,771
Factors affecting tax charge for the year:		
Difference in rate for deferred tax (25%) on pensions	**25**	120
Non-deductible expenses	**487**	189
Difference on overseas tax rates	**66**	60
Changes in estimates related to prior years	**(38)**	70
Tax charge for the year	**5,306**	4,210
Weighted average effective tax rate for the year	**26.2%**	21.2%

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 2023 have been calculated based on a long-term corporation tax rate of 25%, which had been substantively enacted at the balance sheet date.

6. Dividends

	2023 £000	2022 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for 2022 of 2.52p per share (2021: 2.33p per share)	**3,990**	3,677
Interim dividend for 2023 of 0.94p per share (2022: 0.90p per share)	**1,494**	1,425
	5,484	5,102

A proposed final dividend of 2.65p per share will be paid on 30 May 2024 to shareholders on the register at 10 May 2024 (ex dividend date 9 May 2024). This is subject to approval by shareholders at the Annual General Meeting on 7 May 2024 and therefore is not included as a liability in these financial statements.

7. Earnings per share

	2023 £000	2022 £000
Earnings for the purposes of calculating earnings per share		
Profit for the year from continuing operations	**14,974**	15,724
Loss for the year from discontinued operations	**–**	(87)
Profit for the year from continuing and discontinued operations	**14,974**	15,637

Number of shares in issue	2023 Number of shares '000	2022 Number of shares '000
Weighted average number of ordinary shares to calculate basic earnings per share	**158,542**	158,162
Dilutive effect of Long-Term Incentive Plan awards in issue	**1,788**	1,661
Weighted average number of ordinary shares to calculate diluted earnings per share	**160,330**	159,823
Basic earnings per share from continuing operations	**9.44p**	9.94p
Diluted earnings per share from continuing operations	**9.34p**	9.84p
Basic earnings per share from discontinued operations	**–**	(0.06)p
Diluted earnings per share from discontinued operations	**–**	(0.05)p
Basic earnings per share from continuing and discontinued operations	**9.44p**	9.89p
Diluted earnings per share from continuing and discontinued operations	**9.34p**	9.78p

8. Subsidiary companies

Subsidiary companies, with names, countries of incorporation and registered offices, are shown on page 131.

The Group has agreed to exempt the nine companies, B&D 2010 Group Limited (Company number SC370599), Barum & Dewar Limited (Company number SC168649), B&D Foam Limited (Company number SC370617), A.E. Sutton Limited (Company number 00712221), A and G Holdings Limited (Company number 11829544), Gottlieb Packaging Materials Limited (Company number 04229648), Carters Packaging (Cornwall) Limited (Company number 12994605), Carters Packaging Limited (Company number 04691446) and Nelsons for Cartons & Packaging Limited (Company number 03655833) from the provisions of the Companies Act relating to the audit of individual accounts by virtue of section 479A.

On the date of approval and signing of the consolidated financial statements, as set out on page 87, the outstanding liabilities at the Statement of Financial Position date, 31 December 2023, of the named subsidiaries, except Nelsons for Cartons & Packaging Limited, were guaranteed by the parent undertaking Macfarlane Group UK Limited (registered number 01630389) and Nelsons for Cartons & Packaging Limited, was guaranteed by the parent undertaking Macfarlane Group PLC (registered number SC004221) pursuant to s479A to s479C of the Companies Act.

Notes to the financial statements (cont)

For the year ended 31 December 2023

9. Goodwill and other intangible assets

	Packaging Distribution £000	Manufacturing Operations £000	2023 Total £000	2022 Total £000
Goodwill	50,738	13,203	63,941	56,574
Other intangible assets	12,123	11,431	23,554	19,111
Goodwill and other intangible assets	62,861	24,634	87,495	75,685

Goodwill	Packaging Distribution £000	Manufacturing Operations £000	2023 Total £000	2022 Total £000
Fair value on acquisition				
At 1 January	49,081	7,493	56,574	53,600
Additions (note 22)	1,657	5,710	7,367	2,974
At 31 December	50,738	13,203	63,941	56,574
Accumulated impairment losses				
At 1 January and 31 December	–	–	–	–
Carrying amount				
At 31 December 2023	50,738	13,203	63,941	
At 31 December 2022	49,081	7,493		56,574

On 3 March 2023, Macfarlane Group UK Limited ('MGUK') acquired 100% of A.E. Sutton Limited ('Suttons'). Goodwill arising on the Suttons acquisition was added to the Manufacturing Operations CGU.

On 28 April 2023, MGUK acquired 100% of A & G Holdings Limited ('Gottlieb'). Goodwill arising on the Gottlieb acquisition was added to the Packaging Distribution CGU.

On 29 September 2023, Macfarlane Group UK Limited ('MGUK') acquired 100% of B&D 2010 Group Limited ('B&D Group'). Goodwill arising on the B&D Group acquisition was added to the Manufacturing Operations CGU.

At 31 December 2023, 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 all acquisitions in this segment since 2021.

The recoverable amount of each CGU Grouping is determined using 'value in use' calculations with key assumptions relating to discount rates, revenue growth rates, projected gross margin and overhead costs. A pre-tax discount rate of 11.0% (2022: 11.9%) 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.

Revenue 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 2024 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.

Furthermore, in preparing this assessment we have considered the potential impact of climate change. In particular, we have considered the impact of climate change on the useful economic lives of assets, disruption to key sites and supply chain, and potential asset impairments. These considerations did not have a material impact on the goodwill impairment assessment.

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 2023 no impairment charge is required against the carrying amount of goodwill.

Other intangible assets	Brand values £000	Customer relationships £000	2023 Total £000	2022 Total £000
Fair value on acquisition				
At 1 January	1,311	37,501	38,812	37,426
Additions (note 22)	194	8,283	8,477	1,386
At 31 December	1,505	45,784	47,289	38,812
Amortisation				
At 1 January	1,074	18,627	19,701	16,124
Charge for year	109	3,925	4,034	3,577
At 31 December	1,183	22,552	23,735	19,701
Carrying amount				
At 31 December 2023	322	23,232	23,554	
At 31 December 2022	237	18,874		19,111

Other intangible assets comprise separately identifiable intangible assets recognised on the acquisitions of businesses and subsidiary companies between 2014 and 2023. 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 up to fifteen years respectively.

At 31 December 2023, the Group retained values in respect of:

Year of acquisition	Company/Business acquired	Brand £000	Customer Relationships £000
2014	Packaging business of Lane Packaging Limited	–	21
2014	Network Packaging Limited	–	229
2015	One Packaging Limited	–	172
2016	Packaging business of Colton Packaging Teesside	–	155
2016	Packaging business of Edward McNeil Limited	–	212
2016	Nelsons for Cartons & Packaging Limited	–	719
2017	Packaging business of Greenwoods Stock Boxes Limited and Nottingham Recycling Limited	–	3,395
2018	Tyler Packaging (Leicester) Limited	–	365
2018	Harrisons Packaging Limited	–	567
2019	Ecopac (U.K.) Limited	–	804
2019	Leyland Packaging Company (Lancs) Limited	–	975
2020	Packaging business of Armagrip	–	175
2021	GWP Group Limited	–	5,285
2021	Carters Packaging Limited	–	1,399
2022	PackMann Gesellschaft für Verpackungen und Dienstleistungen mbH	165	886
2023	A.E. Sutton Limited	109	3,713
2023	A and G Holdings Limited	23	1,861
2023	B&D 2010 Group Limited	25	2,299
		322	23,232

Notes to the financial statements (cont)

For the year ended 31 December 2023

10. Property, plant and equipment

	Note	Property £000	Plant, machinery & vehicles £000	Total £000
Cost				
At 1 January 2022		7,405	21,270	28,675
Acquisitions		–	564	564
Additions		904	2,381	3,285
Transfer from right of use assets		–	139	139
Exchange movements		–	19	19
Disposals		(199)	(2,113)	(2,312)
At 31 December 2022		8,110	22,260	30,370
Acquisitions	22	**–**	**2,160**	**2,160**
Additions		**616**	**1,559**	**2,175**
Transfer from right of use assets		**–**	**478**	**478**
Exchange movements		**–**	**(12)**	**(12)**
Disposals		**(4)**	**(800)**	**(804)**
At 31 December 2023		**8,722**	**25,645**	**34,367**
Accumulated depreciation				
At 1 January 2022		4,463	18,111	22,574
Acquisitions		–	428	428
Charge for year		336	1,162	1,498
Transfer from right of use assets		–	52	52
Exchange movements		–	15	15
Disposals		(174)	(1,886)	(2,060)
At 31 December 2022		4,625	17,882	22,507
Acquisitions	22	**–**	**1,406**	**1,406**
Charge for year		**417**	**1,303**	**1,720**
Transfer from right of use assets		**–**	**251**	**251**
Exchange movements		**–**	**(10)**	**(10)**
Disposals		**(4)**	**(713)**	**(717)**
At 31 December 2023		**5,038**	**20,119**	**25,157**
Carrying amount				
At 31 December 2023		**3,684**	**5,526**	**9,210**
At 31 December 2022		3,485	4,378	7,863
At 1 January 2022		2,942	3,159	6,101

The main components of property, plant and equipment are:

(i) Two 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.

	2023 £000	2022 £000
Property at net book value comprises:		
Freeholds	**1,030**	957
Long leaseholds	**2,626**	2,438
Short leaseholds	**28**	90
	3,684	3,485

Contractual commitments for capital expenditure for which no provision has been made in these accounts amount to £1,836,000 (2022: £744,000).

11. Right of use assets

	Note	Property £000	Plant, machinery & vehicles £000	Total £000
Cost				
At 1 January 2022		41,256	8,390	49,646
Acquisitions		1,634	–	1,634
Additions		1,083	3,464	4,547
Lease modifications		227	(16)	211
Transfer to property, plant & equipment		–	(139)	(139)
Disposals		(3,139)	(1,240)	(4,379)
At 31 December 2022		41,061	10,459	51,520
Acquisitions	22	**1,801**	**–**	**1,801**
Additions		**1,363**	**1,658**	**3,021**
Lease modifications		**2,265**	**(264)**	**2,001**
Exchange movements		**(46)**	**–**	**(46)**
Transfer to property, plant & equipment		**–**	**(478)**	**(478)**
Disposals		**(683)**	**(991)**	**(1,674)**
At 31 December 2023		**45,761**	**10,384**	**56,145**
Accumulated depreciation				
At 1 January 2022		11,115	3,813	14,928
Charge for year		5,707	1,835	7,542
Lease modifications		(637)	(98)	(735)
Transfer to property, plant & equipment		–	(52)	(52)
Disposals		(3,068)	(1,033)	(4,101)
At 31 December 2022		13,117	4,465	17,582
Charge for year		**5,716**	**2,138**	**7,854**
Lease modifications		**(1,881)**	**(584)**	**(2,465)**
Exchange movements		**(7)**	**–**	**(7)**
Transfer to property, plant & equipment		**–**	**(251)**	**(251)**
Disposals		**(619)**	**(950)**	**(1,569)**
At 31 December 2023		**16,326**	**4,818**	**21,144**
Carrying amount				
At 31 December 2023		**29,435**	**5,566**	**35,001**
Carrying amount At 31 December 2022		27,944	5,994	33,938

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.

12. Inventories

	2023 £000	2022 £000
Raw materials and consumables	**1,202**	1,034
Work in progress	**123**	139
Finished goods and goods for resale	**16,198**	21,435
	17,523	22,608

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.

Notes to the financial statements (cont)

For the year ended 31 December 2023

12. Inventories (cont)

Movement in the provisions for slow-moving and obsolete inventories	2023 £000	2022 £000
At 1 January	**1,760**	1,318
Acquisitions	**3**	193
Additional provisions recognised in the consolidated income statement	**880**	633
Inventories written off during the year	**(628)**	(384)
At 31 December	**2,015**	1,760

13. Trade and other receivables

	2023 £000	2022 £000
Current		
Trade receivables	**48,217**	54,840
Loss allowance	**(458)**	(795)
	47,759	54,045
Other receivables	**3,215**	3,766
Prepayments	**2,432**	1,536
Other taxation and social security	**386**	–
	53,792	59,347
Non-current		
Other receivables	**35**	38

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 (2022: 55 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.

Risk profile category (ageing)	2023 £000	ECL rate	2023 ECL allowance £000	2022 £000	ECL rate	2022 ECL allowance £000
Current	**34,758**	**0.52%**	**182**	39,855	0.92%	367
Overdue						
0 –30 days	**11,147**	**0.93%**	**104**	12,694	1.71%	217
30-60 days	**1,195**	**1.67%**	**20**	1,351	2.74%	37
60-90 days	**421**	**5.23%**	**22**	486	9.05%	44
Over 90 days	**696**	**18.7%**	**130**	454	28.6%	130
	48,217		**458**	54,840		795

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.

ECL allowance	2023 £000	2022 £000
At 1 January	**795**	731
Acquisitions	**37**	14
Change in loss allowance	**78**	368
Amounts written off as uncollectible (net of recoveries)	**(452)**	(318)
At 31 December	**458**	795

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

14. 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 2023. 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 2024.

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 Bank of Scotland PLC of £35m 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 13.

Interest rate risk

The Group borrows in currencies at floating rates of interest. It was not considered necessary to cover interest rate exposures by the use of financial instruments during 2023.

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 £44,000 (2022: £61,000).

Currency risk

The Group had three overseas subsidiaries in 2023, one operating in Ireland, one operating in the Netherlands and one operating in Germany. Revenues and expenses are denominated exclusively in Euros. Movements in the Euro to sterling exchange rates could affect the Group's sterling balance sheet. The Group's policy during 2023 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		Liabilities	
	2023 £000	2022 £000	2023 £000	2022 £000
Euros	**7,105**	8,071	**2,936**	3,520

Notes to the financial statements (cont)

For the year ended 31 December 2023

14. Financial instruments (cont)

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

	2023 £000	2022 £000
Euros	1,679	1,015

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 2023 £000	Result 2022 £000	Other equity 2023 £000	Other equity 2022 £000
Euros	64	38	106	70

	2023 £000	2022 £000
Cash and cash equivalents		
Currency – Sterling	5,468	5,232
– Euros	2,218	413
– US Dollars	5	61
Cash and cash equivalents	7,691	5,706
Bank borrowings		
Currency – Sterling	7,164	8,245
– Euros	–	898
Bank borrowings	7,164	9,143
Net bank funds/(debt)	527	(3,437)

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with an original maturity of three months or less. Bank borrowings comprise of £6,460,000 drawdown on the borrowing facility, details of which are set out immediately below and £704,000 of bank overdraft which have a right of offset against Sterling cash and cash equivalents.

The Group bank borrowing facility with Bank of Scotland PLC of £35m is available until December 2025. Under the facility, trade receivables of the Group's largest trading subsidiary, Macfarlane Group UK Limited and, another subsidiary, GWP Group Limited are assigned to Bank of Scotland PLC who then fund the Group in advance of the collection of these receivables. The Group retains the credit risk associated to collecting the 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 2023 and has remained in compliance in 2024 to date.

Interest rates

Bank borrowings are held at floating rates of interest. The average effective interest rate on these borrowings approximates to 7.97% per annum (2022: 4.52%).

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 2023 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:

	2023 £000	2022 £000
Drawn down	6,460	9,143
Undrawn	28,540	21,743
Committed borrowing facilities	35,000	30,886

The Group's borrowing profile is as follows:	2023 £000	2022 £000
At amortised cost		
Bank borrowings – secured	7,164	9,143
Lease liabilities	7,307	6,641
Current borrowings	14,471	15,784
Non-current lease liabilities	28,869	27,928
Total borrowings	43,340	43,712
Equity	114,576	106,020
Gearing (net debt to equity) ratio	38%	41%

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 (note 15)	Carrying amount 2023 £000	Fair value 2023 £000	Level 1 2023 £000	Level 2 2023 £000	Level 3 2023 £000
Contingent consideration	(4,031)	(4,031)	–	–	(4,031)

	Carrying amount 2022 £000	Fair value 2022 £000	Level 1 2022 £000	Level 2 2022 £000	Level 3 2022 £000
Contingent consideration	(3,695)	(3,695)	–	–	(3,695)

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 12-24 months following acquisition

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements.

		2023 Contractual cash flows		
Non-derivative financial instruments	Total £000	Due within one year £000	Due from 1-5 years £000	Due after five years £000
Secured bank borrowings	7,164	7,164	–	–
Lease liabilities	36,176	7,307	19,242	9,627
Trade payables	30,323	30,323	–	–
Accruals and deferred income	11,401	11,401	–	–
Contingent consideration	4,031	3,527	504	–
	89,095	59,722	19,746	9,627

Notes to the financial statements (cont)

For the year ended 31 December 2023

14. Financial instruments (cont)

Non-derivative financial instruments	Total £000	2022 Contractual cash flows Due within one year £000	Due from 1-5 years £000	Due after five years £000
Secured bank borrowings	9,143	9,143	–	–
Lease liabilities	34,569	6,641	17,720	10,208
Trade payables	36,291	36,291	–	–
Accruals and deferred income	10,167	10,167	–	–
Contingent consideration	3,695	3,695	–	–
	93,865	65,937	17,720	10,208

15. Trade and other payables

	2023 £000	2022 £000
Due within one year		
Trade payables	**30,323**	36,291
Other taxation and social security	**4,472**	3,849
Deferred contingent consideration	**3,527**	3,695
Other payables	**900**	575
Accruals and deferred income	**11,401**	10,167
	50,623	54,577
Due after more than one year		
Deferred contingent consideration	**504**	–
	504	–

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. £2,915,000 of deferred contingent consideration was paid during 2023 related to the acquisitions of GWP Holdings Limited and Carters Packaging (Cornwall) Limited in 2021. The Directors consider that the carrying amounts for trade and other payables approximate to their fair value.

After a reassessment of the fair value of deferred contingent consideration related to the acquisition of PackMann which was estimated at £nil in 2022, a charge of £1.5m has been made in 2023 and a corresponding liability recognised at 31 December 2023. This reflects an improvement in the financial performance of PackMann during 2023 and the resultant deferred contingent consideration now estimated to be payable in 2024 for the two years ending 31 May 2024.

16. Lease liabilities

	2023 £000	2022 £000
Amounts payable under leases		
Within one year	**7,307**	6,641
Between one and five years	**19,242**	17,720
After more than five years	**9,627**	10,208
Present value of lease liabilities	**36,176**	34,569
Due for settlement within 12 months (Current liabilities)	**(7,307)**	(6,641)
Due for settlement after more than 12 months (Non-current liabilities)	**28,869**	27,928

	2023 £000	2022 £000
At 1 January	**34,569**	34,942
New leases	**3,021**	4,546
Acquisitions (note 22)	**1,801**	1,634
Disposals	**(227)**	(237)
Lease modifications	**4,562**	899
Exchange movements	**(40)**	–
Interest	**1,410**	1,122
Repayments under leases	**(8,920)**	(8,337)
At 31 December	**36,176**	34,569

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 £7,510,000 consists of repayments under leases of £8,920,000 less interest of £1,410,000.

17. Deferred tax

	Timing differences/ Accelerated capital allowances £000	Other intangible assets £000	Retirement benefit obligations £000	Total £000
At 1 January 2022	(319)	(5,065)	(2,069)	(7,453)
Acquisition	–	(387)	–	(387)
(Charged)/credited in income statement	(484)	689	(503)	(298)
Credited in other comprehensive income				
Deferred tax on remeasurement of pension scheme liability	–	–	21	21
At 31 December 2022	(803)	(4,763)	(2,551)	(8,117)
Acquisition (note 22)	**(124)**	**(2,119)**	**–**	**(2,243)**
Credited/(charged) in income statement	**190**	**963**	**(422)**	**731**
Credited in other comprehensive income				
Deferred tax on remeasurement of pension scheme liability	**–**	**–**	**492**	**492**
At 31 December 2023	**(737)**	**(5,919)**	**(2,481)**	**(9,137)**
2023 Deferred tax assets				
Due outwith one year	**335**	**–**	**–**	**335**
2023 Deferred tax liabilities				
Due outwith one year	**(1,072)**	**(5,919)**	**(2,481)**	**(9,472)**
	(737)	**(5,919)**	**(2,481)**	**(9,137)**
2022 Deferred tax assets				
Due outwith one year	105	–	–	105
2022 Deferred tax liabilities				
Due outwith one year	(908)	(4,763)	(2,551)	(8,222)
	(803)	(4,763)	(2,551)	(8,117)

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 2023 have been calculated based on a corporation tax rate of 25%.

Notes to the financial statements (cont)

For the year ended 31 December 2023

18. Share capital

	Number of 25p shares	2023 £000	2022 £000
Allotted, issued and fully paid:			
At 1 January	158,337,000	39,584	39,453
Issued during the year	615,000	154	131
At 31 December	**158,952,000**	**39,738**	39,584

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.

On 30 August 2023, the Company issued 615,000 ordinary shares of 25p at a value of 91.4p to settle 2020 share awards under the Company's 2016 Performance Share Plan.

19. Reserves

	Share Premium £000	Revaluation reserve £000	Own shares £000	Translation reserve £000	Retained earnings £000
Balance at 1 January 2022	13,148	70	–	171	42,052
Profit for the year	–	–	–	–	15,637
Dividends paid (see note 6)	–	–	–	–	(5,102)
Issue of new shares	425	–	(7)	–	(549)
Foreign currency translation differences – foreign operations	–	–	–	45	–
Share-based payments	–	–	–	–	607
Remeasurement of pension scheme liability taken direct to equity	–	–	–	–	(82)
Deferred tax taken direct to equity	–	–	–	–	21
Balance at 31 December 2022	13,573	70	(7)	216	52,584
Profit for the year	–	–	–	–	14,974
Dividends paid (see note 6)	–	–	–	–	(5,484)
Issue of new shares	408	–	(9)	–	(553)
Foreign currency translation differences – foreign operations	–	–	–	(45)	–
Share-based payments	–	–	–	–	586
Remeasurement of pension scheme liability taken direct to equity	–	–	–	–	(1,967)
Deferred tax taken direct to equity	–	–	–	–	492
Balance at 31 December 2023	**13,981**	**70**	**(16)**	**171**	**60,632**

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.

20. Provisions

	Property £000
At 1 January 2022	3,578
Additions in the year	817
Releases	(124)
Payments	(942)
At 31 December 2022	3,329
Additions in the year	25
Acquisitions	51
Releases	(184)
Payments	(1,491)
At 31 December 2023	**1,730**
2023 – Due within one year	**401**
– Due after more than one year	**1,329**
At 31 December 2023	**1,730**
2022 – Due within one year	1,769
– Due after more than one year	1,560
At 31 December 2022	3,329

Property provisions relate to sums due in respect of dilapidations.

21. Analysis of changes in net debt

	Cash & cash equivalents £000	Bank borrowing £000	Lease liabilities £000	Total debt £000
At 1 January 2022	12,315	(9,840)	(34,942)	(32,467)
Non-cash movements				
New leases	–	–	(4,546)	(4,546)
Acquisitions	–	–	(1,634)	(1,634)
Disposals	–	–	237	237
Lease modifications	–	–	(899)	(899)
Cash movements	(6,609)	697	7,215	1,303
At 31 December 2022	5,706	(9,143)	(34,569)	(38,006)
Non-cash movements				
New leases	–	–	(3,021)	(3,021)
Acquisitions	–	–	(1,801)	(1,801)
Disposals	–	–	227	227
Lease modifications	–	–	(4,562)	(4,562)
Exchange movements	–	–	40	40
Cash movements	1,985	1,979	7,510	11,474
At 31 December 2023	**7,691**	**(7,164)**	**(36,176)**	**(35,649)**

	Cash & cash equivalents £000	Bank borrowing £000	Net bank funds/(debt) £000
Net bank funds 2023	**7,691**	**(7,164)**	**527**
Net bank debt 2022	5,706	(9,143)	(3,437)

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 22.

Notes to the financial statements (cont)

For the year ended 31 December 2023

22. Acquisitions

On 3 March 2023, Macfarlane Group UK Limited ('MGUK') acquired 100% of A.E. Sutton Limited, for a total potential consideration of £13.7m and inherited net cash/bank balances of £5.3m. Full potential contingent consideration of £2.5m is payable in the second quarters of 2024 and 2025, subject to certain trading targets being met in the two twelve-month periods ending on 29 February 2024 and 28 February 2025 respectively.

On 28 April 2023, MGUK acquired 100% of A & G Holdings Limited, the parent company of Gottlieb Packaging Materials Limited, for a total potential consideration of £4.3m and inherited net cash/bank balances of £0.9m. Full potential contingent consideration of £0.8m is payable in the second quarters of 2024 and 2025, subject to certain trading targets being met in the two twelve-month periods ending on 30 April 2024 and 2025 respectively.

On 29 September 2023, MGUK acquired 100% of B&D 2010 Group Limited ('B&D Group'), for a total potential consideration of £5.4m and inherited net cash/bank balances of £1.8m. Full potential contingent consideration of £0.55m is payable in the third quarter of 2024, subject to certain trading targets being met in the twelve-month period ending on 30 September 2024.

£2.1m was paid in 2023 to the sellers of GWP Holdings Limited, acquired in 2021, as the profit target was met for the twelve-month period ending 28 February 2023. £0.8m was held back subject to conclusion of an outstanding warranty claim.

£0.8m was paid in 2023 to the sellers of Carters (Cornwall) Limited, acquired in 2021, as the profit target was met for the twelve-month period ending 31 March 2023.

Contingent considerations are recognised as a liability in trade and other payables and are remeasured to fair value of £4.0m at the balance sheet date, of which £0.5m is due in more than one year, based on a range of outcomes between £Nil and £5.4m. Trading in the post-acquisition period supports the remeasured value of £4.0m. The £4.0m relates to the acquisitions of PackMann (£1.5m – see note 15), Suttons (£1.3m), Gottlieb (£0.7m) and B&D Group (£0.5m).

The impact of the acquisitions of Suttons, Gottlieb and B&D Group on 2023 results and if the acquisitions had been completed on the first day of 2023 are set out below:

	From date of acquisition		**If completed 1 January 2023**	
	Revenue £000	**Profit £000**	**Revenue £000**	**Profit £000**
Suttons	**6,065**	**1,594**	**7,278**	**1,912**
Gottlieb	**3,323**	**589**	**4,984**	**883**
B&D Group	**750**	**150**	**3,000**	**600**

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

	Suttons £000	Gottlieb £000	B&D Group £000	Prior year acquisitions £000	**2023 Total £000**
Net assets acquired					
Other intangible assets (note 9)	4,061	2,028	2,388	–	**8,477**
Tangible assets (inc. ROU assets)	2,078	163	314	–	**2,555**
Inventories	203	371	74	–	**648**
Trade and other receivables	740	782	373	–	**1,895**
Cash and bank balances	5,255	939	1,781	–	**7,975**
Trade and other payables	(814)	(1,002)	(566)	–	**(2,382)**
Current tax liabilities	(260)	(101)	(108)	–	**(469)**
Lease liabilities (note 16)	(1,375)	(146)	(280)	–	**(1,801)**
Deferred tax liabilities (note 17)	(1,135)	(511)	(597)	–	**(2,243)**
Net assets acquired	8,753	2,523	3,379	–	**14,655**
Goodwill arising on acquisition (note 9)	3,698	1,657	2,012	–	**7,367**
Total consideration	12,451	4,180	5,391	–	**22,022**
Contingent consideration on acquisitions					
Current year	(1,265)	(717)	(514)	–	**(2,496)**
Prior years	–	–	–	2,915	**2,915**
Total cash consideration	11,186	3,463	4,877	2,915	**22,441**
Net cash outflow arising on acquisitions					
Cash consideration	(11,186)	(3,463)	(4,877)	(2,915)	**(22,441)**
Cash and bank balances acquired	5,255	939	1,781	–	**7,975**
Net cash outflow – acquisitions	(5,931)	(2,524)	(3,096)	(2,915)	**(14,466)**

23. Retirement benefit obligations

Introduction

Macfarlane Group PLC sponsors a defined benefit pension scheme for 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 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 two 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. The Scheme was closed to future accrual on 30 November 2022 with the 3 remaining active members transferring to the Group's defined contribution pension scheme.

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.

In June 2023, the UK High Court issued a ruling in the case of Virgin Media Limited v NTL Pension Trustees II Limited and others relating to the validity of certain historical pension changes. This case may have implications for other defined benefit schemes in the UK, although is subject to possible appeal in 2024. At the balance sheet date, it was unknown if, or to what extent, this ruling will impact the Scheme and therefore no adjustment has been made in accounting for the pension surplus. The Company will monitor the case alongside the Trustees of the Scheme.

Balance sheet disclosures at 31 December 2023

The Scheme's qualified actuary from Aon carries out triennial valuations using the Projected Unit Credit Method to determine the level of surplus/deficit. For the most recent triennial valuation at 1 May 2023, the results of this valuation showed that the market value of the relevant investments of the Scheme was £71,900,000 and represented 109% of the actuarial value of benefits that had accrued to members.

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 2023 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 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. 100% (2022: 83%) 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 regular income from these helps to meet the Scheme's cash flow needs, they are not expected to be realised at short notice from a strategic perspective. The present value of the Scheme liabilities is derived from cash flow projections and the expected return of the assets over a long period and is thus inherently uncertain.

The investment classes held by the Scheme and the Scheme surplus, based on the results of the actuarial valuation as at 1 May 2023, updated to the year-end are as shown below:

Notes to the financial statements (cont)

For the year ended 31 December 2023

23. Retirement benefit obligations (cont)

Investment class	Valuation 2023 £000	Asset allocation	Valuation 2022 £000	Asset allocation	Valuation 2021 £000	Asset allocation
Equities						
UK equity funds	**–**	**–**	6,616	9.4%	9,392	9.4%
Overseas equity funds	**–**	**–**	13,671	19.4%	17,010	16.9%
Multi-asset diversified growth funds	**10,198**	**14.1%**	12,674	18.0%	29,113	29.0%
Bonds						
Liability-driven investment funds	**32,052**	**44.2%**	23,352	33.1%	30,531	30.4%
Other						
European loan fund	**–**	**–**	6,546	9.3%	6,778	6.7%
Secured property income fund	**–**	**–**	5,670	8.0%	6,995	7.0%
Multi-asset credit funds	**9,824**	**13.5%**	–	–	–	–
Securitised credit funds	**13,047**	**18.0%**	–	–	–	–
Cash	**7,402**	**10.2%**	1,957	2.8%	604	0.6%
Fair value of scheme investments	**72,523**	**100.0%**	70,486	100.0%	100,423	100.0%
Present value of scheme liabilities	**(62,602)**		(60,287)		(92,156)	
Pension scheme surplus	**9,921**		10,199		8,267	

Assumptions

The Scheme's liabilities at 31 December 2023 were calculated on the following bases as required under IAS 19:

	2023	2022	2021
Discount rate	**4.50%**	4.80%	1.90%
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 3.03% for LPI. 2.03% post 5 April 2006**	3% or 5% for fixed increases or 3.17% for LPI. 2.09% post 5 April 2006	3% or 5% for fixed increases or 3.30% for LPI. 2.27% post 5 April 2006
Spouse's pension assumption			
– Pensioners (male/female)	**87%/76%**	75%/75%	75%/75%
– Deferred members (male/female)	**84%/60%**	75%/75%	75%/75%
PIE take up rate	**60%**	65%	65%
Inflation assumption (RPI)	**3.20%**	3.40%	3.40%
Inflation assumption (CPI)	**2.70%**	2.80%	2.90%
Life expectancy beyond normal retirement age of 65			
Scheme members aged 55			
Male	**22.3 years**	22.6 years	22.8 years
Female	**24.0 years**	24.2 years	24.4 years
Scheme members aged 65			
Male	**21.8 years**	22.0 years	22.3 years
Female	**23.3 years**	23.4 years	23.6 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 surplus/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:

	2023 £000	2022 £000
Assumptions		
Discount rate movement of +3.0%	**22,531**	14,101
Inflation rate movement of +0.25%	**(599)**	(375)
Mortality movement of +0.1 year in age rating	**141**	88

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 12 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 2023 actuarial valuation, the Scheme's trustees agreed the Company does not require to provide further contributions to the Scheme. The Group retains an 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.

Following the closure of the Scheme to future accrual on 30 November 2022 there are no active members.

	2023 £000	2022 £000
Movement in the scheme surplus during the year		
At 1 January	**10,199**	8,267
Current service costs	**–**	(42)
Administration costs incurred	**(71)**	–
Contributions from sponsoring employers	**1,250**	1,991
Past service cost (curtailed due to closure of scheme/disposal of business)	**–**	(111)
Net finance income (note 4)	**510**	176
Remeasurement of pension scheme surplus in the year	**(1,967)**	(82)
At 31 December	**9,921**	10,199
Analysis of amounts charged to profit before tax		
Current service cost	**–**	(42)
Administration costs incurred	**(71)**	–
Past service cost (curtailed due to closure of scheme/disposal of business)	**–**	(111)
Net finance income	**510**	176
Pension expense charged to profit before tax	**439**	23
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	**1,543**	(29,475)
Changes due to scheme experience	**(1,695)**	(1,935)
Changes in assumptions underlying the present value of scheme liabilities	**(1,815)**	31,328
Remeasurement of the pension scheme liability recognised in the statement of other comprehensive income	**(1,967)**	(82)
Movement in the fair value of scheme investments		
At 1 January	**70,486**	100,423
Interest income	**3,313**	1,886
Return on scheme investments (excluding amount shown in interest income)	**1,543**	(29,475)
Contributions from sponsoring employers	**1,250**	1,991
Contributions from scheme members	**–**	9
Administration costs incurred	**(71)**	–
Benefits paid	**(3,998)**	(4,348)
At 31 December	**72,523**	70,486

Notes to the financial statements (cont)

For the year ended 31 December 2023

23. Retirement benefit obligations (cont)

	2023 £000	2022 £000
Movement in the present value of scheme liabilities		
At 1 January	**(60,287)**	(92,156)
Current service cost	**–**	(42)
Past service cost (curtailed due to closure of scheme/disposal of business)	**–**	(111)
Interest cost	**(2,803)**	(1,710)
Contributions from scheme members	**–**	(9)
Changes due to scheme experience	**(1,695)**	(1,935)
Changes in assumptions underlying the scheme liabilities	**(1,815)**	31,328
Benefits paid	**3,998**	4,348
At 31 December	**(62,602)**	(60,287)

The history of experience adjustments and actual returns on scheme assets and scheme liabilities is as follows:

	2023 £000	2022 £000	2021 £000	2020 £000	2019 £000
Present value of defined benefit obligations	**(62,602)**	(60,287)	(92,156)	(100,901)	(94,526)
Fair value of scheme investments	**72,523**	70,486	100,423	99,430	88,061
Pension scheme surplus/(deficit)	**9,921**	10,199	8,267	(1,471)	(6,465)
Actual return on scheme investments					
Amount	**4,856**	(27,589)	2,605	12,406	13,263
Percentage of scheme investments	**6.7%**	(39.1%)	2.6%	12.5%	15.1%
Experience adjustment on scheme liabilities					
Amount	**(3,510)**	29,393	6,939	(8,543)	(10,617)
Percentage of scheme liabilities	**(5.6%)**	48.8%	7.5%	(8.5%)	(11.2%)
Experience adjustment on scheme investments					
Amount	**1,543**	(29,475)	1,273	10,655	11,154
Percentage of scheme investments	**2.1%**	(41.8%)	1.3%	10.7%	12.7%

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 £2,904,000 (2022: £1,704,000). Contributions amounting to £253,000 (2022: £202,000) were payable to the plans and are included in trade and other payables at 31 December.

24. Share-based payments

Equity-settled Long-Term Incentive Plans **Movements in PSP awards during the year**	Number of shares 2023	Number of shares 2022
Outstanding at 1 January	**1,771,542**	1,627,156
Awarded during the year	**789,587**	662,582
Vested during the year	**(604,891)**	(518,196)
Outstanding at 31 December	**1,956,238**	1,771,542

A nil cost option award was granted under The Macfarlane Group PLC Long Term Incentive Plan in March 2023 based on 100% of salary. The performance condition requires EPS in 2025 to be between 10.80p and 12.95p 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 March 2022 based on 100% of salary. The performance condition requires EPS in 2024 to be between 10.16p and 12.19p 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 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.

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 2023, 2024 and 2025 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.

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. The 2020 vesting at 100% and dividend equivalent awarded in shares were confirmed by the Remuneration Committee at its meeting on 21 August 2023. The total number of shares vesting were 604,891.

The Group recognised an expense of £586,000 (2022: £607,000) in 2023 relating to equity-settled long-term incentive plan awards on the basis that the 2020 awards vested at 100% (2022: 100%), the 2021 awards had an estimated probability of vesting of 100% (2022: 100%), the 2022 awards had an estimated probability of vesting of 50% (2022: 50%) and the 2023 awards had an estimated probability of vesting of 49%.

25. Post balance sheet event

There are no post balance sheet events to be disclosed.

26. Related party transactions

The Group has related party relationships with:

(i) its subsidiaries, listed on page 131;
(ii) its Directors who comprise the Group Board; and
(iii) the Macfarlane Group PLC sponsored pension schemes (see note 23).

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*'.

	2023 £000	2022 £000
Directors' remuneration	**2,147**	1,768
Employer's national insurance contributions	**287**	243
	2,434	2,011

Further details of Directors' individual and collective remuneration are set out in the Directors' Remuneration Report on page 68. 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 69 and total dividends of £50,000 were paid in respect of these shareholdings in 2023 (2022: £41,000).

Disclosures in relation to the pension schemes are set out in note 23.

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

For the year ended 31 December 2023

	Note	2023 £000	2022 £000
Non-current assets			
Property, plant and equipment	28	**33**	40
Right-of-use assets	29	**75**	89
Investments	30	**28,370**	28,370
Retirement benefit obligations	40	**3,572**	3,570
Trade and other receivables	32	**35,086**	32,222
Total non-current assets		**67,136**	64,291
Current assets			
Trade and other receivables	32	**3,533**	3,743
Cash and cash equivalents		**435**	316
Total current assets		**3,968**	4,059
Total assets		**71,104**	68,350
Current liabilities			
Trade and other payables	33	**3,885**	1,214
Lease liabilities	35	**15**	15
Bank borrowings		**–**	–
Total current liabilities		**3,900**	1,229
Net current assets		**68**	2,830
Non-current liabilities			
Deferred tax liabilities	31	**894**	894
Lease liabilities	35	**69**	84
Provisions	34	**825**	825
Total non-current liabilities		**1,788**	1,803
Total liabilities		**5,688**	3,032
Net assets		**65,416**	65,318
Equity			
Share capital	36	**39,738**	39,584
Share premium	37	**13,981**	13,573
Own shares	37	**(16)**	(7)
Profit and loss account	37	**11,713**	12,168
Total equity	38	**65,416**	65,318

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 profit for the year is £5,450,000. 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 29 February 2024 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 2023

	Note	Share capital £000	Share premium £000	Own shares £000	Retained earnings £000	Total £000
At 1 January 2022		39,453	13,148	–	11,473	64,074
Comprehensive income						
Profit for the year		–	–	–	5,735	5,735
Remeasurement of pension scheme liability	40	–	–	–	5	5
Tax on remeasurement of pension scheme liability	31	–	–	–	(1)	(1)
Total comprehensive income		–	–	–	5,739	5,739
Transactions with shareholders						
Dividends	6	–	–	–	(5,102)	(5,102)
New shares issued		131	425	(7)	(549)	–
Share-based payments	24	–	–	–	607	607
Total transactions with shareholders		131	425	(7)	(5,044)	(4,495)
At 31 December 2022		**39,584**	**13,573**	**(7)**	**12,168**	**65,318**
Comprehensive income						
Profit for the year		**–**	**–**	**–**	**5,450**	**5,450**
Remeasurement of pension scheme liability	40	**–**	**–**	**–**	**(606)**	**(606)**
Tax on remeasurement of pension scheme liability	31	**–**	**–**	**–**	**152**	**152**
Total comprehensive income		**–**	**–**	**–**	**4,996**	**4,996**
Transactions with shareholders						
Dividends	6	**–**	**–**	**–**	**(5,484)**	**(5,484)**
New shares issued		**154**	**408**	**(9)**	**(553)**	**–**
Share-based payments	24	**–**	**–**	**–**	**586**	**586**
Total transactions with shareholders		**154**	**408**	**(9)**	**(5,451)**	**(4,898)**
At 31 December 2023		**39,738**	**13,981**	**(16)**	**11,713**	**65,416**

The accompanying notes are an integral part of this statement of changes in equity.

Notes to the Company financial statements

For the year ended 31 December 2023

27. 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 21.

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 surplus is provided in note 23. 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 2023 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 2023 has had any material impact on the financial statements of the Company.

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.

Plant and equipment

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 7%-25% per annum. 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 30 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 receivables

Trade and other receivables 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 payables

Trade and other payables 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 2023 is 4.0%.

Movements in lease liabilities during 2023 are set out in note 35.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Notes to the Company financial statements (cont)

For the year ended 31 December 2023

27. Significant accounting policies (cont)

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

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. The entity always recognises lifetimes expected credit losses (ECL) for trade receivables as estimated using a provision matrix based on the Company's historic credit loss experience. 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 in accordance with the substance of the contractual arrangements.

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Financial liabilities, that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

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

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

Taxation

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

Current tax 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 Company'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 Company 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 Company'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 Company, 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 24.

28. Property, plant and equipment

	Plant and equipment £000	Total £000
Cost		
At 1 January 2023 and 31 December 2023	**173**	**173**
Depreciation		
At 1 January 2023	**133**	**133**
Charge for the year	**7**	**7**
At 31 December 2023	**140**	**140**
Net book value		
At 31 December 2023	**33**	**33**
At 31 December 2022	40	40

Notes to the Company financial statements (cont)

For the year ended 31 December 2023

29. Right of use assets

Property	£000
Cost	
At 1 January 2023 and 31 December 2023	**148**
Depreciation	
At 1 January 2023	**59**
Charge for year	**14**
At 31 December 2023	**73**
Net book value	
At 31 December 2023	**75**
Net book value	
At 31 December 2022	89

30. Investments

	2023 £000	2022 £000
Investment in subsidiaries at cost		
At 1 January	**28,370**	23,085
Acquisitions	**–**	5,285
At 31 December	**28,370**	28,370

Details of the principal operating subsidiaries are set out on page 131.

31. Deferred tax liability

	2023 £000	2022 £000
Deferred tax on pension scheme surplus		
At 1 January	**894**	726
(Credited)/charged to reserves	**(152)**	1
Charged to profit and loss account	**152**	167
At 31 December	**894**	894

32. Trade and other receivables

	2023 £000	2022 £000
Due within one year		
Amounts owed by subsidiary undertakings	**3,000**	3,000
Other receivables	**172**	592
Prepayments and accrued income	**127**	147
Deferred tax asset (see below)	**234**	4
	3,533	3,743
Deferred tax asset – Corporation tax losses/timing differences		
At 1 January	**4**	19
Credited/(charged) to profit and loss account	**230**	(15)
At 31 December	**234**	4

	2023 £000	2022 £000
Due after more than one year		
Amounts owed by subsidiary undertakings	**35,086**	32,222

Amounts owed by subsidiary undertakings attract interest at normal commercial rates.

33. Trade and other payables

	2023 £000	2022 £000
Trade creditors	**593**	502
Other taxation and social security	**47**	15
Deferred contingent consideration	**1,518**	–
Accruals and deferred income	**1,727**	697
	3,885	1,214

The Company is a party to the Group bank borrowing facility with Bank of Scotland PLC, a committed facility of £35m 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 2023 by the subsidiary company, Macfarlane Group UK Limited amounted to £7.4m (2022: £8.2m).

After a reassessment of the value of deferred contingent consideration related to the acquisition of PackMann which was estimated at £nil in 2022, a charge of £1.5m has been made in 2023 and a corresponding liability recognised at 31 December 2023. This reflects an improvement in the financial performance of PackMann during 2023 and the resultant deferred contingent consideration now estimated to be payable in 2024 for the two years ending 31 May 2024.

34. Provisions

	Property £000
At 1 January 2023 and 31 December 2023	**825**

The provision is due after more than one year. Property provisions relate to sums due in respect of dilapidations.

35. Lease liabilities

	2023 £000	2022 £000
Amounts due under leases		
Within one year	**15**	15
Between one and five years	**69**	66
After more than five years	**–**	18
Total amount due	**84**	99
Due within one year	**(15)**	(15)
Due after more than one year	**69**	84
At 1 January	**99**	113
Repayments under leases	**(15)**	(14)
At 31 December	**84**	99

Notes to the Company financial statements (cont)

For the year ended 31 December 2023

36. Share capital

	Number of 25p shares	2023 £000	2022 £000
Called up, allotted and fully paid:			
At 1 January	**158,337,000**	**39,584**	39,453
Issued during the year	**615,000**	**154**	131
At 31 December	**158,952,000**	**39,738**	39,584

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.

On 30 August 2023, the Company issued 615,000 ordinary shares of 25p at a value of 91.4p to settle 2020 share awards under the Company's 2016 Performance Share Plan.

37. Reserves

	Share premium £000	Own shares £000	Profit and loss account £000	Total £000
Balance at 1 January 2022	13,148	–	11,473	24,621
Profit for the year	–	–	5,735	5,735
Dividends paid (note 6)	–	–	(5,102)	(5,102)
Issue of new shares	425	(7)	(549)	(131)
Post-tax actuarial gain in pension scheme taken direct to reserves	–	–	4	4
Share-based payments (note 24)	–	–	607	607
Balance at 1 January 2023	13,573	(7)	12,168	25,734
Profit for the year	**–**	**–**	**5,450**	**5,450**
Dividends paid (note 6)	**–**	**–**	**(5,484)**	**(5,484)**
Issue of new shares	**408**	**(9)**	**(553)**	**(154)**
Post-tax actuarial gain in pension scheme taken direct to reserves	**–**	**–**	**(454)**	**(454)**
Share-based payments (note 24)	**–**	**–**	**586**	**586**
Balance at 31 December 2023	**13,981**	**(16)**	**11,713**	**25,678**

38. Reconciliation of movements in shareholders' funds

	2023 £000	2022 £000
Profit for the year	**5,450**	5,735
Dividends to equity holders in the year	**(5,484)**	(5,102)
Post-tax actuarial (loss)/gain in pension scheme taken direct to equity	**(454)**	4
Share-based payments	**586**	607
Movements in shareholders' funds in the year	**98**	1,244
Opening shareholders' funds	**65,318**	64,074
Closing shareholders' funds	**65,416**	65,318

39. Operating profit

	2023 £000	2022 £000
Operating profit for the parent company has been arrived at after charging:		
Depreciation	**7**	8
Depreciation on right-of-use assets	**14**	15
Auditor's remuneration – Audit services	**69**	59
– Non-audit services	**16**	16

	2023 No.	2022 No.
Staff costs		
The average monthly number of employees was:		
Administration	**10**	10

	2023 £000	2022 £000
The costs incurred in respect of these employees were:		
Wages and salaries	**2,008**	1,559
Social security costs	**264**	292
Other pension costs	**41**	32
Share-based payments (note 24)	**586**	607
	2,899	2,490

40. 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 sponsoring employers 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 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 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. The Scheme was closed to future accrual on 30 November 2022 with the 3 remaining active members transferring to the Group's defined contribution pension scheme.

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.

In June 2023, the UK High Court issued a ruling in the case of Virgin Media Limited v NTL Pension Trustees II Limited and others relating to the validity of certain historical pension changes. This case may have implications for other defined benefit schemes in the UK, although is subject to possible appeal in 2024. At the balance sheet date, it was unknown if, or to what extent, this ruling will impact the Scheme and therefore no adjustment has been made in accounting for the pension surplus. The Company will monitor the case alongside the Trustees of the Scheme.

Balance sheet disclosures at 31 December 2023

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 2023, the results of this valuation showed that the market value of the relevant investments of the Scheme was £71,900,000 and represented 109% of the actuarial value of benefits that had accrued to members.

Notes to the Company financial statements (cont)

For the year ended 31 December 2023

40. Retirement benefit obligations (cont)

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 2023 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 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. 100% (2022: 83%) 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 regular income from these helps to meet the Scheme's cash flow needs, they are not expected to be realised at short notice from a strategic perspective. The present value of the Scheme liabilities is derived from cash flow projections and the expected return of the assets over a long period and is thus inherently uncertain.

The investment classes held by the Scheme and the Scheme surplus, based on the results of the actuarial valuation as at 1 May 2023, updated to the year-end are as shown below:

	2023 £000	2022 £000	2021 £000
Investment class			
Equities	–	7,100	9,241
Multi-asset diversified funds	3,671	4,436	10,189
Liability-driven investment funds	11,539	8,173	10,686
European loan fund	–	2,291	2,372
Secured property income fund	–	1,984	2,449
Multi asset credit funds	3,537	–	–
Securitised credit funds	4,697	–	–
Cash	2,665	686	211
Fair value of scheme investments	26,109	24,670	35,148
Present value of Scheme liabilities	(22,537)	(21,100)	(32,254)
Pension scheme surplus	3,572	3,570	2,894

The Scheme's liabilities at 31 December 2023 were calculated on the following bases as required under IAS19:

	2023	2022	2021
Discount rate	4.50%	4.80%	1.90%
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 3.03% for LPI. 2.03% post 5 April 2006	3% or 5% for fixed increases or 3.17% for LPI. 2.09% post 5 April 2006	3% or 5% for fixed increases or 3.30% for LPI. 2.27% post 5 April 2006
Spouse's pension			
– Pensioners (male/female)	87%/76%	75%/75%	75%/75%
– Deferred members (male/female)	84%/60%	75%/75%	75%/75%
PIE take up rate	60%	65%	65%
Inflation assumption (RPI)	3.20%	3.40%	3.40%
Inflation assumption (CPI)	2.70%	2.80%	2.90%
Life expectancy beyond normal retirement age of 65			
Members aged 55			
Male	22.3 years	22.6 years	22.8 years
Female	24.0 years	24.2 years	24.4 years
Members aged 65			
Male	21.8 years	22.0 years	22.3 years
Female	23.3 years	23.4 years	23.6 years
Average uplift for GMP service	0.40%	0.40%	0.40%

Sensitivity to significant assumptions

The Pension scheme exposes the Company 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 surplus/deficit. The sensitivity analyses for the Scheme as a whole are set out in note 23 with the Company being responsible for 34% of the Group Scheme surplus.

	2023 £000	2022 £000
Movement in scheme surplus during the year		
At 1 January	3,570	2,894
Current service cost	–	(15)
Administration costs incurred	(26)	–
Past service cost (curtailed due to closure of scheme)	–	(73)
Company contributions	450	697
Net finance income	184	62
Remeasurement of pension scheme surplus in the year	(606)	5
At 31 December	3,572	3,570
Analysis of amounts charged to operating profit		
Current service cost	–	(15)
Administration costs incurred	(26)	–
Past service cost (curtailed due to closure of scheme)	–	(73)
Pension cost charged to operating profit	(26)	(88)
Analysis of amounts charged to other financial charges		
Expected return on pension scheme investments	1,193	660
Interest cost of pension scheme liabilities	(1,009)	(598)
Other financial charges	184	62
Analysis of the remeasurement of the scheme surplus		
Return on scheme assets (excluding amount shown in interest income)	1,261	(10,316)
Changes in assumptions underlying the present value of the scheme's liabilities	(1,867)	10,321
Remeasurement of the Pension scheme surplus	(606)	5
Movement in the fair value of scheme assets		
At 1 January	24,670	35,148
Interest income	1,193	660
Return on scheme assets (excluding amounts shown in interest income)	1,261	(10,316)
Contributions from the Company	450	697
Contributions from scheme members	–	3
Administration costs incurred	(26)	–
Benefits paid	(1,439)	(1,522)
At 31 December	26,109	24,670
Movement in the present value of scheme liabilities		
At 1 January	(21,100)	(32,254)
Service cost	–	(15)
Past service cost (curtailed due to closure of scheme)	–	(73)
Interest cost	(1,009)	(598)
Contributions from scheme members	–	(3)
Actuarial (loss)/gain in the year	(1,867)	10,321
Benefits paid	1,439	1,522
At 31 December	(22,537)	(21,100)

Notes to the Company financial statements (cont)

For the year ended 31 December 2023

40. Retirement benefit obligations (cont)

	2023 £000	2022 £000	2021 £000	2020 £000	2019 £000
Present value of defined benefit obligations	**(22,537)**	(21,100)	(32,254)	(40,360)	(37,811)
Fair value of scheme investments	**26,109**	24,670	35,148	39,771	35,225
Pension scheme surplus/(deficit)	**3,572**	3,570	2,894	(589)	(2,586)
Return on scheme investments	**2,454**	(9,656)	(3,844)	5,864	6,179
Percentage of scheme investments	**9.4%**	(39.1%)	(10.9%)	14.7%	17.5%
Experience adjustment to scheme investments	**1,261**	(10,316)	(4,311)	5,164	5,336
Percentage of scheme investments	**4.8%**	(41.8%)	(12.3%)	13.0%	15.2%
Experience adjustment on scheme liabilities	**(1,867)**	10,321	7,342	(3,466)	(4,298)
Percentage of scheme liabilities	**(8.3%)**	48.9%	22.8%	(8.6%)	(11.4%)

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 £41,000 (2022: £32,000) with contributions of £10,000 (2022: £6,000) payable to the plan at the balance sheet date.

41. 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.

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
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.	Netherlands
Macfarlane Packaging Ireland Limited [3] Wicklow Tel: 00 353 1281 0234	Supply and distribution of all forms of packaging materials and equipment.	Ireland
PackMann Gesellschaft für Verpackungen und Dienstleistungen mbH [5] Eppelheim Tel: 00 49-6221 759090	Supply and distribution of all forms of packaging materials and equipment.	Germany
A.E. Sutton Limited [6] Chatteris Telephone 01354 693171	Design and manufacture of specialist packaging.	England
Gottlieb Packaging Materials Limited [1] Manchester Telephone 0161 872 0983	Supply and distribution of all forms of packaging materials and equipment.	England
Barum & Dewar Limited [4] Barnstaple Telephone 01271 375197	Design and manufacture of specialist packaging.	Scotland
B&D Foam Limited [4] Southampton Telephone 02380 811180	Design and manufacture of specialist packaging.	Scotland

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. Dormant subsidiaries are exempt from preparing individual accounts by virtue of s394A of the Companies Act. 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
Ecopac (U.K.) Limited [1]	02783546	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
5. Wasserturmstraße 79, 69214 Eppelheim, Germany
6. Station House, Station Road, Betchworth, Surrey, RH3 7BZ

Financial diary and corporate information

Financial diary

Financial results
Interim: Announced – August
Final: Announced – February

Accounts and Annual General Meeting
Report and financial statements – Posted to shareholders on 5 April 2024
Annual General Meeting – Held in Glasgow on 7 May 2024

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.

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: investorinfo@macfarlanegroup.com

Principal bankers
Bank of Scotland 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
319 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

Designed and produced by Thunderbolt Projects.