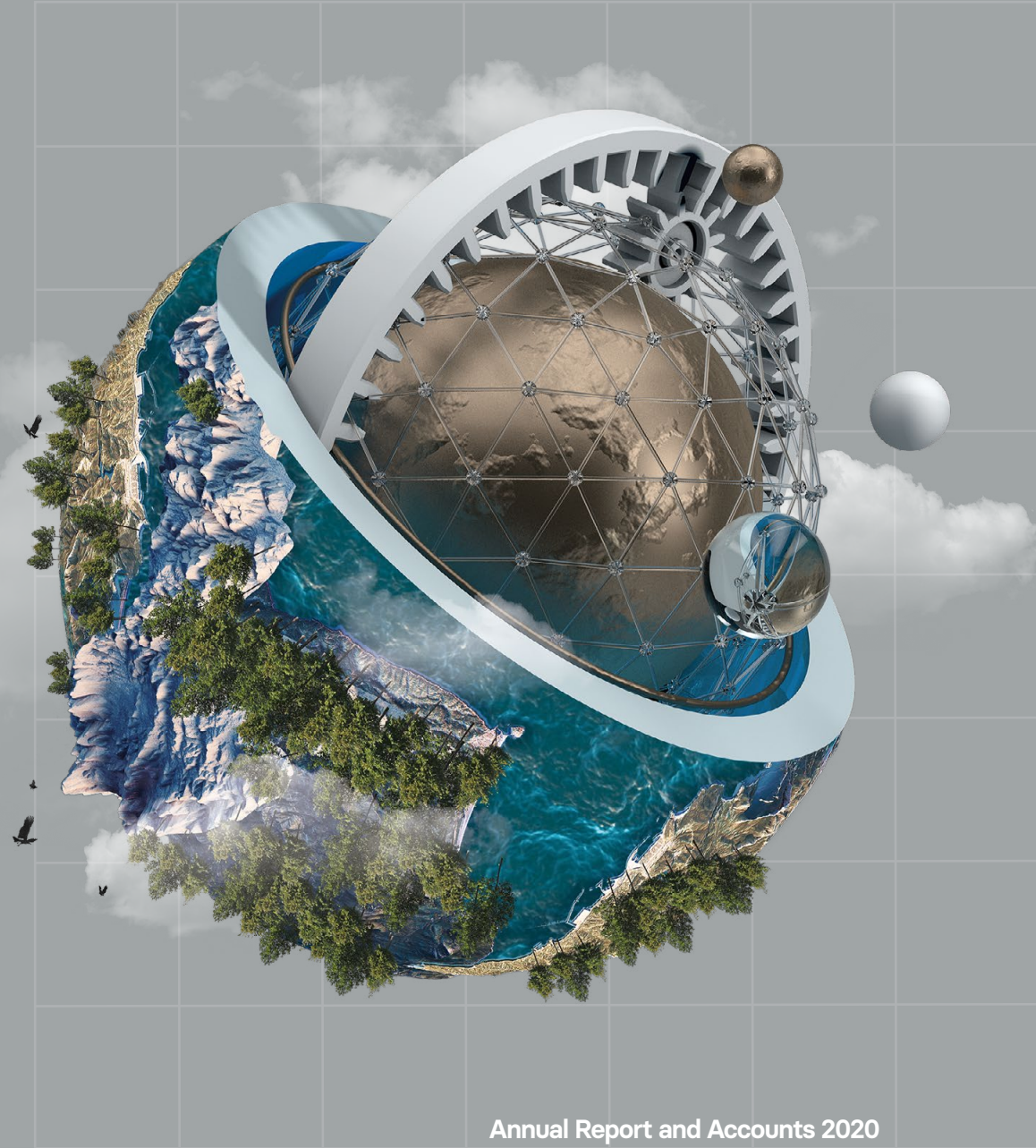


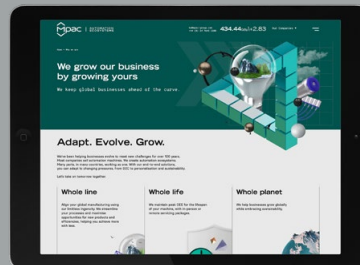
We create automation ecosystems that enhance manufacturing to help businesses adapt and grow



Mpac Group plc is an international company listed on the London Stock Exchange (symbol: MPAC), with a long and proud history of delivering innovation and excellence on a global basis. Our business is focused on the creation of manufacturing solutions that make and package the products millions of people worldwide depend on.

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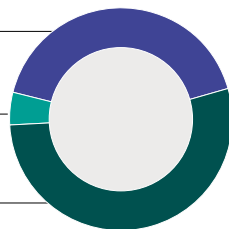
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- > Good progress on the Group's strategic initiatives
- > 2020 HY2 revenue 27% above HY1 2020
- > Group full year revenue £83.7m (2019: £88.8m)
- > Underlying profit before tax of £6.3m (2019: £7.5m)
- > Statutory profit before tax of £2.9m (2019: £5.4m)
- > Underlying earnings per share of 31.4p (2019: 39.5p)
- > Basic earnings per share of 16.3p (2019: 29.7p)

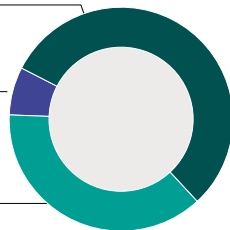
Revenue by sector

Food and beverage	£34.8m
Pharmaceutical	£3.9m
Healthcare	£45.0m



Revenue by region

Americas	£46.7m
Asia	£5.7m
Europe, Middle East & Africa	£31.3m



Order intake

£83.9m

(2019: £87.6m)

Underlying earnings per share

31.4p

(2019: 39.5p per share)

Revenue

£83.7m

(2019: £88.8m)

Cash

£15.5m

(2019: £18.9m)

Who we are What we do Ingenuity without limits

Who we are

We support all brands and all locations with our global operations.

Mpac is a provider of full-line product manufacturing and packaging solutions. We serve customers globally in the essential and growing sectors of healthcare, pharmaceutical and food and beverage, with engineering and services that increase automation, safety, sustainability and cost effectiveness.

We are headquartered in the UK and have strategically located manufacturing and Service locations to provide our customers with local support and a global reach.

We are One Mpac, with three connected businesses that trade under the globally respected brand names and product ranges of Lambert, Langen and Switchback. Lambert specialises in full-line solutions for the pharmaceutical and healthcare sectors. Langen and Switchback provide secondary and tertiary packaging solutions for all sectors in which we operate.

What we do

Our philosophy is 'Ingenuity without limits'.

We provide packaging and automation solutions to fast-moving consumer goods customers, enabling their products to be packaged for distribution to their consumers ensuring security, quality, sustainability and shelf appeal.

We ensure manufacturing consistency through whole line integration; from product assembly to primary packaging, cartoning to case packing and palletisation – designed, delivered and supported globally, while protecting the wider ecosystem we all live in.

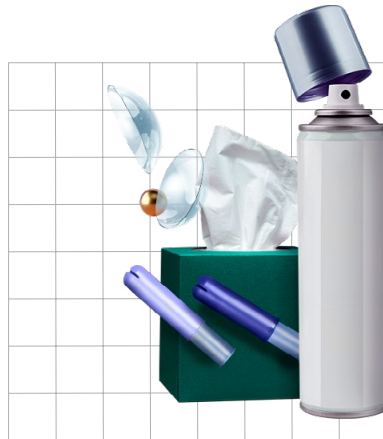
We don't just build machines however, we create full line automation ecosystems to develop and optimise manufacturing processes. Our end-to-end capabilities help our customers thrive in a changing world.

The group leverages its engineering expertise with cutting-edge manufacturing technologies and proven machine design and supports its customers with world class service support, delivered locally. We are a global organisation and can provide support to customers in any region.

Our sectors

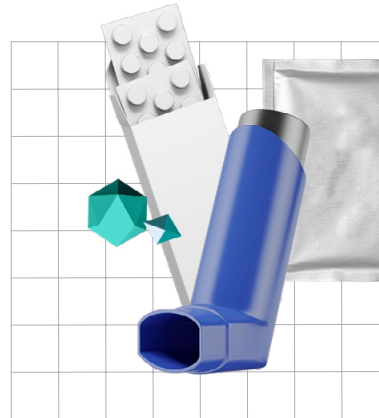
Healthcare

We help achieve better patient outcomes through advanced products, processes and packaging formats. From contact lenses to wound care products, we've got it covered.



Pharmaceutical

We support your pharmaceutical advances cost effectively, from inhaler assembly to transdermal patches.



Food and beverage

With extensive experience in dealing with powders to liquids, cereals to confectionary, our packaging machinery covers a wide range of applications.



Expanding customer objectives

Whole Line

Using limitless ingenuity to align global manufacturing

- > Global whole-line integration
- > Streamlining processes and identifying efficiencies
- > Creating opportunities for new products

Whole Life

Maintaining peak overall equipment effectiveness for the lifespan of machines

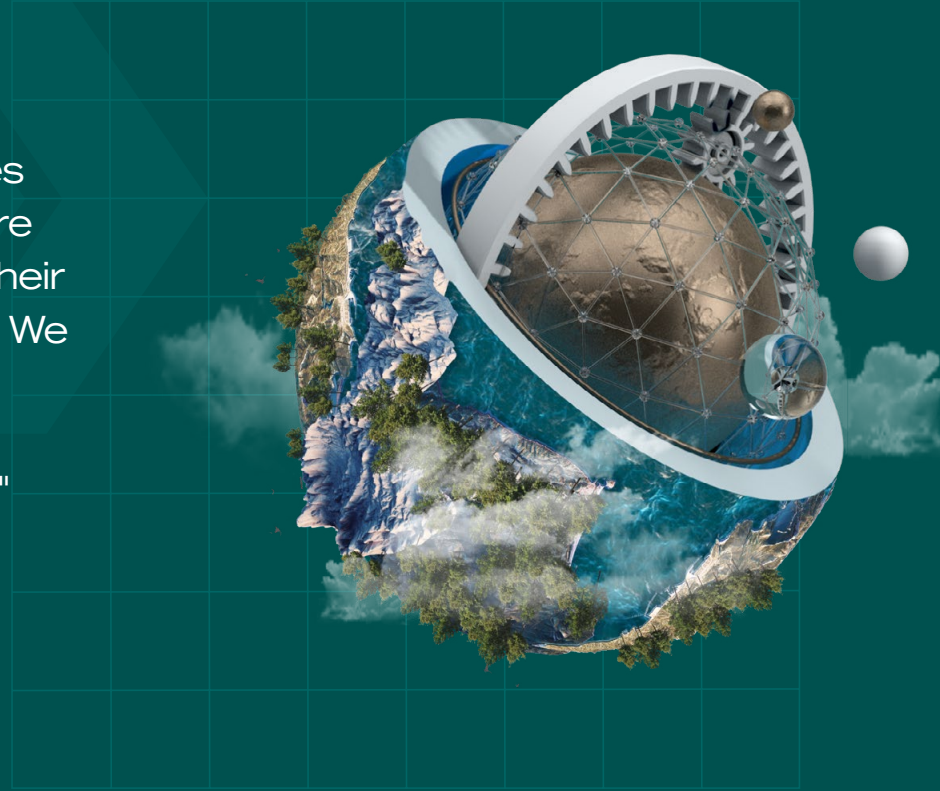
- > Hands-on global experts providing local support
- > Maintaining peak OEE over machine lifespan
- > Transformational digital services

Whole Planet

Helping businesses grow globally while embracing sustainability

- > Next-generation manufacturing for the next generation
- > Building efficient machines to optimise businesses performance and in turn, reduce the damaging effects on the environment
- > Reducing transportation footprints with remote service assistance and smaller carton sizes

"Our end-to-end manufacturing capabilities help leading food and beverage, healthcare and pharmaceutical businesses to meet their expanding objectives in a changing world. We design and monitor connected machinery – automation ecosystems – that optimise our customers' manufacturing processes."



Chairman's introduction

"2020 was a year like no other for Mpac, just as it has been for the wider world. As the pandemic unfolded, the Board took immediate steps to protect the welfare of our employees and established processes to mitigate the impact of the pandemic on the business and our customers."

The Covid-19 pandemic posed significant unforeseen challenges for all businesses but through the dedication and adaptability of our employees, Mpac was able successfully to address the main challenges that arose.

During 2020, further progress was made in executing our long-term strategy and we have converted strategic progress into a robust financial performance. Mpac are entirely focused on industries that exhibit long-term growth characteristics globally. Our investment proposition remains one of sustained organic growth augmented by carefully selected acquisition opportunities.

2020 was the first full year of trading since the acquisition of Lambert Automation ("Lambert") in May 2019 and in September 2020 we completed the acquisition of Switchback Group Inc ("Switchback"). Our strategy remains to focus on the high growth pharmaceutical, healthcare and food and beverage sectors, underpinned by the deployment of a comprehensive product development roadmap and a focus on software and platform developments.

On pages 21 to 27, I discuss corporate governance and the Board's activities during the year.

Summary of results

The resilient performance in the year is reflected in the order intake for the Group of £83.9m (2019: £87.6m) and Group revenues of £83.7m (2019: £88.8m). Underlying operating profit was in line with revised market expectations at £6.5m (2019: £7.7m). Group cash ended the year at £15.5m (2019: £18.9m).

Acquisitions

In September 2020, the Group acquired Switchback for an initial consideration of £10.2m. Based near Cleveland, Ohio, USA, Switchback, which employs approximately 45 staff, is a packaging machinery and automation solutions specialist, supplying the food and beverage and healthcare sectors and is a compelling fit with Mpac's strategic intent of being a market leader in the provision of full-line packaging solutions. Switchback has a particular strength in the high-growth craft brewing industry, which has been a resilient area through the Covid-19 challenges and is benefiting from the shift towards increased use of recyclables, aluminium cans and cardboard packaging.

Board changes

I would like to welcome Sara Fowler to the Board.

Sara joined the Board in March 2020 as a Non-Executive Director and as Chair of the Remuneration and Nomination Committee, having previously been a partner with Ernst & Young, including seven years as senior partner for Ernst & Young in the West Midlands. She was on the Board of the Compulsory Purchase Association and Chair of the CBI West Midlands.

I would also like to take this opportunity to thank John Davies, who stepped down from the Board in March 2020 after nine years as a Non-Executive Director, for the service he provided to the Group.

Dividend

Having considered the trading results for 2020 and the opportunities for investment in the growth of the Group, together with the continued uncertainty surrounding the impact of the pandemic, the Board has decided that it is not appropriate to pay a final dividend. No interim dividend was paid in 2020. Future dividend payments will be considered by the Board in the context of 2021 trading performance and when the Board believes it is prudent to do so.

Outlook

The Group operates in a range of attractive global sectors and geographic markets which have demonstrated resilience to the pandemic, and which are expected to grow in real terms for the foreseeable future. After a challenging 2020, I consider the prospects for the Group over the short and medium term to be positive, with the initiatives put in place by the leadership team expected to result in a return to growth in revenue and profit. I look forward to reporting on the progress that will be made during 2021.

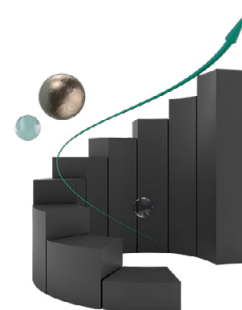
Signed on behalf of the board.

Andrew Kitchingman
Chairman

29 March 2021



Andrew Kitchingman
Chairman



Our strategy remains to focus on the high growth pharmaceutical, healthcare and food and beverage sectors.

Strategy: Our mission, sectors and values

Our mission

To be a global leader of high-speed packaging solutions focused on attractive growth sectors enhanced by a world-class Service offering to ensure maximum return on customer investments.

Customer focused, responsive and flexible through operational excellence underpinned by a global competitive supply chain and internal activities optimised to maximise efficiency; address our customers' unmet needs by leveraging market leading technology, innovation and application know-how.

Our sectors

Healthcare

We help achieve better patient outcomes through advanced products, processes and packaging formats. From contact lenses to wound care products, we've got it covered.

Pharmaceutical

We support your pharmaceutical advances cost effectively, from inhaler assembly to transdermal patches.

Food and beverage

With extensive experience in dealing with powders to liquids, cereals to confectionary, our packaging machinery covers a wide range of applications.

Our values

Integrity

Deliver on our promise, respect and value others.

Excellence

Always striving to be better.

Passionate

Be energised to deliver.

Innovation

Identify a need, think outside of the box and deliver solutions.

Collaboration

Working together without boundaries for the collective goal.

"To create automation ecosystems that enhance manufacturing to help businesses to adapt and grow. Advancing the world with manufacturing solutions which make a difference."

Mpac purpose statement



Strategy: Business model

“We channel limitless ingenuity to create and optimise whole-line manufacturing ecosystems. With many parts, in many countries, our world-class productivity helps our clients achieve more with less.”

The One Mpac business model was introduced in 2018 aimed at ensuring we deliver consistent high quality services to our customers globally and wherever they choose to locate a manufacturing site.

The Group offers its customers automation and packaging solutions, customised to their requirements using a portfolio of proven modules augmented with a customer-specific product package handling solution.

The implementation of our One Mpac business model continues to progress well and includes all sales, service, and operations functions. Common processes are all monitored and controlled by effective project management. Service support is then provided through the life of the product at the customers' sites.

The capital equipment market is cyclical by its nature with a high need for responsiveness and flexibility to adapt to customer demands and lead-time needs, seizing the opportunities as they arise.

The Group is now able to exploit synergies, utilising best practice across the sites and a shared services resource in order to improve the operational efficiencies.

This creates a model whereby we can increase utilisation with the ability to expand capacity with increased demand and reduce capacity in periods of lower demand.

Business model

Consult

Ecosystems live, breath and evolve, and so should your automation ecosystem. That's why we're by your side at every stage, consulting with you to understand your challenges and solve your problems before they occur. Ingenious thinking is personal, so we take the time to listen to your needs and what you want from your machines and products.

Design and build

With your current and future needs in mind, we develop fresh ideas and design innovative machines to keep you ahead of the competition.

Install

We install your new machine at a time that suits you. To get the most out of your machine, our effective employee training reduces start-up costs and allows your equipment to reach its target performance quickly.

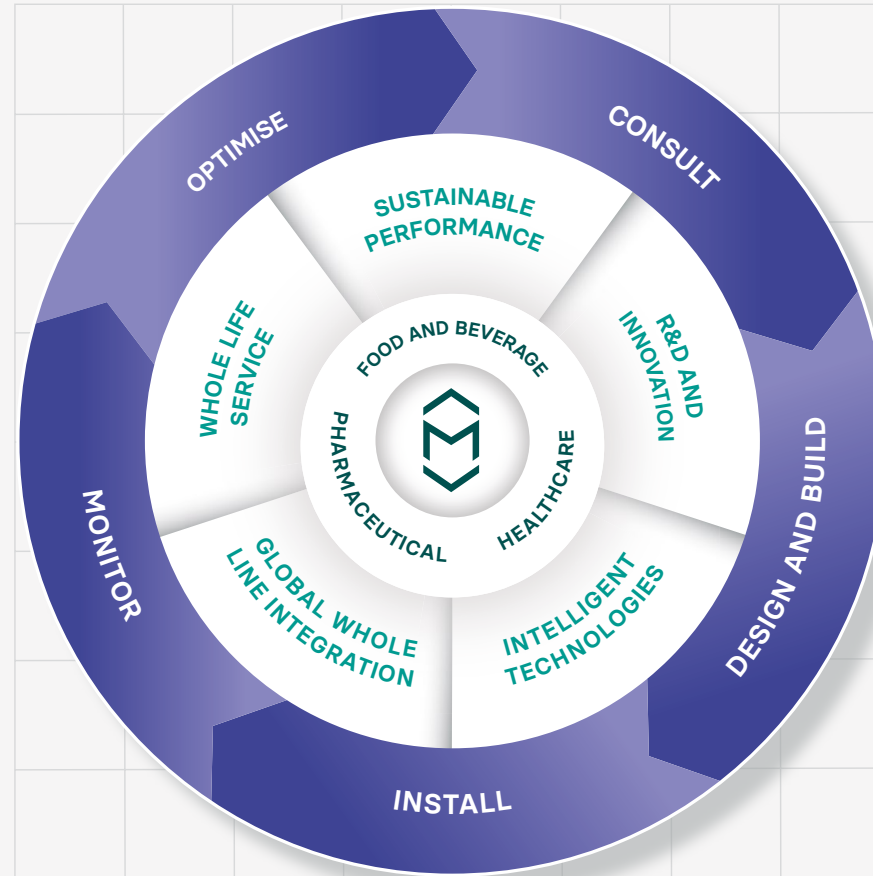
Monitor

With your permission, our experts can connect to your control system to give you a complete review of your machine performance. By doing so, we can predict and prevent problems to ensure consistency and compliance. We also offer you actionable insights to maximise your equipment effectiveness.

Optimise

We make sure your machine stays up-to-date with the latest modernisations and automation upgrades. This ensures minimal downtime and less risk of serious damage to your equipment throughout the lifetime of your lines.

Our bespoke whole-life service options, with remote monitoring and servicing, ensure unstopable OEE and keeps your machines in prime condition, year after year.



Strategy: Goals and priorities

An update on our strategic priorities

Going for growth

2020 progress

- › The Switchback acquisition was completed, which gives the Group an extended US presence and product range
- › Recruitment of a Chief Commercial Officer with global commercial leadership responsibility
- › Full solutions capability established, focusing on customers in the healthcare sector
- › Continued to establish new customer relationships, with particular success in the Americas

Future plans

- › Cross-selling of the Switchback product range into EMEA
- › Develop customer opportunities in the Covid space
- › Extend commercial footprint in EMEA
- › Complete the opening of the Group showcase facility in Americas

Service as a business

2020 progress

- › Proved our agility to adapt to Covid-19 with remote support
- › Continued roll-out of service systems enhancements
- › Development of regional service management and extended reach
- › Launch of Americas service team supporting all Group products – making Service local

Future plans

- › Improve operational efficiency and lead times
- › Extend resourcing of Americas service team and development of healthcare-focused business unit
- › Develop life-cycle ROI and long-term service agreement proposition
- › Enhance Service CRM system and prospect pipeline management

Operational efficiency

2020 progress

- › Roll-out of Group ERP system in The Netherlands successfully completed
- › Transition onto common engineering platforms completed in Canada
- › Broader integration of global supply chain
- › Lambert migration to Group project management and CRM tools and systems

Future plans

- › ERP phased roll-out continues in Canada, USA and UK
- › UK and USA sites to complete Group migration to common engineering systems
- › Leverage the benefits of common Group ERP system
- › Maximise cross business resource utilisation to improve operating efficiency

Innovation

2020 progress

- › Significant progress made in full-line solution development targeting the healthcare sector
- › Completed the end-of-line case packing range
- › Commercial launch of Industry 4.0 products
- › Completion of Lambert standard platform development

Future plans

- › Extending suite of Industry 4.0 products
- › Focus on market led innovation – healthcare sector
- › Virtual exhibitions and live streams
- › Develop digital transformation strategy

People

2020 progress

- › Prioritising employee health and wellbeing
- › Development and retention of critical knowledge
- › Employee satisfaction monitoring
- › Embedded personnel development plan review process

Future plans

- › Creation of Mpac academy to attract the best young talent
- › Focus on internal communication via new intranet platform
- › Investment in employee development and training
- › Continued review and feedback cycle

Achieving our ambitions

In 2020 we extended our strategic priorities to include a focus on 'Innovation' and 'People', driven by our evolution towards a market-led innovation plan and the need to have the best talent to help us achieve our strategic goals.

The market and customer demands continue to evolve, with a clear need for full solutions to their packaging requirements supported by a comprehensive services proposition to ensure maximised return on their investments. Demand for data capture and traceability throughout the product life-cycle is also an increasing trend.

By utilising the impressive array of innovative engineering solutions throughout the Mpac sites and a focused product development roadmap targeted on the attractive growth markets, we will be well positioned to deliver growth beyond industry forecasts.

The Group offers first-of-a-kind innovative solutions, working with the customers' product development engineers and marketing functions on the next generation of innovative products. By partnering with these key global customers, Mpac will be well positioned to support the customer from prototype to series production.

This capability should be leveraged across our global sales team and into our global key accounts and prospects.

Service continued to represent a key opportunity based on a substantial installed base and customers' need for support to increase productivity and to secure a return on the investment in equipment.

Product innovation and development is key to sustained growth in the large and attractive markets we operate in. Our new product development roadmap is focused on the needs of the market and is orientated around digital-led innovation.

One Mpac business model with a regionally focused, single business entity model has been implemented. Managed globally but with regional sales, supported by a global Service business and operations function, Mpac can provide local support on a global level.

Customer responsiveness and reduced lead times are key competitive advantages and as such we need to continuously improve. By working on a global basis, operations and shared services will be better able to increase operational efficiencies, whilst simultaneously creating a flexible and responsive manufacturing base and supply chain to quickly adapt to changes in customer demand and investment cycles.

Strategy: Case study Covid-19

Providing a solution to support the battle against Covid-19

The challenge

A blue chip contract manufacturer in the healthcare sector approached Mpac about increasing production capacity of a point of care Covid-19 test. Their customer's product was critical in the fight against Covid-19 and an upgraded system needed to be functional within six months to have an impact on the pandemic. The test is complex to assemble, with 42 parts assembled across multiple machines.

Why Mpac?

Mpac's system offers modularity, connectivity and innovation. It was these benefits, as well as our new Diablo platform and strong reputation, that gave our customer the confidence to work with a new supplier on such a critical element of a time-sensitive project.

Mpac was selected for its fully automated solution for one of the critical to quality sub-assemblies.

Mpac's responsiveness and ability to demonstrate a deep understanding of the customer's challenge.

The solution

Our solution was based on our recently developed Diablo Midi system, which perfectly fits the application. We were able to integrate a customer specified offline process by arranging the modular cells into two separate elements, supporting the manufacturing flow across the factory floor and reducing the risk of user-based error.

Design, build and commissioning for each cell is run in parallel and we are using Digital Twin technology to advance testing of machine code, further de-risking the commissioning process. This significant recent investment in both product and internal processes enabled us to deliver a unique production machine within the requested six-month lead time.

Benefits

Diablo Midi's inherent flexibility and modularity means we can support our customer and theirs beyond their initial requirement. A simple increase in volume may be needed, but more often customers need to innovate quickly and introduce new features or variants to their core product range. Diablo Midi's fully decentralised modular cell system supports this ambition and gives manufacturers greater flexibility in their product and manufacturing strategies in an ever more dynamic world. This makes Mpac a great choice as a machinery supply partner.



“Our customer selected the Mpac system due to the modularity, connectivity and innovation, which alongside our reputation, gave them the confidence to work with a new supplier for such a critical element of the project and fight against the spread of the virus.”

Strategy: Switchback acquisition

Business summary and core competencies

Switchback is a provider of packaging machinery and automation solutions to the food and beverage and healthcare sectors. Established in 2006, it is located near Cleveland, Ohio, USA, and employs approximately 45 people.

Product range

The product range offered by Switchback includes tray formers, carton closers, labelling, and four-sided sealed pouching machines. The business is a market leader in the supply of packaging machinery to the high-growth craft brewing industry and is benefiting from the shift in this industry towards the use of recyclables, aluminium cans and cardboard packaging. By leveraging its diverse product range, the business has benefited from strong growth in the last five years.

Wider customer base

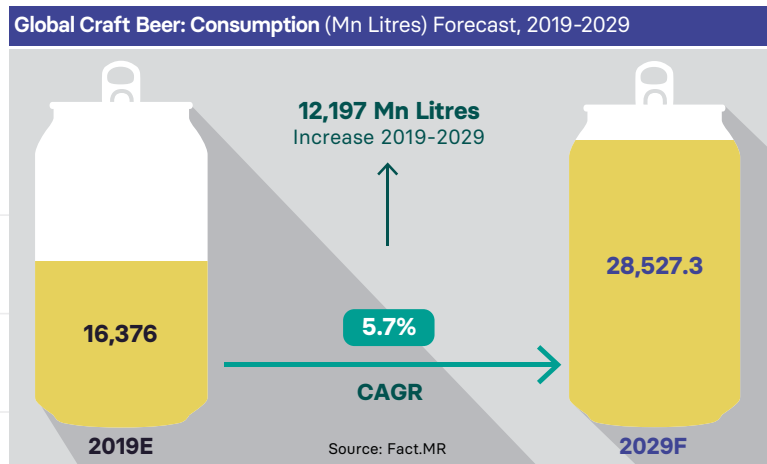
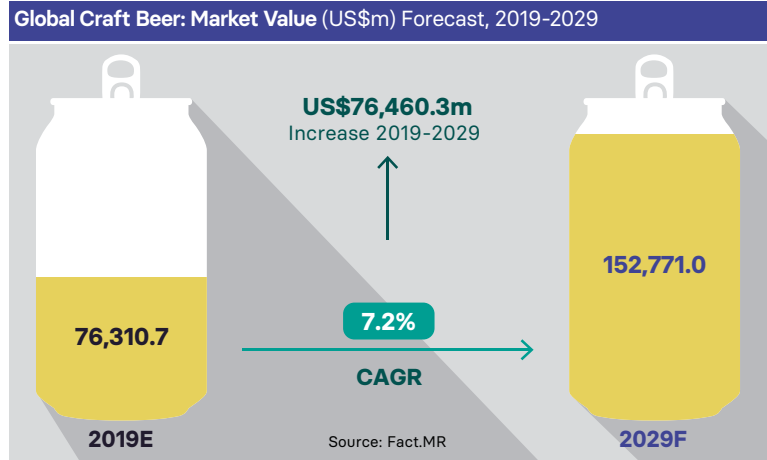
The range of products offered by Switchback will provide further breadth and depth to Mpac's cartoning and end-of-line solutions and provides the platform to build our business further in the USA. We have gained access to a wider customer base and the opportunity to provide existing customers with a wider range of productivity solutions, as the industry trends towards higher volumes, lower mix.

Growth plans

Mpac will continue to support Switchback's talented team and strategic growth plans by providing access to Group resources and our global sales and Service network. This will enable Switchback to leverage growth opportunities in Mpac's existing core sectors of healthcare and food and beverage, at the same time as we work with Switchback to strengthen growth from our existing north Americas facility in Mississauga, Ontario.

“The acquisition of Switchback represents another key stage in the strategic development of Mpac. It increases our USA footprint and brings a great range of products and talented employees to our business. Switchback has demonstrated entrepreneurial growth and the capacity to be market leaders, through embedded customer relationships. Switchback's performance during the pandemic has been strong with a good orderbook, demonstrating the high quality of the business.”

Tony Steels
Chief Executive



Switchback is a market leader in the supply of packaging machinery to the high-growth craft brewing industry

“I am pleased to present my report as Chief Executive of Mpac Group plc. I am sure that 2020 will be remembered as an extremely challenging year for the whole of society. When I reflect on how Mpac collectively, and our employees individually, responded to the pandemic, the speed and agility with which the Group pivoted to supporting our customers alongside the actions taken to ensure that the business continued to operate efficiently, with minimal disruption, I am proud to say that I consider 2020 a successful year for Mpac.”

As we reported at the half year, the wellbeing of our employees and their families is our primary concern. Throughout the year, travel and social distancing restrictions have limited the opportunity for business development, to complete on-site service work and to install and commission equipment, the impact of which was mitigated by our investment in enabling technologies to provide remote customer support. While all sites have continued to operate, there have been periods of reduced operational levels to protect the wellbeing of our employees, resulting in full-year revenue and operating profit falling below that achieved in 2019.

In the second half of 2020, business development of Original Equipment ("OE") improved significantly, with revenue 19% above the comparable period in 2019. This return to growth contributed towards the good quality and diverse closing order book of 2020 (£55.5m), 6% above the opening 2020 order book (£52.2m). Service revenues grew to £19.6m (2019: £19.4m), a particularly pleasing performance given on-going travel restrictions hampering the development of our field service and installation revenue streams.

We made significant progress in our key strategic initiatives, with the broadening of our product portfolio, which included the launch of full-line solutions for customers in the healthcare sector, and the implementation of new operating business systems. This contributed

to the Group producing a robust financial performance and cash generation, underpinned by a high-quality order book.

The successful acquisition of Switchback Group, Inc. ("Switchback") in September 2020 was a further significant milestone for the Group. The acquisition represents a compelling fit with Mpac's strategic intent of being a market leader in the provision of full-line packaging solutions for the pharmaceutical, healthcare and food and beverage sectors. Switchback, based near Cleveland, Ohio, USA is a market leader in the supply of packaging machinery to the high-growth craft beverage industry. It is benefiting from the shift towards recyclables, aluminium cans, and cardboard packaging. Critically, the acquisition also accelerates our expansion into the Americas market and provides a physical location in the USA for the Group to further leverage our Langen and Lambert brands in the region. Despite the ongoing travel restrictions good progress has been made with the integration of Switchback into the Group, with the rebranding to Mpac Switchback complete, the first commercial synergies with other Group businesses have been secured and the business is performing ahead of management expectations.

The unprecedented impact of the Covid-19 pandemic during 2020 resulted in a pause to the progress that we were making in our growth strategy, however we demonstrated our continued ability to execute

£83.9m

Overall Group order intake

£55.5m

Order book for 2021

£83.7m

Group revenue

£64.1m

Original Equipment revenue

£19.6m

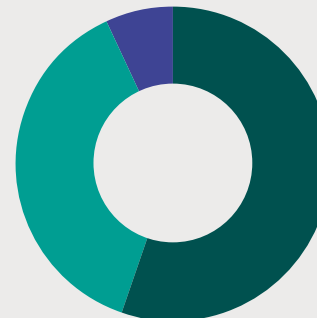
Service revenue



Tony Steels
Chief Executive

Revenue by geography

- Americas **£46.7m**
- Europe, Middle East & Africa **£31.3m**
- Asia **£5.7m**



acquisitions alongside our agility to adapt our resources to accelerate the use of digital technologies to engage with our customers and ensure we continued to provide high levels of support and service. The fundamentals remain unchanged and we believe that Mpac is on track to meet our long-term goals by leveraging the resilient pharmaceutical, healthcare and food and beverage sectors with our full-line solution offering and delivering an enhanced service proposition with our Industry 4.0 suite of products.

Further progress has been made in developing our range of Industry 4.0 solutions which are designed to offer customers opportunities to increase their Overall Equipment Effectiveness ("OEE") through automatic control of the production process. Our innovation roadmap was designed to deliver an extensive range of features and solutions, including OEE monitoring, predictive maintenance, video instructions and facilitating connectivity via multiple devices through an enhanced Human Machine Interface. In the absence of physical trade shows to demonstrate these solutions, in 2020 we initiated a series of virtual trade shows, supported by media campaigns which have been very well received and allowed us to connect with a larger number of customers in a more targeted way.

Management's focus remains on delivering organic growth, extending our commercial reach to new customers with new products and services, supported

by a comprehensive market-led development roadmap. Alongside this, our search for further complementary acquisition targets continues. The acquisition of Switchback and a greater physical presence in the critical US market represents another important step in delivering our strategy, augmented by deploying our innovation initiatives, which are focused on developing full solution product lines with a wider range of standard modules, for our target sectors of pharmaceutical, healthcare, and food and beverage.

I am excited about the next phase for the Group and am extremely pleased with our accomplishments so far. Despite the challenging investment cycle caused by the pandemic, I believe that we are firmly on track to deliver our long-term strategic plans and to take advantage of our enhanced position in growth markets.

Trading

The trading performance in 2020 was resilient given the backdrop of wider market uncertainty and travel restrictions. Overall order intake for the Group of £83.9m was down 4% on 2019, a 14% reduction on a like-for-like basis which excludes the impact of the Switchback acquisition. The Group experienced a significant upturn in order intake in the second half of the year when travel restrictions began to be eased prior to the second wave of the pandemic.

The Group enters 2021 with a customer diverse order book of £55.5m, £3.3m above the opening

order book for 2020. We remain vigilant to project execution risk and are confident that the 2020 closing order book can be delivered at forecast margins. The timing of conversion of prospects into orders continues to vary based on our customers' investment plans and thus remains difficult to predict. Conversion rates were stronger in the second half of the year providing increased confidence that the impact of delayed customer investment on the Group has eased, resulting in the encouraging order book entering 2021.

Group revenues of £83.7m were down 6% compared with the previous year (10% below 2019 on a like-for-like basis). Original Equipment revenue of £64.1m (2019: £69.4m), supported by a robust performance in the Americas and growth in EMEA and the food and beverage sector, was down 8% compared to the prior year. Service revenue grew marginally by 1% to £19.6m, which is encouraging given the circumstances.

I am pleased to report underlying profit before tax for the year of £6.3m (2019: £7.5m), with a statutory profit before tax of £2.9m (2019: £5.4m).

Following the acquisition of Switchback and continued investment in new product development to support future growth, the Group retained a cash position of £15.5m (2019: £18.9m), providing the financial resources required to invest in the strategic initiatives which will deliver profitable growth in future years.

Strategic developments

Further progress has been made during 2020 to deliver our five-year strategic plan. The global pandemic caused a pause in the progress we had made delivering our growth plan. However, we believe an extension of our US presence and access to new markets in the region following the Switchback acquisition, plus the exciting roll-out of new products and good progress on our integrated business systems project, means Mpac remains on track to meet our broader strategic objectives. Furthermore, the growth opportunities from the markets in which we operate are aligned to our long-term goals.

I believe that it is due to the implementation of our strategic plans and continued focus on increasing the scale and diversity of the Group that the business was able to deliver a robust level of order intake, revenue, and underlying profitability during a challenging year in which customers in most regions and markets were re-evaluating their investment decisions.

Restructuring

During the year, the Group took the necessary restructuring actions associated with the integration of the business activities of our Coventry operation into our Tadcaster site. This move will deliver annual savings going forward and improve our customer experience. The enlarged site has the greater scale, scope, depth of knowledge and know-how to support customers and will help to deliver profitable growth as we ensure financial



“The Group enters 2021 with a customer diverse order book of £55.5m, marginally above the opening order book for 2020. We remain vigilant to project execution risk and are confident that the 2020 closing order book can be delivered at forecast margins.”

performance across the Group meets or exceeds expectations. The Group is committed to ensuring that all aspects of the organisation support the future growth of the business and targets continue to be met.

Acquisition strategy

The Board continues to actively seek and evaluate potential acquisition opportunities. The focus is finding businesses that will enhance our customer proposition in automation and packaging solutions, by extending our product range and our access to a broader range of customers in our target markets, adding value to the Group.

Moving forward

We continue to pursue our strategic goals, which were recalibrated during the year, and build on the strong foundations made towards achieving the three strategic priorities: Going for Growth, Make Service a Business and Operational Efficiency. Further information on these strategic priorities is provided in the Strategic Update.

Purpose and sustainability

The senior leadership team developed a purpose statement for Mpac:

‘To create automation ecosystems that enhance manufacturing, to help businesses adapt and grow. Advancing the world with manufacturing solutions that make a real difference’.

This statement, together with our sustainability vision, where we

promise to do our part in protecting the planet’s future; partnering with our customers to support their reduction in packaging materials usage and the effective adoption of biodegradable and recyclable materials, will form an integral part of our strategy in the future. Mpac’s evolving innovative solutions offer our customers opportunities to achieve their sustainability goals. Mpac encourages internal activities which support the culture and adoption of continuous improvement in sustainability.

Business review

The Group aims to achieve annual double-digit percentage revenue growth over the medium-term, culminating in delivering an improved return on sales, targeted at 10%. To support this intent, we manage the business in two parts; Original Equipment and Service, and across three regions; Americas, EMEA and Asia.

Revenue by region was split as follows; Americas £46.7m (2019: £56.8m), EMEA £31.3m (2019: £24.8m) and Asia £5.7m (2019: £7.2m).

Revenue by sector was split as follows: food and beverage £34.8m (2019: £19.8m), healthcare £45.0m (2019: £66.1m) and pharmaceutical £3.9m (2019: £2.9m).

Individual OE contracts, and to a lesser extent in the Service business, can be large. Accordingly, a few significant orders can have

a disproportionate impact on the growth rates seen in individual sectors from year to year.

Original Equipment

OE order intake of £62.4m (2019: £66.2m) was down 6% compared with the prior year (18% lower on a like-for-like basis). OE revenues of £64.1m (2019: £69.4m) were down 8% compared with the prior year (12% on a like-for-like basis).

Mpac’s focus on the Covid-19 resilient pharmaceutical, healthcare and food and beverage sectors continued to drive our success, with a strong performance in the food and beverage sector and growth over 2019 in EMEA regions. Revenue generated in the Americas was £36.2m (2019: £45.8m). In the prior year Americas revenue included the impact of a one-off repeat line order received in 2018 from a customer in the healthcare sector. Order intake and revenue in the region in 2020 was generated from a more diverse and sustainable customer base.

EMEA revenue in the period was £23.7m (2019: £17.6m). Revenue in the region is generated by our Lambert and Langen product ranges, which reported growth over the prior year.

Asia revenue, predominantly associated with orders from customers in the food and beverage sector, was £4.2m (2019: £6.0m). The region was the first to be impacted by the pandemic and retained travel restrictions for the majority of the

calendar year, reducing opportunities for business development.

Overall order prospects remain strong, especially from customers in the healthcare sector, and activity levels across the OE business remain high and the business is well positioned moving into 2021.

Service

Order intake for the Service division was broadly unchanged in 2020 at £21.5m (2019: £22.6m). Growth in order intake in the EMEA region offset a reduction in order intake in the Americas.

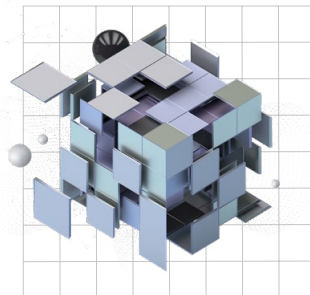
Revenue in 2020 of £19.6m, was up £0.2m on the prior year, again driven by growth in EMEA. As with the trend for OE, Service revenue in the Americas in 2019 benefited from activity with one large customer in the healthcare sector whereas 2020 revenue has been generated from a diverse customer base.

Americas revenue in the year was £10.5m compared to £11.0m in 2019. EMEA revenue in the year was £7.6m, up £0.4m (2019: £7.2m). Asia revenue in the year was £1.5m (2019: £1.2m).

Coronavirus

Since the outbreak of the pandemic and throughout the year, the priority for Mpac was to secure the health, safety and wellbeing of our employees while continuing to provide essential support for our customers.

The implementation of global travel restrictions had an impact on the



“The Group aims to achieve double digit percentage revenue growth over the medium-term, culminating in delivering an improved return on sales, targeted at 10%.”

timing of closing of new OE orders, on project execution and on-site service revenue generation. However, this impact has been partially mitigated through the ingenuity of our employees in the use of digital technology which contributed to Service revenue growth over the prior year. Throughout the crisis we continued to secure new orders and no orders were cancelled as a result of the pandemic.

It continues to be difficult to predict the length and depth of the impact of the pandemic and therefore management continue to critically appraise discretionary spend and investment plans, while seeking to protect our talented workforce and being careful not to compromise the long-term prospects of the Group. Early in the pandemic, a 'Fast Recovery' plan was implemented which helped to ensure that Mpac was well positioned to take advantage of opportunities when the market returns to pre-pandemic levels of activity. This plan included the launch of a new website, virtual exhibitions for customers to demonstrate the range of newly developed products and offering customers digital solutions for remote machine acceptance and servicing. Cash preservation remained our primary focus, which helped to fund the acquisition of Switchback and to deliver year end cash of £15.5m, significantly above earlier management expectations.

Looking forward, we have identified three risks associated with the

pandemic and with the emergence of new variants of the virus for which we believe we have mitigations in place. First is the risk associated with weakening customer confidence leading to delayed OE order intake. This is mitigated by our presence in resilient sectors, across a wide geographic range and a diverse customer base. The second risk identified is an outbreak of infection of the virus at a Group facility, resulting in production delays while the facility is deep cleaned and employees quarantined. Our strict employee and visitor monitoring protocols alongside social distancing and cleaning practices provide confidence that the impact is sufficiently mitigated and, due to the nature of our business, project execution status can be recovered. The third risk is a disruption to our supply chain with demand exceeding supply, coupled with disruption to transportation. Our global supply chain strategy ensures secure alternative means of supply have been established for all critical parts.

The Board of Mpac continues to monitor the situation carefully across our customer, supplier, and employee base.

Strategic update

Our strategy focuses on three key initiatives to drive growth:

Going for Growth – Offering customers comprehensive "Automation Ecosystems" solutions in our target markets.

Make Service a Business – Providing customers with a comprehensive portfolio of service products to ensure they maximise their return on investment.

Operational Efficiency – Operational excellence and flexibility of supply chain to increase responsiveness to investment cycles.

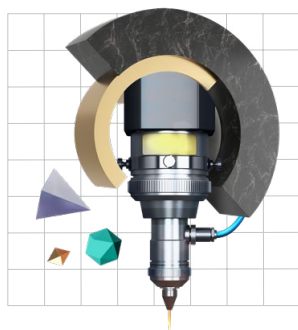
Going for Growth

Our five-year strategic plan is to develop the business through organic growth in our target growth sectors of pharmaceutical, healthcare and food and beverage. To enable this, we created a global sales approach under our single entity model, 'One Mpac', offering innovative automation and packaging machinery solutions from our extensive portfolio of engineered modules. In 2019, at the 'mid-point' of the strategic period, the objectives were validated with the support of a third-party assessment of our approach. At the time, the overall growth targets were considered to be accessible and, underpinned by the execution of our technology and innovation roadmap, were expected to accelerate progress in achieving our strategic aims in the growth sectors of pharmaceutical, healthcare and food and beverage. While the impact from the spread of Covid-19 has resulted in a pause to the previous growth trajectory, the medium-term fundamentals of the markets in which we operate remain valid.

The acquisition of Switchback adds both immediate opportunities for

commercial synergies and provides the Group with a facility in the US from which Mpac can leverage the Lambert, Langen and Switchback product range to local customers. The Switchback and Lambert acquisitions provide opportunities to cross sell automation and packaging solutions to common customers, and our commercial teams from across the Group are generating qualified opportunities to leverage the Group's extended product, solutions and technology offering. Cross selling of the existing product and Service offering to new and existing customers is a clear target, ensuring we better understand their evolving needs and extend our customer proposition with a broader solution approach. During 2020 we recruited a Chief Commercial Officer to lead this process on a global basis. Deployment of our commercial excellence programme to our sales team will assist in delivering the commercial synergies and further training modules aimed at increasing our win ratio and expanding our customer base through our geographic reach.

The Group has undertaken a review of our market approach and digital platform customer proposition and as a result, Mpac launched a new Group branded website (www.mpac-group.com) and aligned its commercial approach to the wider Mpac brand websites. Further investment in our online presence will continue in 2021. Resources have also been deployed into social media platforms, resulting in a significant uptick in followers and lead generation.



“Despite the challenges of 2020, we continued to make significant progress in the execution of our long-term strategy, and we remain focused on the growth sectors in which the Group currently operates.”

14 Operating review

continued

Innovation remains the key to long term sustainable growth. During the year we developed and launched a full-line solution for automation and packaging in the healthcare sector, which is already generating orders. In the food and beverage sector we developed equipment to expand our end of line packaging offering, alongside innovations focused on improved machine performance together with the Industry 4.0 enabled technology.

Make Service a Business

Our customers have an extensive, globally installed base which they expect to run continuously at high levels of overall equipment effectiveness. This requirement increased during the pandemic as the need for equipment to run with less user intervention became more critical. The trends towards Industry 4.0 and its enabling technological platforms support our strategy to work with our customers to ensure they maximise their return on investment throughout the life cycle of the equipment. We offer comprehensive Service, monitoring and maintenance programmes to maximise uptime and minimise cost of production through our global Service business.

In 2020 and due to the pandemic, the requirement from customers for digital technology and remote support offerings increased significantly and Mpac was able to address this requirement and offer solutions for customers which ensured that any lost 'on site' Service revenues were mitigated with alternative remote revenue streams. Investment in enabling technologies to facilitate remote service support for our

customers ensured that Mpac was well positioned to respond and adapt quickly to the pandemic.

The focus remains to ensure that the Service business teams work closely with every customer to understand their current and future needs and to tailor contracted service programme agreements aimed at customer productivity improvements. Working across our strategic lines, our Excellence in Service programme is an initiative focused on quick response and high spare part availability for our global customers, which has already increased Service revenue.

Growth of our Service business will be supported by new OE product launches during the year, the technology within which will enable customers to optimise their production processes and improve product quality through greater equipment connectivity, data extraction and interpretation, as well as enable Mpac to deliver a wider range of more planned service.

Operational Efficiency

Our consistent aim is to be a customer focused, responsive and flexible Group achieved through organisational excellence, underpinned by a global supply chain and supported by a single business model, 'One Mpac'. The cross utilisation of resources is now the norm as opposed to the exception.

In October 2020, we completed the first significant milestone of our project to harmonise our global Enterprise Resource Planning ("ERP") landscape and to leverage the work previously completed in deploying

common engineering design platforms to our manufacturing sites with the successful deployment at our facility in the Netherlands. This was followed by deployment to our facility in Canada in early 2021.

Mpac business model 'One Mpac'

We have operations around the world and industry-leading technologies. None of that is possible, of course, without the abilities and commitment of our people. Having a highly skilled, technical workforce in place and ensuring everyone can contribute at their highest level and grow in their position over the long term enables us to win as a team. Through 'One Mpac', we are developing leaders, while engaging and empowering our global workforce. With strong leaders, engaged people and common processes, we strengthen the organisation and create value for our customers and shareholders.

Outlook

Despite the challenges of 2020, we continued to make significant progress in the execution of our strategy, and we remain well positioned, serving the Covid-19 resilient end markets with long-term growth potential. The pandemic will take time to be brought under control and while this process continues investment decisions will inevitably come under more scrutiny as businesses assess the economic impact.

The prior investments in innovation and operational excellence combined with the group's agility to adapt ensures we are well placed to continue our positive progress.

The Group has both the financial and managerial resource available to continue to develop the business, with the prime focus being on organic growth, leveraged with our global manufacturing and service reach and the continued development of new technology and products alongside an expanded Service offering to our customers. We continue to evaluate potential complementary acquisition opportunities.

Our rich history of innovative packaging machinery and automation solutions align well with customer demand and we are in an enviable position to serve our customers with efficient, connected, and reliable solutions, delivered via our 'One Mpac' business model.

We entered 2021 with a stronger order book compared to the previous year and have been successful in further extending the diversity of customers and product ranges. 2021 has started well across all regions and the Group's future prospects remain positive.

Tony Steels
Chief Executive

29 March 2021

£83.7m

Revenue

7.8%

Underlying operating return on sales

£6.5m

Underlying profit before tax

31.4p

Underlying EPS

16.3p

Basic EPS

“At the start of the pandemic we introduced cost saving and liquidity management measures to maximise our resilience during the crisis and increase our competitive advantage when we emerge from it.”

Revenue and operating results

Group revenue in the year was £83.7m (2019: £88.8m). Revenue in the Original Equipment (“OE”) division was £64.1m (2019: £69.4m) and revenue in the Service division was £19.6m (2019: £19.4m). Gross profit was £24.3m (2019: £26.0m) and underlying selling, distribution and administration costs were £17.8m (2019: £18.3m).

Underlying operating profit was £6.5m (2019: £7.7m). Underlying profit after tax was £6.3m (2019: £7.8m) and statutory profit for the period was £3.3m (2019: £5.9m).

Non-underlying items

Non-underlying items merit separate presentation in the consolidated income statement to allow a better understanding of the Group’s financial performance, by facilitating comparisons with prior periods and assessments of trends in financial performance. Pension costs, restructuring costs and acquisition related charges are considered non-underlying items as they are not representative of the core trading activities of the Group and are not included in the underlying profit before tax measure reviewed by key stakeholders.

Restructuring

The Group undertook a limited number of restructuring initiatives during the year which were primarily focused on reshaping and integrating the UK operations into one facility with the aim of improving operational efficiency and reducing overheads.

Interest and taxation

Net finance income was £nil (2019: £0.1m). Tax on underlying profit before tax was £nil (2019: £0.3m credit) due to utilisation of unrecognised deferred tax balances. The tax credit on the Group’s profit before tax was £0.4m (2019: £0.5m).

Dividends

Having considered the trading results for 2020 and the opportunities for investment in the growth of the Group, together with the continued uncertainty surrounding the impact of the pandemic, the Board has decided that it is not appropriate to pay a final dividend. No interim dividend was paid in 2020. Future dividend payments will be considered by the Board in the context of 2021 trading performance and when the Board believes it is prudent to do so.

Cash, treasury and funding activities

Cash at the end of the year was £15.5m (2019: £18.9m). Net cash inflow before reorganisation was £12.8m (2019: £5.1m), after a decrease in working capital of £7.5m (2019: £2.1m increase) and defined benefit pension payments of £3.0m (2019: £2.9m). Reorganisation and acquisition costs of £0.9m (2019: £1.0m) were paid in the year. Net taxation payments were £0.7m (2019: £1.0m received). Capital expenditure on property, plant and equipment was £1.2m (2019: £1.4m), capital expenditure on assets under construction was £nil (2019: £0.6m) and capitalised product development expenditure was £1.8m (2019: £0.3m).



Will Wilkins
Group Finance Director

The acquisition of Switchback resulted in an immediate net cash outflow of £9.8m. Deferred consideration of up to £1.1m is expected to fall due in equal sums over the next two years. It is pleasing to report that the acquired business has performed well in 2021 and at a run-rate ahead of the criteria required for full payment of the deferred consideration.

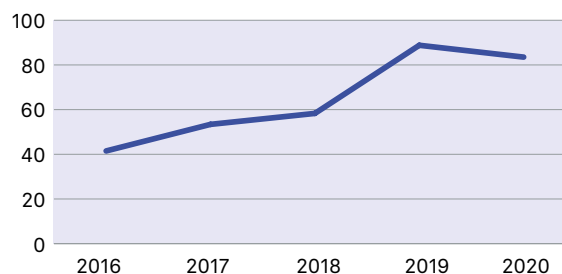
The Group entered into a three-year funding agreement with HSBC in 2019, which provided the Group with a £10.0m revolving credit facility to support future growth. This facility also provides a number of other opportunities to more proactively manage the Group's cash and ensure that the Group is well placed to react to opportunities, both organic and acquisition related, as they arise.

The risk associated with the pandemic and the spread of Covid-19 was the primary new significant risk that the Group is exposed to. The mitigation steps associated with identified risks are shown on pages 18 to 20. There were no other significant changes during the year in the financial risks, principally currency risks and interest rate movements, to which the business is exposed, and the Group treasury policy has remained unchanged. The Group does not trade in financial instruments and enters into derivatives (mainly forward foreign exchange contracts) solely for the purpose of minimising currency exposures on sales or purchases in other than the functional currencies of its various operations.

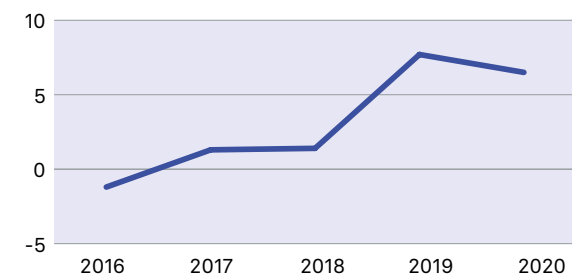
Reconciliation of underlying profit before tax to profit/(loss) before tax

	2020 £m	2019 £m
Underlying profit before tax	6.3	7.5
Non-underlying items		
Defined benefit pension scheme – past service cost GMP equalisation	(0.2)	–
Defined benefit pension scheme – US pension past service gain	–	1.1
Defined benefit pension scheme – other costs and interest	(0.7)	(0.8)
Reorganisation costs	(0.5)	(0.3)
Acquired intangible asset amortisation – Lambert	(1.4)	(1.9)
Acquisition costs and acquired intangible asset amortisation – Switchback	(0.6)	–
Provision in respect of discontinued operation	–	(0.2)
Non-underlying items total	(3.4)	(2.1)
Profit before tax	2.9	5.4

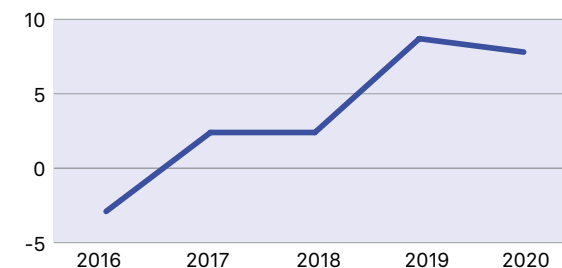
Revenue (£m)



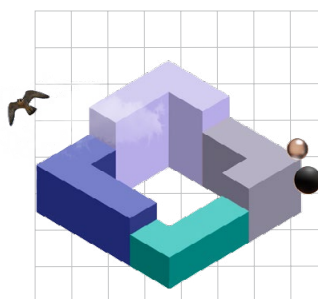
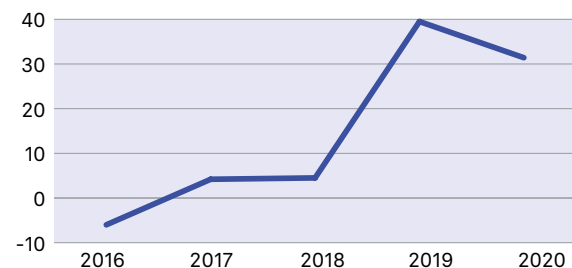
Underlying profit before tax (£m)



Underlying operating return on sales (%)



Underlying EPS (p)



“The acquisition of Switchback represents a compelling fit with Mpac’s strategic intent of being a market leader in the provision of full-line packaging solutions for the pharmaceutical, healthcare and food and beverage sectors.”

Prior year adjustments

Following an internal review of Mpac's compliance with IFRS 15 and the FRC's third thematic review of IFRS 15, published 24 September 2020, the Group has restated certain balances previously reported, in accordance with IAS 8, to align the treatment of contract assets, contract liabilities, contract fulfilment assets and work in progress recognised in relation to contracts, more closely to the demands of IFRS 15. These balances do not change any of the key metrics used by the Group, with gross profit, operating profit, profit before and after tax, earnings per share, net current assets and retained earnings remaining unchanged. These adjustments do not affect the future anticipated performance of the Group.

Pension schemes

The Group is responsible for defined benefit pension schemes in the UK and the USA, in which there are no active members.

The IAS 19 valuation of the UK scheme's assets and liabilities was undertaken as at 31 December 2020

and was based on the information used for the funding valuation work as at 30 June 2018, updated to reflect both conditions at the 2020 year end and the specific requirements of IAS 19. The smaller US defined benefit schemes were valued as at 31 December 2020, using actuarial data as of 1 January 2020, updated for conditions existing at the year end. Under IAS 19, the Group has elected to recognise all actuarial gains and losses outside of the income statement.

The IAS 19 valuation of the UK scheme resulted in a net surplus at the end of the year of £14.0m (2019: £20.4m), which is included within the Group's and Company's assets. The value of the scheme's assets at 31 December 2020 was £440.9m (2019: £423.6m) and the value of the scheme's liabilities was £426.9m (2019: £403.2m). The scheme was largely protected from the sharp reduction in the main discount rate by the liability matching strategy agreed between the trustee and the Company, which was implemented early in 2019 and continues to evolve as the scheme matures.

The IAS 19 valuations of the US pension schemes showed an aggregated net deficit of £3.0m (2019: £3.1m), with total assets of £10.1m (2019: £10.4m).

During the year, the Company made payments to the UK defined benefit scheme of £1.9m (2019: £1.9m) in respect of the deficit recovery plan. A contribution of £0.8m (2019: £nil), in accordance with the profit sharing arrangement in the schedule of contributions, was also paid. In 2019 £0.1m was paid following the receipt of proceeds from the disposal of the I&TM business, being 10% of net proceeds. Payments of £0.3m (2019: £0.9m) were made to the US schemes in the year.

In 2019, the UK scheme's triennial valuation as at 30 June 2018 was completed, with the reported deficit reducing to £35.2m (30 June 2015: £69.6m). The contributions remained at the same level, but the recovery period reduced to six years and one month (30 June 2015: 14 years and 2 months). Further details are shown in note 24.

Equity

Group equity at 31 December 2020 was £44.4m (2019: £47.5m). The movement arises mainly from the profit for the period of £3.3m, a net actuarial loss in respect of the Group's defined benefit pension schemes of £6.6m and currency translation losses on foreign currency net investments of £0.2m, all figures are stated net of tax where applicable.

Will Wilkins

Group Finance Director

29 March 2021



“Mpac has a strong balance sheet, is well financed, remains bank debt free and has access to a £10m secured committed revolving facility which remains undrawn.”

Principal risks and uncertainties

The Board regularly considers the main risks that the Group faces and how to mitigate those risks. The principal risks and uncertainties to which the business is exposed are summarised as follows.

Risk	Mitigation	2020 Movement
Covid-19		
<p>The Group has identified three categories of risk associated with the initial spread of Covid-19 and the emergence of new variants from the virus. Firstly, the risk associated with weakening customer confidence and prolonged investment decision making driven by wider economic uncertainty which could result either in projects being cancelled or delayed. The second element is the risk of supply chain disruption with demand for key components exceeding supply coupled with disruption to transportation. Finally, the risk of an outbreak at a Group facility which could result in a production delay whilst the facility was deep cleaned, and employees were quarantined or are recovering from illness. The consequences being that the Group operates at lower productivity levels during the transition phase.</p>	<p>The Group implemented a series of measures to preserve cash, reduce discretionary spend and to focus on digital marketing and innovation so as to provide a shield from the worst commercial and financial impact of the pandemic. The geographic diversity of the customer base, coupled with supplying the Covid-19 resilient markets of healthcare, pharmaceutical and food and beverage provide a mitigation to the impact from the pandemic.</p> <p>The Group's supply chain has been established to ensure there are several options for all critical parts. The global supply chain includes a blend of local suppliers alongside low-cost suppliers to provide flexibility.</p> <p>The Group continues to focus on protecting our employees' health and wellbeing by implementing site testing, ensuring appropriate social distancing regimes are in place and increased hygiene routines at our plants. This, alongside an operational footprint established with common engineering and project management platforms, allows for project execution to be relocated in the event of resource constraints or Group employees being unavailable to work due to the pandemic.</p>	<p>Significant increase</p> <p>The impact of the pandemic is mitigated, primarily due to the markets served and the wider geographical nature of our customer base. However, during 2020 the risk has increased significantly from both the spread of the virus and the wider economic impact on customers investment decision making and, more recently, from the emergence of new variants which are either more transmittable or resistant to vaccines.</p>
Economic and market cycles		
<p>The Group is potentially affected by global and local economic cycles and changes in a number of industrial sectors, including the pharmaceutical, healthcare and food and beverage industries. Such potential changes include those arising as a consequence of governmental activities, such as regulation and taxation.</p>	<p>Customers, suppliers and Group operations are geographically diverse and the Group sells a range of products and services to a number of industries in all parts of the world.</p> <p>The usual market cycles have been disrupted by the pandemic, with shifts in sector demand and new opportunities being accelerated. Mpac has benefitted from these disruptions, with the investment in flexible, connected machinery having been rapidly applied to new applications as required.</p>	<p>Increasing</p> <p>The recent events showed that our customers and suppliers are less affected by economic cycles than most and the Group has the ability to flex to the demands of the customer base.</p>
Brexit trade disruption		
<p>The impact on the Group from the UK leaving the EU and entering a post-transition trade agreement is limited to potential disruption of the flow of trade at ports of entry between the Mpac business in Tadcaster and customers within the EU, and to a lesser extent, on trade from the Mpac EU-based entity and customers within the UK.</p>	<p>Trade disruption risk is partially mitigated by matching the locations of customers and production within the Mpac Langen business and flexible production facilities across three continents, along with limited reliance upon the UK market.</p> <p>Specific actions were taken prior to the year end to minimise any disruption to the supply of parts into the UK, including the acceleration of delivery schedules and ensuring that, as far as possible, the UK sites could service all aspects of the UK installed machine fleet without the physical presence of non-UK staff.</p>	<p>Decreasing</p> <p>The late conclusion of the Brexit agreements and the subsequent uncertainty regarding the flow of goods through ports of entry increase the risk of unexpected disruption to the Mpac UK and EU operations. The risk is mitigated by a low volume of consignments.</p>

Risk	Mitigation	2020 Movement
<p>Regulatory change</p> <p>The Group may be affected by changes in global or national regulations across any of its key sectors, examples of which include changes in regulations which significantly change the demand for our customers' products or restrictions upon/changes to the methods of packaging and distribution.</p>	<p>The Group's products are used to produce and package a very wide range of products and restrictions or changes to any one product, especially within our key sectors where individuals are reliant upon the sector on a daily basis, provides some mitigation against sudden change.</p> <p>The Group has extensive knowledge and experience in designing machines to accept all kinds of products and packaging materials, including those with the lowest environmental impact and machines designed to minimise packaging material usage whilst maintaining the customer's product in perfect condition.</p>	<p>Unchanged</p> <p>The demand for new packaging and innovation in this area has continued unabated, to the benefit of the Group.</p>
<p>Loss of trading partners</p> <p>The Group faces the general risk of trading partners, including both customers and suppliers, ceasing to operate; the loss of any such partner could have an adverse effect on the Group's operating results and financial condition, including potentially affecting the viability of a subsidiary company. A number of customers operate in countries that may face a higher degree of political risk than others.</p>	<p>The Group has a diversified base of customers. In certain years, sales to a customer may be more than 15% of Group revenue, although the sales would typically be both original equipment and service, and to a number of different geographic regions. The Group regularly reviews its trading relationships with suppliers with the aim of ensuring that alternative sources of supply are available.</p>	<p>Customers – Decreasing Suppliers – Increasing</p> <p>The Group continues to enjoy a diverse, blue chip customer base, so the impact of a loss of a single customer is limited. The strength of our customer base has both increased and diversified during the year, so this risk has decreased. Suppliers, however, are at greater risk of distress in difficult or changing market conditions and positive steps towards additional supplier diversification have been taken.</p>
<p>Large one-off projects</p> <p>The Group undertakes large, one-off projects for its customers each year. Several risks follow from the nature of this type of business, including the potential for cost over-runs and delays in performing the contract, with a consequent impact on cash flows and profits. Also, the Group is prone to potentially large fluctuations in business levels, as demand can be volatile.</p>	<p>The Group utilises good project management practices, including regular technical and commercial reviews of its major projects. Resource capacity is regularly reviewed, alongside reviews of order prospects lists.</p>	<p>Unchanged</p> <p>Strong contract management processes have ensured that the Group has broadly maintained profitability from the 'as sold' level through to completion.</p>
<p>Loss of a key facility</p> <p>The Group operates a number of sites around the world and the loss of any one of them would interrupt a revenue stream and could potentially have an adverse effect on the Group's operating results and financial condition.</p> <p>The Group, and the Group's customers and suppliers, may also be affected by sudden restrictions in global logistics.</p>	<p>Disaster recovery plans are in place for each site. IT infrastructures are designed to have minimal inter dependence across the Group, thereby not exposing a number of facilities to the failure of one central system.</p> <p>The diverse locations and common skill sets around the Group, along with the Group's investments in communication technology, means that production could be moved from one site to another at short notice in the event that a site or its region were unable to function for a period of time.</p>	<p>Increasing</p> <p>The Covid pandemic highlighted the potential for one of the Group's sites to be temporarily closed as a result of external circumstances and this risk continues whilst, although prudent measures are being taken, there is no certainty that a local outbreak could be contained whilst maintaining operations. Appropriate contractual protections are included in the Group's contracts to mitigate the direct financial cost of such an event.</p>
<p>Exchange rate movements</p> <p>The majority of the Group's trading is conducted outside of the UK and in currencies other than sterling. Consequently, its financial performance is affected by fluctuations in foreign exchange rates, particularly as a result of changes in the relative values of the US dollar, Canadian dollar, euro, and sterling.</p>	<p>The Group has a wide supply base in different countries and monitors the relative values of currencies in making purchasing decisions. The Group enters into forward foreign exchange contracts to minimise currency exposures on sales and purchases in other than the functional currencies of its operations.</p>	<p>Increased</p> <p>Volatility in the foreign exchange markets was greater in 2020 than prior years, in particular in relation to the US dollar, but the use of hedging and matching of supply locations to customers continues to minimise the impact.</p>

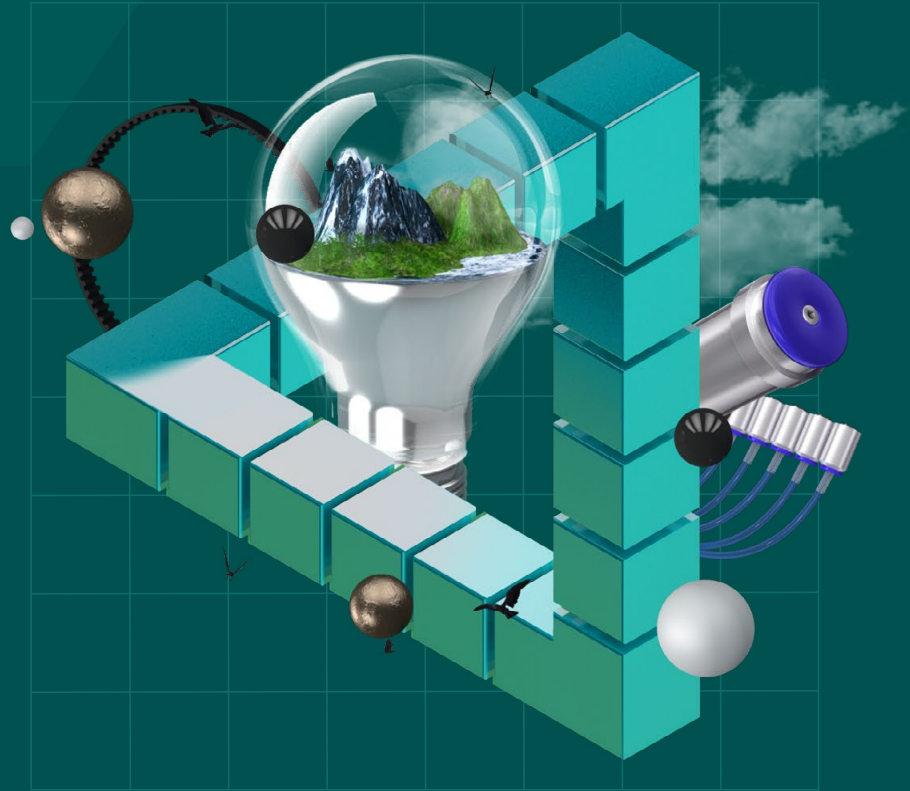
Principal risks and uncertainties

continued

Risk	Mitigation	2020 Movement
IT Security		
The Group holds sensitive data relating to its employees, customers and suppliers, as well as intellectual property and financial data. Should security infringement occur, the Group risks loss of customers, disruption of normal operations, fines and reputational damage.	The Group continually reviews the effectiveness of its IT security controls in consultation with external experts and invests in industry best practice security software. The security arrangements of the Group's IT assets prevent unauthorised access to core IT hardware. IT infrastructures are designed to have minimal inter dependence across the Group. Cyber security user training is employed as a final line of defence.	Unchanged The Group maintains best practice in this area and there has been no significant change in the period.
Availability of funding		
The banking facilities in place prove insufficient for the needs of the Group to meet its growth objectives.	The Group conducted an in-depth review of its requirements and put in place a £10.0m revolving credit facility with HSBC during 2019. As at 31 December 2020, the Group holds cash balances of £15.5m. It is considered that the Group has sufficient cash resources to carry on in operational existence for the foreseeable future without the use of the new facility, which thus provides a substantial buffer against the Group being constrained by restricted availability of funding.	Decreasing The facility remains in place and undrawn, with the cash balance and operational cash flow remaining positive in the period. The acquisition of Switchback in the year was funded from internal resources. Global interest rate reductions and government lending support have increased the availability of further funding should it be required.
Liabilities of the Group sponsored defined benefit pension schemes		
The Group is responsible for the funding of a defined benefit pension scheme in the UK, which pays a levy to the Pension Protection Fund of an amount outside the control of the Group, as well as three smaller such schemes in the USA. Changes in the value of the liabilities of the pension schemes, which were valued in aggregate at £440.0m at 31 December 2020 in accordance with IAS 19, as a consequence of changes in interest rates and mortality rates, amongst others, and changes in the value of the assets of the pension schemes, which were valued in aggregate at £451.0m at 31 December 2020, are largely outside the control of the Group. The valuation of these schemes impact on the value of capital employed in the Group and the extent to which, as a matter of law, it has available as distributable profits. The Group has responsibility for the adequate funding of the pension schemes and is currently paying to the UK scheme £1.9m per annum in respect of deficit funding following an actuarial funding valuation as at 30 June 2018. The UK scheme is subject to a full actuarial funding valuation as at 30 June 2021, which will help inform its funding requirements over the subsequent periods.	The Group and the pension schemes implement liability reduction strategies where such opportunities exist and the Group maintains regular dialogue with its pension advisors on such matters. Regular meetings are held with the trustee of the UK pension scheme, to input into their asset investment decisions and to apprise the trustee of the progress of the Group to help inform them in making decisions which may impact the scheme funding requirements. In particular, the Group and the trustees of the schemes have an active programme of risk mitigation for the schemes, including seeking to match investments to the underlying liabilities and to provide options for the membership which can benefit both themselves and the schemes. However, many factors that impact the valuations and funding requirements of the pension schemes are outside the control of the Group.	Unchanged The continued falls in the discount rate led to the funding level of the scheme declining during the year, though this was largely mitigated by the investment strategy, but the scheme's funding levels were, for the third consecutive year, affected by regulatory changes, in the current period by the change in index linked bond returns (from RPI to CPIH in 2030) and the results of the Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank plc GMP equalisation rulings.
Litigation		
The Group from time to time may be subject to claims from third parties in relation to its current and past operations, which could result in legal costs and rulings against it that may have a material effect on the Group's operating results and financial condition.	The Group has a comprehensive risk management and review process which is aimed at minimising the risk of such claims arising as a consequence of its actions. Insurance policies are in place to cover some such incidences and third-party legal assistance is sought as required.	Unchanged No new material claims in the period.

The strategic report was approved by the board and signed by Andrew Kitchingman, Chairman, on 29 March 2021.

Corporate governance



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Chairman's corporate governance statement

"We are committed to excellence in corporate governance, and maintain clear policies and practices that promote good corporate governance."

As Chairman of the Company, it is my responsibility to lead the Board in upholding high standards of corporate governance throughout the Group. It therefore gives me pleasure to introduce our governance statement for 2020.

The QCA Corporate Governance Code 2018 ("QCA Code")

The Board believes that sound governance is fundamental to good business and has chosen to follow the QCA Code. During 2020, the Company has complied with the 10 principles set out within the QCA Code, as shown on page 23.

However, the Board recognises the need to continue to develop governance practices and disclosures in some areas in order to ensure we continue to apply the principles going forward.

The policies, procedures and relevant systems we have implemented to date have given us a firm foundation for our governance structure, and the Board regularly reviews the structure to ensure that it develops in line with the growth and strategic plans of the Group.

Andrew Kitchingman
Chairman

29 March 2021



Andrew Kitchingman
Chairman

Deliver Growth

The Board has collective responsibility for setting the strategic aims and objectives of the Group. Our strategy is articulated on pages 5 to 9 and on our website. In the course of implementing our strategic aims, the Board takes into account expectations of the Company's shareholders and also its wider stakeholders and social responsibilities.

The Board also has responsibility for the Group's internal control and risk management systems. The Board regularly reviews the risks faced and ensures the mitigation strategies in place are the most effective and appropriate to the Group's operations.

Dynamic Management Framework

As Chairman, I regularly consider the operation of the Board as a whole and the performance of the Directors individually. The Directors attend seminars from time to time as appropriate, have regular updates at Board meetings to assist with training and awareness of compliance issues facing Boards of quoted companies, and also are made aware of developments in governance generally.

The Board carries out a formal review annually in respect of its performance over the previous year. The evaluation is informed by detailed questionnaires completed by each Director which are then summarised on an anonymous basis, considered by the Board and action taken as appropriate. All appointments to the Board will be on merit, but with due consideration to the need for diversity on the Board. Such appointments will be made to complement the existing balance of skills and experience on the Board.

The Company operates an open and inclusive culture and this is reflected in the way that the Board conducts itself. The Non-Executive Directors regularly attend the Group's offices and other Group events. With a relatively small employee base, such interactions mean it is relatively straightforward for the Board to promote and assess the desired corporate culture.

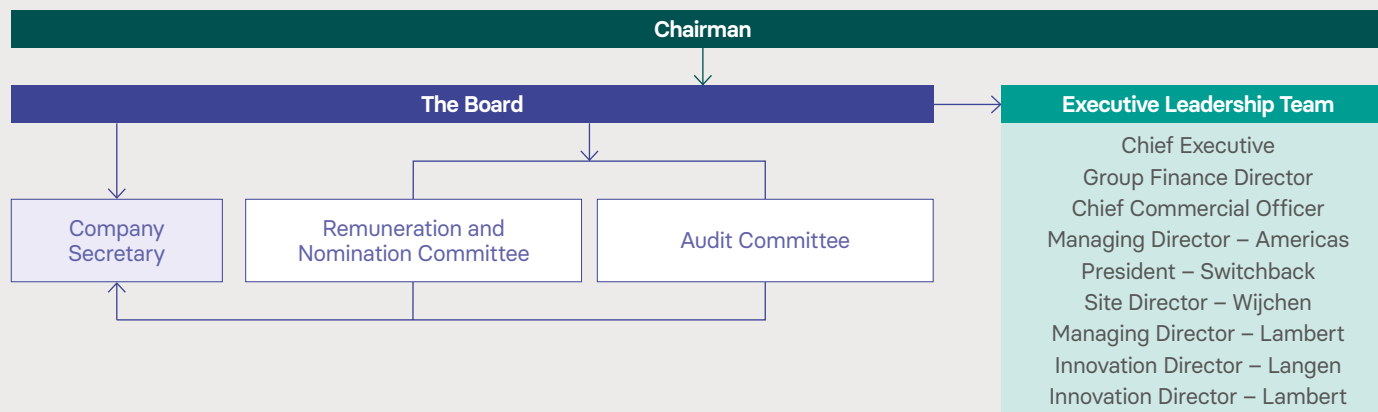
Build Trust

The Board will continue to monitor its application of the QCA Code and revise its governance framework as appropriate as the Group evolves.

The Board recognises the importance of maintaining regular dialogue with institutional shareholders to ensure that the Group's strategy is communicated and to understand the expectations of our shareholders.

1. Establish a strategy and business model which promote long-term value for shareholders.
2. Seek to understand and meet shareholder needs and expectations.
3. Take into account wider stakeholder and social responsibilities, and their implications for long-term success.
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation.
5. Maintain the Board as a well-functioning, balanced team led by the Chair.
6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.
7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.
8. Promote a corporate culture that is based on ethical values and behaviours.
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.
10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

Our Board and Committee structure



Andrew Kitchingman FCA
Independent Non-Executive
Chairman

Appointment:
Andrew Kitchingman joined the Board on 11 May 2016 as a Non-Executive Director and was appointed Chairman of the Board on 19 April 2018.

Committees:
Member of the Audit Committee and the Remuneration and Nomination Committee.

Skills and experience:
Andrew is a Fellow of the Institute of Chartered Accountants in England and Wales, and formerly worked in senior positions in corporate finance with a number of firms, including KPMG, Hill Samuel, Albert E Sharp, Brewin Dolphin and WH Ireland.

Key strengths:

- › Strong experience of financial control and good corporate governance
- › Expertise in equity and debt capital raising
- › Mergers & acquisitions

Other commitments:
Non-Executive Director of Andrew Sykes Group plc, MORhomes plc and Lon-Pro Holdings plc. Chairman of British Board of Agrément and a member of the northern fundraising Board of Marie Curie. He is a treasurer of Ripon Cathedral.



Dr Tony Steels
Chief Executive

Appointment:
Tony Steels joined the Company and was appointed to the Board as Chief Executive on 6 June 2016.

Skills and experience:
Tony previously held a number of senior UK and international management positions in advanced technology and capital equipment industry, most recently at Cytec Industries, Umeco plc and Georg Fischer AG. He has degrees in both Engineering and Management, together with a PhD in business process modelling, augmented with over 30 years, industrial management experience.

Key strengths:

- › Capital Equipment Industry experience of more than 20 years
- › Delivery of strategic transformations and sustainable profitable growth
- › Extensive senior executive international business development
- › Selection and development of high-performance leadership teams



Will Wilkins FCCA
Group Finance Director

Appointment:
Will Wilkins joined the Mpac Group Board as Group Finance Director on 28 June 2018.

Skills and experience:
Will is a Chartered Certified Accountant and, prior to his appointment, he held a variety of senior positions with the Company including Group Financial Controller and Group Operations Director. He previously held a senior financial position at BSH Home Appliances and began his career at Grant Thornton in 1992.

Key strengths:

- › Extensive experience in improving business systems, processes and controls
- › More than 25 years, proven track record as a senior finance professional with strong financial reporting discipline
- › Cross functional practical experience in operations and finance



Sara Fowler
Independent Non-Executive
Director

Appointment:
Sara Fowler joined the Mpac Group Board on 6 March 2020 as a Non-Executive Director.

Committees:
Chair of the Remuneration and Nomination Committee and a member of the Audit Committee.

Skills and experience:
Sara is a chartered accountant and former partner with Ernst & Young ("EY"), a former practising member of the Academy of Experts and a CEDR accredited mediator. She had been with EY for 30 years, a partner for 17 years and senior partner for EY Midlands for seven years until 30 June 2017. She was on the Board of the Compulsory Purchase Association and Chair of the CBI West Midlands.

Key strengths:

- › Extensive HR experience gained through her roles at EY and as an accredited mediator
- › Extensive financial experience
- › Experience of developing the skills agenda

Other commitments:
Chair of BHSF Group Limited, Non-Executive Director of St Basils and a Non-Executive Director of EY Foundation.



Doug Robertson
Independent Non-Executive
Director

Appointment:
Doug Robertson joined the Mpac Group Board on 1 November 2018 as a Non-Executive Director.

Committees:
Chair of the Audit Committee and member of the Remuneration and Nomination Committee.

Skills and experience:
Doug was Group Finance Director of SIG plc until he retired from the role in January 2017. Prior to joining SIG, Doug was Group Finance Director of Umeco plc and Seton House Group Limited. He spent his early career with Williams plc in a variety of senior financial and business roles.

Key strengths:

- › Extensive multinational financial management experience in both public and private companies
- › Strategic planning
- › Acquisitions and divestments

Other commitments:
Non-Executive Director at HSS Hire Group plc and Zotefoams plc.



Composition and independence of the Board

The Board consists of five Directors: The Non-Executive Chairman, two Executive Directors and two Non-Executive Directors. All of the Non-Executive Directors are considered independent.

Details of each Director's experience and background are given in their biographies on page 24. The skill-set and experience of Board members is relevant for the current position of the Company and covers areas including financial management and control, capital raising, capital goods industries, banking, engineering, strategic planning, business development, mergers and acquisitions and international management.

Appointments to the Board and re-election

The Board has delegated the tasks of reviewing Board composition, searching for appropriate candidates and making recommendations to the Board on candidates to be appointed as Directors to the Remuneration and Nomination Committee. Further details on the role of the Remuneration and Nomination Committee may be found on page 30.

All Directors will offer themselves for annual re-election, in accordance with best practice in corporate governance.

The Board considers all Directors to be effective and committed to their roles.

Division of responsibilities

The Chairman and Chief Executive have separate, clearly defined roles. The Chairman leads the Board and is responsible for its overall effectiveness in directing the Company, and the Chief Executive is responsible for implementing the Group's strategy and for its operational performance.

Executive Directors

The Executive Directors are full-time employees of the Company and have entered into service agreements with the Company.

Non-Executive Directors

Each of the Non-Executive Directors has entered into a letter of appointment with the Company which set out the duties of the Director and commitment expected. They are expected to commit at least 24 days per annum to their role and are specifically tasked with:

- › bringing independent judgement to bear on issues put to the Board;
- › applying their knowledge and experience in considering matters such as strategy, company performance, use of resources and standards of conduct; and
- › ensuring high standards of financial probity and corporate governance.

How the Board operates

The Board is responsible for:

- › developing Group strategy, business planning, budgeting and risk management;
- › monitoring performance against budget and other agreed objectives;
- › setting the Group's values and standards, including policies on employment, health and safety, environment and ethics;
- › relationships with shareholders and other major stakeholders;
- › determining the financial and corporate structure of the Group (including financing and dividend policy);
- › major investment and divestment decisions, including acquisitions, and approving material contracts; and
- › Group compliance with relevant laws and regulations.

The Board retains control of certain key decisions through the schedule of matters reserved for the Board. It has delegated other matters, responsibilities and authorities to each of the Audit and Remuneration and Nomination Committees and these are documented in the Terms of Reference of each of those Committees. Anything falling outside of the schedule of matters reserved or the Committee Terms of Reference falls within the responsibility and authority of the Chief Executive, including all executive management matters.

Day-to-day management of the Company's business is delegated to the Executive Directors and in turn to senior members of the leadership team in accordance with a clear and comprehensive statement of delegated authorities.

The Board meets at regular intervals and met 11 times during the year. Directors also have contact on a variety of issues between formal meetings and there is also regular contact with the Executive Leadership Team and the wider senior leadership of the Group.

An agenda and accompanying detailed papers, covering key business and governance issues and including reports from the Executive Directors and other members of senior management, are circulated to the Board in advance of each Board meeting. All Directors have direct access to senior management should they require additional information on any of the items to be discussed. A calendar of matters to be discussed at each meeting is prepared to ensure that all key issues are captured.

At each meeting, the Board reviews comprehensive financial and trading information produced by the management team and considers the trends in the Company's business and its performance against strategic objectives and plans. It also regularly reviews the work of its formally constituted standing Committees as described below and compliance with the Group's policies and obligations.

All Directors are expected to attend all meetings of the Board and any Committees of which they are members, and to devote sufficient time to the Company's affairs to fulfil their duties as Directors. Where Directors are unable to attend a meeting, they are encouraged to submit any comments on paper to be considered at the meeting to the Chairman in advance to ensure that their views are recorded and taken into account during the meeting.

Directors are encouraged to question and voice any concerns they may have on any topic put to the Board for debate. The Board is supported in its work by Board Committees, which are responsible for a variety of tasks delegated by the Board. There is also an Executive Leadership Team composed of the Chief Executive and Group Finance Director, and representatives from senior management whose responsibilities are to implement the decisions of the Board and review the key business objectives and status of projects.

Attendance at Board and Committee meetings by the Directors is shown below.

	Board	Audit Committee	Remuneration and Nomination Committee
Andrew Kitchingman	11/11	4/4	5/5
John Davies ¹	2/3	1/1	2/2
Sara Fowler ²	8/8	3/3	3/3
Doug Robertson	11/11	4/4	5/5
Tony Steels	11/11	–	–
Will Wilkins	11/11	–	–

¹ Resigned from the Board on 5 March 2020

² Appointed to the Board on 6 March 2020

The main activities of the Board during the year

There are a number of standing and routine items included for review on each Board agenda. These include the Chief Executive's trading update, a health and safety report, operations reports, financial reports, governance and investor relations updates. In addition, key areas put to the Board for consideration and review included:

- › approval of annual and half-year report and financial statements;
- › dividends;
- › review and approval of budget;
- › review against strategy;
- › implementation of strategy;
- › Covid-19 implications;
- › going concern and cash flow;
- › material customer proposals;
- › consideration of banking arrangements;
- › investor relations;
- › acquisitions and integration;
- › review of corporate governance and Group policies;
- › review of AGM business;
- › outcomes from the Board evaluation process; and
- › briefings and review of conflicts of interest.

During the year, the majority of the meetings were held virtually, with no Board meetings held overseas, due to the Covid-19 pandemic. This did not impact the Directors from undertaking their duties and all Directors participated fully in the meetings.

The Board Committees

There are two Board Committees, the Audit Committee and the Remuneration and Nomination Committee. Both Committees are composed of the three Non-Executive Directors.

Each Committee has approved Terms of Reference setting out their responsibilities which were reviewed and approved by the Board during the year and are available on the Company's website www.mpac-group.com.

Details of the operation of the Board Committees are set out in their respective reports below. All of the Board Committees are authorised to obtain, at the Company's expense, professional advice on any matter within their Terms of Reference and to have access to sufficient resources in order to carry out their duties.

External advisers

The Board seeks advice on various matters from its nominated adviser Shore Capital and Corporate Limited and other advisers as appropriate. The Board also sought remuneration advice from KPMG LLP during the year.

Development, information and support

Directors keep their skillset up to date with a combination of attendance at industry events, individual reading and study, and experience gained from other Board roles. The Company Secretary ensures the Board is aware of any applicable regulatory and governance changes and developments and updates the Board as and when relevant. Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. Directors also have direct access to the advice and services of the Company Secretary.

The Company Secretary supports the Chairman in ensuring that the Board receives the information and support it needs to carry out its roles.

Directors' induction

When Directors join the Board, they receive an induction covering topics such as the operation of the Board, Directors' responsibilities, insider dealing, AIM Rules and governance.

Conflicts of interest

Under the Company's Articles, the Directors may authorise any actual or potential conflict of interest a Director may have and may impose any conditions on the Director that are felt to be appropriate. Directors are not able to vote in respect of any contract, arrangement or transaction in which they have a material interest and they are not counted in the quorum.

A process is in place to identify any of the Directors' potential or actual conflicts of interest.

Performance evaluation

The Chairman considers the operation of the Board and performance of the Directors on an ongoing basis as part of his duties and will bring any areas of improvement he considers are needed to the attention of the Board. The Board carries out an evaluation process each year in respect of its performance over the previous year. The evaluation is informed by a detailed Board effectiveness questionnaire completed by each Director and covering topics such as the composition of the Board, the quality and timeliness of information provided, relationships between the Board, shareholders and employees and succession planning. The results are collated and reported to the Board for discussion.

An evaluation process has been undertaken in respect of 2020 and the results discussed by the Board. No substantive actions were taken as a result of the Board evaluation.

Accountability

The Company has in place a system of internal financial controls commensurate with its current size and activities, which is designed to ensure that the possibility of misstatement or loss is kept to a minimum. These procedures include the preparation of management accounts, forecast variance analysis and other ad-hoc reports. There are clearly defined authority limits throughout the Group, including matters reserved specifically for the Board.

Risk management and internal control

Risks throughout the Group are considered and reviewed on a regular basis. Risks are identified and mitigating actions put into place as appropriate. Principal risks identified are set out in the Strategic report on pages 18 to 20. Internal control and risk management procedures can only provide reasonable and not absolute assurance against material misstatement. The internal control procedures were in place throughout the financial year and up to the date of approval of this report.

Financial and business reporting

The Board seeks to present a fair, balanced and understandable assessment of the Group's position and prospects in all half-year, final and any other ad-hoc reports, and other information as may be required from time to time. The Board receives a number of reports, including those from the Audit Committee, to enable it to monitor and clearly understand the Group's financial position.

Business ethics

The Board is committed to the Group operating to the highest standards of ethical behaviour. The Group's Ethics policy, which was reviewed by the Board during the year, sets out certain principles that the Board expects all businesses within the Group to adhere to and certain values that should be embodied in the day-to-day activities of the Group. It expects all employees of the Group, led by the members of the Board and the Group's senior management, to encourage and support all other employees in acting in accordance with the policy. In support of this policy and its principles, the Board has published guidance in the Group Ethics policy, which is available on the Company's website at www.mpac-group.com/group-policies.

Whistleblowing

The Company has a whistleblowing procedure, details of which are provided to all employees. Staff may report any suspicion of fraud, financial irregularity or other malpractice to a senior manager, Executive Director, the Company Secretary or an independent helpline. The policy is reviewed by the Audit Committee every year and updated as required. Details of any matters raised under this procedure are reported to the Audit Committee.

Shareholders

The Company welcomes contact with its shareholders and they can contact the Company via the Investors section of our website: www.mpac-group.com/contact-us/.

Directors are available to discuss any matters that shareholders might wish to raise. They maintain communication with institutional shareholders, other investors and analysts through meetings, particularly following publication of the Group's interim and full-year preliminary results.

Investor relations activity and a review of the shareholder register are quarterly items on the Board's agenda. The Board also regularly receives copies of analysts' and brokers' briefings.

The Company strives to provide a clear, balanced and comprehensive level of information and written material. The Company maintains a corporate website which contains regularly updated regulatory and other information. The Annual Report and Accounts is a key communication document and is also available on the Company's website. The Company also issues both statutory and non-statutory regulatory news announcements throughout the year to update on financial, operational and other matters. The Company offers its larger shareholders, either directly or via its broker, face-to-face meetings on a bi-annual basis at a minimum to present and discuss performance and other matters and obtain any feedback. These meetings are hosted by the Company's Chief Executive and Group Finance Director. The Company also hosts a briefing for analysts, arranged by the Company's financial public relations adviser, twice a year to coincide with the announcement of its half-year and full-year financial results to present and discuss the same matters.

All shareholders are encouraged to attend the Annual General Meeting (AGM) at which the Group's activities will be considered and questions answered. The Directors are available to listen to the views of shareholders informally immediately following the AGM.

This year's AGM will be held on Wednesday 5 May 2021. The Notice of Annual General Meeting is set out on pages 103 to 107 and will be available on the Company's website at www.mpac-group.com. Separate resolutions are provided on each issue so that they can be given proper consideration.

I would like to thank all employees for their hard work during such a difficult year faced with working under restricted conditions during the global pandemic.

Andrew Kitchingman

Chairman

29 March 2021

Audit Committee report

Current Committee Members

Doug Robertson – Chairman
Andrew Kitchingman
Sara Fowler

The Committee's members are the independent Non-Executive Directors, whose biographies are set out on page 24. John Davies stepped down from the Committee and Sara Fowler was appointed in his place on 6 March 2020.

Meetings and attendance

The Committee met four times during the year. All members of the Committee at the time of each meeting were present at the meetings. The Chief Executive, Group Finance Director, Company Secretary, senior members of the internal audit function and representatives of the external auditors (when half-year accounts, year-end accounts or external audit plan proposals are considered) are invited to attend all or part of each meeting. Each of them has confidential access to me at other times as required.

Duties

The duties of the Committee are as set out in its Terms of Reference, which are available on the Company's website at www.mpac-group.com. The Terms of Reference are reviewed annually and approved by the Board.

The main items of business considered by the Committee during the year included:

- › review of the year-end audit plan, and consideration of the scope of the audit, Group accounting policies and the external auditor's fees;
- › review of the annual report and financial statements, including consideration of the significant accounting issues relating to the financial statements, and the going concern review;
- › consideration of the external audit report and management representation letter;
- › review and approval of the interim financial statements and the external auditor's report;
- › review of the risk management and internal control systems;
- › assessment of external audit effectiveness;
- › consideration of the internal audit review by BDO LLP;
- › review of whistleblowing arrangements; and
- › review of the Committee's Terms of Reference.



Doug Robertson
Chairman of the Audit Committee

"I am pleased to present my report as Chairman of the Audit Committee for the year ended 31 December 2020."

External auditor

The Committee has reviewed the auditor's independence and performance to date and has recommended to the Board that they should be re-appointed for the 2021 audit. A resolution to appoint Grant Thornton UK LLP as the Company's auditor is to be proposed at the forthcoming Annual General Meeting on Wednesday 5 May 2021.

Policies for non-audit services and engagement of former employees of the external auditor

The Committee has developed policies relating to the employment of former employees of the external auditor and the engagement of the auditors, or advisers related to the auditors, on non-audit services. These policies, which have been adopted formally by the Board, require, inter alia, the Committee's consent to any engagements or employment, with appropriate confirmation of independence from the auditors and the approval of the Committee. These policies were reviewed during the year and it was agreed that the external auditor will not undertake any non-audit work in the future.

External financial reporting

The committee reviews all areas of the Group's external financial reporting. This year, as a result of the Covid-19 pandemic, there has been particular focus on judgemental areas such as: going concern; viability; and contract accounting.

Audit process

The external auditor prepares an audit plan for its review of the full-year financial statements, and the audit plan is reviewed and agreed in advance by the Committee. Prior to approval of the financial statements, the external auditor presents its findings to the Committee, highlighting areas of significant financial judgement for discussion.

Internal audit

The Committee considers annually how the internal audit function operates in the Group, including its Terms of Reference and whether this gives sufficient assurance that the business and controls of the Group are reviewed adequately. The Committee also approves the internal audit work plan each year. This function is part of the Group's finance department and its senior member reports to the Committee at each meeting on its activities and has direct access to me as required at all times.

The Committee reviewed the need for effectiveness and independence of the internal audit functions and it was decided to outsource this to BDO LLP.

Whistleblowing

The Group has in place a Whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. Whistleblowing is an annual item on the Committee's agenda, and any reported incidents will be notified to the Committee. During the year under review, there were no reported incidents.

Significant issues considered in relation to the Financial Statements

Significant issues and accounting judgements are identified by the finance team and the external audit process, and then reviewed by the Audit Committee. The significant issues considered by the Audit Committee in respect of the year ended 31 December 2020 are set out on the following page.

Significant issue/accounting judgement identified	How it was addressed
Valuation of contracts and provisioning	The valuation of contracts is carefully monitored throughout the year, utilising both accounting data and inputs from all aspects of the business, to ensure contracts are valued appropriately at all times.
Pension accounting	External experts are used on an ongoing basis to value the scheme in line with IAS19 and ensure a consistent and appropriate level of disclosure.
Acquisition accounting, including the valuation of intangible assets	External experts were used to ensure that the valuation methods employed were appropriate, the disclosures meet the requirements and the asset lives are appropriate.
Going concern and business disruption	The Group conducts extensive forecasting and stress testing exercises for multiple scenarios, including pandemics and Brexit, the results of which are reviewed regularly by the Board, including both realistic worst case scenarios and tests to determine what would be required to challenge to going concern basis.

Revenue recognition and compliance with IFRS 15

Mpac initiated a review of compliance with IFRS 15 and the FRC's third thematic review of IFRS 15, published 24 September 2020. Validated by the external auditors, the review resulted in revisions to contract assets, contract liabilities, contract fulfilment assets and work in progress recognised in relation to contracts to align more closely to the demands of IFRS 15. The adjustment did not change gross profit, operating profit, earnings per share, net current assets or any of the key metrics used by the Group.

Risk management and internal controls

The Group has established a system of risk management and internal controls. The Committee is responsible for reviewing the systems of risk management and internal control and has reviewed management's progress in implementing and maintaining such control systems during the year. The Committee is satisfied that the internal control systems are operating effectively.

The Board has taken and will continue to take appropriate measures to ensure that the chances of financial irregularities occurring are reduced as far as reasonably possible by improving the quality of information at all levels in the Group, fostering an open environment and ensuring that financial analysis is rigorously applied. Any system of internal control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

The major elements of the system of internal control are as follows:

- › major commercial, strategic and financial risks are formally identified, quantified and assessed during the annual budgeting exercise and presented to and discussed with Executive Directors, after which they are considered by the Board;
- › there is a comprehensive system of planning, budgeting, reporting and monitoring. This includes monthly management reporting and monitoring of performance and forecasts. Monthly reviews are embedded in the internal control process and cover each principal site. Monthly reviews require the Executive Leadership Team to consider, among other things, business development, financial performance against budget and forecast, health and safety and capital expenditure proposals, as well as a review of longer-term business development and all other aspects of the business. In addition, quarterly business reviews are carried out at each principal site and are attended by the Executive Directors and local management teams as appropriate;

- › there is an organisational structure with clearly defined lines of responsibility and delegation of authority;
- › each site is required to comply with defined policies, financial controls and procedures and authorisation levels which are clearly communicated;
- › a programme of internal control reviews and specific investigations is carried out. These are followed up during regular executive management visits. The internal control reviews include assessments of compliance with Group policies and procedures and findings are reported to the Audit Committee and Board as appropriate; a formal risk management audit is regularly carried out by Group personnel and external risk management consultants, which covers physical damage, environmental and health and safety risks together with business continuity issues; and
- › formal reports including recommendations are sent to each site for action and reported back to Group management. Progress reports are issued to the Board for review and monitoring.

Activities during the year

A summary of the Committee's principal activities in 2020 is set out below.

Month	Principal activities
February	<ul style="list-style-type: none"> › Review the draft Annual Report and Accounts 2019 and draft preliminary results announcement › Consideration of the re-appointment of Grant Thornton UK LLP as external auditors › Review of results of internal control provided by BDO LLP
May	<ul style="list-style-type: none"> › Review internal audit plan for the year › Review of the new whistleblowing arrangements › Review of the anti-bribery and corruption controls and training › Consideration of the effectiveness of the external audit process
September	<ul style="list-style-type: none"> › Review of the half-year results announcement › Review of external auditor's memorandum › Review of Going Concern › Review of the principal risks and uncertainties › Internal Control review and update
November	<ul style="list-style-type: none"> › Consideration of and approval of external audit fee quotation for 2020 › Review and approval of the external audit plan for 2020 › Review and approval of a new non-audit work policy › Review of internal controls and risk management systems › Review of Committee Terms of Reference for Board approval › Review of whistleblowing arrangements › Review of anti-bribery and corruption policy and procedures › Annual Committee performance evaluation

Doug Robertson
Chairman of the Audit Committee

29 March 2021

Remuneration and Nomination Committee report

As Chair of the Remuneration and Nomination Committee ("the Committee") and on behalf of the Board, I am pleased to present our report which is presented in three sections: the Remuneration and Nomination Committee report, the Remuneration report and the Remuneration policy.

The Remuneration report, on pages 31 to 32, details the amounts earned by the Directors in respect of the period to 31 December 2020 and is subject to an advisory shareholder vote. The Remuneration policy, on pages 32 to 35, was approved by shareholders at the AGM on 6 May 2020 and is effective for a period of three years from that date.

Remuneration and Nomination Committee

Current Committee Members

Sara Fowler – Chair
Andrew Kitchingman
Doug Robertson

The Committee's members are the independent Non-Executive Directors, whose biographies are set out on page 24. John Davies stepped down from the Committee, and as its Chair, on 5 March 2020 and I was appointed a member and Committee Chair in his place on 6 March 2020.

Meetings and attendance

The Committee meets as often as required and at least twice a year.

The Committee met five times during the year. All members of the Committee at the time of each meeting were present at the meetings. The Chief Executive, Group Finance Director and Company Secretary are invited to attend all or part of each meeting. Each of them has confidential access to me at other times as required.

Duties

The duties of the Committee are as set out in its Terms of Reference which is available on the Company's website at <https://mpac-group.com>. The Terms of Reference are reviewed annually and approved by the Board.

The Committee deals with all aspects of remuneration of the Executive Directors and certain senior managers, and identifying and nominating members of the Board. During the year, the Committee also discussed succession solutions for the senior leadership positions within the business. The importance of identifying internal candidates and forming development paths for potential successors formed part of the discussions. Succession plans for the Executive Directors and senior leadership positions are reviewed on an annual basis.



Sara Fowler
Chair of the Remuneration and Nomination Committee

"I am pleased to present our report which is presented in three sections: the Remuneration and Nomination Committee report, the Remuneration report and the Remuneration policy."

The main items of business considered by the Committee during the year focused on the following matters:

- › approving bonus payments to Executive Directors under the Management Incentive Bonus Scheme 2019, following assessment of 2019 performance against agreed objectives;
- › approving the performance criteria for the 2020 Management Incentive Bonus Scheme;
- › recommendation of the draft Remuneration policy to be put to shareholders for their approval at the 2020 AGM;
- › reviewed the 2019 performance against the LTIP performance target;
- › approval of Executive Directors' and certain senior managers salary increases;
- › reviewed the objectives for the Executive Leadership Team;
- › succession planning;
- › appointment of a new Non-Executive Director;
- › reviewed the Committee's performance evaluation; and
- › reviewing the Committee's Terms of Reference.

Non-Executive Director recruitment and induction

Following the resignation of John Davies, I was appointed a new Non-Executive Director on 6 March 2020.

The Committee led the process of identifying and recommending a new independent Non-Executive Director and the process included the following considerations:

- › identifying key attributes and skills of the desired candidate, taking into account the current composition of the Board;
- › reviewing the shortlist and arranging interviews; and
- › providing the Board with a recommendation of the preferred candidate.

The Committee unanimously agreed to recommend my appointment as an independent Non-Executive Director to the Board. The appointment was approved with effect from 6 March 2020.

An induction process was put in place for me to meet the Executive Directors and Executive Leadership Team, as well as access to past Board and Committee papers and minutes. Given the restrictions imposed on travel by Covid-19, I have visited the UK manufacturing site but have not yet had the opportunity to visit the overseas sites. This will be done once international travel restrictions have been eased.

Diversity policy

The Group values diversity among its employees. In their day-to-day behaviour, employees are expected not to discriminate in their relationships with each other and with customers, suppliers and other business partners, and also to encourage others to behave in a proper manner.

Employment and promotion opportunities will be offered on the basis of merit regardless of race, colour, religion, age, sex, sexual orientation, disability and/or national origin. The Group aims to ensure freedom from harassment and bullying for all employees. It is the responsibility of each employee to act in non-discriminatory ways at all times and if an employee sees an example of possible discrimination, harassment or bullying taking place to bring those concerns to the attention of the Group's management.

Covid-19

Following the outbreak of the Covid-19 global pandemic, the Group participated in the aid provided by the Governments in the jurisdictions in which the Group operates, including the use of furlough schemes. No pay rises were awarded during the year, except for the Americas where minimal rises were awarded to key workers for retention purposes.

Annual Remuneration report

Directors' total remuneration

The remuneration of the Executive Directors for the years 2020 and 2019 is made up as follows:

Executive Directors' remuneration as a single figure

	Salary £000	All benefits ^a £000	Short- term incentive scheme ^b £000	Deferred share plan ^c £000	Pension ^d £000	Total £000
2020						
T Steels	232	19	108	-	57	416
W C Wilkins	170	19	75	-	18	282

	Salary £000	All benefits ^a £000	Short- term incentive scheme ^b £000	Deferred share plan ^c £000	Pension ^d £000	Total £000
2019						
T Steels	243	31	293	48	56	671
W C Wilkins	172	18	215	45	17	467

a Benefits include:

Dr Steels and Mr Wilkins – car allowance payments, income replacement insurance and private medical cover.

b The performance criteria for the short-term incentive scheme is described in the Remuneration policy on page 32.

c The amounts represent the values of the awards made in the form of conditional grants which are exercisable no earlier than three years from the date of grant.

d The values in respect of Dr Steels are the amounts contributed by the Company into the Company's Personal Pension Plan on his account and a payment made to cover the impact of a restriction on tax relief on contributions. The values in respect of Mr Wilkins are the amounts contributed by the Company into the Company's Personal Pension Plan on his account.

The remuneration of the Non-Executive Directors for the years 2020 and 2019 is made up as follows:

Non-Executive Directors' remuneration as a single figure

	2020			2019		
	Fees £000	All taxable benefits £000	Total £000	Fees £000	All taxable benefits £000	Total £000
A J Kitchingman	73	-	73	76	-	76
D G Robertson	49	-	49	51	-	51
S A Fowler (appointed 6 March 2020)	39	-	39	-	-	-
J L Davies (resigned 5 March 2020)	9	-	9	51	-	51

Directors' interests in shares

The beneficial interests of Directors holding office at 31 December 2020 and persons connected with them in the ordinary shares of the Company (excluding share options) were as follows:

	Held at 1 January 2020	Acquired in the year	Held at 31 December 2020
T Steels	18,650	60,314	78,964
A J Kitchingman	13,133	-	13,133
W C Wilkins	-	3,139	3,139

No Director holds, or held at any time during the year, a beneficial interest in the Company's preference shares. There were no changes in the Directors' interests in shares between 31 December 2020 and 29 March 2021.

Incentive scheme – Deferred share plan

Details of conditional grants of Mpac Group plc ordinary shares under the Company's Deferred share plan yet to vest for each Director who held office during the year and who is eligible to participate in the plan are as follows:

	Date of award	Basis of award (% of salary)	Number of shares	Face value at grant (£000)
T Steels	1 May 2019	20.0%	35,409	48
T Steels	13 March 2018	45.0%	58,811	105
W C Wilkins	1 May 2019	30.0%	33,407	45
W C Wilkins	13 March 2018		7,713	14

Mr Wilkins' shares awarded on 13 March 2018 were awarded whilst he was an employee, but not a Director, of the Company.

On 9 September 2020, Dr Steels exercised his 2017 award over 113,800 shares. 53,486 shares were sold to settle his tax liabilities and the balance of 60,314 shares was kept.

Awards are made following the achievement of personal objectives linked to long-term strategic initiatives. The earliest date that awards can vest is three years from the date of award.

Remuneration and Nomination Committee report

continued

Long Term Incentive Plan

Details of conditional grants of Mpac Group plc ordinary shares under the LTIP yet to vest for each Director who held office during the year and who is eligible to participate in the plan are as follows:

	Date of award	Number of shares	Face value at grant (£000)	% of salary	End of three-year performance period
T Steels	12 June 2019	210,000	349	143%	31 Dec 2021
W C Wilkins	12 June 2019	120,000	199	111%	31 Dec 2021

Face value of awards at the date of grant is calculated based on the closing share price of 166p per ordinary share.

Performance metrics selected reflect underlying business performance. 70% of the award of shares is based on cumulative Earnings Per Share ("EPS") performance over a three-year period. 30% of the award of shares is based on average Return On Capital Employed ("ROCE") over the same three-year period. In respect of the percentage of the award that relates to EPS, 20% of the award is made if EPS is 85p. 100% of the award is made if EPS is equal to or exceeds 115p. Between these two points, allocation will be on a straight line basis pro rata. If EPS is below 85p, no award will be made in respect of EPS. In respect of the percentage of the award that relates to ROCE, 20% of the award is made if ROCE is 20%. 100% of the award is made if ROCE equals or exceeds 30%. Between these two points, allocation will be on a straight line basis pro rata. If ROCE is below 20%, no award will be made in respect of ROCE.

A cap of £5 per ordinary share exists at the time of vesting such that the number of shares vesting is reduced accordingly.

Awards will normally remain subject to a holding period of two years commencing on the vesting date with the exception of sales to cover related personal tax liabilities.

Sara Fowler

Chair of the Remuneration and Nomination Committee

29 March 2021

Remuneration policy

This part of the Remuneration and Nomination Committee's report sets out the Remuneration policy which was approved by shareholders at the Annual General Meeting on 6 May 2020, and will be effective until no later than 6 May 2023.

The Remuneration policy is designed to ensure that the remuneration packages offered, and the terms of the contracts of service, are competitive and are designed to attract, retain and motivate Executive Directors of the right calibre. To achieve these goals, the Remuneration and Nomination Committee's policy is to establish fixed salary at around half of the total obtainable in the case of excellent performance, with recognition and reward for achieving performance targets annually and growth in the long term.

Remuneration packages

The main components of the package for each Executive Director are:

i. Basic salary

Basic salary is determined by taking into account the performance of the individual and information on the rates of salary for similar jobs in companies of comparable size and complexity in a range of engineering and other technology industries.

ii. Incentive schemes

The Executive Directors participate in a short-term incentive scheme in which the minimum bonus payable is nil and the maximum bonus payable is 120% of relevant salaries. The incentive is payable wholly in cash. The targets against which performance is judged are primarily the Group's key financial performance indicators and personal objectives. The Directors' personal objectives are commercially sensitive and therefore remain, and are expected to continue to remain, confidential to the Company. In some years, the targets may be varied to reflect particular objectives determined by the Committee.

iii. Long Term Incentive Plan ("LTIP")

A new LTIP, which was adopted by the Board on 10 June 2019, has been introduced to incentivise Executive Directors and certain senior managers over the longer term and encourage retention. 70% of the award of shares is based on cumulative Earnings Per Share ("EPS") performance over a three-year period. 30% of the award of shares is based on average Return On Capital Employed ("ROCE") over the same three-year period. In respect of the percentage of the award that relates to EPS, 20% of the award is made if EPS is 85p. 100% of the award is made if EPS is equal to or exceeds 115p. Between these two points, allocation will be on a straight line basis pro rata. If EPS is below 85p, no award will be made in respect of EPS. In respect of the percentage of the award that relates to ROCE, 20% of the award is made if ROCE is 20%. 100% of the award is made if ROCE equals or exceeds 30%. Between these two points, allocation will be on a straight line basis pro rata. If ROCE is below 20%, no award will be made in respect of ROCE.

An award granted under the LTIP in the form of a conditional right giving the participant a right to acquire ordinary shares in the Company if certain conditions are met. Awards were made covering a three-year period. Awards will normally vest following the end of the three-year performance period, once it is determined whether and to what extent the performance conditions have been achieved. Awards will normally remain subject to a holding period of two years commencing on the vesting date. Standard malus, clawback and leaver provisions apply.

iv. Pensions

Directors may choose to join the Mpac Group Personal Pension Plan, which is a defined contribution scheme. Additionally, life assurance and income protection policies are put in place for the Executive Directors.

Contracts of service

The Company's policy is to offer contracts of employment that attract, motivate and retain skilled employees who are incentivised to deliver the Company's strategy. The current service contracts were concluded with Dr Steels on 6 June 2016 and with Mr Wilkins on 22 June 2018. These service contracts are terminable on notice of one year given by the Company and six months given by the Director. In the event of termination by the Company, the Company has the option of making a payment of liquidated damages equivalent to the value of 12 months' salary, or the balance of the period to the date of expiry if less, or of negotiating appropriate compensation reflecting the principle of mitigation. In the event of a change of control in the Company, if the Company terminates an Executive Director's contract within six months of the change of control, or if an Executive Director terminates the contract within six months of the change of control, the Company will be obliged to pay liquidated damages equivalent to the value of 12 months' salary. The purpose of the change of control clause, which is reviewed regularly, is that the contracts should provide reasonable and appropriate security to the director concerned and to the Company.

Any commitment contained within the current Directors' service contracts, or a current employee's contract of employment who is subsequently promoted to the role of Director, will be honoured even where it may be inconsistent with the Company's Remuneration policy.

Letters of appointment

The Non-Executive Directors are not issued with a separate service contract on appointment. The terms of their appointment are set out in their letter of appointment. The Company does not make termination payments to Non-Executive Directors in the event that a Non-Executive Director's appointment is terminated by the Company.

Recruitment

The Committee reserves the right to make payments outside the Remuneration policy in exceptional circumstances. The Committee would only use this right where it believes that this is in the best interests of the Company and when it would be disproportionate to seek the specific approval of the shareholders in a general meeting.

When hiring a new Executive Director, the Committee will use the Remuneration policy to determine the Executive Director's remuneration package. To facilitate the hiring of candidates of the appropriate calibre to implement the Group's strategy, the Committee may include any other remuneration component or award not explicitly referred to in this Remuneration policy sufficient to attract the right candidate. In determining the appropriate remuneration, the Committee will take into consideration all relevant factors (including the quantum and nature of the remuneration) to ensure the arrangements are in the best interests of the Company and its shareholders.

The Committee may buy-out incentive arrangements forfeited on leaving a previous employer after taking account of relevant factors including the form of the award, any performance conditions attached to the award and when they would have vested. The Committee may consider other components for structuring the buy-out, including cash or share awards where there is a commercial rationale for this.

Where the recruitment requires the individual to relocate appropriate relocation costs may be offered.

Recruitment awards will normally be liable to forfeiture or clawback if the Executive Director leaves the Company within the first two years of their employment. Any such awards will be linked to the achievement of appropriate and challenging performance measures and will be forfeited if performance or continued employment conditions are not met.

Termination

The Committee reserves the right to make additional liquidated damages payments outside the terms of the Directors' service contracts where such payments are made in good faith in order to discharge an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a director's office or employment.

Non-Executive Directors

The fees of Non-Executive Directors are determined by the Board based upon comparable market levels. The Non-Executive Directors do not participate in the Company's incentive schemes and nor do they receive any benefits or pension contributions.

Remuneration and Nomination Committee report

continued

Future Remuneration policy table

The following table provides a summary of the key components of the remuneration package for Directors:

Salary

Purpose and link to strategy	This is a fixed element of the Executive Directors' remuneration and is intended to be competitive and attract, retain and motivate.
Operation	Takes into account the performance of the individual and information on the rates of salary for similar jobs in companies of comparable size and complexity in a range of engineering and technology industries.
Opportunity	Salary is normally reviewed annually. Ordinarily, salary increases will be in line with increases awarded to other employees within the Group. However, increases may be made above this level at the Remuneration and Nomination Committee's discretion to take account of individual circumstances such as: <ul style="list-style-type: none"> › increase in scope and responsibility; › to reflect the individual's development and performance in the role; and › alignment to market level.
Performance metrics	Not applicable, although individual performance is one of the considerations in determining the level of salary.

Benefits

Purpose and link to strategy	The benefits provided to the Executive Directors are intended to be competitive and attract and retain the right calibre of candidate.
Operation	Benefits are paid to the Executive Directors in line with market practice.
Opportunity	Benefits are set at a level which the Remuneration and Nomination Committee considers: <ul style="list-style-type: none"> › are appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market; and › provide a sufficient level of benefit based upon the role and individual circumstances.
Performance metrics	Not applicable.

Short-term incentive scheme

Purpose and link to strategy	The short-term incentive scheme is intended to reward Executive Directors for the performance of the Group in the financial year.
Operation	The Remuneration and Nomination Committee reviews the financial performance of the Group following the end of each financial year and determines the payments to be made.
Opportunity	Maximum of 120% of salary.
Performance metrics	The targets against which performance is judged are primarily the Group's key performance metrics in each financial year set annually by the Remuneration and Nomination Committee as well as personal objectives. In some years, the targets for the short-term incentive scheme may be varied to reflect particular objectives determined by the Remuneration and Nomination Committee. The Remuneration and Nomination Committee retains the ability to adjust and/or set different performance measures if events occur (such as a change in strategy, a material acquisition/divestment of a Group business, a change in prevailing market conditions, or a change in regulation which affects the Group) which cause the Remuneration and Nomination Committee to determine that the measures are no longer appropriate and that amendment is required so that they achieve their original purpose.

Long Term Incentive Plan ("LTIP")

Purpose and link to strategy	The LTIP is intended to incentivise Executive Directors and certain senior managers over the longer term in direct alignment with shareholders' interests and encourage retention.
Operation	An award granted under the LTIP in the form of a conditional right giving the participant a right to acquire ordinary shares in Company if certain conditions are met. Awards were made covering a three-year period. Awards will normally vest following the end of the three-year performance period, once it is determined whether and to what extent the performance conditions have been achieved. Awards will normally remain subject to a holding period of two years, commencing on the vesting date with the exception of sales to cover related personal tax liabilities. Standard malus, clawback and leaver provisions apply.
Opportunity	The normal maximum award, covering the three-year plan period, is 300% of salary based on the value of the award at the date of grant.
Performance metrics	Performance metrics selected reflect underlying business performance. 70% of the award of shares is based on cumulative Earnings Per Share ("EPS") performance over a three-year period. 30% of the award of shares is based on average Return On Capital Employed ("ROCE") over the same three-year period. In respect of the percentage of the award that relates to EPS, 20% of the award is made if EPS is 85p. 100% of the award is made if EPS is equal to or exceeds 115p. Between these two points, allocation will be on a straight line basis pro rata. If EPS is below 85p no award will be made in respect of EPS. In respect of the percentage of the award that relates to ROCE, 20% of the award is made if ROCE is 20%. 100% of the award is made if ROCE equals or exceeds 30%. Between these two points, allocation will be on a straight line basis pro rata. If ROCE is below 20%, no award will be made in respect of ROCE.

Pension

Purpose and link to strategy	The payment of a pension benefit is intended to form an integral part of an Executive Director's remuneration package that is competitive and attracts, retains and motivates the Director.
Operation	Directors may join the Mpac Group Personal Pension Plan, or alternatively, in lieu of payments to the pension scheme, the Company may pay additional emoluments.
Opportunity	Any percentage increase in pension contributions will not exceed the percentage increase in salary.
Performance metrics	Not applicable.

Non-Executive Directors' fees

Purpose and link to strategy	To attract and retain Non-Executive Directors of the right calibre.
Operation	The fees of Non-Executive Directors are determined by the Board based upon comparable market levels. The Non-Executive Directors do not participate in the Company's incentive schemes and nor do they receive any benefits or pension contributions.

Statement of consideration of employment conditions elsewhere in the Group

The Group applies the same key principles to setting remuneration for its employees as those applied to the Directors' remuneration. In setting salaries and benefits each business considers the need to retain and incentivise key employees and the impact such policy has on the continued success of the Group.

Reporting requirements

The following information is provided in other appropriate sections and is included in this Directors' report by reference and so is deemed to be part of it:

Information	Reported
Strategic report;	Pages 1 to 20.
Corporate Governance:	Pages 21 to 39.
<ul style="list-style-type: none"> › Corporate Governance report; › Statement of Directors' Responsibilities. 	
Directors' Remuneration Report	Pages 31 to 32.
Future development and events occurring after the balance sheet date	Details can be found in the Strategic Report on pages 1 to 20.

Business review

The Directors' business review is set out as part of the Strategic report with the results of the Group being set out in the consolidated income statement on page 51 and in its related notes.

Going concern

The Group's activities together with the factors likely to affect its future development, performance and position are as described within the Strategic report on pages 1 to 20. The Directors have considered the trading outlook, including the preparation of profit, balance sheet and cash flow forecasts, for the Group for a 24-month period ending 31 December 2022, its financial resources including its cash resources and access to borrowings, as set out in note 20 to the accounts on page 75, and its continuing obligations, including to its defined benefit pension schemes, details of which are set out in note 24 to the accounts on pages 77 to 82. These forecasts have been sensitised to cover a range of credible downside scenarios, including the potential future impacts of the pandemic and the conclusions remained unchanged. "Reverse stress tests", where scenarios were run to determine the full extent of the Group's resilience to downside risks, did not challenge the Group's conclusions under any plausible scenario. Performance subsequent to the year end suggests the forecasts remain appropriate. Having made due enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors

Biographical details of the Directors currently serving on the Board and their dates of appointment are set out on page 24.

The Directors who served during the year are as follows:

Executive Directors	Non-Executive Directors
Tony Steels	Andrew Kitchingman
Will Wilkins	John Davies ¹
	Sara Fowler ²
	Doug Robertson

¹ Resigned from the Board on 5 March 2020

² Appointed to the Board on 6 March 2020

The Company's approach to the appointment and replacement of Directors is governed by its Articles of Association (together with relevant legislation) and takes into consideration any recommendations of the QCA Code.

Subject to any restrictions in its Articles of Association and the Companies Act 2006, the Directors may exercise any powers which are not reserved for exercise by the shareholders.

The Company maintained Directors' and Officers' Liability Insurance cover throughout 2020. The Articles of Association of the Company permit it to indemnify the Company's officers, and officers of any associated company, against liabilities arising from conducting Company business, to the extent permitted by law. The Company's Articles of Association and Directors' Service Contracts, are available for inspection during normal business hours at the Company's registered office and will be available at the AGM.

Directors and Directors' interests

Directors' interests in the Company's shares as at 31 December 2020 are shown on page 31 in the Remuneration report. There are no shareholding requirements for Directors.

Substantial shareholdings

At 23 March 2021, the Company had been notified, or is aware of, the following interests in the issued ordinary share capital of the Company:

	Number of ordinary shares	% of issued ordinary shares
Schroder Investment Management Limited	4,448,152	22.0%
Hargreaves Lansdown	2,414,816	12.0%
Interactive Investor	1,522,751	7.6%
Mr G V L Oury	1,286,870	6.4%

Results and dividends

The Group's profit for the year was £3.3m (31 December 2019: £5.9m profit). Having considered the trading results for 2020 and the opportunities for investment in the growth of the Group, together with the continued uncertainty surrounding the impact of the pandemic, the Board has decided that it is not appropriate to pay a final dividend. An interim dividend was not paid during 2020 (2019: none).

Dividends on the 6% preference shares are due for payment on 30 June and 31 December in each year and in 2020 amounted to £0.1m (2019: £0.1m).

Research and development

Group policy is to retain and enhance its market position through the design and development of specialist machinery and services. To achieve this objective, engineering and product development facilities are maintained in the UK and overseas. Research and development expenditure for the Group incurred in 2020, net of third-party income, amounted to £1.7m (2019: £1.1m), of which £1.1m (2019: £0.8m) was charged to the consolidated income statement and £0.6m (2019: £0.3m) was capitalised and included in development costs.

Share capital

At 31 December 2020, the Company's issued share capital was £5,042,885 divided into 20,171,540 ordinary shares of £0.25 each and 900,000 preference shares of £1.00 each. Details of movements in issued share capital in the year are set out in note 25 to the financial statements. Authority for the purchase of up to 3,000,000 ordinary shares for cancellation was granted at the 2020 Annual General Meeting and this authority expires at the end of the 2021 AGM. While this authority was not used during the year, the Directors consider it appropriate to seek further authority from the shareholders at the forthcoming Annual General Meeting for the Company to purchase its own shares.

Resolution 13, which will be proposed as a special resolution, will seek the necessary authority to enable the Company to purchase for cancellation ordinary shares in the market for a period of up to 12 months from the date of the meeting, upon the terms set out in the resolution, up to a maximum number of 3,000,000 ordinary shares representing approximately 5% of the issued ordinary share capital at the date of the notice convening the Annual General Meeting. No shares were purchased by the Company under the equivalent resolution during the year.

EES Trustees International Limited holds shares as trustee in connection with the Company's long-term incentive arrangements for the benefit of the Group's employees; at 1 March 2021 it held 277,402 shares. The trustee has agreed to waive all dividends and not to exercise voting rights in respect of shares representing 1.4% of the issued share capital.

Information about the Company's share capital is given in note 25 to the accounts on page 83.

Disclosure of information to the auditor

As far as the Directors are aware, there is no relevant audit information of which the Group's auditor is unaware, and each Director has taken all reasonable steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information to establish that the Group's auditors are aware of that information.

Auditor

Grant Thornton UK LLP has indicated its willingness to continue in office as auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting will take place on 5 May 2021. Notice of the meeting can be found on pages 103 to 107.

Political donations

The Company made no political donations during the year to 31 December 2020.

Financial instruments

The financial risk management objectives of the Group, including details of the exposure of the Company and its subsidiaries to financial risks including credit risk, interest rate risk and currency risk, are provided in note 26 to the accounts on pages 84 to 90.

Procurement

The Group recognises and actively develops its relationships with its suppliers and works closely with them to ensure that the relationships are productive for all parties. The Group's policy is to pay suppliers in line with its standard terms except where alternative arrangements have been agreed in advance with individual suppliers. The Group took the positive decision to maintain its payment policies throughout the Covid-affected months of the period. The Group does not follow any external procurement or payment code. The Group's trade creditor days outstanding at the year end were 46.1.

Social, community and human rights employment policies

The Group is committed to developing its employment policies in line with best practice and providing equal opportunities for all, irrespective of gender, age, marital status, sexual orientation, ethnic origin, religious belief or disability. Full and fair consideration is given to applications for employment from people with disabilities having regard to their aptitudes and abilities.

Every reasonable effort is made to support those who become disabled, either in the same job or, if this is not practicable, in suitable alternative work.

Employee involvement

Emphasis is placed on training, effective communication and the involvement of employees in the development of the business. Information is regularly provided on the progress of the Group through local review meetings, briefings and consultative bodies. Involvement in the achievements of the business is encouraged through other means appropriate to each location.

Ethics policy

The Group's Ethics policy was reviewed, updated and re-issued in January 2020. The Ethics policy, which is distributed to every Group employee and is available on the Group's website at www.mpac-group.com, sets out the values which Mpac Group plc seeks to encourage and certain principles governing the way it does business.

Sustainability policy

The Group is committed not only to compliance with environmental legislation but also to the progressive introduction of appropriate measures to limit the adverse effects of its operations upon the environment. In particular, efforts are made to minimise waste arising from operations, to recycle materials wherever possible and to consider alternative methods of design or operation.

The Group aims both to reduce its costs by these means and to promote good practice in the use of resources at sustainable levels.

Annual quantity of emissions

In accordance with the Companies Act, Mpac Group plc is committed to reporting emissions for the Group on an annual basis as set out below. Emissions are measured as tonnes of CO₂ equivalent from the Group's metered purchases of electricity and fuel consumed in the activities of the Group for which it is responsible; an intensity ratio has also been included. Additionally, a measure of the CO₂ emitted by travel in the Group has been included, representing the emissions from Group-operated vehicles and from business-related flights taken by the Group's employees.

	MWH	KWH intensity (per employee) ^a	CO ₂ (tonnes)	CO ₂ intensity (kg per employee) ^a
Purchased electricity	1,032	2,254	241	526
Combustion of fuel	1,757	3,837	323	705
Travel			240	525

a Calculated using average number of employees in the year.

The Group has undertaken multiple actions in the year to improve energy efficiency. The initial designs and ongoing evolution of the Group's products are designed to operate as energy efficiently as possible, delivering lower operating costs to the customer and cutting waste at every opportunity, especially in respect of energy use. The Group also sought to reduce internal energy intensity, including that used to provide a productive work environment. In particular, new buildings and refurbishments are reviewed for their energy efficiency and the assessment of such projects are based upon on their whole life costs, including energy use.

Section 172 of the Companies Act 2006

Disclosures related to s172 of the Companies Act 2006 require a specific reference to how the Board promotes the success of the Company for the benefit of its members as a whole.

Mpac Group plc takes decisions for the long term, and the Group aims to uphold the highest standards of business conduct. The Board expects all of our colleagues, at every level of the business, to do the same. Similarly, the Board understands that our business can only grow and prosper over the long term if the Group understands and respects the views and needs of our customers, colleagues and the communities in which we operate, as well as our suppliers and the shareholders to whom we are accountable. This is reflected in our values (see page 5) and this report sets out more detail on how we manage our relationships with them.

Long-term consequences

The Board, acting fairly between members, and acting in good faith, considers what is most likely to promote the success of the Group for its stakeholders in the long term.

Our corporate governance and management framework on pages 21 to 39, together with the strategy update on page 7, provide more details.

Our people

The Board considers the interests of the Group's employees when making decisions and page 7 sets out how we involve employees.

Engaging and retaining the right skills across the Group is fundamental to the Company's strategy and to deliver the long-term success of the Company.

Key interests include:

- › Career development and training;
- › Engagement;
- › Health and safety; and
- › Wellbeing.

The Company conducts employee surveys, the results of which are fed back to the Board for its review and engagement.

Covid-19

During the Covid-19 global pandemic, the Board's priority has been the safety and wellbeing of our colleagues. Given that we are a manufacturing business, where we have been able to do so under local government regulations and travel restrictions, it has been necessary to keep our manufacturing sites open. Where possible, those colleagues who can work from home have been doing so.

We have taken all possible steps to keep our sites secure and undertake regular testing for colleagues who work there. Those working on site wear personal protective equipment, such as face coverings, when moving about the site, or when in proximity to one another.

There have been a small number of instances where colleagues have tested positive for the virus. In those circumstances, those working nearby the affected colleague were tested and sent home while waiting for the results. Those areas where the colleagues worked were deep cleaned and, where necessary, the site itself was closed and deep cleaned as a whole before re-opening. Those colleagues who were unable to work during those times remained on full pay.

We did make use of the support provided by the Governments in those jurisdictions in which we operate and we accessed circa £2.4m of Covid-19 support as a result. Access to government funds ensured that the Group was able to support colleagues who were furloughed and to retain highly skilled, key workers in order to provide on-going support to the essential healthcare, food and beverage sectors.

Stakeholders, customers, suppliers and others

The operating review, on pages 10 to 14, discusses the need to foster the business's external relationships. Our procurement policy, including payments to our creditors, is included on page 37. The Group took the positive decision to maintain its payment policies throughout the Covid-19 affected months of the year.

Where our service teams could not visit sites in person due to travel restrictions imposed by Covid-19, we utilised a mixture of remote support and augmented reality headsets to provide remote training and services for our clients, ensuring that their production lines kept working.

Community and environment

The operating review, on pages 10 to 14, discusses these issues, along with the environmental reporting within the Directors' report on page 37.

The Group is committed not only to compliance with environmental legislation but also to the progressive introduction of appropriate measures to limit the adverse effects of its operations upon the environment. In particular, reasonable efforts are being made to minimise waste arising from its operations, to recycle materials wherever possible and to consider methods of design or operation that minimises waste. The Group aims both to reduce its costs by this means and to promote good practice in use of resources at sustainable levels.

High standards of business conduct and reputation

The corporate governance report, on pages 25 to 27, with specific consideration of business ethics on page 27. The Group's revised Ethics policy, issued in January 2020, can be found on the Group's website at <https://mpac-group.com/group-policies/>.

The need to act fairly between members

The Board, acting in good faith, always acts fairly between members when making decision in the long-term interest of the Company. Details of the Company's mission and values can be found on page 5.

The Strategic report on pages 1 to 20 and Directors' report on pages 21 to 39 are hereby approved by the Board of Directors.

By Order of the Board

Prism Cossec Limited
Company Secretary

29 March 2021

Statement of Directors' responsibilities

in respect of the annual report and the financial statements

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange, they are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the parent company financial statements on the same basis.

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 each of the Group and parent company financial statements, the Directors are required to:

- › select suitable accounting policies and then apply them consistently;
- › make judgements and estimates that are reasonable, relevant and reliable;
- › state whether they have been prepared in accordance with international accounting standards;
- › assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- › use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations or have no realistic alternative but to do so.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' report that complies with that law and those regulations.

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

By order of the Board

Tony Steels
Chief Executive

Will Wilkins
Group Finance Director

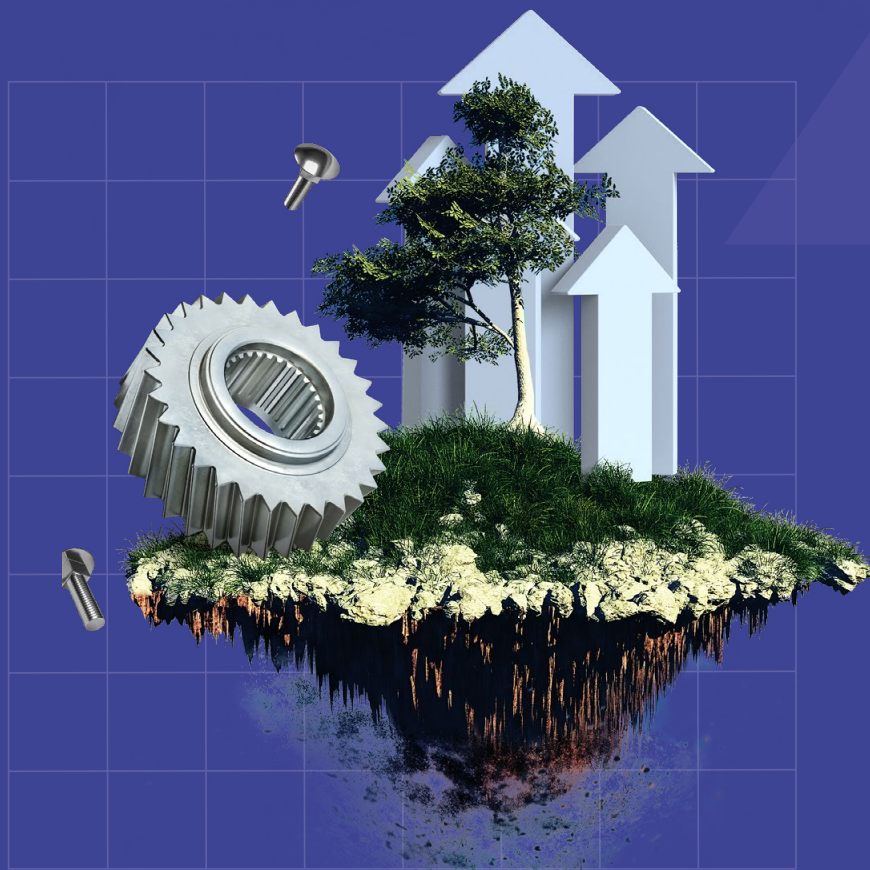
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Independent Auditor's report

to the members of Mpac Group plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Mpac Group plc (the 'Parent Company' or 'Company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise the consolidated income statement, the Group and Company statements of comprehensive income, the Group and Company statements of changes in equity, the Group and Company statements of financial position, the Group and Company statements of cash flow and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- ▶ the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- ▶ the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- ▶ the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and
- ▶ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities 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 FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.

A description of our evaluation of management's assessment of the ability to continue to adopt the going concern basis of accounting, and the key observations arising with respect to that evaluation is included in the Key Audit Matters section of our report.

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 the 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 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.

The responsibilities of the Directors with respect to going concern are described in the 'Responsibilities of Directors for the financial statements' section of this report.

Our approach to the audit



Grant Thornton



Overview of our audit approach

Overall materiality:

Group: £323,000, which represents approximately 5% of the Group's underlying profit before tax.

Parent Company: £242,000, which represents 1% of total assets, restricted to 75% of Group materiality.

Key audit matters were identified as improper revenue recognition and accounting for open contracts, the acquisition accounting for Switchback Group, Inc. including accuracy of intangibles, the accuracy of defined benefit pension liabilities and going concern.

Our auditor's report for the year ended 31 December 2019 included no key audit matters that have not been reported as key audit matters in our current year's report.

We performed an audit of the financial information using component materiality ('full scope audit') on the financial statements of components in the United Kingdom and the Netherlands and a Grant Thornton member firm performed a full scope audit over the significant component in Canada. We performed specified audit procedures on the financial information of the components in the United States of America and performed analytical procedures over the components in Singapore and Mpac Overseas Holdings Limited in the UK.

We issued Group instructions to the component auditor in respect of their full scope audit of the significant component.

The components where we performed full scope audit procedures represented 94% of consolidated revenue, 93% of consolidated total assets and 96% of consolidated underlying profit before tax.

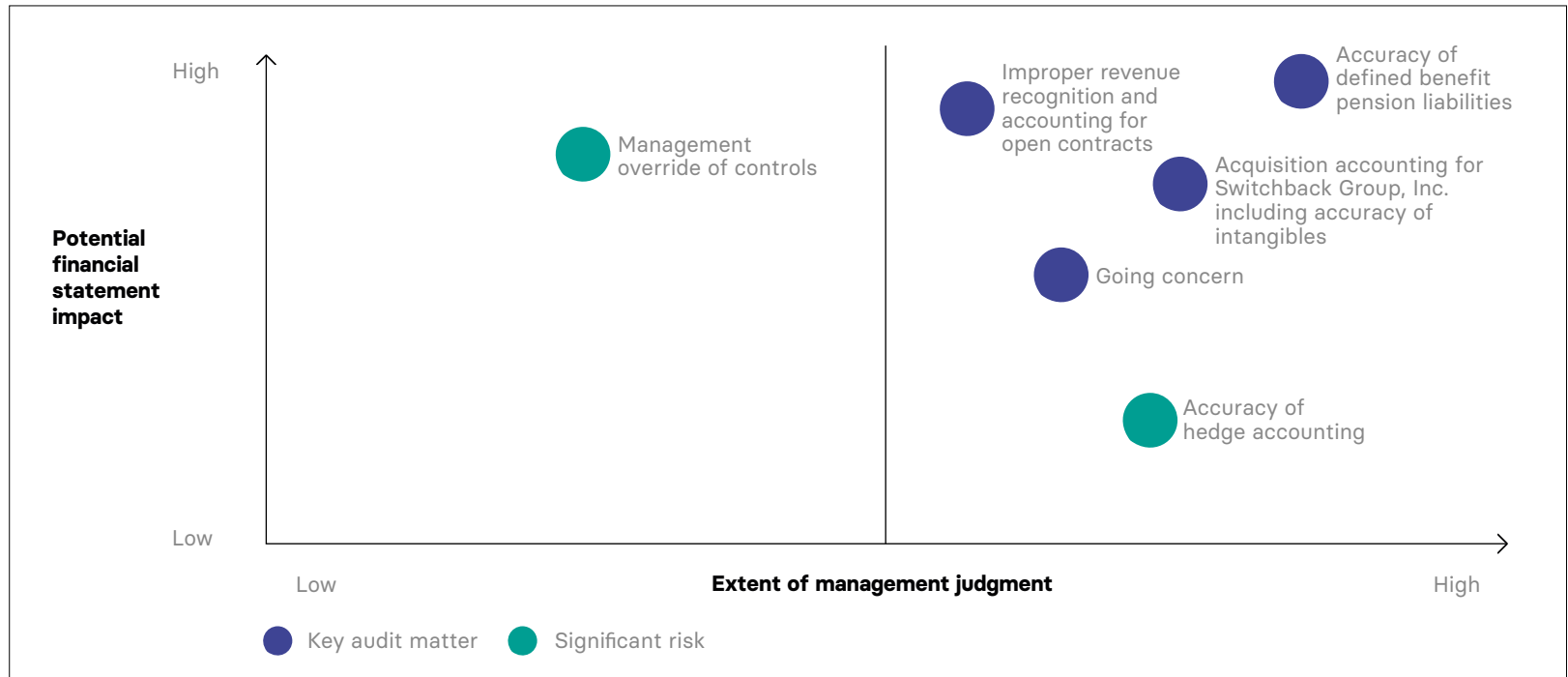
Independent Auditor's report continued

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 that 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.



In the graph below, we have presented the key audit matters and significant risks relevant to the audit.



Key audit matter – Group

Improper revenue recognition and accounting for open contracts

We identified improper revenue recognition and accounting for open contracts as one of the most significant assessed risks of material misstatement due to fraud or error.

A significant proportion of the revenue of the Group is derived through the sale of machinery, recognised through long term contract accounting. Long term contract accounting involves a high degree of subjectivity and is susceptible to the risk of material misstatement. Contracts that remain open at the year end are most susceptible to manipulation by management where there is an incentive to meet performance targets.

We therefore identified improper revenue recognition and accounting for open contracts as a significant risk, which was one of the most significant assessed risks of material misstatements.

Relevant disclosures in the Annual Report and Accounts 2020

- › Financial statements: Note 1, Revenue and operating segments

How our scope addressed the matter – Group

In responding to the key audit matter, we performed the following audit procedures:

- › assessing and testing revenue recognition policies to check these are reasonable and applied correctly and consistently;
- › documenting our understanding of the Group's processes and controls over revenue recognition and performing walkthroughs on these controls to confirm they are designed effectively;
- › for a sample of open contracts at the end of financial year selected for testing, assessing whether the revenue and profit recognised were in accordance with the Group's accounting policies and International Financial Reporting Standard ("IFRS") 15 'Revenue from contracts with customers', agreeing inputs to supporting documentation such as contract terms, supplier invoices and timesheets and reperforming management's calculations, challenging management's assumptions and assertions underpinning their forecast for the contract's future performance with reference to supporting evidence, such as forecasts and post year end contract performance;
- › investigating the recoverability of contract assets and receivables by reference to post year end collection;
- › assessing management's ability to forecast by comparing the forecast margin and labour hours at the inception of the contract against the current forecast margin and corroborating any significant movement in margin; and
- › examining those contracts identified as being at risk of incurring future losses during the remaining life of the contract, challenging management's assumptions and assertions relating to the future results of those contracts by reference to supporting evidence, such as forecasts and post year end contract performance.

Our results

Based on our audit work, we found that the assumptions and judgements used in management's application of the Group's open contract accounting were appropriate. We found no material errors in the underlying calculations for the contract samples we have tested.

Key audit matter – Group

Acquisition accounting for Switchback Group, Inc. including accuracy of intangibles

We identified the acquisition accounting for Switchback Group, Inc. including accuracy of intangibles as one of the most significant assessed risks of material misstatement due to error.

During the year, the Group acquired the entire share capital of Switchback Group, Inc for an initial purchase consideration of \$13.3m with additional earn-out consideration of \$2m.

The impact of the acquisition is significant to the financial statements as well requiring a high level of judgement in determining the appropriate accounting treatment and high level of estimation in determining the fair value of the consideration and certain assets acquired and liabilities assumed. We therefore identified the acquisition accounting, including the accuracy of acquired intangibles, as a significant risk, which was one of the most significant assessed risks of material misstatement.

Goodwill of £7.9m and intangible assets of £2.6m were recognised as a result of the business combination entered into.

The Group measures goodwill at the acquisition date as being the fair value of consideration, including the estimated value of deferred and contingent consideration transferred less the net recognised amount of identifiable assets acquired and liabilities assumed.

The intangible assets are valued using discounted cash flow forecasts, which require judgement by management around key assumptions such as revenue growth, discount rates, brand royalty rates, customer attrition and long term growth rates.

On initial recognition, the assets and liabilities acquired in a business combination are included in the consolidated balance sheet at their fair values, which are also used as the basis for subsequent measurement in accordance with the Group accounting policies. Determining the fair value of certain assets and liabilities requires judgement to be exercised by the management, particularly in respect to estimating the value in use of assets acquired.

Relevant disclosures in the Annual Report and Accounts 2020

- › Financial statements: note 12, Intangible assets and note 30, Business combinations and deferred consideration

How our scope addressed the matter – Group

In responding to the key audit matter, we performed the following audit procedures:

- › assessing whether the accounting policies adopted by the management are in accordance with the requirements of IFRS 3 'Business Combinations' and IAS 38 'Intangible Assets';
- › obtaining an understanding of the acquisition through review of legal agreements and discussion with management;
- › re-performing management's calculation of the fair value of the consideration, including the estimated value of the deferred and contingent consideration transferred less the net recognised amount of identifiable assets acquired and liabilities assumed, ensuring this is in accordance with the requirements of IFRS 3 'Business Combinations';
- › using our internal valuation expert to evaluate and assess the assumptions used, including discount rates, growth rates and forecast future trading performance, in the calculation of the fair value of the intangibles recognised;
- › testing the completeness and accuracy of the data used in the intangible asset valuation by agreeing this data to pertinent supporting documentation such as long-term growth forecasts;
- › testing significant fair value adjustments made to the assets and liabilities acquired, and challenging management's assumptions in the value in use assigned to certain assets; and
- › assessing the adequacy of disclosures in respect of the acquisition to check whether these are in accordance with IAS 38 and IFRS 3.

Our results

Based on our audit work, we found that the assumptions and judgements used in management's accounting treatment of the Switchback Group, Inc. acquisition were reasonable. We also note that the accuracy of goodwill and intangibles is not materially misstated. We found no material errors in the underlying calculations.

Key audit matter – Group

Accuracy of the defined benefit pension liabilities

We identified accuracy of the gross defined benefit pension liabilities as one of the most significant assessed risks of material misstatement due to error.

The Group operates defined benefit pension schemes in the UK and US that provide benefits to a number of current and former employees. At 31 December 2020, the net defined benefit asset was £11.0 million. The total fair (bid) value of scheme assets and present value of defined benefit obligations which form the net defined benefit asset amount to £451.0 million and £440.0 million respectively.

The valuation of the pension liabilities in accordance with IAS 19 'Employee benefits' involves significant judgement and is subject to complex actuarial assumptions. Small variations in those actuarial assumptions can lead to a materially different defined benefit pension scheme asset or liability being recognised within the Group financial statements.

Relevant disclosures in the Annual Report and Accounts 2020

- › Financial statements: note 24, Employee benefits

Going concern

We identified Going concern as one of the most significant assessed risks of material misstatement due to fraud or error.

Covid-19 is one of the most significant economic events currently faced by the UK, and at the date of this report, its effects are subject to unprecedented levels of uncertainty. This event could adversely impact the future trading performance of the Group including, but not limited to, the following factors:

- › Decline in future orders
- › Issues with supply chain
- › Shutdown of operations

As such, this increases the extent of judgement and estimation uncertainty associated with the Directors' decision to adopt the going concern basis of accounting in the preparation of the financial statements.

Relevant disclosures in the Annual Report and Accounts 2020

- › Financial statements: Accounting policies, Going concern

How our scope addressed the matter – Group

In responding to the key audit matter, we performed the following audit procedures:

- › documenting our understanding of management's process for evaluating the defined benefit pension scheme and assessing the design effectiveness of related key controls;
- › evaluating the competence of management's expert;
- › using an internal actuarial expert to inform our challenge of the assumptions used, including discount rates, growth rates, mortality rates and the calculation methods employed in the calculation of the pension liability;
- › testing the accuracy of underlying membership data used by the Group's actuary for the purpose of calculating the scheme liabilities; and
- › assessing disclosures made in the financial statements to determine compliance with IAS 19.

Our results

Based on our audit work, we found the valuation methodologies to be balanced and consistent with the expectation of our internal actuarial expert. We consider that the Group's disclosures in note 24 are in accordance with IAS 19. We found no material errors in the calculations we tested.

In responding to the key audit matter, we performed the following audit procedures:

- › obtaining management's base case forecasts and calculations covering the period to December 2022. We assessed how these forecasts were compiled and challenged the accuracy of management's forecasts, including the effects arising from macro-economic uncertainties such as Brexit and Covid-19;
- › assessing the reliability of management's forecasting by comparing the accuracy of actual financial performance to forecast information obtained in the prior period;
- › obtaining management's most severe downside scenario to assess the potential impact of Covid-19. We evaluated and challenged the assumptions applied, primarily including a reduction in revenues and a reduction in margin covering the period to December 2022. We also assessed and challenged management on the cost-cutting assumptions applied in this scenario and mitigating actions available to management. We corroborated management's explanations to relevant documentation;
- › performing sensitivity analysis on key inputs to determine the impact of reasonably possible movements;
- › evaluating the results of the reverse stress tests performed by management;
- › assessing the adequacy of the going concern disclosures included within the Accounting Policies of the Financial Statements.

Our results

Based on the procedures performed, we have identified no issues regarding management's assessment of the impact of Covid-19 on liquidity requirements, order book and KPIs. We have nothing to report in addition to that stated in the 'Conclusions relating to going concern' section of our report.

Independent Auditor's report continued

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Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

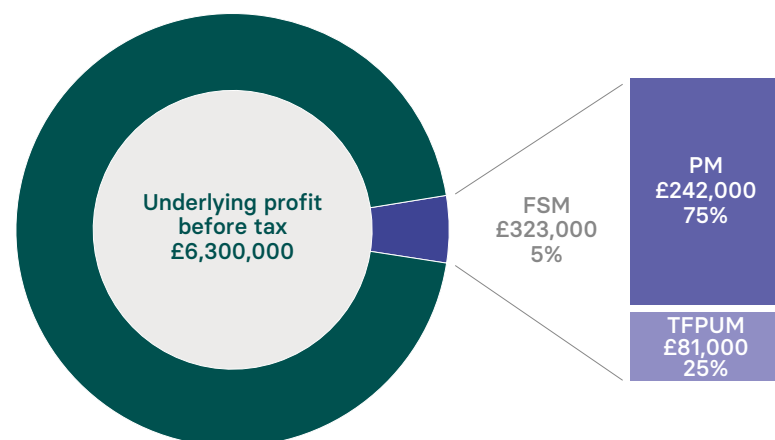
Materiality was determined as follows:

Materiality measure	Group	Parent Company
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	£323,000 which represents approximately 5% of underlying Group profit before tax.	£242,000 which is 1% of total assets restricted to 75% of Group materiality.
Significant judgements made by auditor in determining the materiality	<p>In determining materiality, we considered this benchmark as the most appropriate because this is a key performance measure used by the Board of Directors to report to investors of the financial performance of the Group.</p> <p>Materiality for the current year is lower than the level that we determined for the year ended 31 December 2019 to reflect a decrease in the current period of the Group's underlying profit before tax.</p>	<p>In determining materiality, we considered this benchmark as the most appropriate as we consider that it reflects the Company's status as a non-trading holding Company.</p> <p>Materiality for the current year is lower than the level that we determined for the year ended 31 December 2019 to reflect the Company's decreased total assets in the current period.</p>
Significant revisions of materiality threshold that was made as the audit progressed	We calculated materiality during the planning stage of the audit. During the course of our audit, we re-assessed initial materiality based on the Group's underlying profit before tax for the year ended 31 December 2020 and adjusted materiality for the final position.	We calculated materiality during the planning stage of the audit. During the course of our audit, we re-assessed initial materiality based on Group's total assets for the year ended 31 December 2020 and adjusted materiality for the final position.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	£242,000 which is approximately 75% of financial statement materiality.	£181,500 which is 75% of financial statement materiality.
Significant judgements made by auditor in determining the performance materiality	In determining materiality, we selected a higher percentage of performance materiality on the basis that the Group has no prior going concern issues, has stable business activities and few misstatements (corrected and uncorrected) were identified in the prior audit.	In determining materiality, we selected a higher percentage of performance materiality on the basis that the Company has no prior going concern issues, has stable business activities, few misstatements (corrected and uncorrected) were identified in the prior audit.
Significant revision of performance materiality threshold that was made as the audit progressed	We calculated performance materiality during the planning stage of the audit and then during the course of our audit, we re-assessed initial materiality based on Group's underlying profit before tax for the year ended 31 December 2020 and adjusted materiality for the final position.	We calculated performance materiality during the planning stage of the audit and then during the course of our audit, we re-assessed initial materiality based on Group's total assets for the year ended 31 December 2020 and adjusted materiality for the final position.

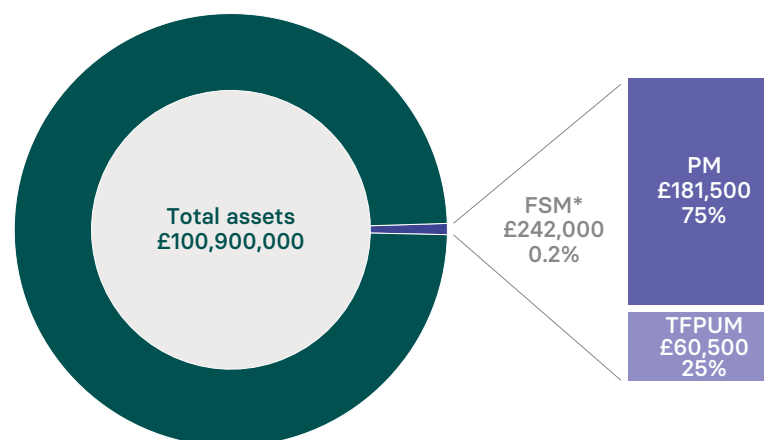
Materiality measure	Group	Parent Company
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	
Specific materiality threshold	We determined a lower level of specific materiality for the following areas: <ul style="list-style-type: none"> › Directors' remuneration › Related party transactions outside the normal course of the business 	We determined a lower level of specific materiality for the following areas: <ul style="list-style-type: none"> › Directors' remuneration › Related party transactions outside the normal course of the business
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.	
Threshold for communication	£16,150 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£12,100 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group



Overall materiality – Parent Company



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

Note: *FSM of the Parent Company is capped at 75% of Group FSM.

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Group and its environment, including Group wide controls, and assessing the risk of material misstatement at a Group level. We have also obtained an understanding of the financial reporting and consolidation process.

The components of the Group were evaluated by the Group audit team based on a measure of materiality, considering each as a percentage of key benchmarks including total assets, revenue and profit before tax ('PBT'), to assess the significance of the component to determine the planned audit response.

A full scope audit approach for all components evaluated as significant was determined based on their relative materiality to the Group and our assessment of the audit risk. For significant components requiring a full scope approach, we or the component auditors evaluated the controls over the financial reporting system identified as part of our risk assessment, reviewed the appropriateness of the financial statement production process and addressed critical accounting matters. For all significant risks identified, we documented our understanding of management's process for evaluating the applicable risk and assessed the design effectiveness of relevant controls. We undertook substantive testing on significant transactions and material account balances.

In order to address the audit risks identified during our planning procedures, the Group audit team performed a full scope audit on the financial information of the Company and of significant components in the United Kingdom and in the Netherlands. A Grant Thornton member firm in the Netherlands performed the full scope audit in prior year. Our component auditors performed a full scope audit on the financial information of the significant component in Canada. We also determined that specified procedures were to be carried out by the Group audit team in respect of the component entities based in the United States of America where significant risks of material misstatement had been identified. The remaining operations of the Group were subjected to analytical procedures with a focus on the audit risks identified above and the significance to the Group's balances.

The components that were subject to full scope audit procedures totalled 93% of total assets, 94% of consolidated revenues and 96% of consolidated profit before tax whilst the component that was subject to specific scope audit procedures and specified audit procedures totalled 6% of total assets, 4% of consolidated revenues and 3% of consolidated underlying profit before tax.

Detailed audit instructions were issued to the component auditor of the significant component in Canada. The instructions highlighted the significant risks to be addressed through the audit procedures and detailed the information that we required to be reported to the Group audit team. The Group audit team conducted a review of the work performed by the component auditor, and communicated with the component auditor throughout the planning, fieldwork and concluding stages of the Group audit.

Audit approach	No. of components	% coverage Total assets	% coverage Revenue	% coverage PBT
Full scope audit	4	93	94	96
Specified audit procedures	2	6	4	3
Analytical procedures	2	1	2	1

Other information

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

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

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- › 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; or
- › certain disclosures of Directors' remuneration specified by law are not made; or
- › we have not received all the information and explanations we require for our audit.

Responsibilities of Directors for the financial statements

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.

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 Financial Reporting Council's website at: www.frc.org.uk/auditors-responsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting 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. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- › We enquired of management and the audit committee, concerning the Group's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- › We enquired of management and the audit committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- › We corroborated the results of our enquires to relevant supporting documentation.
- › We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting frameworks (IFRS, Companies Act 2006, the QCA Corporate Governance Code, AIM Rules for Companies), and the relevant tax compliance regulations in the jurisdictions in which the Company operates.
- › In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to health and safety, employee matters, environmental, and bribery and corruption practices.

- › We assessed the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation;
 - knowledge of the industry in which the client operates;
 - understanding of the legal and regulatory requirements specific to the entity/regulated entity including:
 - the provisions of the applicable legislation
 - the regulators rules and related guidance, including guidance issued by relevant authorities that interprets those rules
 - the applicable statutory provisions
- › We reviewed 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.
- › We performed analytical procedures to identify and unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.
- › We reviewed the minutes of meetings of those charged with governance.
- › We challenged assumptions and judgments made by management in its significant accounting estimates, in particular in relation to the revenue recognition for open contracts, impairment assessment on goodwill and intangible assets, recoverability of deferred tax assets and accuracy of defined benefit pension liabilities.
- › In addressing the risk of fraud through management override of controls, we tested and evaluated 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.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- › the entity's operations, including the nature of its revenue sources, products and services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement;
- › the applicable statutory provisions;
- › the entity's control environment, including the policies and procedures implemented to comply with the requirements of its regulator, including the adequacy of the training to inform staff of the relevant legislation, rules and other regulations of the regulator, the adequacy of procedures for authorisation of transactions, internal review procedures over the entity's compliance with regulatory requirements, the authority of, and resources available to the compliance officer and procedures to ensure that possible breaches of requirements are appropriately investigated and reported.

For components at which audit procedures were performed, we requested the component auditor to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the Group financial statements. No such matters were identified by the component auditor.

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.

Rebecca Eagle

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham

29 March 2021

Consolidated income statement

for the year ended 31 December 2020

	Note	2020			2019		
		Underlying £m	Non-underlying £m	Total £m	Underlying £m	Non-underlying £m	Total £m
Revenue	1	83.7	–	83.7	88.8	–	88.8
Cost of sales		(59.4)	–	(59.4)	(62.8)	–	(62.8)
Gross profit		24.3	–	24.3	26.0	–	26.0
Distribution expenses		(6.8)	–	(6.8)	(7.2)	–	(7.2)
Administrative expenses		(9.9)	(3.6)	(13.5)	(10.3)	(2.4)	(12.7)
Other operating expenses	3	(1.1)	–	(1.1)	(0.8)	–	(0.8)
Operating profit/(loss)	1,4	6.5	(3.6)	2.9	7.7	(2.4)	5.3
Financial income	8	–	0.3	0.3	–	0.4	0.4
Financial expenses	8	(0.2)	(0.1)	(0.3)	(0.2)	(0.1)	(0.3)
Net financing income/(expense)		(0.2)	0.2	–	(0.2)	0.3	0.1
Profit/(loss) before tax		6.3	(3.4)	2.9	7.5	(2.1)	5.4
Taxation	9	–	0.4	0.4	0.3	0.2	0.5
Profit/(loss) for the period		6.3	(3.0)	3.3	7.8	(1.9)	5.9
Earnings/(loss) per ordinary share							
Basic	11			16.3p			29.7p
Diluted	11			16.2p			29.4p

Statements of comprehensive income

for the year ended 31 December 2020

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	Note	Group		Company	
		2020 £m	2019 £m	2020 £m	2019 £m
Profit/(loss) for the period		3.3	5.9	(2.1)	0.2
Other comprehensive income/(expense)					
Items that will not be reclassified to profit or loss					
Actuarial (losses)/gains	24	(8.8)	(0.3)	(8.5)	(1.8)
Tax on items that will not be reclassified to profit or loss	9	2.2	0.1	2.2	0.1
		(6.6)	(0.2)	(6.3)	(1.7)
Items that may be reclassified subsequently to profit or loss					
Currency translation movements arising on foreign currency net investments		(0.5)	(0.1)	–	–
Effective portion of changes in fair value of cash flow hedges	26	0.5	1.1	–	0.1
		–	1.0	–	0.1
Other comprehensive (expense)/income for the period		(6.6)	0.8	(6.3)	(1.6)
Total comprehensive (expense)/income for the period		(3.3)	6.7	(8.4)	(1.4)

Statements of changes in equity

for the year ended 31 December 2020

	Note	Group						Total equity £m
		Share capital £m	Share premium £m	Translation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	
Balance at 1 January 2019		5.0	26.0	1.1	3.9	(0.8)	5.4	40.6
Profit for the period		–	–	–	–	–	5.9	5.9
Other comprehensive (expense)/ income for the period		–	–	(0.1)	–	1.1	(0.2)	0.8
Total comprehensive (expense)/ income for the period		–	–	(0.1)	–	1.1	5.7	6.7
Equity-settled share-based transactions	24	–	–	–	–	–	0.3	0.3
Purchase of own shares		–	–	–	–	–	(0.1)	(0.1)
Total transactions with owners, recorded directly in equity		–	–	–	–	–	0.2	0.2
Balance at 31 December 2019		5.0	26.0	1.0	3.9	0.3	11.3	47.5
Profit for the period		–	–	–	–	–	3.3	3.3
Other comprehensive (expense)/ income for the period		–	–	(0.5)	–	0.5	(6.6)	(6.6)
Total comprehensive (expense)/ income for the period		–	–	(0.5)	–	0.5	(3.3)	(3.3)
Equity-settled share-based transactions	24	–	–	–	–	–	0.4	0.4
Purchase of own shares	25	–	–	–	–	–	(0.2)	(0.2)
Total transactions with owners, recorded directly in equity		–	–	–	–	–	0.2	0.2
Balance at 31 December 2020		5.0	26.0	0.5	3.9	0.8	8.2	44.4

Statements of changes in equity continued

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	Note	Company						Total equity £m
		Share capital £m	Share premium £m	Translation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	
Balance at 1 January 2019		5.0	26.0	–	3.9	(0.1)	29.2	64.0
Profit for the period		–	–	–	–	–	0.2	0.2
Other comprehensive (expense)/ income for the period		–	–	–	–	0.1	(1.7)	(1.6)
Total comprehensive (expense)/ income for the period		–	–	–	–	0.1	(1.5)	(1.4)
Equity-settled share-based transactions	24	–	–	–	–	–	0.3	0.3
Purchase of own shares		–	–	–	–	–	(0.1)	(0.1)
Total transactions with owners, recorded directly in equity		–	–	–	–	–	0.2	0.2
Balance at 31 December 2019		5.0	26.0	–	3.9	–	27.9	62.8
Loss for the period		–	–	–	–	–	(2.1)	(2.1)
Other comprehensive (expense)/ income for the period		–	–	–	–	–	(6.3)	(6.3)
Total comprehensive (expense)/ income for the period		–	–	–	–	–	(8.4)	(8.4)
Equity-settled share-based transactions	24	–	–	–	–	–	0.4	0.4
Purchase of own shares	25	–	–	–	–	–	(0.2)	(0.2)
Total transactions with owners, recorded directly in equity		–	–	–	–	–	0.2	0.2
Balance at 31 December 2020		5.0	26.0	–	3.9	–	19.7	54.6

Statements of financial position

as at 31 December 2020

	Note	Group		Company	
		2020 £m	2019 - Restated* £m	2020 £m	2019 £m
Non-current assets					
Intangible assets	12	27.4	16.9	1.7	–
Property, plant and equipment	13	5.1	5.6	1.6	2.3
Investment property	14	0.8	0.8	0.8	0.8
Right-of-use assets	27	4.0	4.7	–	–
Investments	15	–	–	63.8	63.8
Amounts owed by group undertakings		–	–	11.0	–
Employee benefits	24	14.0	20.4	14.0	20.4
Deferred tax assets	16	1.8	1.7	–	–
		53.1	50.1	92.9	87.3
Current assets					
Inventories	17	3.5	3.2	–	–
Trade and other receivables	19	32.2	28.0	4.6	3.2
Current tax assets	10	0.8	0.4	–	–
Cash and cash equivalents	21	15.5	18.9	3.4	8.9
		52.0	50.5	8.0	12.1
Current liabilities					
Lease liabilities	27	(0.8)	(0.9)	–	–
Trade and other payables	22	(41.1)	(30.9)	(38.1)	(25.9)
Current tax liabilities	10	(0.4)	(0.7)	–	–
Provisions	23	(1.4)	(1.3)	–	–
		(43.7)	(33.8)	(38.1)	(25.9)
Net current assets/(liabilities)		8.3	16.7	(30.1)	(13.8)
Total assets less current liabilities		61.4	66.8	62.8	73.5
Non-current liabilities					
Interest-bearing loans and borrowings	20	(0.9)	(0.9)	(0.9)	(0.9)
Employee benefits	24	(3.0)	(3.1)	–	–
Deferred tax liabilities	16	(6.8)	(8.8)	(4.9)	(7.2)
Lease liabilities	27	(3.4)	(3.9)	–	–
Deferred contingent consideration	30	(2.9)	(2.6)	(2.4)	(2.6)
		(17.0)	(19.3)	(8.2)	(10.7)
Net assets	1	44.4	47.5	54.6	62.8
Equity					
Issued capital	25	5.0	5.0	5.0	5.0
Share premium		26.0	26.0	26.0	26.0
Reserves		5.2	5.2	3.9	3.9
Retained earnings		8.2	11.3	19.7	27.9
Total equity		44.4	47.5	54.6	62.8

*see note 35, including 31 December 2018 statement of financial position.

The parent company has taken the exemption conferred by s.408 of the Companies Act 2006 not to publish the income statement of the parent company with these consolidated accounts. The parent company loss for the year was £2.1m (2019: £0.2m profit). These financial statements were approved by the Directors on 29 March 2021 and signed on their behalf by:

Tony Steels
Director

Will Wilkins
Director

Registered number: 124855

Statements of cash flow

for the year ended 31 December 2020

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	Note	Group		Company	
		2020 £m	2019 - Restated £m	2020 £m	2019 £m
Operating activities					
Operating profit/(loss)		2.9	5.3	(0.7)	(2.7)
Non-underlying items included in operating profit		3.6	2.4	0.9	1.5
Amortisation of internally developed intangible assets	12	0.3	0.2	0.1	0.1
Depreciation	13	1.1	1.9	0.1	–
Other non-cash items		0.4	0.3	0.4	0.4
Pension payments	24	(3.0)	(2.9)	(2.7)	(2.0)
Working capital movements:					
– (increase)/decrease in inventories		0.2	(0.2)	–	0.3
– decrease/(increase) in contract assets		(1.7)	(2.4)	–	0.7
– decrease/(increase) in trade and other receivables		(0.6)	4.7	(1.6)	–
– increase/(decrease) in trade and other payables		4.1	2.8	11.7	2.8
– increase in provisions		0.1	0.4	–	–
– (decrease)/increase in contract liabilities		5.4	(7.4)	–	–
Cash flows from continuing operations before reorganisation		12.8	5.1	8.2	1.1
Acquisition and reorganisation costs paid		(0.9)	(1.0)	(0.1)	(1.1)
Cash flows from operations		11.9	4.1	8.1	–
Taxation received/(paid)		(0.7)	1.0	0.1	0.9
Cash flows from/(used in) operating activities		11.2	5.1	8.2	0.9
Investing activities					
Proceeds from sale of property, plant and equipment		0.2	0.2	0.1	–
Capitalised development expenditure	12	(1.8)	(0.3)	(1.2)	–
Acquisition of assets under construction	12	–	(0.6)	–	(0.6)
Acquisition of property, plant and equipment	13	(1.2)	(1.4)	(0.1)	–
Dividends received from Group entities		–	–	–	2.0
Net cash flow on acquisition	30	(9.8)	(10.6)	–	(10.6)
Loans to subsidiaries		–	–	(11.7)	–
Payment of deferred consideration		(0.5)	–	(0.5)	–
Cash flows used in investing activities		(13.1)	(12.7)	(13.4)	(9.2)
Financing activities					
Interest paid		(0.2)	(0.1)	(0.1)	(0.1)
Purchase of own shares		(0.2)	(0.1)	(0.2)	(0.1)
Principal elements of lease payments		(0.9)	(1.0)	–	–
Cash flows used in financing activities		(1.3)	(1.2)	(0.3)	(0.2)
Net decrease in cash and cash equivalents	21	(3.2)	(8.8)	(5.5)	(8.5)
Cash and cash equivalents at 1 January		18.9	27.9	8.9	17.4
Effect of exchange rate fluctuations on cash held		(0.2)	(0.2)	–	–
Cash and cash equivalents at 31 December		15.5	18.9	3.4	8.9

The significant accounting policies are set out below apply to both the Group and Company financial statements, as appropriate.

Basis of accounting

Mpac Group plc (the "Company") is a company incorporated and domiciled in the UK. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the Group).

Both the Company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis except that derivative financial instruments, principally forward foreign exchange contracts, are stated at fair value and non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with international accounting standards requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and assumptions are based on historical experience and other factors considered reasonable at the time, but actual results may differ from these estimates. Revisions to these estimates are made in the period in which they are recognised.

The accounting policies, presentation and methods of computation applied by the Group and Company in these financial statements are in the main consistent with those applied in the 2019 financial statements. No new accounting standards have been adopted in the year. A number of amendments to accounting standards became effective during the period, but did not have a material impact on the Group's accounting policies.

The Group's accounting policy for business combinations has also been included following the acquisition of Lambert on 1 May 2019 and Switchback on 9 September 2020.

IFRS 16 Leases

The Group leases various factories, equipment and cars. Rental contracts are typically made for fixed periods of three to five years for equipment and 10-20 years for properties. These may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

IFRS 16 requires the capital element of the leases to be disclosed as a financing cost, with the amortisation of the assets being treated as a non-cash item.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments (where they exist within a lease):

- › fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- › variable lease payments that are based on an index or a rate;
- › amounts expected to be payable by the lessee under residual value guarantees;
- › the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- › payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost, comprising the following:

- › the amount of the initial measurement of lease liability;
- › any lease payments made at or before the commencement date less any lease incentives received;
- › any initial direct costs; and
- › restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of workshop equipment, office furniture and machines.

Derivative financial instruments

The Group's derivative financial instruments are measured at fair value and are summarised below:

The Group uses forward foreign exchange contracts to mitigate exchange rate exposure arising from forecast trade receivables in currencies other than the functional currency of the operating entity.

Hedge effectiveness is determined at inception of the hedge relationship and at every reporting period end through the assessment of the hedged items and hedging instrument to determine whether there is still an economic relationship between the two.

The critical terms of the foreign currency forwards entered into exactly match the terms of the hedged item.

Hedge ineffectiveness may arise if the critical terms of the forecast transaction no longer meet those of the hedging instrument, for example if there was a change in the timing of the forecast transactions from what was initially estimated.

The hedged items and the hedging instrument are denominated in the same currency and as a result the hedging ratio is always one to one. All forward exchange contracts had been designated as hedging instruments in cash flow hedges under IFRS 9.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income.

If a forecast transaction is no longer expected to occur, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued, and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

Non-underlying items and alternative performance measures

Non-underlying items are income and expenditure that, because of the nature of the item, merit separate presentation in the income statement to allow a better understanding of the Group's financial performance by facilitating comparisons with prior periods and assessments of trends in financial performance.

Non-underlying items may include, but are not limited to, the impact on the income statement of the Group's defined benefit pension schemes including administration charges and pension interest, acquisition or disposal costs and the amortisation of acquired intangible assets, significant reorganisation costs, profits or losses arising on discontinued operations, significant impairments of tangible or intangible assets and related taxation. Accordingly, alternative performance measures, which exclude non-underlying items, are presented to aid interpretation of performance. Further analysis of the items included in non-underlying items is provided in note 5 to the financial statements.

Recent accounting developments

At the date of this report, there were no new standards in issue which were relevant to the Group and Company.

Going concern

The Group's activities together with the factors likely to affect its future development, performance and position are described within the Operating review on pages 10 to 14, Financial review on pages 15 to 17 and in the Principal risks and uncertainties on pages 18 and 20.

The Directors have considered the trading outlook of the Group and Company for a 24 month period ending 31 December 2022, its financial position, including its cash resources and access to borrowings, as set out in the Financial review on pages 15 to 17 and in note 20 to the accounts on page 75, and its continuing obligations, including to its defined benefit pension schemes, details of which are set out in note 24 to the accounts on pages 77 to 82. Having made due enquiries, the Directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future.

For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Basis of consolidation

The Group financial statements comprise the consolidated results of the Company and all of its subsidiary companies together with the Group's share of the results of its associated companies on an equity accounting basis. A separate income statement dealing only with the results of the Company has not been presented in accordance with section 408 of the Companies Act 2006.

A subsidiary is a company controlled, directly or indirectly, by the Group. Control is the power to govern the financial and operating policies of the subsidiary company so as to obtain benefits from its activities. A subsidiary's results are included in the Group financial statements from the date that control commences until the date that control ceases.

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired.

The consideration transferred for the acquisition of a subsidiary comprises the:

- › fair values of the assets transferred;
- › liabilities incurred to the former owners of the acquired business;
- › equity interests issued by the Group;
- › fair value of any asset or liability resulting from a contingent consideration arrangement; and
- › fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

Acquisition related costs are expensed as incurred.

The excess of the:

- › consideration transferred;
- › amount of any non-controlling interest in the acquired entity; and
- › acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the date the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the statement of financial position date.

The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from the translation of foreign operations, and of related qualifying hedges, are taken directly to the translation reserve. They are released into the income statement upon disposal.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the subsidiary or associated undertaking at the date of acquisition.

Goodwill is recognised as an asset and is not amortised but is reviewed for impairment at least annually on the basis of its value in use. Any impairment is recognised immediately through the income statement and is not subsequently reversed. Impairment losses recognised are allocated first to reduce the carrying value of the goodwill the business relates to, and then to reduce the carrying value of the other assets of that business on a pro rata basis.

Annual impairment reviews of goodwill are undertaken and are determined from value in use calculations for each cash generating unit (CGU) using cash flow projections based on the latest five-year plan approved by the Board. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes to selling prices and direct costs during the period and are consistent with external sources of information and the Board's view of long term growth. Cash flows beyond the period of the projections are extrapolated at growth rates which do not exceed those used in the five-year plan. The discount rate applied to the cash flow forecasts for each CGU is based on a market participant's pre-tax weighted average cost of capital of 12% (2019: 10%).

On disposal of a subsidiary or associated undertaking, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Research and development

Research and development and related product development costs are charged to the income statement in the year in which they are incurred unless they are specifically chargeable to and recoverable from customers under agreed contract terms or the expenditure meets the criteria for capitalisation.

Where the expenditure relates to the development of a new product for which the technical feasibility and commercial viability of the product is identified, where development costs can be measured reliably and where future economic benefits are probable, development costs are capitalised and amortised over their useful economic lives, up to a maximum of five years. The expenditure capitalised includes costs of materials, direct labour and an appropriate proportion of overheads. Such intangible assets are assessed for indicators of impairment at least annually and any impairment is charged to the income statement.

Other intangible assets

Other intangible assets are valued at cost less accumulated amortisation and impairment charges and amortised on a straight-line basis over their estimated useful economic life which is set on an item by item basis. All intangible assets are tested for impairment at least annually and any impairment is charged to the income statement.

Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and any provision for impairment in value.

Depreciation is provided on a straight-line basis to write off the cost, less the estimated residual value, of property, plant and equipment over its estimated useful life.

The annual depreciation rates used are as follows:

Freehold land	– nil
Freehold buildings	– 3% on cost or deemed cost
Leasehold property	– over life of lease
Plant and machinery	– 8% to 25%
Fixtures, fittings and vehicles	– 10% to 33%

The carrying value of property, plant and equipment is reviewed at least annually for indicators of impairment. Any change in value arising from impairment is charged or credited (up to the carrying value prior to any previous impairment) to the income statement for the year.

Certain items of property that had been revalued to fair value on or prior to 1 January 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of the revaluation.

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at cost. Depreciation is based on cost less residual value. Where the expected residual value exceeds cost no depreciation is provided.

Investments

Investments in subsidiary undertakings are held at cost less provision for any impairment in value. The carrying value of investments in subsidiary undertakings are reviewed at least annually for indicators of impairment.

Revenue and Contracts

Revenue

Revenue represents income derived from contracts for the provision of goods and services by the Company and its subsidiary undertakings to customers in exchange for consideration in the ordinary course of the Group's activities.

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. The transaction price does not include estimates of consideration resulting from contract modifications and the only variable consideration within Mpac contracts are change orders, until they have been approved by the parties to the contract.

Revenue and profit recognition

Revenue is recognised, as performance obligations are satisfied as control of the goods and services is transferred to the customer. For each performance obligation within a contract, the Group determines whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- › the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- › the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- › the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

With the exception of the supply of spare parts, installation services and certain other service based contracts, all of Mpac's contracts are accounted for over time. Supply of spare parts and installation services are recognised once the supply or service is complete. Those recognised over time satisfy the third criteria, above.

For each performance obligation to be recognised over time, the Group recognises revenue using an input method, based on labour hours incurred in the period. Labour hours have been selected as the most faithful depiction of progress (and hence the transfer of goods and services) as this most accurately reflects how Mpac provides value to the customer. Mpac delivers innovative, efficient, and technically robust solutions, with the time allocated to projects of Mpac engineers and technicians being the main driver to bring projects to fruition. Material costs incurred are not considered to be proportionate to the group's progress in satisfying progress on contracts for which revenue is recognised over time and therefore revenue in respect of materials is recognised at an amount equal to the cost of good used to satisfy the performance obligation. Material costs are recognised on contracts as incurred. Revenue and attributable margin are calculated by reference to reliable estimates of the total labour hours and labour hours to be incurred, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as labour hours are incurred, and as risks have been mitigated or retired. The Group has determined that this method faithfully depicts the Group's performance in transferring control of the goods and services to the customer.

If the over time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

Contract modifications

The Group's contracts are often amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

1. prospectively as an additional, separate contract;
2. prospectively as a termination of the existing contract and creation of a new contract; or
3. as part of the original contract using a cumulative catch up.

The majority of the Group's contract modifications are treated under 3 (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract-by-contract and may result in different accounting outcomes.

Costs to obtain a contract

The Group does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded, such as sales commission.

Costs to fulfil a contract

Contract fulfilment costs in respect of over time contracts are expensed as incurred. Contract fulfilment costs in respect of point in time contracts are accounted for under IFRS 15.95 and are recognised as contract fulfilment assets providing they:

- › are not within the scope of other standards;
- › relate directly to a contract (or an anticipated contract);
- › generate or enhance resources that will be used in satisfying performance obligations in the future; and
- › are expected to be recovered from the customer.

Contract fulfilment assets are expensed at the point the corresponding revenue is recognised.

Where assets have been recognised in respect of costs to fulfil a contract, these are tested for impairment under IFRS 15.

Contract assets

A contract asset is a right to consideration conditional on something other than the passage of time. Contract assets are tested for impairment under IFRS 9.

Contract liabilities

The contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Performance obligations

A small proportion of the Group's contracts recognised over time comprise a variety of performance obligations, including but not limited to machinery, elements of design and customisation, installation and after-sales services. Under IFRS 15, the Group must evaluate the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both:

- › the customer benefits from the item either on its own or together with other readily available resources; and
- › it is separately identifiable (i.e. the Group does not provide a significant service integrating, modifying or customising it).

Where contracts include more than one performance obligation, the transaction price is allocated on a relative stand-alone selling price basis. The stand-alone selling price is determined based on the observable price of a good or service when the Group sells that good or service separately in similar circumstances and to similar customers.

Inventories

Inventories includes raw materials, work in progress and finished goods recognised in accordance with IAS 2 in respect of contracts with customers which have been determined to fulfil the criteria for point in time revenue recognition under IFRS 15. Inventories are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term fixed deposits, and for the statements of cash flows they also include bank overdrafts.

Share capital

When share capital is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Preference share capital is classified as a liability as dividend payments are not discretionary.

Dividends on the preference shares are disclosed as interest charges, are recognised as a liability and are accounted for on an accruals basis. Dividends on ordinary shares are only recognised in the period in which they are paid.

Financial instruments

IFRS 9 *Financial instruments* requires the classification of financial instruments into different types for which the accounting requirement is different. The Group has classified its financial instruments as follows:

- › short-term fixed deposits, principally comprising funds held with banks and other financial institutions;
- › trade and other receivables are held at amortised cost;
- › trade and other payables are held at amortised cost;
- › borrowings are classified as other liabilities held at amortised cost; and
- › derivatives, comprising forward foreign exchange contracts and the deferred contingent consideration on acquisition are classified as instruments with fair value through profit or loss.

Financial instruments are initially measured at fair value. Their subsequent measurement depends on their classification:

- › loans and receivables and other liabilities are held at amortised cost; and
- › instruments that are held for trading are held at fair value. Changes in fair value are included in the income statement unless the instrument is included in a cash flow hedge.

Trade and other receivables and contract assets

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets, recording the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating the lifetime credit losses, the Group uses its historical experience, external indicators and forward looking information to calculate the expected losses. Refer to note 26 for further details.

Hedge accounting

The Group applies cash flow hedge accounting to forward foreign exchange contracts, held to reduce the exposure to movements in the future value of foreign currency receipts and payments.

For those contracts included in an effective cash flow hedging relationship, changes in the fair value of the hedging instrument are recognised in other comprehensive income and taken to equity. When the hedged forecast transaction occurs, amounts previously recorded in equity are recognised in the income statement. Any ineffectiveness in the hedging arrangement is included in the income statement.

Post-retirement and other employee benefits

The Group and Company account for pensions and other post-retirement benefits under IAS 19 Employee benefits.

For defined benefit schemes, the net obligation is calculated separately for each scheme by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value, and the fair value of the schemes' assets (at bid price) is deducted. The liability discount rate is either the yield at the statement of financial position date on AA credit rated bonds that have maturity dates approximating to the terms of the obligations or by a cash flow matching method reflecting the duration of the liabilities, whichever more accurately reflects the schemes' pattern of cash flows. The calculations are performed by qualified actuaries using the projected unit credit method. The expense of administering the pension schemes and financing income/expense of the schemes are recognised in the income statement. Past service costs/credits and curtailment costs/credits are recognised in the periods in which they arise. Actuarial gains and losses are recognised in the period in which they arise in other comprehensive income.

Payments to defined contribution schemes are charged to the income statement as incurred.

The net obligation in respect of long-term service benefits, other than pension plans, is the amount of the future benefit that employees have earned in return for their service in the current and prior periods. Obligations are measured at their present value.

Share-based payments

The Group has applied the requirements of IFRS 2 *Share-based payments*.

Accounting policies continued

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The Group issues equity-settled share-based payments to certain employees. These are measured at their fair value at the date of grant and are expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest, and adjusted for the effect of non-market related conditions.

Charges made to the income statement in respect of share-based payments are credited to retained earnings.

Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Interest receivable

Interest receivable is recognised in the income statement using the effective interest method as defined in IFRS 9 Financial Instruments.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in the statements of comprehensive income, or to items recorded directly in equity in which case it is recorded directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is 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 liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill; the initial recognition of other assets and liabilities that affect neither the taxable profit nor the accounting profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The carrying amount 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 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 enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Errors

Where errors are discovered in respect of prior periods, adjustments are made in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and revised statements are presented as required. Where adjustments are made, the heading at the top of the note will state 'Restated' and a separate note detailing the nature, amount of correction and a reconciliation between the balances provided. Where appropriate, a statement of financial position for the opening position will be presented.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate. The Group benefitted from a number of Covid-related grants in the course of 2020 including the 'Coronavirus Job Retention Scheme' in the UK and the equivalent schemes in the countries in which it operates. No deferred amounts remained at 31 December 2020 (31 December 2019: £nil).

Operating segments

An operating segment is a component of the Group that is engaged in business activities from which it may earn revenues and incur expenses, and for which discrete financial information is available. All operating segments' results are regularly reviewed by the Group's chief operating decision maker, which is the Board of Directors, in order to assess performance and make decisions about the allocation of resources to each segment.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation has been discontinued from the start of the comparative period.

1. Revenue and operating segments

All revenue information is prepared in accordance with the Group accounting policies shown on pages 57 to 62.

The following is a description of the principal activities, separated by reportable segments, from which the Group generates its revenue.

Original Equipment ("OE")

The OE segments of the Group principally generate revenue from the make, pack and test of high-speed packaging solutions, first of a kind machinery and high specification automation, secondary packaging equipment and at line instrumentation solutions. The typical length of a contract for OE Equipment is four to 12 months. The contracts are accounted for over time unless the installation and commissioning consideration of the contract is a distinct performance obligation which could be undertaken by a third party in which case the contract is disaggregated with the equipment consideration recognised over time and the installation consideration is recognised at a point in time. Where contracts are recognised over time, the consideration recognised is based on an estimate of labour costs completed at the statement of financial position date as a proportion of total expected labour costs for the contract.

Service

The service segment of the Group generates revenue from sales of spare parts and providing service engineers and support staff to customers enabling them to maximise the benefits of their high-speed packaging solutions, first of a kind machinery and high specification automation, secondary packaging equipment, end of line robotics and at line instrumentation solutions. Service contracts are usually short-term contracts and either have a fixed price or are based on time and materials.

The Group's revenue reflects the basis of the Group's management and internal reporting structure. A commentary on the performance of the operating segments during the year is provided in the Operating review on pages 10 to 14.

In the following table, revenue is disaggregated by primary geographical market, major product lines, sector and timing of revenue recognition.

Disaggregation of revenue

	2020 £m	2019 £m
Sector		
Pharmaceutical	3.9	2.9
Healthcare	37.7	62.5
Food and beverage	34.8	19.8
Other	7.3	3.6
Total	83.7	88.8
Timing of revenue recognition		
Products and services transferred at a point in time	23.4	25.5
Products and services transferred over time	60.3	63.3
Total	83.7	88.8

The Group disaggregates revenue of Original Equipment (OE) and Service together with the regional split, Americas, EMEA and Asia Pacific.

Information regarding the results of each operating segment is included overleaf. Performance is measured based on underlying segment gross profit. Unallocated items comprise distribution and administrative expenditure. The unallocated items are excluded from segment profit or loss as they are not region specific.

Notes to the accounts continued

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1. Revenue and operating segments continued

The measurement of segment assets and liabilities excludes central items that are not allocated to the regions. Unallocated items comprise mainly of goodwill and acquired intangible assets, net debt/funds (excluding the lease liabilities), pension assets/liabilities, taxation balances and net liabilities attributable to the Group's Head Office.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

Segment information

	2020			2019		
	OE £m	Service £m	Total £m	OE £m	Service £m	Total £m
Revenue						
Americas	36.2	10.5	46.7	45.8	11.0	56.8
EMEA	23.7	7.6	31.3	17.6	7.2	24.8
Asia Pacific	4.2	1.5	5.7	6.0	1.2	7.2
Total	64.1	19.6	83.7	69.4	19.4	88.8
Gross profit	15.3	9.0	24.3	18.2	7.8	26.0
Selling, distribution and administration			(17.8)			(18.3)
Underlying operating profit			6.5			7.7
Unallocated non-underlying items included in operating profit			(3.6)			(2.4)
Operating profit/(loss)			2.9			5.3
Net financing income			–			0.1
Profit/(loss) before tax			2.9			5.4

	2020			2019		
	Segment assets	Segment liabilities	Segment net assets	Segment assets	Segment liabilities	Segment net assets
Americas	28.2	(20.7)	7.5	16.4	(12.4)	4.0
EMEA	30.7	(26.6)	4.1	25.6	(23.0)	2.6
Asia	0.5	(0.2)	0.3	0.5	(0.2)	0.3
Total	59.4	(47.5)	11.9	42.5	(35.6)	6.9
Unallocated net assets			32.5			40.6
Total net assets			44.4			47.5

1. Revenue and operating segments continued
Geographical information

Revenue	By location of customer			
	2020 £m	2020 %	2019 £m	2019 %
UK	9.7	12	10.1	11
Europe (excl. UK)	19.2	23	13.7	16
Africa and Middle East	2.8	3	1.1	1
USA	34.5	41	52.0	59
Americas (excl. USA)	12.3	15	4.6	5
Asia Pacific	5.2	6	7.3	8
	83.7	100	88.8	100

Non-current assets (excluding taxation balances)	By location of assets	
	2020 £m	2019 £m
UK	37.0	42.0
Canada and USA	13.2	3.3
Rest of the world	2.9	3.1
	53.1	48.4

2. Major customers

In 2020, the Group generated 24.5% (2019: 45.9%) of revenue from two customers. The most significant customer accounted for 14.8% (2019: 35.6%) of Group revenue. The sales constituted both equipment and Service, and were spread across a number of different geographic regions.

3. Other operating expenses

	2020 £m	2019 £m
Research and development costs (expensed as incurred)	1.1	0.8

4. Operating profit

	2020 £m	2019 £m
Operating profit is arrived at after charging:		
Amortisation of intangible assets	1.9	1.1
Depreciation of owned and leased assets	1.1	0.9
Cost of inventories recognised as an expense	38.3	40.0
Government grants	2.4	–
Audit fees paid to the current auditor (Company £0.1m; 2019: £0.1m)	0.3	0.2
Other fees paid to the current auditor		
– tax compliance (Company £0.1m; 2019: £0.1m)	0.1	0.1
– tax advisory (Company £nil; 2019: £nil)	–	–

5. Non-underlying items

	2020 £m	2019 £m
Non-underlying items		
Acquisition costs	(0.4)	(0.9)
Amortisation of acquired intangible assets	(1.6)	(0.9)
Provision in respect of discontinued operations	–	(0.2)
Defined benefit pension scheme – Past service cost from GMP equalisation	(0.2)	–
Defined benefit pension schemes administration costs	(0.9)	(1.2)
US defined benefit pension scheme – Past service gain from options exercise	–	1.1
Reorganisation costs	(0.5)	(0.3)
Total non-underlying operating expenditure	(3.6)	(2.4)
Interest on deferred and contingent acquisition consideration	(0.1)	(0.1)
Net financing income on pension scheme balances	0.3	0.4
Total non-underlying expense before tax	(3.4)	(2.1)
Deferred tax on pension scheme past service costs	0.1	–
Amortisation of deferred tax arising on acquisition	0.3	0.2
Total non-underlying expense after tax	(3.0)	(1.9)

The Group uses alternative performance measures (“APMs”), in addition to those reported under IFRS, as management believe these measures enable the users of financial statements to assess the underlying trading performance of the business. The APMs used include underlying operating profit, underlying profit before tax and underlying earnings per share. These measures are calculated using the relevant IFRS measure as adjusted for non-underlying income/(expenditure) listed above. No Covid-related items are considered non-underlying.

6. Employee information

	Period end		Average	
	2020	2019	2020	2019
The number of people employed by the Group was:				
Americas	132	89	103	83
EMEA	316	355	327	291
Asia Pacific	13	12	13	12
Head Office (including Non-Executive Directors and pension scheme administrators)	15	15	15	15
Total	476	471	458	401

	Period end		Average	
	2020	2019	2020	2019
The number of people employed by the Company in EMEA was:				
	15	15	15	51

	Group		Company	
	2020	2019	2020	2019
Employment costs were:				
Wages and salaries	20.7	19.6	1.3	3.3
Social security costs	3.0	3.0	0.3	0.4
Employee benefits				
– defined contribution schemes	1.8	1.3	0.2	0.6
– equity-settled share-based transactions	0.4	0.4	0.4	0.4
	25.9	24.3	2.2	4.7

The costs of the defined benefit pension schemes are disclosed in note 24.

7. Emoluments of Directors and interests in shares

Information on the emoluments of the Directors (page 31), together with information regarding the beneficial interests of the Directors and persons connected with them in the ordinary shares of the Company, is included in the Remuneration report on pages 30 to 35.

8. Net financing income

	2020 £m	2019 £m
Financial income:		
Amounts receivable on cash and cash equivalents	–	–
Net interest received on pension scheme balances	0.3	0.4
	0.3	0.4
Financial expenses:		
Preference dividends paid	(0.1)	(0.1)
Interest on deferred contingent consideration	(0.1)	(0.1)
Lease interest (IFRS 16)	(0.1)	(0.1)
	(0.3)	(0.3)
Net financing income	–	0.1

Net interest received on pension scheme balances and interest on deferred consideration is included in non-underlying items.

9. Taxation

	2020 £m	2019 £m
Tax credit:		
Current tax	0.6	(0.3)
Deferred tax	(1.0)	(0.2)
Total	(0.4)	(0.5)

Included within the total taxation is a tax credit of £0.4m (2019: £0.2m) attributable to the non-underlying items set out in note 5.

Reconciliation of effective tax rate

	2020 £m	2019 £m
Profit/(loss) before tax	2.9	5.4
Income tax using the UK corporation tax rate of 19.00% (2019: 19.00%)	0.6	1.0
Research & development tax credits	(0.1)	(0.8)
Deferred tax movements on acquired intangible asset amortisation	–	(0.2)
Deferred tax movements on pension payments	–	0.5
Change in recognised deferred tax assets	(0.1)	–
Change in unrecognised deferred tax assets	(1.1)	(1.1)
Foreign tax charged at higher rates than UK corporation tax rate	0.3	0.1
Total credit	(0.4)	(0.5)

The main rate of UK corporation tax is 19% as enacted in the Finance Act 2015. The rate of deferred tax liability arising from the surplus in respect of the UK defined benefit pension scheme is 35%.

In view of probable timing of the utilisation of brought forward losses, deferred tax assets have not been recognised on tax losses and timing differences in respect of the Group companies in the UK and the USA.

Deferred tax credit on items in other comprehensive (expense)/income

	2020 £m	2019 £m
Arising from actuarial losses	2.2	0.1

10. Current tax assets and liabilities

Current tax assets of £0.8m (2019: £0.4m) and current tax liabilities of £0.4m (2019: £0.7m) for the Group, and current tax assets of £nil (2019: £nil) for the Company, represent the amount of income taxes recoverable and payable in respect of current and prior periods.

11. Earnings per share**Basic earnings/(loss) per ordinary share**

The calculation of basic earnings/(loss) per ordinary share is based upon the profit for the year of £3.3m (2019: £5.9m) and the weighted average number of ordinary shares in issue during the year. The weighted average number of shares excludes shares held by the employee trust in respect of the Company's deferred share plan arrangements.

Diluted earnings/(loss) per ordinary share

The calculation of diluted earnings/(loss) per ordinary share is based upon the profit for the year of £3.3m (2019: £5.9m) and the diluted weighted average number of ordinary shares in issue during the year. The calculation of diluted earnings/(loss) per ordinary share from continuing activities is based upon the profit for the period from continuing activities of £3.3m (2019: £5.9m). For diluted earnings per ordinary share, the weighted average number of shares includes the diluting effect, if any, of own shares held by the employee trust.

	2020	2019
Weighted average number of ordinary shares (non-diluted) at 31 December	19,955,307	19,968,000
Effect of own shares	135,254	178,256
Weighted average number of ordinary shares (diluted) at 31 December	20,090,561	20,146,256

Underlying and diluted underlying earnings per share

Underlying earnings per ordinary share and diluted underlying earnings per ordinary share, which are calculated on profit before non-underlying items, amounted to 31.4p (2019: 39.5p) in respect of underlying earnings per share and 31.2p (2019: 39.2p) in respect of diluted underlying earnings per share.

The calculations of underlying earnings per ordinary share and diluted underlying earnings per ordinary share are based upon an underlying profit for the period of £6.3m (2019: £7.8m) which is calculated as follows:

	2020 £m	2019 £m
Profit for the period	3.3	5.9
Non-underlying items (net of tax)	3.0	1.9
Underlying profit for the period	6.3	7.8

12. Intangible assets

	Group					Company				
	Goodwill £m	Acquired intangible assets £m	Product develop- ment £m	Software develop- ment £m	Assets under construction £m	Total £m	Product develop- ment £m	Software develop- ment £m	Assets under construction £m	Total £m
Cost:										
Balance at 1 January 2019	–	–	4.0	–	–	4.0	0.5	–	–	0.5
Additions	5.7	10.5	0.3	–	0.6	17.1	–	–	0.6	0.6
Disposals	–	–	–	–	–	–	(0.5)	–	–	(0.5)
Retranslation	–	–	(0.2)	–	–	(0.2)	–	–	–	–
Balance at 31 December 2019	5.7	10.5	4.1	–	0.6	20.9	–	–	0.6	0.6
Additions	7.9	2.6	0.6	1.2	–	12.3	–	1.2	–	1.2
Disposals	–	–	–	–	–	–	–	–	–	–
Reclassification	–	–	–	1.6	(0.6)	1.0	–	0.6	(0.6)	–
Retranslation	(0.4)	–	0.1	–	–	(0.3)	–	–	–	–
Balance at 31 December 2020	13.2	13.1	4.8	2.8	–	33.9	–	1.8	–	1.8
Amortisation and impairment losses:										
Balance at 1 January 2019	–	–	3.0	–	–	3.0	0.4	–	–	0.4
Amortisation for the period	–	0.9	0.2	–	–	1.1	–	–	–	–
Disposals	–	–	–	–	–	–	(0.4)	–	–	(0.4)
Retranslation	–	–	(0.1)	–	–	(0.1)	–	–	–	–
Balance at 31 December 2019	–	0.9	3.1	–	–	4.0	–	–	–	–
Amortisation for the period	–	1.6	0.2	0.1	–	1.9	–	0.1	–	0.1
Disposals	–	–	–	–	–	–	–	–	–	–
Reclassification	–	–	–	0.5	–	0.5	–	–	–	–
Retranslation	–	–	0.1	–	–	0.1	–	–	–	–
Balance at 31 December 2020	–	2.5	3.4	0.6	–	6.5	–	0.1	–	0.1
Carrying amounts:										
At 31 December 2019	5.7	9.6	1.0	–	0.6	16.9	–	–	0.6	0.6
At 31 December 2020	13.2	10.6	1.4	2.2	–	27.4	–	1.7	–	1.7

The amortisation for development costs is included in cost of sales in the consolidated income statement. Included within additions are the intangible assets and goodwill acquired through business combinations as set out in note 30.

The carrying amounts of goodwill are £5.7m in respect of Mpac Lambert (acquired in 2019) and £7.9m in respect of Switchback Group (acquired in 2020). The Group tests goodwill at least semi-annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the goodwill have been determined based on value in use calculations, using cash flow projections from the Group's mid-range plan. These assumptions have been prudently sensitised (as per Investments - note 15) to demonstrate that realistic changes do not generate a requirement for impairment and the Group does not consider it probable that any reasonable changes to the key assumptions would result in an impairment to any of the goodwill balances. Goodwill comprises intangible assets that do not qualify for separate recognition, in particular the existing workforce. None of the goodwill is expected to be tax-deductible.

13. Property, plant and equipment

	Group				Company			
	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and vehicles £m	Total £m	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and vehicles £m	Total £m
Cost:								
Balance at 1 January 2019	3.1	3.0	5.1	11.2	2.6	0.3	1.2	4.1
Additions	1.0	0.4	1.0	2.4	–	–	0.1	0.1
Disposals	–	(0.4)	–	(0.4)	–	(0.3)	(0.8)	(1.1)
Retranslation	–	(0.1)	(0.2)	(0.3)	–	–	–	–
Balance at 31 December 2019	4.1	2.9	5.9	12.9	2.6	–	0.5	3.1
Additions	0.1	0.5	0.6	1.2	–	–	0.1	0.1
Disposals	–	(0.3)	(0.4)	(0.7)	–	–	(0.4)	(0.4)
Reclassification	–	–	(1.0)	(1.0)	–	–	–	–
Retranslation	–	–	0.1	0.1	–	–	–	–
Balance at 31 December 2020	4.2	3.1	5.2	12.5	2.6	–	0.2	2.8
Depreciation:								
Balance at 1 January 2019	1.3	1.5	4.0	6.8	0.9	0.3	1.0	2.2
Charge for the period	0.1	0.3	0.5	0.9	0.1	–	–	0.1
Disposals	–	(0.2)	–	(0.2)	–	(0.3)	(0.6)	(0.9)
Retranslation	–	(0.1)	(0.1)	(0.2)	–	–	–	–
Balance at 31 December 2019	1.4	1.5	4.4	7.3	1.0	–	0.4	1.4
Additions	0.1	0.3	0.7	1.1	0.1	–	–	0.1
Disposals	–	(0.2)	(0.3)	(0.5)	–	–	(0.3)	(0.3)
Reclassification	–	–	(0.5)	(0.5)	–	–	–	–
Retranslation	–	–	–	–	–	–	–	–
Balance at 31 December 2020	1.5	1.6	4.3	7.4	1.1	–	0.1	1.2
Carrying amounts:								
At 31 December 2019	2.7	1.4	1.5	5.6	1.6	–	0.1	1.7
At 31 December 2020	2.7	1.5	0.9	5.1	1.5	–	0.1	1.6

Included within additions are the tangible assets acquired through business combinations, as set out in note 30.

14. Investment property

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Balance at 1 January 2019 and 31 December 2019	0.8	0.8	0.8	0.8
Balance at 31 December 2020	0.8	0.8	0.8	0.8

Investment property is shown at cost. The fair value of the investment property at 31 December 2020 is £1.1m (2019: £1.0m) and has been arrived at on the basis of a valuation carried out by independent valuers, Wilks Head & Eve LLP. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

15. Investments

Cost of shares in subsidiaries

	2020 £m	2019 £m
Balance at 1 January	63.8	47.4
Acquisition of investment	–	16.4
Balance at 31 December	63.8	63.8

The Company's subsidiary undertakings are shown in note 33.

Acquisition of investment

On 1 May 2019, the Company acquired the entire issued share capital of Lambert Automation Limited, further details of which are set out in the acquisition note 30.

Impairment review of investments

Annual impairment reviews of investments in subsidiaries are undertaken and are determined from value in use calculations for each entity using cash flow projections based on the latest five-year plan approved by the Board. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes to selling prices and direct costs during the period and are consistent with external sources of information and the Board's view of long term growth. Cash flows beyond the period of the projections are extrapolated at growth rates which do not exceed those used in the five-year plan. The discount rates used vary by country between 8% and 11%, predominantly due to differences in the local tax position and risk free interest rates. No growth is forecast beyond the five-year forecast period.

There has been no impairment of investments in subsidiaries in the year. Management considers that reasonable possible changes in the assumptions would be an increase in the weighted average cost of capital of 1.0%, a reduction in the sales of the subsidiaries of 5% and a 5% reduction in their operating profit. None of these changes in assumptions, either individually or combined, would have resulted in an impairment of investments in subsidiaries in the year.

16. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Employee benefits	–	–	(4.9)	(7.2)	(4.9)	(7.2)
Tax losses	1.8	1.7	–	–	1.8	1.7
Acquired intangible assets	–	–	(1.9)	(1.6)	(1.9)	(1.6)
Deferred tax assets/(liabilities)	1.8	1.7	(6.8)	(8.8)	(5.0)	(7.1)
Net deferred tax assets/(liabilities)	1.8	1.7	(6.8)	(8.8)	(5.0)	(7.1)

Company	Assets		Liabilities		Net	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Employee benefits	–	–	(4.9)	(7.2)	(4.9)	(7.2)
Deferred tax liabilities	–	–	(4.9)	(7.2)	(4.9)	(7.2)
Net deferred tax liabilities	–	–	(4.9)	(7.2)	(4.9)	(7.2)

Deferred tax is measured at the rates that are expected to apply in the period when the temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and associates. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

16. Deferred tax assets and liabilities continued**Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of temporary differences arising in certain subsidiary companies.

These assets are only recognised to the extent that it is probable that taxable profits will be available against which the deferred tax asset can be utilised. At the year end, the Group had £5.3m of unrecognised deferred tax assets (2019: £5.8m) which would become recoverable if the relevant companies were to make sufficient profits in the future. Under current tax legislation, these tax assets expire as follows:

	Group	
	2020 £m	2019 £m
Expiry		
10 to 20 years	0.6	1.5
No expiry date	4.7	4.3
	5.3	5.8

Movement in temporary differences during the year

Group	Balance at 1 January 2020 £m	Recognised in profit or loss £m	Investment tax credits utilised	Recognised in other comprehensive income/(expense) £m	Recorded on acquisition £m	Balance at 31 December 2020 £m
Employee benefits	(7.2)	0.1	–	2.2	–	(4.9)
Corporation tax losses	0.4	0.7	–	–	–	1.1
Investment tax credits	1.3	–	(0.6)	–	–	0.7
Acquired intangible assets	(1.6)	0.2	–	–	(0.5)	(1.9)
	(7.1)	1.0	(0.6)	2.2	(0.5)	(5.0)

The brought forward tax losses balance at 1 January 2020 has been disaggregated between tax losses and investment tax credits.

Group	Balance at 1 January 2019 £m	Recognised in profit or loss £m	Recognised in other comprehensive income/(expense) £m	Recorded on acquisition £m	Balance at 31 December 2019 £m
Employee benefits	(7.3)	–	0.1	–	(7.2)
Tax losses	1.7	–	–	–	1.7
Acquired intangible assets	–	0.2	–	(1.8)	(1.6)
	(5.6)	0.2	0.1	(1.8)	(7.1)

Company	Balance at 1 January 2020 £m	Recognised in profit or loss £m	Recognised in other comprehensive income/(expense) £m	Balance at 31 December 2020 £m
Employee benefits	(7.2)	0.1	2.2	(4.9)
	(7.2)	0.1	2.2	(4.9)

Company	Balance at 1 January 2019 £m	Recognised in profit or loss £m	Recognised in other comprehensive income/(expense) £m	Balance at 31 December 2019 £m
Employee benefits	(7.3)	–	0.1	(7.2)
	(7.3)	–	0.1	(7.2)

17. Inventories

	Group		Company	
	2020 £m	2019 - Restated £m	2020 £m	2019 £m
Work in progress	0.9	1.1	–	–
Finished goods	2.6	2.1	–	–
	3.5	3.2	–	–

An amount of £0.1m (2019: £nil) has been charged in the year in respect of inventory write-downs.

18. Contract assets & liabilities; contract fulfilment assets

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers traded over time.

	Group		Company	
	2020 £m	2019 - Restated £m	2020 £m	2019 £m
Receivables, which are included in 'Trade and other receivables'	6.8	7.9	–	–
Contract assets	8.5	6.4	–	–
Contract liabilities	(18.2)	(11.7)	–	–

	Group		Company	
	Contract Assets	Contract Liabilities	Contract Assets	Contract Liabilities
Revenue recognised which is included in the contract liability balance at the beginning of the period	–	11.7	–	–
Increases due to cash received, excluding amounts recognised as revenue during the period	–	(18.2)	–	–
Transfers from contract assets recognised at the beginning of the period to receivables	(6.4)	–	–	–
Increases as a result of changes recognised in the measure of progress	8.5	–	–	–

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

The Group applies the practical expedient in paragraph 94 of IFRS 15 and recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the asset that the Group otherwise would have recognised is one year or less.

The Group's contracts with customers are predominantly for one year or less, accordingly the Group applies the practical expedient in paragraph 63 of IFRS 15 and does not adjust the promised amount of consideration for the effects of any financing component.

Contract fulfilment assets

These assets are recognised under paragraph 95 of IFRS 15 in respect of expenditure incurred which will satisfy future performance obligations. These were previously included in work-in-progress.

	Group		Company	
	2020 £m	2019 - Restated £m	2020 £m	2019 £m
Contract fulfilment assets	1.0	1.2	–	–

19. Trade and other receivables

	Group		Company	
	2020 £m	2019 - restated £m	2020 £m	2019 £m
Current assets:				
Contract assets and contract fulfilment assets - see note 18	9.5	7.6	–	–
Trade receivables	13.4	16.0	–	–
Amounts owed by Group undertakings	–	–	3.2	2.2
Other receivables	0.9	0.4	0.1	0.2
Prepayments and accrued income	7.8	3.7	0.6	0.4
Foreign currency derivatives	0.6	0.3	0.7	0.4
	32.2	28.0	4.6	3.2

20. Interest-bearing loans and borrowings

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Non-current liabilities:				
Repayable in more than five years	0.9	0.9	0.9	0.9
	0.9	0.9	0.9	0.9

Preference shares

The preference shares carry a fixed cumulative preferential dividend at the rate of 6% per annum and on the winding-up of the Company entitle the holders to repayment of the capital paid up thereon (together with a sum equal to any arrears or deficiency of the fixed dividend calculated to the date of the return of capital and to be payable irrespective of whether such dividend has been declared or earned or not) in priority to any payment to the holders of the ordinary shares. The preference shares do not entitle the holders to any further participation in the profits or assets of the Company.

The preference shareholders are not entitled to receive notice of or to attend or vote at any general meeting unless either:

- › at the date of the notice convening the meeting, the dividend on the preference shares is six months in arrears (for this purpose the dividend on the preference shares is deemed to be payable half-yearly on 30 June and 31 December); or
- › the business of the meeting includes the consideration of a resolution for the winding-up of the Company, or for reducing its share capital or for sanctioning a sale of the undertaking, or any resolution directly and adversely affecting any of the special rights or privileges attached to the preference shares.

There were no arrears in the payment of preference dividends at the statement of financial position date. Preference dividends paid amounted to £0.1m (2019: £0.1m).

21. Reconciliation of net cash flow to movement in net funds

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Net decrease in cash and cash equivalents	(3.2)	(8.8)	(5.5)	(8.5)
Change in net funds resulting from cash flows	(3.2)	(8.8)	(5.5)	(8.5)
Translation movements	(0.2)	(0.2)	–	–
Movement in net funds in the period	(3.4)	(9.0)	(5.5)	(8.5)
Opening net funds	13.2	27.0	8.0	17.4
Movement in lease liabilities under IFRS 16	0.6	(4.8)	–	–
Closing net funds	10.4	13.2	2.5	8.9
Analysis of net funds:				
Cash and cash equivalents – current assets	15.5	18.9	3.4	8.9
Interest-bearing loans and borrowings – non-current liabilities	(0.9)	(0.9)	(0.9)	(0.9)
Lease liabilities	(4.2)	(4.8)	–	–
Closing net funds	10.4	13.2	2.5	8.0

22. Trade and other payables

	Group		Company	
	2020 £m	2019 - Restated £m	2020 £m	2019 £m
Current liabilities:				
Contract liabilities - see note 18	18.2	11.7	–	–
Trade payables	13.1	11.5	0.5	0.2
Amounts owed to Group undertakings	–	–	34.3	22.9
Other taxes and social security	0.8	0.6	–	–
Other payables	3.3	2.4	0.4	0.3
Accruals and deferred income	5.6	4.7	2.2	2.5
Foreign currency derivatives	0.1	–	0.7	–
	41.1	30.9	38.1	25.9

23. Provisions

Group	2020 £m	2019 £m
Balance at 1 January	1.3	1.0
Provisions created in the year	1.2	0.8
Utilised during the year	(0.6)	(0.3)
Unused amounts reversed	(0.5)	(0.2)
Balance at 31 December	1.4	1.3

Company	2020 £m	2019 £m
Balance at 1 January	–	0.2
Provisions created in the year	0.1	0.1
Utilised during the year	(0.1)	(0.1)
Disposed (note 31)	–	(0.2)
Balance at 31 December	–	–

Provisions are based on historical data and a weighting of all possible outcomes against their associated possibilities. Group provisions relate primarily to product warranties. Except for specific identifiable claims, they are generally utilised within one year of the statement of financial position date.

24. Employee benefits**Defined contribution pension schemes**

The Group operates a number of defined contribution pension schemes for employees. Contributions to these schemes are recognised as an expense in the consolidated income statement as they fall due.

Defined benefit pension schemes

The Group is responsible for defined benefit pension schemes in the UK and the USA. All schemes are funded by Group companies as necessary, at rates determined by independent actuaries and as agreed between the trustees of the schemes and the sponsoring company.

The defined benefit pension schemes are administered by bodies that are legally separate from the Group. The trustees of the schemes are required by law to act in the interest of the schemes and of all relevant stakeholders in the schemes. The trustees of the schemes are responsible for the investment policies in respect of the assets of the schemes.

The pension schemes typically expose the Group to certain risks. These include the risk of investment under-performance, a fall in interest rates, an increase in life expectancy and an increase in inflation.

UK pension scheme

The Group operated one defined benefit pension scheme in the UK in which future accruals ceased in November 2012. The assets of the scheme are held separately from those of the Company and it is funded by the Company as necessary in order to ensure that the scheme can meet the expected benefit obligations. The funding policy is to ensure that the assets held by the scheme in the future are adequate to meet expected liabilities, allowing for future increases in pensions. The only assets of the scheme which are invested in the Company are an interest in the cumulative preference shares of the Company with an estimated current market value of £0.2m.

The most recent formal actuarial valuation of the scheme was carried out as at 30 June 2018 using the projected unit credit method. The market value of the scheme assets at that date was £411.3m and the funding level was 92% of liabilities, which represented a deficit of £35.2m. The principal terms of the deficit funding agreement between the Company and the Fund's Trustees, which is effective until 31 July 2024, but, is subject to reassessment every three years are as follows:

- › the Company will continue to pay a sum of £1.9m per annum to the scheme (increasing at 2.1 per cent. per annum) in deficit recovery payments;
- › if underlying operating profit (operating profit before non-underlying items) in any year is in excess of £5.5m, the Company will pay to the scheme an amount of 33% of the difference between the annual underlying operating profit and £5.5m, subject to a cap on underlying operating profit of £10.0m for the purpose of calculating this payment; this part of the agreement will fall away in 2021 if the funding deficit is below certain levels; and
- › payments of dividends by Mpac Group plc will not exceed the value of payments being made to the scheme in any one year.

24. Employee benefits continued

The deficit recovery period from 30 June 2018 was estimated to be six years and one month, which is scheduled to be formally reassessed following the completion of the actuarial valuation being carried out as at 30 June 2021.

During the year, the Company paid deficit recovery contributions of £1.9m (2019: £1.9m). A contribution of £0.8m (2019:£nil), in accordance with the profit sharing arrangement in the schedule of contributions, was also paid. In 2019 £0.1m was paid following the receipt of proceeds from the disposal of the I&TM business, being 10% of net proceeds.

The Company accounts for pension costs under IAS 19 Employee benefits and the valuation used has been based on detailed actuarial valuation work carried out as at 30 June 2018, updated by the Company's actuary to assess the value of the liabilities of the scheme at 31 December 2020. Scheme assets are stated at their market value at 31 December 2020.

USA pension schemes

In the USA, the Group has three defined benefit pension schemes, all of which are closed to future accrual. Formal independent actuarial valuations of the USA pension schemes were carried out as at 1 January 2020 using the projected unit credit method. The valuations under IAS 19 at 31 December 2020 have been based on these actuarial valuations, updated for conditions existing at the year end.

Employer contributions of £0.3m (2019: £0.9m, including £0.6m as a result of the disposal in 2015 of the assets of Arista Laboratories and in 2017 the assets of the I&TM business,) were paid during the year.

Assumptions

The key financial assumptions used to calculate scheme liabilities and the financing expense on pension scheme balances are as follows:

	UK (Company)		USA	
	2020	2019	2020	2019
Discount rate	1.4%	1.9%	2.1%	3.0%
Inflation rate				
– CPI	2.4%	2.2%	n/a	n/a
– RPI	2.9%	3.0%	n/a	n/a
Increases to pensions in payment				
– final salary benefits	2.4%	2.2%	n/a	n/a
– career average benefits	2.0%	1.9%	n/a	n/a

The assumptions relating to longevity underlying the pension liabilities of the defined benefit pension schemes at the statement of financial position date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting an individual to live for a number of years as follows:

	UK scheme	USA schemes
Current pensioner aged 65 – male	21.3 years	20.4 years
Current pensioner aged 65 – female	23.6 years	22.3 years
Future retirees currently aged 45 upon reaching age 65 – male	22.6 years	20.5 years
Future retirees currently aged 45 upon reaching age 65 – female	25.1 years	22.8 years

At 31 December 2020, the weighted average duration of the defined benefit obligation in the UK scheme was 15 years (2019: 15 years) and in the USA schemes was 10 years (2019: 10 years).

Significant actuarial assumptions for the determination of the defined benefit obligations are discount rate, inflation rate and mortality. The sensitivity analysis below has been determined assuming that all other assumptions are held constant.

Changes in values of pension schemes' liabilities before tax as at 31 December 2020

	UK scheme	USA schemes
0.1% change in discount rate	£6.4m	£0.1m
0.1% change in inflation rate	£3.0m	n/a
Change in life expectancy by one year on average	£19.6m	£0.5m

24. Employee benefits continued

Categories of assets and funded status

The fair values of scheme assets were as follows:

	UK (Company)		USA		Group	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
UK equities	1.3	1.5	–	–	1.3	1.5
Overseas equities	47.4	74.6	3.1	3.9	50.5	78.5
Bonds – index linked gilts	136.8	90.1	–	–	136.8	90.1
Bonds – other	64.2	64.5	6.4	5.9	70.6	70.4
Properties – funds	35.5	40.0	0.6	0.6	36.1	40.6
Properties – directly owned	2.2	2.2	–	–	2.2	2.2
Absolute return funds	120.4	116.6	–	–	120.4	116.6
Other	33.1	34.1	–	–	33.1	34.1
Total fair (bid) value of scheme assets	440.9	423.6	10.1	10.4	451.0	434.0
Present value of defined benefit obligations	426.9	(403.2)	13.1	(13.5)	440.0	(416.7)
Defined benefit asset/(liability)	14.0	20.4	(3.0)	(3.1)	11.0	17.3

All equities, bonds, property funds and absolute return funds have quoted prices in active markets. Directly owned properties are subject to an independent valuation.

Disclosed defined benefit pension income/expense for financial year

A) Components of defined benefit pension income/expense

Net defined benefit pension expense recognised in the consolidated income statement comprises:

	UK (Company)		USA		Group	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Past service costs/(gains)	0.2	–	–	(1.1)	0.2	(1.1)
Interest expense/(income)	(0.4)	(0.6)	0.1	0.2	(0.3)	(0.4)
Administration costs	0.8	0.9	0.1	0.3	0.9	1.2
(Income)/expense recognised in income statement	0.6	0.3	0.2	(0.6)	0.8	(0.3)

Past service costs of £0.2m have been recognised in respect of the November 2020 ruling in relation to GMP equalisation.

The Group and the US pension scheme undertook an exercise during 2019 to provide a number of options to the members of the US pension scheme. This resulted in a past service gain on settlement of £1.1m.

B) Statements of comprehensive income ("SOCl")

The actuarial losses recognised in the SOCl in respect of pensions were £8.8m (2019: losses of £0.3m), comprising actuarial losses of £8.5m (2019: losses of £1.8m) for the UK defined benefit pension scheme and actuarial losses of £0.3m (2019: gains of £1.5m) for the USA schemes, all figures before tax.

Actual return on scheme assets

The actual return on scheme assets were gains of £36.4m (2019: £47.2m), comprising gains of £35.4m (2019: £43.9m) for the UK defined benefit pension scheme and gains of £1.0m (2019: gains of £3.3m) for the USA schemes, all figures before tax.

24. Employee benefits continued

Reconciliation of the present value of defined benefit obligations

	UK (Company)		USA		Group	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Present value of defined benefit obligations at 1 January	403.2	377.7	13.5	22.5	416.7	400.2
Past service cost/(gains)	0.2	–	–	(1.1)	0.2	(1.1)
Interest cost	7.5	9.9	0.4	0.9	7.9	10.8
Actuarial losses/(gains)						
– changes in demographic assumptions	0.9	(5.4)	–	–	0.9	(5.4)
– changes in financial assumptions	38.5	46.4	0.9	1.0	39.4	47.4
– experience	(3.4)	(5.8)	–	–	(3.4)	(5.8)
Benefit payments	(20.0)	(19.6)	(1.2)	(9.1)	(21.2)	(28.7)
Retranslation	–	–	(0.5)	(0.7)	(0.5)	(0.7)
Present value of defined benefit obligations at 31 December	426.9	403.2	13.1	13.5	440.0	416.7

At 31 December 2020, the pensioner population accounted for 54% (2019: 57%) of the UK scheme's obligations and 87% (2019: 88%) of the USA schemes' obligations.

Reconciliation of the fair value of scheme assets

	UK (Company)		USA		Group	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Fair value of scheme assets at 1 January	423.6	398.2	10.4	16.3	434.0	414.5
Interest income	7.9	10.5	0.3	0.6	8.2	11.1
Actuarial gains/(losses)						
– return on scheme assets	27.5	33.4	0.7	2.5	28.2	35.9
Company contributions	2.7	2.0	0.3	0.9	3.0	2.9
Administration expenses	(0.8)	(0.9)	(0.1)	(0.3)	(0.9)	(1.2)
Benefit payments	(20.0)	(19.6)	(1.2)	(9.1)	(21.2)	(28.7)
Retranslation	0.0	–	(0.3)	(0.5)	(0.3)	(0.5)
Fair value of scheme assets at 31 December	440.9	423.6	10.1	10.4	451.0	434.0

24. Employee benefits continued
Experience gains and losses for the year

	UK (Company)		USA		Group	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Fair value of scheme assets	440.9	423.6	10.1	10.4	451.0	434.0
Defined benefit obligations	(426.9)	(403.2)	(13.1)	(13.5)	440.0	(416.7)
Net asset/(liability)	14.0	20.4	(3.0)	(3.1)	11.0	17.3
Actuarial gains/(losses) on scheme assets	275	33.4	0.7	2.5	28.2	35.9
Actuarial (losses)/gains on defined benefit obligations	(36.0)	(35.2)	(1.0)	(1.0)	(37.0)	(36.2)
Net gain/(loss) recognised in the SOCI during the year	(8.5)	(1.8)	(0.3)	1.5	(8.8)	(0.3)

Movements in the net liability/asset of defined benefit pension schemes recognised in the Statements of financial position

	UK (Company)		USA		Group	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Net asset/(liability) for employee benefits at 1 January	20.4	20.5	(3.1)	(6.2)	17.3	14.3
Expense recognised in the income statement (see below)	(0.6)	(0.3)	(0.2)	0.5	(0.8)	0.2
Company contributions	2.7	2.0	0.3	0.9	3.0	2.9
Actuarial (losses)/gains recognised in the SOCI	(8.5)	(1.8)	(0.3)	1.5	(8.8)	(0.3)
Retranslation	0.0	–	0.3	0.2	0.3	0.2
Net asset/(liability) for employee benefits at 31 December	14.0	20.4	(3.0)	(3.1)	11.0	17.3

At the end of the life of the UK defined benefit pension scheme the Company has an unconditional right to a refund and any such refund would be paid out only on a net of tax basis.

Defined benefit pension schemes income/expense recognised in the consolidated income statement

The income/expense is recognised in the following line items in the consolidated income statement:

	UK (Company)		USA		Group	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Administrative expenses	1.0	0.9	0.1	(0.8)	1.1	0.1
Financial expense/(income)	(0.4)	(0.6)	0.1	0.2	(0.3)	(0.4)
Net pension expense/(income)	0.6	0.3	0.2	(0.6)	0.8	(0.3)

The net pension expense/(income) is included in non-underlying items.

24. Employee benefits continued

Share-based payments

The Company currently operates a deferred share plan. Own shares are held in trust and granted to plan participants when certain conditions are met. Further details of the Deferred share plan, including the performance conditions and vesting periods, are in the Remuneration and Nomination Committee report on page 31 and in this note.

The share awards that were subject to conditional grants during the year were:

	At 1 January 2020	Granted	Lapsed	Exercised	At 31 December 2020
8 June 2017	113,800	–	–	(113,800)	–
13 March 2018	75,250	–	(1,816)	–	73,434
1 May 2019	68,816	–	–	–	68,816
	257,866	–	(1,816)	(113,800)	142,250

Granting of all conditional awards and the exercise of such awards are at nil cost to the participant. The share-based compensation charge for the year amounted to £0.1m (2019: £0.1m).

The fair value of the conditional awards made under the Deferred share plan has been based on the market price of the Company's shares at the date of grant, reduced by the assumptions made (for the purposes of this exercise) in respect of the present value of dividends expected to be paid (at the time of grant) during the vesting period. The fair value of each conditional award is as follows:

Date of award	Fair value per share
8 June 2017	74.0p
13 March 2018	178.9p
1 May 2019	134.7p

The company also introduced a Long Term incentive plan ("LTIP") for certain members of its senior management during 2019. The key terms of this are set out in the Remuneration Committee report on page 32 and were unchanged throughout the year. No additional incentives were issued in 2020.

The total number of shares conditionally granted under the LTIP was 555,000, at a market value of £1.66 per share, at the date of grant on 13 June 2019 and remained outstanding at the year end. The awards are expected to vest in full, as current and anticipated future performance is in excess of the upper targets set by the scheme. An expense of £0.3m has been recognised during the year (2019: £0.3m) within administration costs. No shares were forfeited, exercised, expired or exercisable during the period.

25. Capital and reserves

Share capital

	2020 £m	2019 £m
Allotted, called up and fully paid		
Ordinary shares of 25p each	5.0	5.0

There were 20,171,540 (2019: 20,171,540) ordinary shares in issue at the year end. The holders of the ordinary shares are entitled to one vote per share at meetings of the Company and to receive dividends as declared from time to time. At the year end, an employee trust held 277,402 of the ordinary shares and it has agreed to waive all dividends and not to exercise voting rights in respect of these shares. The Company also has in issue 900,000 6% fixed cumulative preference shares of £1 each (see note 20); these are classified as borrowings.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Capital redemption reserve

The capital redemption reserve records the historical repurchase of the Company's own shares.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Investment in own shares

Included within retained earnings is the carrying value of own shares held in trust for the benefit of employees. These shares are used to service the obligations of the Company's Deferred share plan. Further details of the Deferred share plan can be found in the Remuneration and Nomination Committee report on page 31 and on page 82 in note 24.

At 31 December 2020, the employee trust held 277,402 (2019: 337,716) ordinary shares of 25p each, representing 1.4% of the issued shares (2019: 1.7%), 142,250 of which were subject to conditional grants. The shares held by the trust were purchased at an aggregate cost of £0.4m (2019: £0.4m). The trust purchased 53,486 additional shares in the year at a cost of £0.2m (2019: £0.1m).

Included within retained earnings is the charge of £0.4m (2019: £0.3m) in respect of the LTIP, as disclosed in the Remuneration report on page 32.

The market value of the shares held by the trust at 31 December 2020 was £1.2m (2019: £0.7m).

Dividends

	2020 £m	2019 £m
Dividends to shareholders paid in the period:	–	–

Having considered the trading results for 2020 and the opportunities for investment in the growth of the Group, together with the continued uncertainty surrounding the impact of the pandemic, the Board has decided that it is not appropriate to pay a final dividend. No interim dividend was paid in 2020. Future dividend payments will be considered by the Board in the context of 2021 trading performance and when the Board believes it is prudent to do so.

26. Financial risk management

The Group has exposure to credit, liquidity and market risks from its use of financial instruments.

These risks are regularly considered and the impact of these risks on the Group, and how to mitigate them, assessed. The Board of Directors is responsible for the Group's system of internal controls and has established risk management policies to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Audit Committee assists the Board in the discharge of its duty in relation to the maintenance of proper internal controls. Further details regarding the Audit Committee can be found in its report on pages 28 to 29.

Categories of financial instruments

	Group		Company	
	2020 £m	2019 - Restated £m	2020 £m	2019 £m
Financial assets:				
Derivative instruments in designated hedge accounting relationships	0.6	0.3	–	–
Derivative instruments measured at fair value through income statement	–	–	0.7	0.4
Financial assets measured at amortised cost	29.8	35.3	17.7	9.6
	30.4	35.6	18.4	10.0
Financial liabilities:				
Derivative instruments in designated hedge accounting relationships	0.1	–	0.7	–
Fair value through income statement	3.5	2.6	2.4	2.6
Amortised cost	22.9	19.5	38.3	26.4
	26.5	22.1	41.4	29.0

Amortised cost comprises interest-bearing loans and borrowings and trade and other payables, excluding foreign currency derivatives.

IFRS 7 *Financial instruments*: disclosures for financial instruments that are measured in the Statements of financial position at fair value requires disclosure of fair value measurements in the form of a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices 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); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 1 January 2020 and 31 December 2020, the Group held all financial instruments at Level 2, apart from the contingent consideration, details of which are set out in Note 30.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and cash held at financial institutions. In addition, for the Company, a credit risk exists in respect of amounts owed by Group undertakings.

Trade receivables and contract assets

The Group ensures that the provision of credit to customers is adequately managed by each individual business in order that the risk of non-payment or delayed payment is minimised. The Group's exposure to risk is influenced mainly by the individual characteristics of each customer, the industry and country in which customers operate. The Group has a diversified base of customers. In certain years, sales to a customer may be more than 5%, although the sales would typically be both original equipment and service, and to a number of different geographic regions.

The Group has written credit control policies which cover procedures for accepting new customers, setting credit limits, dealing with overdue amounts and delinquent payers.

An impairment loss provision against trade receivables is created where it is anticipated that the value of trade receivables is not fully recoverable. No impairments due to credit losses on contract assets have ever been experienced and none are predicted.

26. Financial risk management continued**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk for the Group and the Company at 31 December was:

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Trade receivables	13.4	16.1	–	–
Amounts owed by Group undertakings	–	–	14.2	0.5
Other receivables	0.9	0.4	0.1	0.2
Foreign currency derivatives	0.6	0.3	0.7	0.4
Cash and cash equivalents	15.5	18.9	3.4	8.9
	30.4	35.7	18.4	10.0

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. In measuring the expected credit losses, the trade receivables have been assessed on an individual basis as the risk depends upon the circumstances of the receivable, including the financial strength of the counterparty and the terms of the contract. They have been grouped based on the days past due.

Trade receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery. Failure to make payments within 180 days from the invoice date and failure to engage with the Group on alternative payment arrangements, amongst others, are considered indicators of no reasonable expectation of recovery.

Impairment loss provisions

The ageing of trade receivables and the impairment loss provisions for the Group at 31 December were:

Group	2020			2019		
	Gross £m	Impairment loss provisions £m	Total £m	Gross £m	Impairment loss provisions £m	Total £m
Not past due	7.4	–	7.4	11.8	–	11.8
Past due up to 30 days	3.7	–	3.7	2.0	–	2.0
Past due 31–60 days	1.2	–	1.2	0.3	–	0.3
Past due 61–90 days	0.6	–	0.6	1.6	–	1.6
Past due more than 91 days	0.5	–	0.5	0.3	–	0.3
	13.4	–	13.4	16.0	–	16.0

26. Financial risk management continued

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to hold cash and cash equivalents and maintain undrawn committed facilities at a level sufficient to ensure that the Group has available funds to meet its liabilities as they become due. Further details of the Group's treasury policies can be found in the Financial review on pages 15 to 17.

Contractual maturities of non-derivative financial liabilities

The non-derivative financial liabilities for the Group and the Company at 31 December were:

	Group		Company	
	2020 £m	2019 - Restated £m	2020 £m	2019 £m
Current liabilities:				
Trade and other payables (excluding derivatives)	22.0	18.5	37.4	25.5
Non-current liabilities:				
Interest-bearing loans and borrowings	0.9	0.9	0.9	0.9

The maturities of the interest-bearing loans and borrowings are disclosed in note 20.

Trade and other payables shown as current liabilities are expected to mature within six months of the statement of financial position date.

The contractual maturities of forward foreign exchange contracts that the Group and Company had committed at 31 December are shown in the Foreign currency risk section in this note.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments. Exposure to interest rate and currency risks arises in the normal course of the Group's business. The Group does not trade in financial instruments and enters into derivatives (principally forward foreign exchange contracts) solely for the purpose of minimising currency exposure on sales or purchases in other than the functional currencies of its various operations.

The Group's treasury policies are explained in the Financial review on pages 15 to 17.

26. Financial risk management continued

Interest rate risk

Cash and cash equivalents

The cash profile at 31 December was:

Group	2020			2019		
	Cash at floating rates £m	Cash on which no interest received £m	Total £m	Cash at floating rates £m	Cash on which no interest received £m	Total £m
Currency:						
Sterling	5.4	–	5.4	11.2	–	11.2
Canadian dollar	3.2	–	3.2	2.4	–	2.4
US dollar	4.1	–	4.1	1.0	–	1.0
Euro	2.8	–	2.8	4.3	–	4.3
	15.5	–	15.5	18.9	–	18.9

Company	2020			2019		
	Cash at floating rates £m	Cash on which no interest received £m	Total £m	Cash at floating rates £m	Cash on which no interest received £m	Total £m
Currency:						
Sterling	3.2	–	3.2	8.6	–	8.6
Canadian dollar	0.2	–	0.2	0.1	–	0.1
US dollar	–	–	–	0.1	–	0.1
Euro	–	–	–	0.1	–	0.1
	3.4	–	3.4	8.9	–	8.9

All cash surplus to immediate operational requirements is placed on deposit at floating rates of interest.

Interest-bearing loans and borrowings

The profile of interest-bearing loans and borrowings at 31 December was:

Group and Company	2020			2019		
	Borrowings at floating rates £m	Borrowings at fixed rates £m	Total £m	Borrowings at floating rates £m	Borrowings at fixed rates £m	Total £m
Currency:						
Sterling	–	0.9	0.9	–	0.9	0.9
	–	0.9	0.9	–	0.9	0.9

The borrowings at fixed rates in sterling are the fixed cumulative preference shares which are explained in more detail in note 20.

Sensitivity to interest rate risk

If interest rates had been 100 basis points higher/lower throughout the period, net financial income (excluding on pension scheme balances) for the Group would have increased/decreased by £0.1m (2019: £0.1m). This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates. The analysis is performed on the same basis as for the year ended 31 December 2019.

26. Financial risk management continued

Foreign currency risk

The majority of the Group's operations are outside of the UK, and therefore a significant portion of its business is conducted overseas in currencies other than sterling. As explained on page 19, foreign currency risk is one of the principal risks and uncertainties to which the Group is exposed. The Group is exposed to both transaction and translation risk.

Transactions in foreign currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

The revenues and expenses of foreign operations are translated at an average rate for the period.

The assets and liabilities of foreign operations are translated at foreign exchange rates ruling at the statement of financial position date and foreign exchange differences are taken directly to the translation reserve.

The following exchange rates (relative to sterling), which are significant to the Group, applied during the period:

	Average rate		Closing rate	
	2020	2019	2020	2019
US dollar	1.29	1.28	1.37	1.32
Canadian dollar	1.72	1.69	1.74	1.72
Euro	1.13	1.14	1.12	1.18

Forward foreign exchange contracts

The Group enters into forward foreign exchange contracts solely for the purpose of minimising currency exposures on sale and purchase transactions. The Group classifies its forward foreign exchange contracts used for hedging as cash flow hedges and states them at fair value.

Fair values

The fair value of forward foreign exchange contracts at 31 December was:

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Cash flow hedges				
Gain	0.8	0.3	–	–
Loss	–	–	–	–
	0.8	0.3	–	–

The fair value is the gain/loss on all open forward foreign exchange contracts at the period end. These amounts are based on the market values of equivalent instruments at the period end date and all relate to those forward foreign exchange contracts that have been designated as effective cash flow hedges under IFRS 9 Financial instruments: recognition and measurement.

There were no open forward foreign exchange contracts, as at either 31 December 2020 or 2019, that had been designated as fair value hedges under IFRS 9 Financial instruments: recognition and measurement.

During the period, a credit of £0.5m for the Group (2019: £1.1m credit) and £nil for the Company (2019: £0.1m credit) was recognised in the statements of comprehensive income in respect of cash flow hedges.

26. Financial risk management continued

Contractual maturity date and future cash flows

The contractual maturity date and period when cash flows are expected to occur in relation to open forward foreign exchange contracts at 31 December were:

Group	2020				2019			
	Less than 6 months £m	Between 6 and 12 months £m	Between 12 and 24 months £m	Total £m	Less than 6 months £m	Between 6 and 12 months £m	Between 12 and 24 months £m	Total £m
Outflow	(5.6)	(1.6)	–	(7.2)	(1.9)	(0.5)	–	(2.4)
Inflow	13.5	5.4	–	18.9	11.4	3.6	0.3	15.3
	7.9	3.8	–	11.7	9.5	3.1	0.3	12.9

Company	2020				2019			
	Less than 6 months £m	Between 6 and 12 months £m	Between 12 and 24 months £m	Total £m	Less than 6 months £m	Between 6 and 12 months £m	Between 12 and 24 months £m	Total £m
Outflow	–	–	–	–	–	–	–	–
Inflow	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–

The following movements in the cash flow hedge reserve relate to the hedges relating to cash flows from foreign currency trade receivables.

Group	2020 £m
Opening balance 1 January 2020	0.3
Change in fair value of hedging instrument recognised in other comprehensive income ("OCI")	0.8
Reclassified from OCI to profit or loss	(0.3)
Closing balance at 31 December 2020	0.8

No ineffectiveness arose during 2020. The hedging instrument refers to the forward contracts in their entirety, with hedging on a forward to forward basis.

The effect of hedge accounting on the Group's financial position and performance is as follows, including the outline timing and profile of the hedging instruments:

Group	2020
Carrying amount	GBP£0.6m
Notional amount	
US dollar to Canadian dollar	CA\$32.9m
Canadian dollar to euro	€7.3m
GBP to euro	€0.4m
Hedge ratio	1:1
Average forward rates	
US dollar to Canadian dollar	1US\$:1.3235CA\$
Canadian dollar to euro	1CA\$:0.641€
Change in the fair value of the currency forward (excluding amounts reclassified)	£0.8m
Change in the fair value of the hedged item used to determine hedge effectiveness	£0.8m
Amounts in the cash flow hedge reserve	£0.8m

No other currency pairs at 31 December 2020 or during the year had a material value to the Group.

26. Financial risk management continued

Currency profile

The currency profiles at 31 December of cash and cash equivalents and interest-bearing loans and borrowings are shown within the interest rate risk section in this note.

The main functional currency of the Group is sterling. The following analysis of financial assets and liabilities (excluding net funds/debt) shows the Group and Company exposure after the effects of forward foreign exchange contracts used to manage currency exposure.

The amounts shown represent the transactional exposures that give rise to net currency gains and losses which are recognised in the consolidated income statement. Such exposures represent the financial assets and liabilities of the Group and the Company that are not denominated in the functional currency of the business involved.

Group	2020			2019		
	US dollar £m	Euro £m	Total £m	US dollar £m	Euro £m	Total £m
Functional currency:						
Sterling	0.1	0.1	0.2	–	0.2	0.2
Canadian dollar	2.0	–	2.0	2.5	0.6	3.1
Euro	0.1	–	0.1	0.3	–	0.3
	2.2	0.1	2.3	2.8	0.8	3.6

Company	2020			2019		
	US dollar £m	Euro £m	Total £m	US dollar £m	Euro £m	Total £m
Functional currency:						
Sterling	11.0	–	11.0	–	–	–

Sensitivity to foreign currency risk

Average exchange rates are used to translate the profits of foreign operations in the consolidated income statement. If sterling had been 10% stronger against all foreign currencies during the year, the effect of this on the average exchange rates used to translate profits would have decreased Group profit for the year by £0.4m (2019: £0.4m). If sterling had been 10% weaker against all foreign currencies during the year, the effect of this on the average exchange rates used to translate profits would have increased Group profit for the year by £0.5m (2019: £0.5m).

If sterling had been 10% stronger against all foreign currencies at 31 December 2020, Group equity would have increased by £1.1m (2019: £0.2m increase). Conversely, if sterling had been 10% weaker against all foreign currencies at 31 December 20, Group equity would have decreased by £1.3m (2019: £0.2m decrease). This analysis assumes that all other variables remain constant.

Fair values

The fair value of borrowings at fixed rates for both the Group and the Company at 31 December 2020 is £0.8m (2019: £0.8m) and has been calculated by discounting the expected future cash flows at prevailing interest rates.

There are no other significant differences between book and fair values for any of the other financial assets or liabilities included in either the Group or Company statement of financial position.

Capital management

Capital comprises total equity as shown in the statements of financial position. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Group manages its capital structure and makes adjustments to it in light of the economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital through measures of earnings per share (see note 11), return on capital employed (profit for the period divided by average equity) and tangible net worth (total equity before intangible assets and employee benefits, net of tax). There were no changes to the Group's approach to capital management during the year and neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

27. Leases

The right-of-use assets held at the balance sheet date relates to the following asset types:

	31 December 2020 £m	31 December 2019 £m
Properties	3.7	4.4
Plant and machinery	0.1	0.1
Vehicles	0.2	0.2
Total right-of-use assets	4.0	4.7

The additions to the right-of-use assets in the year were:

	31 December 2020 £m	31 December 2019 £m
Properties	–	1.6
Plant and machinery	0.1	0.1
Vehicles	0.2	0.2
Total right-of-use asset additions	0.3	1.9

The 'cost' of the assets (the value at which they were originally recognised) is:

	31 December 2020 £m	31 December 2019 £m
Properties	5.1	5.0
Plant and machinery	0.1	0.1
Vehicles	0.6	0.4
Total undiscounted payments due under leases	5.8	5.5

The undiscounted payments under the leases fall due as follows:

	31 December 2020 £m	31 December 2019 £m
Up to one year	0.9	0.9
One to five years	2.6	2.9
Over five years	1.1	1.6
Total undiscounted payments due under leases	4.6	5.4

The consolidated income statement includes the following amounts relating to leases:

	31 December 2020 £m	31 December 2019 £m
Amortisation of right-of-use assets – buildings	0.7	0.7
– plant, machinery and vehicles	0.2	0.2
Interest expense	0.1	0.1
Total cash outflow in respect of leases	1.0	1.0

27. Leases continued

The Group initially adopted IFRS 16 Leases from 1 January 2019. The effect of initially applying this standard is to increase both the assets and liabilities of the Group through the recognition on the balance sheet of the operating leases in respect of rented properties and vehicles.

The company was not a party to any operating leases during the period.

IFRS 16 Adoption 1 January 2019

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.5%.

	£m
Operating lease commitments disclosed as at 31 December 2018	4.2
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(0.3)
Less short-term and low-value leases recognised on a straight-line basis as expense	(0.1)
Lease liability recognised as at 1 January 2019	3.8

Of which are:

Current lease liabilities	0.7
Non-current lease liabilities	3.1
Lease liability recognised as at 1 January 2019	3.8

At the date of acquisition, Lambert held £1.8m of right-of-use assets, consisting of £1.6m of land and buildings and £0.2m of vehicles, with the remainder of the additions in the year totalling £0.1m.

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	31 December 2019 £m
Right-of-use assets	3.8
Lease liabilities	(3.8)
Net impact upon retained earnings	–

The introduction of IFRS 16 did not have an impact upon the Group's recognised deferred tax balances.

Impact on segment disclosures and earnings per share

Adjusted EBITDA, segment assets and segment liabilities for 31 December 2019 all increased as a result of the change in accounting policy. Lease liabilities are now included in segment liabilities. The impact on the segments affected by the change in policy are:

Group	Adjusted EBITDA £m	Segment assets £m	Segment liabilities £m
Americas	0.3	1.7	(1.7)
EMEA	0.6	3.0	(3.1)
Asia Pacific	–	–	–
Total	0.9	4.7	(4.8)

Earnings per share was unchanged for the year to 31 December 2019 as a result of the adoption of IFRS 16.

27. Leases continued

Practical expedients applied

In applying IFRS 16 for the first time, the Group used the following practical expedients permitted by the standard:

- › the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- › reliance on previous assessments on whether leases are onerous;
- › the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- › the accounting for low-value leases as operating costs;
- › the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- › the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an arrangement contains a lease.

28. Capital commitments

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Capital investment contracted but not provided for	0.1	0.1	–	–

29. Contingent liabilities

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Contingent liabilities in respect of guarantees and indemnities related to sales and other contracts	1.9	2.3	1.9	2.3

30. Business combinations and deferred consideration

2020

On 9 September 2020 Mpac acquired the entire issued share capital of Switchback Group Inc. ("Switchback"), a provider of technology leading packaging equipment to the food and beverage and consumer healthcare sectors, for an initial consideration of US\$13.3m (£10.2m) (subject to adjustment for working capital movements, which have been settled in 2021 at US\$0.3m (£0.2m)) with a further US\$2.0m (£1.6m) subject to Switchback achieving certain earn-out criteria, which the Group anticipates will be met in full. It is expected that the acquisition will be immediately earnings enhancing.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	£m
Purchase consideration	
Cash paid on acquisition	10.2
Working capital adjustment (paid in 2021)	0.2
Contingent consideration (see below)	1.1
Total purchase consideration	11.5

30. Business combination (continued)

The assets and liabilities recognised as a result of the acquisition are as follows:

	Provisional fair value £m
Cash and cash equivalents	0.4
Property, plant and equipment	0.1
Brand	0.6
Customer relationships	0.7
Machine designs	1.1
Order backlog	0.2
Inventories	0.4
Receivables	1.4
Contract assets	0.3
Payables	(0.3)
Contract liabilities	(0.8)
Deferred tax on intangible assets	(0.5)
Net identifiable assets acquired	3.6
Add: goodwill	7.9
	11.5

The goodwill is attributable to Switchback's strong position and profitability in the healthcare and food and beverage sectors, particularly within brewing, expected to arise after the Group's acquisition of the new subsidiary. None of the goodwill is expected to be deductible for tax purposes.

The amortisation of the acquired intangible assets in the period in relation to Switchback totalled £0.3m and is included in non-underlying items in the income statement.

Acquisition-related costs

Acquisition-related costs of £0.4m are included in administrative expenses in non-underlying items in the income statement.

Contingent consideration

The contingent consideration arrangement requires the Group to pay the former owners of Switchback up to US\$1m (£0.7m) in each of the next two years, with a minimum payment of US\$0.5m if Switchback's annual adjusted EBITDA is at least \$1.1m and 50% of the excess over US\$1.1m, up to \$2.1m.

There is no minimum amount payable.

The fair value of the contingent consideration arrangement of £1.1m was estimated by calculating the present value of the future expected cash flows. The Group's forecasts identify that the maximum deferred consideration will be payable. Under IFRS 3, the Company is required to discount the contingent consideration at a rate reflective of the risk of the amounts not falling due. This results in a discount to the total amount of £0.1m, which is expected to be amortised over the period to which the amounts fall due through the interest charge. The interest during the period was £nil. The deferred consideration payable to ongoing employees of Switchback is £0.3m, which is treated as additional remuneration and not included in the valuation of deferred consideration under IFRS3.

Acquired receivables

The fair value of trade and other receivables is £1.4m and includes trade receivables with a fair value of £1.4m. The gross contractual amount for trade receivables due is £1.4m which is expected to be collectible in full.

Revenue and profit contribution

The acquired business contributed revenues of £3.3m and net profit of £0.6m to the Group for the period from 9 September 2020 to 31 December 2020. If the acquisition had occurred on 1 January 2020, consolidated revenue and consolidated profit after tax for the year ended 31 December 2020 would have been £91.3m and £4.4m respectively.

30. Business combination (continued)

Purchase consideration – cash flows

The outflow of cash to acquire Switchback, net of cash acquired, is as follows:

	2020 £m
Cash consideration	10.2
Less: cash acquired	(0.4)
Net outflow of cash – included in investing activities	9.8

Business combination – 2019

On 1 May 2019, Mpac acquired the entire issued share capital of Lambert Automation Limited (“Lambert”), a provider of technology leading automation solutions to the medical and consumer healthcare sectors, for an initial consideration of £15m (subject to adjustment for working capital movements) with a further £3.0m subject to Lambert achieving certain earn-out criteria and tax recoveries, which the Group anticipates will be met in full.

Contingent consideration

The contingent consideration arrangement requires the Group to pay the former owners of Lambert five times the average EBITDA of Lambert in excess of £2.5m for three years ending 31 December 2021, up to a maximum payment of £2.5m, anticipated to be settled in the first half of 2022. There is no minimum amount payable.

A further £0.5m of consideration is contingent upon certain tax receipts from HMRC. This balance has been settled in 2020.

The fair value of the remaining contingent consideration arrangement of £2.3m was estimated by calculating the present value of the future expected cash flows. The Group's forecasts identify that the maximum deferred consideration will be payable. Under IFRS 3, the Company is required to discount the contingent consideration at a rate reflective of the risk of the amounts not falling due. This results in a remaining discount to the total amount of £0.2m, which is expected to be amortised over the period to which the amounts fall due through the interest charge. The interest during the period was £0.1m.

Revenue and profit contribution

The acquired business contributed revenues of £16.5m and net profit of £2.3m to the Group for the period from 1 May 2019 to 31 December 2019. If the acquisition had occurred on 1 January 2019, consolidated revenue and consolidated profit after tax for the year ended 31 December 2019 would have been £96.9m and £6.8m respectively.

31. Discontinued operations (Company only)

The trade and certain assets of the Company's business based in Coventry were transferred to Mpac Lambert Limited, a wholly owned subsidiary, on 31 December 2019. This results in the Company identifying this internal reorganisation as a disposal at that date, although this has no impact upon the Group's consolidated financial statements.

The assets and liabilities of the Company's Coventry operation were transferred to the subsidiary at net book value and the value settled via inter-company indebtedness.

No details on the profit or loss of the operations transferred is presented as the Company has taken advantage of the option not to publish an income statement.

The consideration received is as follows:

	2019 £m
Consideration received or receivable:	
– Inter-Company debt	1.4
Carrying value of net assets transferred	(1.4)
Gain on disposal before tax and translation reserve reclassification	–
Income tax on gain	–
Reclassification of foreign currency translation reserve	–
Gain on sale after income tax	–

The carrying value of the assets and liabilities as at the date of transfer were:

	2019 £m
Property, plant and equipment	0.5
Trade and other receivables	1.5
Inventories	0.4
Contract assets	0.1
Cash at bank	0.6
Total assets	3.1
Trade and other creditors	(1.2)
Intergroup balances	(0.3)
Provisions	(0.2)
Net assets	1.4

The employee benefit obligations within the Company were unaffected by this transfer.

32. Related parties

Transactions with key management personnel

The compensation of key management personnel is disclosed in the Remuneration report on pages 30 to 35.

Identity of related parties

The Company has a related party relationship with its subsidiaries (see note 33), Directors and the UK and USA defined benefit pension schemes. In the course of normal operations, related party transactions entered into by the Group have been contracted on an arm's-length basis.

Details regarding transactions involving the Directors and their remuneration can be found in the Remuneration report on pages 31 to 33.

The Group recharges the UK defined benefit pension scheme with the costs of administration incurred by the Group. The total amount recharged in the year to 31 December 2020 was £0.2m (2019: £0.3m).

33. Group entities

All intra-group related party transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of the Group and therefore in accordance with IAS 24 Related party disclosures are not disclosed.

Subsidiary undertakings

Details of all subsidiary undertakings are shown below. Principal subsidiary undertakings are shown on page 108. Subsidiary undertakings are, unless otherwise shown in brackets below, registered in England and Wales. Unless otherwise specified below, all subsidiaries are 100% owned by the Company.

Principal subsidiary undertakings

Registered office	Subsidiary undertakings
6500 Kitimat Road, Unit 1, Mississauga, Ontario LN5 2B8, Canada	Mpac Langen, Inc. (Canada)
Edisonstraat 14, 6604 BV Wijchen, The Netherlands	Mpac Langen B.V. (Netherlands)
8 Burn Road, #09-01 Trivex, Singapore 369977	Mpac Langen Pte. Ltd (Singapore)
Station Estate, Tadcaster, North Yorkshire, LS24 9SG	Mpac Lambert Limited (UK)
3778 Timberlake Drive, Richfield, OH 44286, USA	Mpac Switchback Inc. (USA)

Subsidiary undertakings registered at Mpac Group plc registered office

Arista Laboratories Europe Limited	Mpac Machine Company Limited	Molmac Engineering Limited
Hartsvale Limited	Mpac Machinery Limited	Thrissell Limited
Mpac Corporate Services Limited	Mpac Overseas Holdings Limited	Mpac Group Holdings Limited
Mpac ITCM Limited	Mpac Tobacco Machinery Limited	

Overseas subsidiary undertakings

Registered office	Subsidiary undertakings
6500 Kitimat Road, Unit 1, Mississauga, Ontario LN5 2B8, Canada	1456074 Ontario, Inc. (Canada)
	928142 Ontario, Inc. (Canada)
	Mpac Corporation (USA)
	ITCM North America, Inc. (USA)
	Mpac Delaware, Inc. (USA)
	Mpac Laboratories, Inc. (USA)
	SASIB Corporation of America (USA)
	Mpac Machine Company, Inc. (USA)
	Mpac Richmond, Inc. (USA)

During the year ended 31 December 2020, the Company received interest income from subsidiary undertakings of £nil (2019: £0.1m), management fees of £1.7m (2019: £1.3m) and brand fees of £2.7m (2019: £2.4m).

At 31 December 2020, amounts owed by subsidiary undertakings to the Company were £14.2m (2019: £2.2m) and amounts owed by the Company to subsidiary undertakings were £34.3m (2019: £22.9m). The amounts owed by subsidiary undertakings to the Company are stated after a provision of £12.2m (2019: £11.7m) representing amounts owed to the Company which are no longer considered recoverable.

At 31 December 2020, investments in subsidiaries by the Company were £63.8m (2019: £63.8m).

34. Accounting estimates and judgements

The development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates, are considered as part of the remit of the Audit Committee.

Estimates and judgements

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the year in which the estimates are revised and in any future years affected. The areas involving significant risk resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Pension accounting

Changes to key assumptions used for calculating the net pension asset/liability of the Group can have a significant impact on the accounting valuation of the Group's defined benefit pension schemes. The key assumptions used in calculating the net pension asset/liability for the Group are disclosed in note 24. The value of the schemes' liabilities is particularly sensitive to the discount, inflation and mortality rates used. An analysis of the impact on the net pension asset/liability to changes in these assumptions is also disclosed in note 24.

Deferred tax

Management have recognised a deferred tax asset of £1.8m (2019: £1.7m) based on historic losses which is expected to be utilised over the next year. The assessment of this utilisation is based on the Group's latest budget, which is adjusted for significant non-taxable income and expenses, along with specific limits to the utilisation of the tax credits. Further details of the asset is in note 16.

Revenue recognition

The Group recognises revenue and gross margin on long-term contracts over time, in accordance with IFRS 15, based upon the total number of hours expected to be used on the contract and the number of hours required to complete the contract. Labour hours have been selected as the most faithful depiction of progress (and hence the transfer of goods and services) as this most accurately reflects how Mpac provides value to the customer. Mpac delivers innovative, efficient, and technically robust solutions, with the time allocated to projects of Mpac engineers and technicians being the main driver to bring projects to fruition. Total expected revenue, the number of hours and cost of materials to complete the contract reflect management's best estimate of the probable future benefits and obligations associated with the contract. Obligations on contracts may result in penalties due to late completion of contractual milestones or unanticipated costs due to project modifications, unexpected conditions or events. Further detail in respect of revenue recognition is shown in the accounting policies note and note 1.

Labour hours have been selected as the most faithful depiction of progress (and hence the transfer of goods and services) as this most accurately reflects how Mpac provides value to the customer. Mpac delivers innovative, efficient, and technically robust solutions, with the time allocated to projects of Mpac engineers and technicians being the main driver to bring projects to fruition. Material costs incurred are not considered to be proportionate to the group's progress in satisfying progress on contracts for which revenue is recognised over time and therefore revenue in respect of materials is recognised at an amount equal to the cost of good used to satisfy the performance obligation.

Valuation of intangible assets

The fair value of these assets are determined by cost (where this can be objectively measured) or by discounting estimated future net cash flows generated by the asset where no active market for the asset exists and where these are acquired as part of a business acquisition. These are assessed based upon management forecasts for each acquisition. Key assumptions will vary between acquisitions, but include revenue forecasts, margin assumptions, discount rates, royalty rates and customer attrition, with the use of costs where possible, including for the development of machine designs. The valuation of intangibles, especially those made in relation to acquisitions (see note 30), can be highly sensitive to these assumptions with any changes having the potential to materially change the valuation of the assets acquired.

35. Prior period adjustment

Following an internal review of Mpac's compliance with certain technical details of IFRS 15 and the FRC's third thematic review of IFRS 15, published 24 September 2020, the Group has restated certain balances previously reported, in accordance with IAS 8, to align the treatment of contract assets, contract liabilities, contract fulfilment assets and work in progress recognised in relation to contracts more closely to the demands of IFRS 15. The Group has not received any communication from the FRC on this or any other matter. These balances do not change any of the key metrics used by the Group, with gross profit, operating profit, profit before and after tax, earnings per share, net current assets and retained earnings remaining unchanged. These adjustments do not affect the future anticipated performance of the Group.

The effect of the adjustments results in a slight timing difference to the recognition of revenue and cost of sales in equal amounts in the income statement. The effect in 2019 was reviewed and found to be immaterial (£1.8m) so no restatement of the 2019 income statement has been presented. There is no impact upon gross profit or any other key metric as a result of these adjustments in the income statement under any circumstances.

The adjustments made are:

Detailed account (Statement of financial position heading)	2019 as reported £m	Adjustment £m	2019 Restated £m	2018 as reported £m	Adjustment £m	2018 Restated £m
Work in progress (Inventories)	5.0	(3.9)	1.1	1.7	(0.9)	0.8
Contract assets (Trade & other receivables)	4.7	1.7	6.4	5.5	(1.2)	4.3
Contract fulfilment asset (Trade & other receivables)	–	1.2	1.2	–	1.0	1.0
Contract liabilities (Trade & other payables)	(5.8)	(5.9)	(11.7)	(11.6)	(2.5)	(14.1)
Prepayments and accrued income (Trade & other receivables)	0.5	3.2	3.7	3.9	1.8	5.7
Accruals and deferred income (Trade & other payables)	(8.4)	3.7	(4.7)	(6.5)	1.8	(4.7)
Effect on current assets and statement of financial position total		–			–	

35. Prior period adjustment (continued)

As required by IAS 8, the restated 31 December 2018 statement of financial position for the Group is:

	Original 2018 £m	Adjustments £m	Restated 2018 £m
Non-current assets			
Intangible assets	1.0		1.0
Property, plant and equipment	4.4		4.4
Investment property	0.8		0.8
Employee benefits	20.5		20.5
Deferred tax assets	1.7		1.7
	28.4	–	28.4
Current assets			
Inventories	3.3	(0.9)	2.4
Trade and other receivables	16.9	2.8	19.7
Contract assets	5.5	(1.2)	4.3
Current tax assets	0.8		0.8
Cash and cash equivalents	27.9		27.9
	54.4	0.7	55.1
Current liabilities			
Trade and other payables	(14.7)	1.8	(12.9)
Contract liabilities	(11.6)	(2.5)	(14.1)
Current tax liabilities	(0.4)		(0.4)
Provisions	(1.1)		(1.1)
	(27.8)	(0.7)	(28.5)
Net current assets/(liabilities)	26.6	–	26.6
Total assets less current liabilities	55.0		55.0
Non-current liabilities			
Interest-bearing loans and borrowings	(0.9)		(0.9)
Employee benefits	(6.2)		(6.2)
Deferred tax liabilities	(7.3)		(7.3)
	(14.4)	–	(14.4)
Net assets	40.6	–	40.6
Equity			
Issued capital	5.0		5.0
Share premium	26.0		26.0
Reserves	4.2		4.2
Retained earnings	5.4		5.4
Total equity	40.6	–	40.6

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Revenue	83.7	88.8	58.3	53.4	41.5
Underlying operating profit/(loss) ¹	6.5	7.7	1.4	1.3	(1.2)
Non-underlying items	(3.6)	(2.4)	(9.0)	3.3	(1.7)
Operating profit/(loss)	2.9	5.3	(7.6)	4.6	(2.9)
Net financing expense	–	0.1	0.2	(0.3)	(0.2)
Profit/(Loss) before tax	2.9	5.4	(7.4)	4.3	(3.1)
Taxation	0.4	0.5	1.4	(1.9)	0.7
Profit/(Loss) for the period from continuing operations	3.3	5.9	(6.0)	2.4	(2.4)
(Loss)/profit for the period from discontinued operations	–	–	–	(0.8)	1.8
Profit/(Loss) for the period	3.3	5.9	(6.0)	1.6	(0.6)
Underlying operating return on sales ¹	7.8%	8.7%	2.4%	2.4%	(3.1)%
Underlying earnings/(loss) per share ¹	31.4p	39.5p	4.5p	4.2p	(6.0)p
Basic earnings/(loss) per share	16.3p	29.7p	(30.1)p	20.6p	(3.3)p
Dividends per ordinary share in respect of the year	–	–	–	–	1.25p
Intangible assets	27.4	16.3	1.0	0.9	15.2
Property, plant and equipment and investment property	9.9	11.7	5.2	4.8	9.3
Inventories (2018/19 restated)	3.5	3.2	2.4	2.4	13.0
Trade and other receivables (including taxation) (2018/19 restated)	34.8	30.2	26.5	22.7	29.3
Employee benefits	11.0	17.3	14.3	11.4	(2.2)
Trade and other payables (including taxation and provisions) (2018/19 restated)	(57.7)	(50.1)	(36.7)	(29.7)	(30.9)
	28.9	28.6	12.7	12.5	33.7
Cash	15.5	18.9	27.9	30.3	1.7
Net assets	44.4	47.5	40.6	42.8	35.4

1. Before non-underlying items

Principal divisions and subsidiaries

The divisions and subsidiary undertakings shown include those which principally affect the profits and net assets of the Group as at the date of this report. Overseas companies operate and are incorporated in the countries in which they are based. In all cases, the class of shares held is ordinary equity shares (or equivalent) and the proportion held is 100% unless otherwise indicated. Shares in the UK companies are held directly by Mpac Group plc and those in the other overseas subsidiaries by intermediate holding companies.

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Notice is hereby given that the 109th Annual General Meeting (the "Meeting") of Mpac Group plc (the Company) will be held at Mpac Lambert, Station Estate, Tadcaster, LS24 9SG on Wednesday 5 May 2021 at 12 noon to consider and, if thought appropriate, to pass the following resolutions, of which resolutions 1 to 10 will be proposed as ordinary resolutions and resolutions 11 to 14 will be proposed as special resolutions:

Ordinary resolutions

Report and Accounts

1. To receive the audited annual accounts of the Company for the year ended 31 December 2020 together with the Directors' report and the auditors' report on those annual accounts.

Directors

2. To re-elect Mrs S A Fowler as a Director.
3. To re-elect Mr A J Kitchingman as a Director.
4. To re-elect Mr D G Robertson as a Director.
5. To re-elect Dr A Steels as a Director.
6. To re-elect Mr W C Wilkins as a Director.
7. To approve the Remuneration report, excluding the Remuneration Policy, set out on pages 31 to 32 of the Annual Report and Accounts 2020.

Auditors

8. To appoint Grant Thornton UK LLP as auditors of the Company to hold office from the conclusion of this Meeting until the conclusion of the next AGM at which accounts are laid before the Company.

Remuneration of Auditors

9. To authorise the Audit Committee to determine the remuneration of the auditors.

Directors' authority to allot shares

10. To generally and unconditionally authorise the Directors pursuant to and in accordance with Section 551 of the Companies Act 2006 (the Act), in substitution for all previous authorities to the extent unused, to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company:
 - a) up to an aggregate nominal amount of £1,680,000 (representing approximately one third of the total ordinary share capital in issue at 1 March 2021, being the latest date prior to publication of this notice of meeting); and

- b) comprising equity securities (as defined in Section 560 (1) of the Act) up to a further aggregate nominal value of £1,680,000 in connection with an offer by way of a rights issue, such authorities to expire at the conclusion of the 2022 AGM or if earlier, at close of business on 5 August 2022, save that the Company may before such expiry make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert any security into shares to be granted after the authority ends.

For the purposes of this Resolution, 'rights issue' means an offer to:

- a) shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
- b) holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities;

to subscribe for further securities by means of the issue of a renounceable letter (or other negotiable document) which may be traded for a period before payment for the securities is due, but subject in both cases to such exclusions or other arrangements as the Directors consider necessary or appropriate in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory.

Special resolutions

Disapplication of pre-emption rights

11. That if resolution 11 is passed, the Board be authorised to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, such authority to be limited:
 - a) to allotments for rights issues and other pre-emptive issues; and
 - b) to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (a) above) up to a nominal amount of £252,000, such authority to expire at the conclusion of the 2022 AGM of the Company (or, if earlier, at close of business on 5 August 2022) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

Notice of Annual General Meeting continued

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12. That if resolution 11 is passed, the Board be authorised in addition to any authority granted under resolution 12 to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, such authority to be:
- limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £252,000; and
 - used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board of the Company determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Dis-applying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice, such authority to expire at the end of the next AGM of the Company (or, if earlier, at close of business on 5 August 2022) save that, in each case, the Company may before such expiry make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

Authority to purchase of own shares

13. That the Company be generally and unconditionally authorised for the purpose of Section 701 of the Act to make market purchases (as defined in Section 693 of the Act) of ordinary shares of 25 pence each in the capital of the Company ('ordinary shares') provided that:
- the maximum number of ordinary shares hereby authorised to be purchased is 3,000,000;
 - the minimum price (exclusive of expenses) which may be paid for such ordinary shares is 25 pence per share, being the nominal amount thereof;
 - the maximum price (exclusive of expenses) which may be paid for such ordinary shares shall be an amount equal to the higher of: (i) 5% above the average of the middle market quotations for such shares taken from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made; and (ii) the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System ("SETS"); and

- the authority hereby conferred shall (unless previously renewed or revoked) expire at the end of the 2022 AGM, save that the Company may before such expiry make a contract or agreement to make a market purchase of its own ordinary shares which will or may be executed wholly or partly after the expiry of such authority and the Company may purchase such shares as if the authority conferred hereby had not expired.

Notice of general meetings

14. That a general meeting of the Company, other than annual general meetings of the Company, may be called on not less than 14 clear days' notice.

By order of the Board

PRISM COSEC LIMITED
Company Secretary

1 April 2021

Registered in England and Wales No.
124855

Registered office:
13 Westwood Way
Westwood Business Park
Coventry
CV4 8HS

Covid-19 and contingencies

Our preference had been to welcome shareholders in person to our 2021 AGM, particularly given the constraints we faced in 2020 due to the Covid-19 pandemic. However, at present Government guidelines prohibit shareholders from attending the AGM in person. We are therefore proposing to hold the AGM with the minimum attendance required to form a quorum. Shareholders will not be permitted to attend the AGM in person but can be represented by the Chair of the meeting acting as their proxy.

Should Government guidelines change, and shareholders be able to attend the AGM in person, we will advise this via the Company's website, www.mpac-group.com, and via a Regulatory Information Service.

Notes relating to the notice

The following notes explain your general rights as a shareholder and your right to vote at this Meeting or to appoint someone else to vote on your behalf.

Entitlement to attend and vote

1. To be entitled to vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the Register of Members of the Company at close of trading on Monday 3 May 2021, or if the meeting is adjourned, close of business on the day which is two days' prior to the adjourned meeting. In each case, changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

Appointment of proxies

2. Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company.
3. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).
4. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.
5. You can vote either:
 - ▶ by logging on to www.signalshares.com and following the instructions;
 - ▶ you may request a hard copy form of proxy directly from the registrars, Link Asset Services, on Tel: +44 (0)371 664 0391. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday, excluding public holidays in England and Wales. Alternatively, email Link at shareholderenquiries@linkgroup.co.uk;
 - ▶ in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below;

▶ in order for a proxy appointment to be valid a form of proxy must be completed. In each case, the form of proxy must be received by Link Group at 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL by 12 noon on Monday 3 May 2021.

6. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.
7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST Manual (available from www.euroclear.com/site/public/EUI). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
8. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time for receipt of proxy appointments specified above. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
9. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
10. If you are an institutional investor you may be able to appoint a proxy electronically via the Proxymity platform. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 12 noon on Monday 3 May 2021 in order to be considered valid. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy.

Corporate representatives

11. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that no more than one corporate representative exercises powers in relation to the same shares.

Issued shares and total voting rights

12. As 1 March 2021 (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consists of 20,171,540 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 1 March 2021 are 20,171,540.

Questions

13. We always welcome questions from our shareholders and we request that shareholders submit their questions to the Board before the AGM. We will ensure that answers to questions are placed on the Company's website. You can submit questions up until 5pm on 4 May 2021 by emailing them to cosec@mpac-group.com

Communication

14. You may not use any electronic address (within the meaning of Section 333(4) of the Companies Act 2006) provided in either this Notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

Website giving information regarding the meeting

15. A copy of this Notice, and other information required by Section 311A of the Companies Act 2006, can be found on the Company's website at www.mpac-group.com.

Explanatory notes on the resolutions

Resolutions 1 to 11 are ordinary resolutions; resolutions 12 to 15 are special resolutions. To be passed, ordinary resolutions require more than 50% of votes cast to be in favour of the resolution whilst special resolutions require at least 75% of the votes cast to be in favour of the resolution.

Ordinary Resolutions

To receive the Annual Report and Accounts 2020

Resolution 1 is a standard resolution. The Companies Act 2006 requires the Directors to lay before the Company in a general meeting copies of the Company's annual accounts, and the Directors' report and auditor's report on those accounts. The Annual Report and Accounts 2021, which includes this Notice of Annual General Meeting, will be available online at www.mpac-group.com.

Election and re-election of Directors

In accordance with best practice in corporate governance, all Directors are standing for re-election. Resolutions 2 to 6 seek approval for the re-election of the Directors.

Biographical information for each of the existing Directors is provided on page 24 of the Annual Report and Accounts 2020.

The Board has no hesitation in recommending the election or re-election of the Directors to shareholders. In making these recommendations, the Board confirms that it has given careful consideration to the Board's balance of skills, knowledge and experience and is satisfied that each of the Directors putting themselves forward for election or re-election has sufficient time to discharge their duties effectively, taking into account their other commitments.

Remuneration report

Resolution 7 seeks shareholders' approval for the Directors' Remuneration report which is set out on pages 31 to 32 of the Annual Report and Accounts 2020, for the year ended 31 December 2020. The vote is advisory only.

Appointment of auditors

The auditors of a company must be appointed or re-appointed at each general meeting at which the accounts are laid.

Resolution 8 seeks approval to appoint Grant Thornton UK LLP as the Company's auditors until the conclusion of the next general meeting of the Company at which accounts are laid.

Remuneration of auditors

Resolution 9 seeks consent for the Directors to determine the remuneration of the auditors.

Directors' authority to allot shares

Resolution 10 seeks consent for shareholders to grant the Directors authority to allot shares or grant rights to subscribe for or convert securities into shares, up to a maximum aggregate nominal value of £3,360,000, which is approximately two-thirds of the nominal value of the issued ordinary share capital of the Company as at 1 March 2021, being the latest practicable date prior to the publication of this notice. £1,680,000 of this authority is reserved for a fully pre-emptive rights issue. This is the maximum permitted amount under best practice corporate governance guidelines. The authority will expire at the next Annual General Meeting of the Company or if earlier, at close of business on 5 August 2022. The Directors have no current intention of exercising such authority and will exercise this power only when they believe that such exercise is in the best interests of the shareholders.

Special resolutions**Disapplication of pre-emption rights**

Resolutions 11 and 12 will be proposed as special resolutions, each requiring a majority of 75% of those voting to be in favour. If the Directors wish to allot new shares and other equity securities, or sell treasury shares, for cash (other than in connection with an employee share scheme), company law requires that these shares are offered first to shareholders in proportion to their existing holdings.

Resolution 11 deals with the authority of the Directors to allot new shares or other equity securities pursuant to the authority given by resolution 10, or sell treasury shares, for cash without the shares or other equity securities first being offered to shareholders in proportion to their existing holdings. Such authority shall only be used in connection with a pre-emptive offer, or otherwise, up to an aggregate nominal amount of £252,000, being approximately 5% of the total issued ordinary share capital of the Company as at 1 March 2021.

The Pre-Emption Group Statement of Principles supports the annual disapplication of pre-emption rights in respect of allotments of shares and other equity securities (and sales of treasury shares for cash) representing no more than an additional 5% of issued ordinary share capital (exclusive of treasury shares), to be used only in connection with an acquisition or specified capital investment. The Pre-Emption Group's Statement of Principles defines 'specified capital investment' as meaning one or more specific capital investment related uses for the proceeds of an issuance of equity securities, in respect of which sufficient information regarding the effect of the transaction on the Company, the assets that are the subject of the transaction and (where appropriate) the profits attributable to them is made available to shareholders to enable them to reach an assessment of the potential return.

Accordingly, and in line with the template resolutions published by the Pre-Emption Group, resolution 12 seeks to authorise the Directors to allot new shares and other equity securities pursuant to the authority given by resolution 10, or sell treasury shares, for cash up to a further nominal amount of £252,000, being approximately 5% of the total issued ordinary share capital of the Company as at 1 March 2021, only in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue. If the authority given in resolution 12 is used, the Company will publish details of the placing in its next Annual Report. If these resolutions are passed, the authorities will expire at the end of the next AGM or at close of business on 5 August 2022, whichever is the earlier.

The Board considers the authorities in resolutions 11 and 12 to be appropriate in order to allow the Company flexibility to finance business opportunities or to conduct a rights issue or other pre-emptive offer without the need to comply with the strict requirements of the statutory pre-emption provisions. The Board does not intend to issue more than 7.5% of the issued share capital of the Company for cash on a non pre-emptive basis in any rolling three-year period (other than in connection with an acquisition or specified capital investment as described in the Pre-Emption Group's Statement of Principles) without prior consultation with shareholders.

Authority to purchase own shares

Resolution 13 seeks authority for the Company to make market purchases of its own ordinary shares up to a maximum number of 3,000,000 ordinary shares, representing approximately 15% of the issued ordinary share capital at 1 March 2021. The authority requested would replace a similar authority granted last year and would expire at the end of the 2022 AGM, or if earlier, at close of business on 5 August 2022.

In reaching a decision to purchase ordinary shares, the Directors will take account of the Company's cash resources and capital and the general effect of such purchase on the Company's business. The authority would only be exercised by the Directors if they considered it to be in the best interests of the shareholders generally and if the purchase could be expected to result in an increase in earnings per ordinary share.

Notice of general meetings

Resolution 14 is an annual permission request for general meetings, other than the AGM, to be called on 14 clear days' notice. There is no current intention to hold such a meeting but the Directors wish to retain the ability to call a meeting on shorter notice if the circumstances should require it. The Companies (Shareholders' Rights) Regulations 2009 specify that approval must be sought from shareholders by special resolution at an annual or subsequent general meeting and the Company would need to make a means of electronic voting available to all shareholders for any general meeting called on less than 21 clear days' notice. If passed, the resolution would remain valid until the end of the 2022 AGM, at which it is intended that a similar resolution will be proposed.

Corporate information

Registered office

13 Westwood Way
Westwood Business Park
Coventry
CV4 8HS

Tel: +44 (0)2476 421100
Email: ho@mpac-group.com

Registered number
124855

Secretary

Prism Cosec Limited

Auditors

Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

Nominated Advisor & Broker

Shore Capital and Corporate Limited
57 St James's Street
London
SW1A 1LD

Registrars

Link Group
10th Floor, Central Square
29 Wellington Street
Leeds
LS1 4DL

Share price

Available from:
FT Cityline – tel: +44 (0)905 817 1690
Certain national newspapers

Website

Further information is available at www.mpac-group.com

Timetable

Annual General Meeting
5th May 2021

Payment dates for preference dividend
30 June 2021 and 31 December 2021

Half-year announcement
September 2021



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