Company Registration No. 1630389
Registered in England

MACFARLANE GROUP UK LIMITED

Report and Financial Statements

31 December 2020

MACFARLANE GROUP UK LIMITED

REPORT AND FINANCIAL STATEMENTS 2020

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MACFARLANE GROUP UK LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS
P.D. Atkinson
I. Gray
J. Love

COMPANY SECRETARY
J. Love

REGISTERED OFFICE
Siskin Parkway East
Middlemarch Business Park
Coventry CV3 4PE

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

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

INDEPENDENT AUDITOR
Deloitte LLP
110 Queen Street
Glasgow G1 3BX

STRATEGIC REPORT

The Directors present their strategic report for the financial year ended 31 December 2020.

REVIEW OF THE BUSINESS

Principal activity

The principal activity of the Company is the distribution and manufacture of packaging products. The Company is a wholly owned subsidiary of Macfarlane Group PLC ("the Group"), a company registered in Scotland and listed on the London Stock Exchange. The Company comprises the majority of the Group's Packaging Distribution business and the whole of its Packaging Design and Manufacture businesses. Further information is contained in the consolidated accounts for Macfarlane Group PLC, which can be accessed at **www.macfarlanegroup.com**.

Performance Review

Whilst Covid-19 has impacted the economic landscape, the Company has responded well to the additional risk that Covid-19 has brought to all businesses and has improved its performance in 2020. The key actions taken in response to the pandemic and the impact on staff and operations are set out on the following pages of this report.

Sales totalled £183.7m in 2020 (2019: £183.7m), the same level as seen in 2019. Gross margin percentage increased to 33.2% during the year (2019: 32.2%), reflecting input price deflation during the current and prior years. Gross profit increased to £61.0m in 2020 (2019: £59.1m).

Distribution and administrative costs, net of other operating income, were well controlled and increased to £46.8m (2019: £46.2m) reflecting higher bad debt write-offs and provisions for the estimated costs to exit property leases. Interest charges totalled £2.0m, (2019: £2.2m) the decrease from 2019 due to lower average group borrowings in 2020.

Dividends of £0.3m (2019: £0.8m) were received from the trading subsidiaries.

As a result profit before tax was £12.5m, 8.7% ahead of the £11.5m achieved in 2019.

The Company's total equity amounts to £27.5m, an increase of £9.7m on the previous year. Whilst the Company makes significant profits, it still has net current liabilities. The Company has access to the Group's borrowing facilities and has sufficient funds to meet its liabilities as they fall due. In addition it has been agreed by the parent company, Macfarlane Group PLC, that £28.5m of the total indebtedness due to the parent company of £31.5m does not fall due for repayment until at least twelve months after the balance sheet date.

The directors are satisfied with the performance for the year.

MACFARLANE GROUP UK LIMITED

STRATEGIC REPORT

STAKEHOLDER ENGAGEMENT

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

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

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

	Stakeholder Group	Principal methods of engagement
①	Shareholders	Members of the Board interact with the Board of the shareholder Macfarlane Group PLC throughout the year. All three directors are common to both Companies.
②	Employees	Board Members visit the majority of trading locations each year. This provides the opportunity to engage with the local teams and hear their views on working in the Company.
③	Customers	Teams at all our locations interact with all our existing and potential customers, in the Local, Core and National customer groups on a daily basis to understand and fulfil the product and service requirements of our customers.
④	Suppliers	Our procurement teams and employees at all locations interact both with our strategic and all other suppliers on a daily basis to ensure that the supply chain is robust and that trading relationships with suppliers continue to operate well.
⑤	Our trading locations and the impact of our activities on the local environment	We operate from good quality facilities throughout the UK and deliver to customers using our own fleet of trucks, driven by our drivers. We act in a manner intended to recognise and reduce our impact on our local environments in terms of the types of product supplied, use of energy and the need to constantly reduce CO_2 emissions.

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

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

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

STRATEGIC REPORT

Covid-19 ① ② ③ ④ ⑤

In the first quarter of 2019, the Coronavirus pandemic took hold and resulted in lockdown measures taking effect in the United Kingdom from 23 March 2020.

A Covid-19 project team ("Covid-19 team") comprising senior managers in the Company was established in February 2020 to review and lead the implementation of our business continuity plans. The Covid-19 team reported regularly to the Board.

The project team has managed the Company's response to the pandemic, adapting actions to respond to changing government legislation and advice. The team has also consulted with outside experts to provide ongoing learning and has benchmarked its actions against other businesses.

In the first stages, the Covid-19 team focused on implementing safety protocols for those employees working on site, the application of the furlough scheme and ensuring employees were equipped to work from home, or where required shield or self-isolate. Employees on furlough were paid 80% of their full pay throughout the furlough period, although all employees were topped-up at the Company's expense to ensure no member of staff was paid less than minimum wage.

Our Covid-19 team reviewed and implemented procedures in response to local, regional and national lockdowns, ensuring that we complied with local guidelines and continued to provide safe working environments and protection for our employees' wellbeing.

Specific initiatives included:

(a) Mental Health Awareness training for senior managers;
(b) Employee engagement activities; and
(c) Care packages for employees and their families.

Managers and senior managers in the business received regular updates on progress in subsequent meetings from the Directors and the HR Director with particular focus on the health, safety and wellbeing of employees, service to customers and the Company's financial position

When it became clear that the financial impact was not as severe as initially expected, the Company repaid £4.1m in respect of all government support received through both VAT and PAYE/NIC deferrals and £1.3m in respect of grants received for furlough payments under the Coronavirus Job Retention Scheme in the third quarter of 2020.

Proposals to restructure the teams in both the Packaging Distribution and Packaging Design & Manufacture activities resulted in the redundancy of 62 employees. The Directors confirmed that employees were properly engaged in the process and this resulted in 54 of the redundancies in September and October 2020 being of a voluntary nature.

The Directors agreed that the pension scheme and all Group Personal Pension Plans should continue to be properly funded throughout 2020.

The Directors reviewed and approved the revised incentive programmes for employees which recognised their hard work and dedication in difficult circumstances. The first incentive scheme included a one-off payment for operational staff in July 2020 in recognition of their commitment in continuing to service customers in the first lockdown. The second stage included approval of a Performance Award Scheme in recognition of the resilient performance in Packaging Distribution.

MACFARLANE GROUP UK LIMITED

STRATEGIC REPORT

Strategy and performance

Strategy ① ② ③ ④ ⑤

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

The Board approved the acquisition of the trade and assets of Armagrip in January 2020, concluding that the customer base could be absorbed into MGUK and would be a good strategic fit with our trading operations in the North-East.

Performance ① ② ③ ④

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

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

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

Financing ① ② ⑤

The Board approves all location moves and the terms of new property arrangements. In 2020, this included signing new leases for the Fareham and Horsham RDCs and the Head Office, based in Coventry.

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

The Board approves all dividends to the parent company taking into account distributable reserves and likely cash flows and the level of dividends relative to other financing requirements.

Risk ① ② ③ ④ ⑤

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

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

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

Governance and legal requirements ① ② ⑤

The Board's Governance structure is set by the parent company. The Board aim to comply with all legal requirements for the business. The Company's Greenhouse Gas Emissions are disclosed within the Corporate Responsibility Report of the Parent Company, Macfarlane Group PLC.

Culture and organisation ① ②

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

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

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

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

RISKS AND UNCERTAINTIES

Covid-19 has had a significant impact on the economic landscape, however the Company has responded well to the heightening of all risks that Covid-19 has caused and has improved its performance in 2020.

The key risks associated with the business are:

As a distributor and manufacturer in a market where products are vulnerable to commodity-based raw material prices and manufacturer energy costs, profitability is sensitive to supplier price changes, including changes relating to exchange rate movements. The Company works closely with its supplier base to manage effectively the scale and timing of price changes to end users and has extensive IT support to monitor and measure its effectiveness in passing through supplier price changes to the customer base.

Competition in the Packaging Distribution market is primarily from local companies with strong local connections and capability. The Company competes effectively on a local basis through its strong focus on and regular monitoring of customer service, its breadth and depth of product offering and the recruitment and retention of staff who have good local market knowledge.

MGUK's business is decentralised with a high dependency on effective local decision-making. In order to ensure management control of local decision-making there is a comprehensive management information system with all key sales, margin and working capital measures monitored consistently and regularly.

In Packaging Design and Manufacture, the main customer sectors are UK based manufacturers and industrial companies who need to protect their products in transit. Certain industries such as automotive and aerospace are large users of this type of packaging solution. To the extent that there is any decline in the UK industrial and manufacturing sector, this would be expected to have an impact on the Packaging Design and Manufacture business. This can be mitigated to some extent by accessing the large customer base through the Packaging Distribution business.

The Company has a significant investment in working capital in the form of trade debtors and stocks and there is a risk that this investment is not fully recovered. This risk is mitigated by applying rigour to the management of trade debtors through our credit control team. Stock levels and order patterns are regularly reviewed and risks arising from holding bespoke stocks are managed by obtaining order cover from customers.

MGUK is a member of the parent company Macfarlane Group's defined benefit pension scheme which is sensitive to a number of key factors including; discount rates used to calculate scheme liabilities, inflation rates being applied to deferred pensions and pensions in payment, mortality assumptions and investment returns. The valuation of the Group's defined benefit pension scheme as at 31 December 2020 estimated the Company's share of the deficit to be £0.8m, a decrease of £2.5m during 2020. Small changes in the assumptions can lead to large fluctuations in the deficit.

A new trading arrangement was concluded between the UK and the EU in December 2020. Based on our earlier impact analysis, the Company's view is that this trading arrangement should not have a significant impact on our supply costs. However, we shall continue to monitor and mitigate any disruption to our supply chain for EU sourced products.

There are a number of other risks that we manage which are not considered key risks. The Company is subject to the impact of general economic conditions, the competitive environment and risks associated with business continuity including cyber-security. These are mitigated in ways common to all businesses and not specific to the Company.

FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES

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

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

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

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

The Company's principal financial risks in the medium term relate to liquidity and credit risk. Liquidity risk is managed by ensuring that the Company's day-to-day working capital requirements are met by having access to banking facilities with suitable terms and conditions to accommodate the requirement of the Company's operations. Credit risk is mitigated by applying considerable rigour in managing the Company's trade debtors.

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

GOING CONCERN

As a wholly owned subsidiary of Macfarlane Group PLC, the Company is funded by having access to the Group's borrowing facility with Lloyds Banking Group PLC of £30 million which is in place until December 2025. In addition the Company has a letter of support from the parent company, Macfarlane Group PLC.

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

The Directors have carried out scenario planning for the continuing effects of the Covid-19 pandemic. These scenarios are constantly under review. Based on experience in 2021 to date, the Directors consider that the Company will continue to operate safely and profitably under all reasonable scenarios. Accordingly, the Directors have a reasonable expectation that the Company has adequate resources to continue in existence for at least twelve months from the date of signing these financial statements. For this reason they continue to adopt the going concern basis in preparing the financial statements.

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

John Love.

John Love
Company Secretary
26 February 2021

MACFARLANE GROUP UK LIMITED

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the financial year ended 31 December 2020. The Directors during the year and to the date of this report were:-

P.D. Atkinson I. Gray J. Love

PARENT COMPANY

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

DIVIDENDS AND TRANSFERS TO RESERVES

The results for the year are detailed in the profit and loss account on page 14 and the profit for the financial year of £10,219,000 (2019: £9,563,000) has been transferred to reserves. Dividends of £800,000 were paid during the current year (2019: £3,750,000).

FINANCIAL INSTRUMENTS

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

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken. The Company has not entered into any derivative financial instruments. The Company does not believe it will be exposed to any significant risks due to the nature of the financial instruments in the operation, the details of the financial risk management of the Company are included in the Strategic Report and form part of this report by cross-reference.

EMPLOYMENT OF DISABLED PERSONS

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

EMPLOYEE INVOLVEMENT

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

DISCLOSURE OF INFORMATION TO AUDITOR

The Directors holding office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information (as defined by the Companies Act 2006) of which the Company's auditor is unaware. Each Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

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

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

John Love

John Love
Company Secretary
26 February 2021

MACFARLANE GROUP UK LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Opinion

In our opinion the financial statements of Macfarlane Group UK Limited ("the Company") for the year ended 31 December 2020:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, which comprise

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

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

Basis for opinion

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

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

Conclusions relating to going concern

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.

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 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.

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Companies Act 2006; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations, pensions, and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, and reviewing internal audit reports.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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

David Sweeney CA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
United Kingdom
26 February 2021

MACFARLANE GROUP UK LIMITED

PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 2020

	Note	2020 £000	2019 £000
TURNOVER – continuing operations	2	**183,675**	183,696
Cost of sales		**(122,713)**	(124,551)
GROSS PROFIT		**60,962**	59,145
Distribution costs		**(6,287)**	(6,693)
Administrative expenses		**(41,195)**	(40,367)
Other operating income		**695**	837
		(46,787)	(46,223)
OPERATING PROFIT - continuing operations	3	**14,175**	12,922
Income from shares in group undertakings		**350**	800
Net interest payable	4	**(2,012)**	(2,179)
PROFIT BEFORE TAX		**12,513**	11,543
Tax on profit	6	**(2,294)**	(1,980)
PROFIT FOR THE YEAR		**10,219**	9,563

STATEMENT OF OTHER COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2020

		2020 £000	2019 £000
Other comprehensive expense			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of pension scheme liability	20	**186**	(579)
Tax on remeasurement of pension scheme liability	12	**(35)**	98
Corporation tax rate change	12	**66**	-
Other comprehensive income/(expense) for the year		**217**	(481)
Profit for the year		**10,219**	9,563
Total comprehensive income for the year		**10,436**	9,082

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2020

	Note	Called up Share Capital £000	Profit and Loss Account £000	Total Equity £000
At 1 January 2019		1,361	11,129	12,490
Profit for the year		-	9,563	9,563
Dividends paid	7	-	(3,750)	(3,750)
Other comprehensive expense for the year		-	(481)	(481)
At 31 December 2019		1,361	16,461	17,822
Profit for the year		-	10,219	**10,219**
Dividends paid	7	-	(800)	**(800)**
Other comprehensive expense for the year		-	217	**217**
At 31 December 2020		**1,361**	**26,097**	**27,458**

MACFARLANE GROUP UK LIMITED

BALANCE SHEET

31 DECEMBER 2020

	Note	2020 £000	2019 £000
NON-CURRENT ASSETS			
Intangible assets	8	**36,507**	36,107
Tangible assets	9	**4,547**	5,179
Right-of-use assets	10	**25,164**	22,126
Investments	11	**20,355**	17,301
Deferred tax assets	12	**155**	561
Debtors	14	**35**	34
TOTAL NON-CURRENT ASSETS		**86,763**	81,308
CURRENT ASSETS			
Stocks	13	**11,075**	12,448
Debtors	14	**41,997**	42,391
Cash at bank and in hand		**507**	1,188
		53,579	56,027
CREDITORS: amounts falling due within one year	15	**(53,371)**	(65,127)
NET CURRENT ASSETS/(LIABILITIES)		**208**	(9,100)
TOTAL ASSETS LESS CURRENT LIABILITIES		**86,971**	72,208
CREDITORS: amounts falling due after more than one year	16	**(57,521)**	(51,089)
Provisions	21	**(1,242)**	-
Pension liability	20	**(750)**	(3,297)
NET ASSETS		**27,458**	17,822
CAPITAL AND RESERVES			
Called up share capital	17	**1,361**	1,361
Profit and loss account	18	**26,097**	16,461
TOTAL SHAREHOLDER'S FUNDS		**27,458**	17,822

These financial statements of Macfarlane Group UK Limited, company number 1630389, were approved by the Board of Directors on 26 February 2021 and signed on behalf of the Board of Directors by

Ivor Gray .... John Love ....

Ivor Gray
Director

John Love
Director

1. ACCOUNTING POLICIES

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

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

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

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

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

The consolidated financial statements of Macfarlane Group PLC are prepared in accordance with Adopted IFRSs and are available on the Group website **www.macfarlanegroup.com** and may be obtained from 3 Park Gardens, Glasgow, G3 7YE.

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

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

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

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

1. ACCOUNTING POLICIES (CONTINUED)

Going concern

The Directors are of the opinion that the Company's cash flow forecasts and revenue projections, taking account of reasonably possible changes in trading performance given current market and economic conditions, show that the Company should be able to operate within its current facilities and that the Group will continue to comply with its banking covenants. As a consequence of the Covid-19 pandemic the Directors have modelled a range of scenarios, over a three-year horizon.

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

Key sources of estimation uncertainty

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

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

Retirement benefit obligations

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

Valuation of trade debtors

The allowance held against trade debtors is based on applying an expected credit loss model and related estimates of recoverable amounts, as detailed in note 14. Whilst every attempt is made to ensure that the allowance held against doubtful trade debtors is as accurate as possible, there remains a risk that the provision may not match the level of debt which ultimately proves uncollectable. An increase in the average default rate of overdue trade debtors from 2.57% to 3.75% would lead to an increase of £500,000 in the allowance.

Changes in accounting policies and applications of new accounting standards

There are no new accounting policies applied in 2020 which have had a material effect on these financial statements. In addition, the Directors do not consider that the adoption of new and revised standards and interpretations issued by the IASB in 2020 has had any material impact on the financial statements of the Company.

Application of accounting policies

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

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

1. ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. It is not amortised but is tested annually for impairment.

Patents and trademarks are valued at cost on acquisition and are amortised in equal annual instalments over their estimated useful economic lives considered to be between 5 and 10 years.

Tangible assets

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

Investments

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

Non-derivative financial instruments

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

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less an allowance for expected credit losses ("ECL").

Trade and other creditors

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

Interest-bearing borrowings

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

Stocks

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

Leases and Right-of-use ("ROU") assets

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

1. ACCOUNTING POLICIES (CONTINUED)

Leases and Right-of-use ("ROU") assets (continued)

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

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the liability by payments made. The Company remeasures the lease liability (and adjusts the related ROU asset) whenever the lease term has changed or a lease contract is modified and the modification is not accounted for as a separate lease. The Company did not make any such adjustments during the year presented.

ROU assets comprise the initial measurement of the corresponding lease liability and are subsequently measured at cost less accumulated depreciation and impairment losses. ROU assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the ROU asset reflects that the Company expects to exercise a purchase option, the related asset is depreciated over the useful life of the asset. Depreciation starts on commencement date of the lease.

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

The Company's incremental borrowing rates applied to lease liabilities throughout 2020 range between 2.75% and 3.00%.

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

Movements in ROU assets and lease liabilities in 2020 are set out in notes 10 and note 16 respectively.

Revenue recognition

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

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

1. ACCOUNTING POLICIES (CONTINUED)

Financial instruments

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

Financial assets

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

Other financial assets comprise trade and other debtors that have fixed or determinable recoveries and are classified as trade, intercompany and other debtors. The classification takes account of the nature and purpose of the financial assets and is determined on initial recognition. These are measured at amortised cost less impairment under the expected credit loss model.

Indicators are assessed for the impairment of financial assets at each balance sheet date. Financial assets are impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted. For trade debtors the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade debtors where the carrying amount is measured on an expected credit loss model at inception rather than an incurred loss model. When a trade debtor is uncollectible, it is written off against the provision made on inception or at a previous reporting period end. Subsequent recoveries of amounts previously written off are credited against the provision in accordance with IFRS 9. Changes in the carrying value of the provision are recognised in the profit and loss account.

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

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

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

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

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

Foreign currency translation

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

1. ACCOUNTING POLICIES (CONTINUED)

Taxation

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

Current tax payable is based on the taxable profit for the year. Taxable profit differs from profit before tax as reported in the profit and loss account as it excludes items of income or expense that are taxable or deductible in other years and also excludes items that are never taxable or deductible. The current tax liability is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax balances represent the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax assets and liabilities are not discounted.

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also recorded in the statement of other comprehensive income.

Retirement benefit costs

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

Defined contribution scheme

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

Defined benefit scheme

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

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

1. ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs

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

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

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

The net defined benefit cost of the Group scheme is apportioned between participating employers on the basis of the employment history of scheme members, who are allocated to the relevant subsidiary company, with any remaining unallocated members allocated to the parent company.

Property provisions

The Company has a number of property leases. Where the Company has made the decision to terminate a lease at the end of primary or secondary period and the repairing obligation under the lease has not been fully completed by the Company before expiry, a provision is made for management's best estimate of the cost of any residual repairing obligation for that property lease.

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

2. TURNOVER

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

	2020 £000	2019 £000
United Kingdom	**181,082**	180,840
Europe	**2,300**	2,403
North America	**238**	379
Other overseas sales	**55**	74
Total turnover	**183,675**	183,696

3. OPERATING PROFIT

	2020 £000	2019 £000
Operating profit is arrived at after charging/(crediting):		
Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales	**120,895**	122,619
Depreciation of tangible assets	**1,108**	1,161
Depreciation of Right-of-use assets	**5,711**	5,398
Gain on disposal of assets	**(4)**	(2)
Auditor's remuneration for audit services	**105**	100

There were no non-audit fees payable to Deloitte LLP in the current or preceding financial year.

4. NET INTEREST PAYABLE

	2020 £000	2019 £000
Interest receivable on bank balances	**-**	9
Interest on intercompany loan balances	**(1,325)**	(1,400)
Interest on lease obligations	**(636)**	(671)
Net interest expense on pension scheme deficit (note 20)	**(51)**	(117)
Net interest payable	**(2,012)**	(2,179)

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2020 £000	2019 £000
Total emoluments of all directors are as follows:		
Salary and benefits in kind	**157**	140
Defined contribution pension scheme contributions	**14**	12
Aggregate emoluments	**171**	152

		2020 £000	2019 £000
Staff costs during the year (including directors' costs)			
Wages and salaries		**25,331**	25,108
Social security costs		**2,351**	2,331
Pension costs	defined contribution schemes	**1,335**	1,345
	defined benefit scheme	**158**	89
		29,175	28,873
Recharge to	Nelsons for Cartons & Packaging Limited	**(776)**	(651)
	Nottingham Recycling Limited	**(265)**	(261)
	Harrisons Packaging Limited	**(537)**	(357)
	Ecopac (U.K.) Limited	**(757)**	(401)
	Leyland Packaging Company (Lancs) Limited	**(402)**	-
		26,438	27,203

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

Retirement benefits accrue to two directors (2019: two) under the parent company's pension schemes. These directors are remunerated by Macfarlane Group PLC, the ultimate parent company. They are not remunerated for their services as directors of Macfarlane Group UK Limited and therefore there is no directors' remuneration included in the costs set out above.

In prior years, all employees of Nelsons for Cartons & Packaging, Nottingham Recycling, Harrisons Packaging and Ecopac (U.K.) Limited, fellow subsidiaries of Macfarlane Group PLC, transferred into the employment of the Company. In 2020 all employees of Leyland Packaging Company (Lancs) transferred into the employment of the Company. All employee costs are now borne by the Company and costs incurred for employees recharged to each of the companies as set out above.

	2020	2019
Average number of persons employed	**No.**	**No.**
Production	**96**	112
Sales and distribution	**466**	475
Administration	**215**	217
	777	804

6. TAX ON PROFIT

	2020	2019
	£000	**£000**
United Kingdom corporation tax :		
Current tax	**1,915**	1,611
Adjustments in respect of prior years	**(58)**	(15)
Total current tax	**1,857**	1,596
Total deferred tax (note 12)	**437**	384
Tax on profit	**2,294**	1,980

The average rate of current tax for the year, based on the UK standard rate of corporation tax, is 19% (2019: 19%). The actual tax charge for the current and prior years varies from 19% (2019: 19%) for the reasons set out in the following reconciliation:

	2020	2019
	£000	**£000**
Profit before tax	**12,513**	11,543
Tax charge on profit before tax at an average rate of 19%	**2,377**	2,193
Factors affecting charge:		
Depreciation in excess of capital allowances	-	(1)
Expenses not deductible for tax purposes	**16**	(15)
Income from shares in group undertakings – non-taxable	**(67)**	(152)
Deferred tax asset not previously recognised	**(32)**	-
Other timing differences	-	(45)
Total tax charge for the year	**2,294**	1,980

7. DIVIDENDS PAID

	2020	2019
	£000	£000
Amounts recognised as distributions to equity holders in the year		
Interim dividend of 58.768p per share (2019 – interim dividend of 275.475p)	**800**	3,750

8. INTANGIBLE ASSETS

	Purchased goodwill	Patents & Trademarks	Total
	£000	£000	£000
Cost			
At 1 January 2020	40,053	240	**40,293**
Additions	400	-	**400**
At 31 December 2020	**40,453**	**240**	**40,693**
Accumulated amortisation and impairment			
At 1 January 2020 and 31 December 2020	**3,946**	**240**	**4,186**
Net book value			
At 31 December 2020	**36,507**	-	**36,507**
At 31 December 2019	36,107	-	36,107

On 6 January 2020, the Company acquired the goodwill, trade and selected assets of Armagrip, a packaging distributor based in Co. Durham for cash consideration of £888,000. The value paid in excess of the net components of working capital amounted to £400,000 and has been treated as purchased goodwill.

Goodwill comprises the value arising in business combinations representing the excess of the cost of acquisition over the net fair values of identifiable assets and liabilities of the acquired subsidiary at the effective date of acquisition. Goodwill is allocated to Cash Generating Units, ("CGUs") expected to benefit from the synergies of the combination, for the purpose of impairment testing. At 31 December 2020, the parent company, Macfarlane Group PLC, had two CGU groupings to which goodwill had been ascribed, with the major one being Packaging Distribution, comprising goodwill arising on all acquisitions in this segment since 2001, with the majority of the parent's Packaging Distribution CGU being reflected in this Company. The recoverable amount of the total CGU grouping is determined using 'value in use' calculations with key assumptions relating to discount rates, growth rates and projected gross margin and overhead costs as set out in the accounts of the parent company.

The Directors believe the assumptions used are appropriate, but in addition conducted sensitivity analysis to determine the changes in assumptions that would result in an impairment of the carrying value of goodwill at 31 December 2020. Based on this analysis the Directors believe that any reasonable changes in the key assumptions would maintain a recoverable amount for the CGU grouping, which exceeds its carrying value. Therefore no impairment charge is required against the carrying value of goodwill in 2020.

Based on the exemption stated in note 1, no further disclosure relating to the current or prior year acquisitions is made in these financial statements.

9. TANGIBLE ASSETS

	Land and buildings £000	Plant, machinery, vehicles & fittings £000	Total £000
Cost			
At 1 January 2020	6,422	15,303	**21,725**
Additions	117	418	**535**
Disposals	-	(194)	**(194)**
At 31 December 2020	**6,539**	**15,527**	**22,066**
Accumulated depreciation			
At 1 January 2020	3,350	13,196	**16,546**
Charge for the year	384	724	**1,108**
Disposals	-	(135)	**(135)**
At 31 December 2020	**3,734**	**13,785**	**17,519**
Net book value			
At 31 December 2020	**2,805**	**1,742**	**4,547**
At 31 December 2019	3,072	2,107	5,179

10. RIGHT OF USE ASSETS

	Property £000	Plant, machinery & vehicles £000	Total £000
Cost			
At1 January 2020	21,202	6,322	**27,524**
Additions	626	638	**1,264**
Lease modifications	5,713	220	**5,933**
Disposals	(38)	(435)	**(473)**
At 31 December 2020	**27,503**	**6,745**	**34,248**
Accumulated depreciation			
At1 January 2020	3,919	1,479	**5,398**
Charge for the year	4,144	1,567	**5,711**
Lease modifications	(1,482)	(70)	**(1,552)**
Disposals	(38)	(435)	**(473)**
At 31 December 2020	**6,543**	**2,541**	**9,084**
Net book value			
At 31 December 2020	**20,960**	**4,204**	**25,164**
At 31 December 2019	17,283	4,843	22,126

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

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

11. INVESTMENTS

	Shares in subsidiary undertakings £000
Cost	
At 1 January 2020	17,615
Group transfers	3,054
At 31 December 2020	20,669
Provision for impairment	
At 1 January 2020 and 31 December 2020	314
Net book value	
At 31 December 2020	20,355
At 31 December 2019	17,301

On 31 December 2020, the parent company, Macfarlane Group PLC transferred its shareholding in Leyland Packaging Company (Lancs) Limited to the Company at the original acquisition cost of £3,054,000.

Dormant Companies

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

	Company number	Country of Registration
Online Packaging Limited	02903657	England
Abbott's Packaging Limited	01385800	England
Mitchell Packaging Limited	00535311	England
Macfarlane Packaging Limited	SC041678	Scotland
Greenwoods Stock Boxes Limited	SC576825	Scotland
Network Packaging Limited	03400627	England
Tyler Packaging (Leicester) Limited	03460830	England

Trading companies

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

	Company number	Country of Registration	Principal activity
Nottingham Recycling Limited	03249021	England	Recycling waste paper
Carnweather Limited	08638532	England	Intermediate parent company
Ecopac (U.K.) Limited	02783546	England	Packaging distribution
Harrisons Packaging Limited	06999588	England	Packaging distribution
Leyland Packaging Company (Lancs) Limited	03775077	England	Packaging distribution

All the above companies registered in England have their registered office at Siskin Parkway East, Middlemarch Business Park, Coventry, CV3 4PE.

The registered office of the companies registered in Scotland is 3 Park Gardens, Glasgow G3 7YE.

MACFARLANE GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2020

12. DEFERRED TAX

	2020 £000	2019 £000
Deferred tax asset		
At 1 January	**561**	847
Credit to the statement of other comprehensive income		
Tax on remeasurement of pension liability	**(35)**	98
Corporation tax rate change	**66**	-
Tax charge through profit and loss account (note 6)	**(437)**	(384)
At 31 December	**155**	561

Deferred tax assets at 31 December 2020 have been calculated based on a long-term rate of 19% (2019: 17%).

13. STOCKS

	2020 £000	2019 £000
Raw materials and consumables	**394**	221
Work in progress	**8**	7
Finished goods and goods for resale	**10,673**	12,220
	11,075	12,448

	2020 £000	2019 £000
Movement in the provisions for slow-moving and obsolete stocks		
At 1 January	**375**	247
Provisions established and charged in the profit and loss account	**1,000**	492
Stocks written off during the year	**(499)**	(364)
At 31 December	**876**	375

14. DEBTORS

	2020 £000	2019 £000
Due within one year		
Trade debtors	**37,051**	37,972
Amounts owed by group undertakings	**1,396**	421
Other debtors	**2,300**	2,201
Lease receivables	-	246
Prepayments and accrued income	**1,250**	1,551
	41,997	42,391
Due after more than one year		
Other debtors	**35**	34

14. DEBTORS (continued)

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

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

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

Risk profile category (ageing)	**2020 £000**	**ECL rate**	**2020 ECL allowance**	2019 £000	ECL Rate	2019 ECL allowance
Current	**29,838**	**1.75%**	**523**	28,161	0.32%	89
Overdue						
0 –30 days	**4,896**	**3.32%**	**163**	5,387	0.63%	34
30-60 days	**2,661**	**5.04%**	**134**	3,588	0.81%	29
60-90 days	**520**	**16.19%**	**84**	868	2.81%	24
Over 90 days	**113**	**64.91%**	**73**	170	15.46%	26
	38,028	**2.57%**	**977**	38,174	0.53%	202

The level of loss allowance has remained steady within a range of between 0.50% and 2.75% of the gross value of trade debtors. Amounts in the balance sheet are shown net of the allowance for trade debtors of £977,000 (2019: £202,000). The ECL values reflect the Company's prior experience and assessment of the current economic environment. In determining the recoverability of trade debtors and therefore the level of loss allowance, known changes in credit quality from the date credit was originally granted are taken into account.

Movement in loss allowance	**2020 £000**	**2019 £000**
At 1 January	**202**	187
Change in loss allowance for new trade debtors in the year	**1,195**	187
Amounts written off as uncollectible in the year	**(420)**	(172)
At 31 December	**977**	202

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

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020 £000	2019 £000
Bank borrowings (see below)	**6,788**	15,761
Amounts due under leases (note 16)	**4,914**	5,343
Trade creditors	**29,017**	31,624
Amounts owed to group undertakings	**55**	35
Amounts owed to parent company (note 16)	**3,000**	2,250
Other taxation and social security	**3,448**	3,090
Other creditors	**-**	800
Corporation tax	**1,133**	754
Accruals and deferred income	**5,016**	5,470
	53,371	65,127

The Group's bank borrowing facility with Lloyds Banking Group PLC of £30 million is available until December 2025. Under the facility, the trade receivables of Macfarlane Group UK Limited have been assigned to Lloyds who then fund the Group in advance of the collection of the transferred receivables. The Invoice Discounting facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over the trade debtors of the Company.

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

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

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

	2020 £000	2019 £000
Amounts due under leases	**20,486**	17,003
Amounts owed to parent company	**28,500**	25,802
Amounts owed to subsidiary undertakings	**8,535**	8,284
	57,521	51,089

Whilst the Company has net current liabilities, it has access to the Group's borrowing facilities and has sufficient funds to meet its liabilities as they fall due. The Company receives support from its parent company, Macfarlane Group PLC. The Directors have received a letter of support from the parent company confirming that of £31,500,000 due to the parent company, (2019: £28,052,000) amounts totalling £28,500,000 (2019: £25,802,000) will not fall due for repayment until at least twelve months from the balance sheet date.

Loan repayments will take the Company's cash generation in 2021 into account.

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

AMOUNTS DUE UNDER LEASES	2020 £000	2019 £000
Within one year	**4,914**	5,343
Between one and five years	**14,273**	13,392
After more than five years	**6,213**	3,611
	25,400	22,346

Movement in leases	2020 £000	2019 £000
At 1 January	**22,346**	28
On adoption of IFRS 16 on 1 January 2019	**-**	24,655
New leases entered into during year	**1,264**	3,386
Lease modifications	**7,485**	-
Repayments under leases	**(5,695)**	(5,723)
At 31 December	**25,400**	22,346

17. CALLED UP SHARE CAPITAL

	2020 £000	2019 £000
Called up, allotted and fully paid		
1,361,400 (2019: 1,361,400) ordinary shares of £1 each	**1,361**	1,361

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

18. PROFIT AND LOSS ACCOUNT

	2020 £000	2019 £000
At 1 January	**16,461**	11,129
Profit for the year	**10,219**	9,563
Dividends paid	**(800)**	(3,750)
Remeasurement of pension scheme liability	**186**	(579)
Tax on remeasurement of pension scheme liability	**(35)**	98
Long-term corporation tax rate change on deferred taxation	**66**	-
At 31 December	**26,097**	16,461

19. CONTINGENT LIABILITIES

The Company has given an intercompany guarantee to secure the bank borrowings of the parent company and certain fellow subsidiaries. There was no contingent liability at 31 December 2020 under that guarantee.

20. PENSION LIABILITY

Introduction

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

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

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

Active members' benefits also include life assurance cover, with the payment of these benefits at the discretion of the Trustees of the scheme.

The scheme was closed to new entrants during 2002.

On withdrawing from active service a deferred member's pension is revalued from the time of withdrawal until the pension is drawn. Revaluation in deferment is statutory and since 2010 has been revalued on the Consumer Price Index ("CPI") measure of inflation.

Revaluation of pensions in payment is a blend of fixed increases and inflationary increases depending on the relevant periods of accrual of benefit. For pensions in payment, the inflationary increase is currently based on the Retail Prices Index ("RPI") measure of inflation or based on Limited Price Indexation ("LPI") for certain defined periods of service.

During 2012, Macfarlane Group PLC agreed with the Board of Trustees to amend benefits for pensioner, deferred and active members in the scheme. A Pension Increase Exchange ("PIE") option was offered to all pensioner members in 2012. A PIE option for deferred and active members has been offered for all retirements after 1 May 2012.

Balance sheet disclosures at 31 December 2020

The pension scheme's qualified actuary from Aon Hewitt carries out triennial valuations using the Projected Unit Credit Method to determine the level of deficit. For the most recent triennial valuation at 1 May 2020, the results of this valuation showed that the market value of the relevant investments of the scheme was £94,100,000 and represented 91% of the actuarial value of benefits that had accrued to members.

20. PENSION LIABILITY (continued)

The investments held by the scheme and the scheme deficit, based on the results of the 2020 actuarial valuation updated to the year-end for the amounts attributable to Macfarlane Group UK Limited, are as shown below:-

	2020 £000	2019 £000
Investment class		
Equities	**11,697**	11,291
Multi-asset diversified funds	**16,095**	12,945
Liability-driven investment funds	**16,046**	14,121
Secured property income fund	**3,190**	3,158
European loan fund	**3,311**	3,253
Cash	**371**	143
Fair value of scheme investments	**50,710**	44,911
Present value of scheme liabilities	**(51,460)**	(48,208)
Scheme Deficit	**(750)**	(3,297)

The scheme's liabilities were calculated on the following bases required under IAS19:

Assumptions	**2020**	**2019**	**2018**
Discount rate	**1.35%**	2.00%	2.80%
Rate of increase in salaries	**0.00%**	0.00%	0.00%
Rate of increase in pensions in payment	**3% or 5% for fixed increases or 2.95% for LPI. 2.15% post 5 April 2006**	3% or 5% for fixed increases or 2.95% for LPI. 2.15% post 5 April 2006	3% or 5% for fixed increases or 3.20% for LPI. 2.25% post 5 April 2006
Inflation assumption (RPI)	**3.00%**	3.00%	3.30%
Inflation assumption (CPI)	**2.50%**	2.10%	2.30%
Spouse's pension assumption			
Pensioner/active and deferred members	**75%/75%**	70%/80%	70%/80%
PIE take up rate	**65%**	45%	45%
Life expectancy beyond normal retirement date of 65			
Males currently aged 55	**22.8 years**	22.6 years	23.5 years
Females currently aged 55	**24.3 years**	24.7 years	25.7 years
Males currently aged 65	**22.2 years**	22.0 years	23.5 years
Females currently aged 65	**23.5 years**	24.0 years	25.7 years
Average uplift for GMP service	**0.40%**	0.40%	0.40%

20. PENSION LIABILITY (continued)

Sensitivity to significant assumptions

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

	2020	2019
	£000	£000
Assumptions		
Discount rate movement of +0.6%	**4,938**	4,626
Inflation rate movement of +0.1%	**(263)**	(246)
Mortality movement of +0.1 year in age rating	**155**	145

Positive figures reflect a reduction in scheme liabilities and therefore a reduction in the Pension scheme deficit. The sensitivity information has been prepared using the same method as adopted when updating the results of the 2020 actuarial valuation to the balance sheet date and is consistent with the approach adopted in previous years. It is set out in this manner to enable calculations of larger movements to be undertaken relatively easily.

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

	2020	**2019**
	£000	**£000**
Movement in the scheme deficit in the year		
At 1 January	**(3,297)**	(4,980)
Current service cost	**(114)**	(89)
GMP on transfer values	**(44)**	-
Contributions	**2,570**	2,468
Interest costs	**(51)**	(117)
Remeasurement of pension scheme liability	**186**	(579)
At 31 December	**(750)**	(3,297)

	2020	**2019**
	£000	**£000**
Movement in the fair value of scheme assets		
At 1 January	**44,911**	38,672
Interest income	**893**	1,076
Actuarial gain	**4,493**	4,784
Contributions paid by Company	**2,570**	2,468
Contribution from scheme members	**27**	56
Benefits paid	**(2,184)**	(2,145)
At 31 December	**50,710**	44,911

20. PENSION LIABILITY (continued)

Movement in the present value of scheme liabilities	2020 £000	2019 £000
At 1 January	**(48,208)**	(43,652)
Current service costs	**(114)**	(89)
GMP on transfer values	**(44)**	-
Interest costs	**(944)**	(1,193)
Contribution from scheme members	**(27)**	(56)
Actuarial loss in the year	**(4,307)**	(5,363)
Benefits paid	**2,184**	2,145
At 31 December	**(51,460)**	(48,208)

The cumulative remeasurement of the pension liability applied against reserves since the transition to IAS 19 on 1 January 2004 is a loss of £20,803,000 (2019: £20,989,000).

Analysis of amounts charged to operating profit	2020 £000	2019 £000
Current service costs	**(114)**	(89)
GMP on transfer values	**(44)**	-
Pension costs charged to operating profit	**(158)**	(89)
Analysis of amounts charged to net interest expense		
Interest income on pension scheme assets	**893**	1,076
Interest cost of pension scheme liabilities	**(944)**	(1,193)
Net interest expense	**(51)**	(117)
Analysis of the remeasurement of the pension scheme liability included in the statement of other comprehensive income		
Actual return on assets excluding amounts recognised in net interest expense	**4,493**	4,784
Changes in assumptions underlying the present value of the scheme's liabilities	**(4,307)**	(5,363)
Remeasurement of pension scheme liability	**186**	(579)

	2020 £000	2019 £000	2018 £000	2017 £000	2016 £000
Present value of scheme liabilities	**(51,460)**	(48,208)	(43,652)	(47,320)	(47,096)
Fair value of scheme assets	**50,710**	44,911	38,672	41,290	39,682
Scheme deficit	**(750)**	(3,297)	(4,980)	(6,030)	(7,414)

20. PENSION LIABILITY (continued)

Experience adjustment - scheme assets

	2020	2019	2018	2017	2016
Difference between expected and actual return on scheme assets £000	**4,493**	4,784	(2,904)	860	4,216
Percentage of scheme assets	**8.9%**	10.7%	(7.5%)	2.1%	10.6%
Actual return - scheme assets £000	**5,386**	5,860	(1,891)	1,913	5,475
Percentage of scheme assets	**10.6%**	13.0%	(4.9%)	4.6%	13.8%

Defined contribution schemes

The Company also participates in a number of defined contribution arrangements within the Macfarlane Group PLC Group Personal Pension Plan. Contributions charged to the profit and loss account in respect of these defined contribution arrangements for the year were £1,355,000 (2019: £1,345,000).

Contributions from the Company amounting to £154,000 were payable to the scheme and are included in creditors at 31 December 2020 (2019: £158,000).

21. PROVISIONS

Property provisions	**2020 £000**	**2019 £000**
At 1 January	-	-
Reclassifications from accrued charges	**17**	-
Additions in the year	**1,225**	-
At 31 December	**1,242**	-

Property provisions relate to sums due in respect of dilapidations.

22. RELATED PARTY TRANSACTIONS AND RELATED UNDERTAKINGS

The Company has related party relationships with

(i) its parent company, Macfarlane Group PLC;

(ii) its subsidiary companies,

(iii) its Directors; and

(iv) the Macfarlane Group PLC sponsored pension schemes.

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

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

Disclosures in relation to the pension schemes are set out in note 20.

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

23. ULTIMATE PARENT COMPANY

The immediate and ultimate parent company is Macfarlane Group PLC, a company registered in Scotland. Macfarlane Group PLC is the parent undertaking of the smallest and largest group, which includes the Company and for which group financial statements are prepared. Group financial statements may be obtained from Macfarlane Group PLC's registered office at 3 Park Gardens, Glasgow G3 7YE.