



Macfarlane Group PLC

Annual Report and Accounts 2022

Investing to deliver sustainable
protective packaging solutions

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Financial and sustainability highlights 2022

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

Revenue*

£290.4m

2022 **£290.4m**
2021 **£264.5m**

Profit before tax*

£19.9m

2022 **£19.9m**
2021 **£18.7m**

Carbon intensity (tCO₂e per £000 revenue)

0.0204

2022 **0.0204**
2021 **0.0234**

Operating profit* (% of sales)

7.4%

2022 **7.4%**
2021 **7.6%**

Diluted earnings per share*

9.84p

2022 **9.84p**
2021 **8.62p**

GHG emissions

5,911 tCO₂e

2022 **5,911 tCO₂e**
2021 **6,676 tCO₂e**

Gross margin* (% of sales)

33.8%

2022 **33.8%**
2021 **33.8%**

Dividend per share

3.42p

2022 **3.42p**
2021 **3.20p**

Accident Frequency Rate (AFR)

0.23

2022 **0.23**
2021 **0.28**

* From continuing operations.

Our business at a glance

Headquartered in Glasgow, Macfarlane Group PLC employs over 1,000 people at 37 sites, principally in the UK, as well as in Ireland, Germany and the Netherlands and services more than 20,000 customers across a wide range of sectors.

- Head offices
- Packaging Distribution
- Manufacturing Operations
- Innovation Labs

Regional breakdown

Our business is split into four UK regions, as well as our European footprint.

Europe *

Sales

£16.4m

No. of employees **51**

No. of vehicles **2**

No. of sites **3**

No. of customers **3,398**

North *

Sales

£71.5m

No. of employees **165**

No. of vehicles **35**

No. of sites **8**

No. of customers **3,559**

Midlands *

Sales

£87.2m

No. of employees **391**

No. of vehicles **43**

No. of sites **8**

No. of customers **3,131**

South west *

Sales

£56.2m

No. of employees **252**

No. of vehicles **30**

No. of sites **8**

No. of customers **6,589**

South east *

Sales

£63.4m

No. of employees **153**

No. of vehicles **33**

No. of sites **7**

No. of customers **7,865**

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

A resilient business

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

Breadth of customers and markets served

Range of long established supplier relationships

Focus and depth of expertise in protective packaging

Performance driven culture

Value added proposition

Bespoke product and service range

Key financial highlights 2022

The key financial highlights of Macfarlane Group PLC¹ 2022 are set out below:

- Revenue from continuing operations grew by 10% versus 2021 to £290.4m.
- Profit before tax from continuing operations at £19.9m increased by 7% which is reflected in the increase in dividend.
- Basic and diluted earnings per share were 9.89p per share (2021: 7.98p per share) and 9.78p per share (2021: 7.90p per share) respectively.

Packaging Distribution

- Packaging Distribution achieved revenue growth of 8% to £259.7m (2021: £239.5m) through the recovery of input prices and the benefits from the acquisitions of Carters Packaging in March 2021 and PackMann in May 2022 which offset reduced demand from e-commerce customers.
- In line with our strategy to support our customers by increasing our geographic coverage we acquired PackMann in Germany in May 2022. PackMann revenues are in line with our expectations, but operating profit has been impacted by higher input costs.
- Gross margins are stable at 32.1% (2021: 32.4%) reflecting effective recovery of input price inflation.

- Operating profit before amortisation only increased by 1% to £19.9m (2021: £19.7m) due to cost increases. The key areas where costs have increased were start-up costs related to the new North-West of England distribution centre, strategic IT investments and inflationary pressures primarily in labour, energy and logistics costs.

Manufacturing Operations

- Manufacturing Operations delivered an excellent performance in 2022 with revenues growing by 23% to £30.8m (2021: £25.0m) and operating profit before amortisation increasing 42% to £5.2m (2021: £3.7m). GWP, acquired in February 2021, continued to perform well. The Macfarlane Design and Manufacture business benefited from recovery in the aerospace sector and the strengthening of its partnership with Packaging Distribution.
- The Group sold its Labels business in December 2021 and this has been classified as a discontinued operation. Labels recorded a loss before tax of £0.1m in 2022 (2021: Loss £0.9m) related to finalisation of completion accounts.

Group

- Net cash inflow from operating activities of £18.0m (2021: £23.8m) reflects the timing of payments at the year end to suppliers and higher 2021 employee incentive payments paid in 2022.

- Net bank debt on 31 December 2022 was £3.4m, a net cash outflow of £5.9m from 31 December 2021, including £8.7m of investment in acquisitions and a higher level of capital expenditure of £3.3m related primarily to the fit-out of the new distribution centre in the North-West of England (£1.3m). The Group is operating well within its existing bank facility of £30.0m and relevant covenants which runs until 31 December 2025.
- The Pension Scheme surplus increased to £10.2m at 31 December 2022 (31 December 2021: £8.3m). This improvement is due to continued contributions from the Group and an increase in the discount rate offset by a decline in the value of investments during the year. This is against the backdrop of considerable volatility in the markets, in particular government gilt yields.
- The Board is proposing a final dividend of 2.52p per share (2021: 2.33p per share) which would take the total dividend for 2022 to 3.42p per share (2021: 3.20p per share) up 7% on 2021.

Group performance

	2022 £000	2021 £000	Increase %
Continuing operations			
Revenue	290,431	264,465	10%
Operating profit before amortisation ²	25,073	23,366	7%
Operating profit	21,496	20,055	7%
Profit before tax	19,934	18,665	7%
Continuing and discontinued³ operations			
Profit for the year	15,637	12,598	24%
Interim and proposed final dividend (pence)	3.42p	3.20p	7%
Basic earnings per share (pence)	9.89p	7.98p	24%

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

² See page 89 for reconciliation of Alternative Performance Measure operating profit before amortisation to operating profit.

³ In accordance with IFRS5, the 2021 and 2022 results of the Labels business, sold on 31 December 2021, have been stated as a discontinued operation. The loss for the year from the discontinued operation was £0.1m (2021: £1.1m).

Chair's statement

In my first statement as Chair of Macfarlane Group, I am pleased to report that the Group results for the year ended 31 December 2022 were ahead of both the previous year and market expectations.

Trading

Our performance in 2022 was achieved against a background of a marked slowdown in spend from the e-commerce sector, following strong growth during the 2021 Covid-19 lockdown periods, and inflationary pressures on operating costs.

Our Packaging Distribution business achieved revenue growth of 8% through the benefit of acquisitions, good progress from our 'Follow the Customer'¹ strategy in Europe and the recovery of raw material price inflation. Profitability was only slightly higher than 2021 due to the start-up costs for our new distribution centre in the North-West of England, strategic investments in our IT capability and inflationary increases in operating costs.

Our Manufacturing Operations have had an excellent year, with strong growth in sales and operating profit. We benefited from the 2021 acquisition of GWP, demand recovery in certain industrial markets and the partnership with our Packaging Distribution business continued to strengthen.

We were able to fund £11.9m (2021: £14.4m) of acquisition and capital investment activity through our existing bank facilities due to the continued strong operating cash flows and reinvesting the proceeds from the sale of our Labels business in December 2021.

The pension scheme remains in surplus, with the Directors working in close co-operation with the trustees and their advisers to manage investments successfully through volatility in the markets in the second half of 2022.

The dedication and commitment of all our colleagues has been critical to our success and I thank them for all their hard work in 2022.

Environment, Social and Governance ('ESG')

The Group has made good progress in 2022 on its ESG commitments. We have commenced the programme to electrify our fleet of delivery vehicles, continued to introduce solar panels at our sites, worked with our customers to move to more sustainable plastic products and invested in an additional Innovation Lab to help our customers reduce their carbon footprint. The Board is now more diverse and we have increased our level of engagement with the local communities in which we operate.

Board changes

As set out in the Interim Report 2022, Stuart Paterson stood down as Chair at the end of September 2022 and the Board would like to thank Stuart for his valuable contribution as Chair and prior to that as a Non-Executive Director.

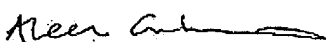
On 1 October 2022, Laura Whyte was appointed to the Board as an independent Non-Executive Director and Chair of the Remuneration Committee. Laura brings extensive commercial and human resources experience to the Board.

Proposed dividend

The Board is proposing a final dividend of 2.52 pence per share, amounting to a full year dividend of 3.42 pence per share (2021: 3.20 pence per share), an increase of 7%. Subject to the approval of shareholders at the Annual General Meeting on Tuesday 9 May 2023 the final dividend will be paid on Thursday 1 June 2023 to those shareholders on the register at Friday 12 May 2023.

Outlook

We anticipate that 2023 will be another challenging year with uncertainty over the impact of the increase in the cost of living on customer demand, rising operating costs, particularly related to labour and energy, and increasing interest costs. Despite these challenges, with the effectiveness of our strategy, the resilience of our business model and the experience and commitment of our people, we expect Macfarlane Group to continue to deliver further growth in 2023.



Aleen Gulvanessian
Chair

23 February 2023

¹ 'Follow the Customer' is the Group's strategy to provide UK customers with access to its products and services in mainland Europe.

Chair's statement

(continued)

It is vital we are at the forefront of sustainable offerings in relation to protective packaging in order to continue our overall growth.

Our new chair Aleen Gulvanessian answers questions about her role and the key strategic decisions facing the board, to ensure continued growth.

Q.

What can we expect to see from Macfarlane that will be different from before with you in the Chair?

A.

Well firstly I must commend Stuart Paterson for his excellent stewardship of the Group during his successful tenure as Chair. It is not an easy act to follow, but I hope with my experience in Corporate M&A and Governance I can bring my own style to support the executive team to continue to grow the Group in the best interests of all our stakeholders and with a focus on ESG. I like the culture and purpose of the Group and that is not something I will be looking to change.

Q.

Macfarlane has grown consistently over the past decade, how do you plan to maintain this momentum?

A.

What is interesting is that whilst we have grown considerably, both organically and through acquisition, the opportunities for further growth are still very much there. We are well positioned to continue our organic growth through our sustainable value offering to customers, as well as continuing to execute on our acquisition pipeline. Our acquisition in Europe last year opens up a wider market with strong growth opportunities and complements our existing 'Follow the Customer' programme.

Q.

With the sale of Labels last year, Macfarlane is now 'pure protective packaging'. Is that how you see the business going forward?

A.

We were sad to lose our Labels colleagues, many of whom had been at Macfarlane for a considerable length of time. However, it was the right strategic decision for the Group and for the Labels business, which I hope will flourish under its new owners. Being a 'pure protective packaging' player, allows us to focus on our core strengths and leverage our scale. I see us remaining in the protective packaging space, however we will always keep a close eye on adjacent products or markets that may add value to our customers and complement our existing business model.

Q.

Last year saw Macfarlane's first overseas acquisition in some years, do you plan further European acquisitions?

A.

It was very pleasing to have made our first protective packaging acquisition in Europe. This has increased our profile in Europe and has already resulted in an increased pipeline of potential future opportunities. Whilst our core acquisition pipeline will remain focused on the UK, we will continue to be amenable to high quality opportunities within Europe that complement our 'Follow the Customer' programme. Whilst we are excited about expansion in Europe, we will expand with care and be selective with our targets.

Q.

Are you confident that you'll be able to maintain margins for Macfarlane in the face of the cost inflation that you and many other businesses are facing?

A.

Costs are currently increasing in many areas. Macfarlane has been experiencing significant increases in its paper and polymer based products since 2020, driven by increased demand and supply constraints during the Covid-19 period. The price of both paper and polymer based products are always fluctuating. However, working with our customers we have effectively managed price changes over many years. I am confident in our ability to continue to do this and at the same time maintain our margins.

Increases in labour and energy costs will be a challenge, but we have plans in place to offset these increases and our investments in IT and more efficient Distribution Centres are examples of how we are looking to improve productivity.

Q.

There is growing pressure on businesses to use less packaging; does that signal the decline of packaging businesses like Macfarlane?

A.

On the contrary, this actually fits well with our business model and value offering. Packaging will always be necessary but packaging suppliers need to respond to the ever-changing needs of their customers. Because Macfarlane is primarily a distributor, we are able to flex our offerings to the customer to enable them to optimise their packaging – reducing their total costs and ours. With our two Innovation Labs, in Milton Keynes and Heywood, we help design bespoke

packaging solutions for customers. This enables our customers to reduce the amount of packaging they use, improve the efficiency of their packing operations and protect their reputation with their own customers by reducing damages and returns. This saves them money and in most cases reduces their carbon footprint – so it is pleasing that we are already well on the front foot in this area and we are committed to continuously improving our proposition to add value for our customers.

Q.

The whole environment, social and governance (ESG) agenda remains a key focus for many businesses. How important will this be for Macfarlane Group going forward?

A.

It is difficult to over-estimate how important ESG is and will be going forward. It is clear that consumer consciousness in relation to the sustainability of the packaging they receive is only increasing. It is vital we are at the forefront of sustainable offerings in relation to protective packaging in order to continue our overall growth. In respect of our own carbon footprint, the introduction of electric delivery vehicles is a major initiative to reduce our carbon emissions. From a social perspective, we are proud of the way we looked after our employees during the Covid-19 challenges, and we continue to review our working practices in consultation with our workforce to allow more flexible working as well as create new initiatives such as our new employee volunteer day. As for Governance, we now have a third of the Board being female, adding the strength of diversity to the Board. ESG is a standing item on our Board agenda and ESG matters will naturally be key factors in any Board decisions in 2023 and beyond.

Q.

As the cost-of-living crisis continues, what are you doing to help your people manage this and how are you managing staff retention?

A.

Historically our salary increases tend to be a flat percentage across the board. However this year we had a range of increases with the highest percentages being awarded to those at the lower end of our salary scales. This highlights our commitment to help those most in need at this challenging time.

We also have increased our employee assistance programmes available, so that where needed further support can be provided to our employees in areas such as mental health, wellbeing, financial advice etc.

Staff retention is critical for us: only by attracting and retaining the best talent can we continue to thrive as a business. I was pleased to be involved in the latest intake to our Leadership Development Programme in 2022, where I met more of our high potential current and future leaders. It is through development programmes like this, continuing to invest in our people, and rewarding them appropriately, that we can continue to retain our most talented individuals.

Our business model and strategic focus

How we create value from innovative packaging solutions

Our inputs

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

Financial

The funds available to us

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

Operations

Infrastructure, capability and tools

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

Intellectual

Organisational, knowledge-based intangibles

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

Human

The skills and know-how of our employees

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

Social and environmental

Our relationships with our stakeholders

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

→ Our business model

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

Our purpose

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

What we do

We design, manufacture and distribute protective packaging products to a diverse range of sectors

How we do it

- Adapting our flexible geographic footprint to stay close to our customers
- Adopting a 'stock and serve' approach
- >1000 global suppliers of protective packaging
- 37 sites
- Employing >1000 people
- Serving 20,000 customers

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

Profitable organic growth
Acquisition growth
Operational efficiency
People development
Environmental excellence

Profitable organic growth

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

Acquisition growth

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

→ Creating value

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

Financial

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

7.4%

operating profit

- 33.8% gross margin (2021: 33.8%)
- Operating profit up 7% to £21.5m
- £5.3m in taxes paid
- £5.1m in dividends paid to our shareholders
- £18m cash generated from operations

Operations

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

European expansion

Following acquisition of PackMann, Germany in 2022, increased geographic footprint into mainland Europe.

Growing manufacturing capability

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

Intellectual

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

Retention

Strong staff retention at management level.

- Enhancing career opportunities through training
- Improving knowledge through innovation
- Empowering customers through training and education
- NPS score of 50 (2021: 48)

Human

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

33%

Female proportion of senior leadership team

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

Social and environmental

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

85%

of our sites are now FSC certified

- Reduced our absolute CO₂ footprint by 11%
- Increased focus on the recyclability of our products
- Rolled out Volunteer Day in 2022
- Increased Board diversity with 33% female representation including new Chair

Operational efficiency

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

People development

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

For more information on our people development see page 45.

Environmental excellence

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

For more information on our environmental excellence see pages 38 to 43.

Chief Executive's review

Packaging Distribution

Revenue

£259.7m

2022 **£259.7m**
2021 **£239.5m**

Operating profit

£17.1m

2022 **£17.1m**
2021 **£17.1m**

Return on sales

6.6%

2022 **6.6%**
2021 **7.1%**

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

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

Packaging Distribution benefits its customers by enabling them to ensure their products are cost-effectively protected in transit and storage through the supply of a comprehensive product range, single source stock and serve supply, just-in-time delivery, tailored stock management programmes, electronic trading and independent advice on both packaging materials and packing processes. Through

the 'Significant Six'¹ sales approach we reduce our customers' Total Cost of Packaging' and their carbon footprint. This is achieved through supplying effective packaging solutions, optimising warehousing and transportation, reducing damages and returns and improving packaging efficiency.

2022 trading

The main features of Packaging Distribution's performance in 2022 were:

- Increase in revenue of £20.1m:
 - Organic revenue growth in the UK and Ireland of £8.4m has been achieved through recovery in some industrial sectors, particularly in aerospace, engineering and hospitality, and inflation in pricing offset by a marked reduction in demand from e-commerce customers, most of which benefited from the Covid-19 lockdowns in H1 2021.
 - Our 'Follow the Customer' strategy in Northern Europe achieved £2.9m of incremental sales through the Group subsidiary in the Netherlands, with the business now generating profits.
 - Sales growth of £8.8m was achieved from the acquisitions of Carters Packaging, Cornwall, in March 2021 and PackMann, Germany, in May 2022. The PackMann pre-acquisition costs of £0.2m were expensed in 2022.
- New business in 2022 at £8.9m was lower than 2021. Following the supply chain challenges of 2020/21 customers were less inclined to switch supply and our sales team prioritised the management of input price increases with our customers.

Packaging Distribution performance

	2022 £000	2021 £000	2022 change
Revenue	259,651	239,508	8%
Cost of sales	176,193	161,896	9%
Gross margin	83,458	77,612	8%
Operating expenses	63,590	57,915	10%
Operating profit before amortisation *	19,868	19,697	1%
Amortisation	2,774	2,642	
Operating profit	17,094	17,055	-%

* See page 89 for reconciliation of Alternative Performance Measure operating profit before amortisation to operating profit.

- Effective management of significant input price increases across all product categories in H2 2021 and H1 2022 has enabled us to broadly maintain gross margin at 32.1% (2021: 32.4%).
- Overhead costs in 2022 were £5.7m higher than 2021. This is attributable to the effect of acquisitions, strategic IT investments, the start-up costs for our new distribution centre in the North-West of England and the impact of inflation on labour, energy and logistics costs.
- Refine and extend our product range to ensure we continue to offer our customers sustainable packaging solutions that reduce their carbon footprint.
- Introduce improvements to our web-based solutions to allow customers access to our full range of products and services more easily.
- Accelerate the progress we have made in Europe through our 'Follow the Customer' programme and our recent acquisition of PackMann.

Future

Our plans for 2023 are focused on continuing to grow sales and improving profitability through the following actions:

- Prioritise engagement with potential new customers in sectors where we see future growth opportunities such as e-commerce retail, medical, scientific, and third-party logistics.
- Continue to effectively manage input price changes and supply chain challenges as they arise.
- Maximise the benefits from our 'Packaging Optimiser'² which was launched to our sales teams to better demonstrate our ability to add value for customers through our 'Significant Six' sales approach.
- Achieve benefits from our information technology investments in Microsoft Dynamics, Slimstock and Warehouse Management.
- Reduce operating costs through efficiency programmes in sales, logistics and administration.
- Realise the benefits from our new distribution centre in the North-West of England, including the new Innovation Lab due to open in March 2023.
- Plan our second major site consolidation in the East Midlands.
- Maintain the focus on working capital management to facilitate future investment and manage effectively the ongoing bad debt risk within the current economic environment.
- Supplement organic growth through progressing further high-quality acquisitions in the UK and Europe.

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

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

The acquisition of PackMann was an important strategic step and complements our 'Follow the Customer' programme in Europe.

Chief Executive's review

(continued)

**Investing in
sustainable
packaging
solutions**

Chief Executive's review

(continued)

Manufacturing Operations

Revenue

£30.8m

2022 **£30.8m**
2021 **£25.0m**

Operating profit

£4.4m

2022 **£4.4m**
2021 **£3.0m**

Return on sales

14.3%

2022 **14.3%**
2021 **12.0%**

Manufacturing Operations comprises our Packaging Design and Manufacture business and GWP, acquired in February 2021.

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

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

2022 trading

The impressive growth in operating profit of 47% in Manufacturing Operations has been achieved through:

- Organic sales growth of 15% (£1.4m), due mainly to recovery in the aerospace (defence and commercial) sector and inflation in pricing.
- Sales growth of £4.4m achieved from the acquisition of GWP in February 2021, which has benefited from strong demand from its industrial customers and inflation in pricing.
- Strengthening of the partnership between Manufacturing Operations and Packaging Distribution.
- Effective management of increasing input prices with our customers to maintain gross margin.
- Good control of operating costs, against a backdrop of inflation in logistics, labour and energy costs.

Manufacturing Operations performance

	2022 £000	2021 £000	2022 change
Revenue	30,780	24,957	23%
Cost of sales	16,181	13,102	24%
Gross margin	14,599	11,855	23%
Operating expenses	9,394	8,186	15%
Operating profit before amortisation*	5,205	3,669	42%
Amortisation	803	669	
Operating profit	4,402	3,000	47%

* See page 89 for reconciliation of Alternative Performance Measure operating profit before amortisation to operating profit.

Future

Priorities for Manufacturing Operations in 2023 are to:

- Focus the sales team on new business growth in target sectors e.g., medical and defence.
- Prioritise new sales activity on our higher added-value bespoke composite pack product range.
- Work with our customers to effectively manage material price changes to minimise the impact on gross margins.
- Continue to strengthen the relationship with our Packaging Distribution businesses to create both sales and cost synergies.
- Commence the process of GWP working more closely with the Macfarlane Packaging Design and Manufacture and Packaging Distribution businesses.
- Supplement organic growth through progressing further high-quality acquisitions in the UK.

We differentiate our market offering through technical expertise, design capability, industry accreditations and national coverage through the Packaging Distribution business.

Investing in sustainable infrastructure

Chief Executive's review

(continued)

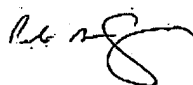
Group

The Group has achieved sales growth of 10% and operating profit growth of 7% in 2022 while making significant investments in the future of the business including the first major site consolidation, upgrading our information technology and making our first acquisition outside the UK to supplement our 'Follow the Customer' programme in Europe.

2023 outlook

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

Our future performance continues to depend on our effectiveness in growing sales, increasing efficiencies and bringing high quality acquisitions into the Group. There will continue to be significant challenges in 2023, with rising costs and uncertainties over demand in some sectors. However, our strategy and business model have proved to be resilient and we expect to deliver further growth in 2023.



Peter D. Atkinson
Chief Executive
23 February 2023

Group performance

Segment	Revenue 2022 £000	Operating profit/(loss) before amortisation* 2022 £000	Operating profit/(loss) 2022 £000	Revenue 2021 £000	Operating profit before amortisation* 2021 £000	Operating profit 2021 £000
Distribution	259,651	19,868	17,094	239,508	19,697	17,055
Manufacturing Operations	30,780	5,205	4,402	24,957	3,669	3,000
Continuing operations	290,431	25,073	21,496	264,465	23,366	20,055
% of revenue		8.6%	7.4%		8.8%	7.6%
Discontinued operations	-	(87)	(87)	21,220	372	372
Group total	290,431	24,986	21,409	285,685	23,738	20,427

* See page 89 for reconciliation of Alternative Performance Measure operating profit before amortisation to operating profit.

Macfarlane Packaging Optimiser

At Macfarlane Packaging, we have spent decades innovating and perfecting packaging solutions for a wide range of markets that are strong, efficient and sustainable.

With that experience we have created the Packaging Optimiser – a new interactive tool that shows businesses the true financial and environmental cost of their packaging. The Packaging Optimiser illustrates six important costs that impact on most packaging operations – we call these 'The Significant Six', as well as the material cost itself. These areas can account for 90% of all costs in a packaging operation.

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

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

Storage costs

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

Transport costs

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

Damages and returns

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

Admin costs

- Free up time
- Work more effectively
- Reduce costs

Increased productivity

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

Customer experience

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

Finance review

Trading review

The Group saw growth in sales from continuing operations of 10% during 2022, driven by organic growth in Packaging Distribution (5%) and Manufacturing Operations (15%) combined with a strong contribution from the acquisitions made in 2021 and 2022. Group sales from continuing operations are £290.4m, an increase of £26.0m from 2021. Profit before tax from continuing operations for 2022 increased to £19.8m, an increase of £1.2m from that achieved in 2021.

The Group sold its Labels business on 31 December 2021 and it was disclosed as a discontinued operation. The loss before tax of £0.1m in 2022 relates to adjustments and costs following finalisation of completion accounts (2021: loss £0.9m).

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

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

2022 represents the Group's thirteenth consecutive year of growth in its profit before tax.

Taxation

The tax charge for 2022 was £4.2m, a rate of 21.2%, above the prevailing rate of 19.0% mainly due to the share option costs, acquisition costs and disposal costs not being deductible for tax purposes and deferred tax being applied at the long-term corporation tax rate of 25%. This compared with a tax charge of £5.1m in 2021, a rate of 28.9% due primarily to the effect on deferred tax of an adjustment in the long-term corporation tax rate from 19% to 25% and goodwill impairment, acquisition costs and disposal costs not being tax deductible for tax purposes.

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

Earnings per share

Basic and diluted earnings per share amounted to 9.89p (2021: 7.98p) and 9.78p (2021: 7.90p) respectively, broadly reflective of the movement in profitability. The calculations take account of the dilution caused by the issue of LTIP awards.

Dividends

A dividend of 0.90p per share was paid on 13 October 2022. A further dividend of 2.52p per share is subject to approval by shareholders at the AGM in May 2023 and is not included as a liability in these financial statements.

Profit before tax (£m) from total operations

Dividend cover is 2.9 times. The Group continues to balance the aim to pay an attractive level of dividend against the need to retain funds in the business to finance growth, make the agreed levels of pension fund contributions, fund acquisitions and meet capital expenditure requirements.

Cash flow and net bank debt

The Group's debt facility with Lloyds Banking Group PLC comprises a committed borrowing facility of up to £30.0m secured over part of Macfarlane Group's trade receivables which extends to 31 December 2025. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over trade receivables. The Group has been in compliance with these covenants throughout 2022 and 2023 to date.

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

Group net bank debt was £3.4m at 31 December 2022, a cash outflow of £5.9m from 2021 as set out in note 22. The Group's cash generation continued to be strong enabling us to finance growth, make agreed levels of pension contributions, fund acquisitions and meet capital expenditure requirements. The Group spent £8.7m on acquisitions in 2022 (2021: £12.2m),

£3.3m on capital expenditure in 2022 (2021: £2.1m) and received £0.2m after finalisation of the completion accounts related to the disposal of Labels sold on 31 December 2021.

We will continue to invest where there are needs or opportunities to meet future growth plans. The Group will strive to ensure that in 2023, operating profit generation is, at the very minimum, matched by cash generation from operations. The Group will remain prudent in its assessment of the likely returns from capital expenditure and potential acquisitions.

Acquisitions/disposals

On 17 May 2022, the Group acquired 100% of PackMann Gesellschaft für Verpackungen und Dienstleistungen mbH ('PackMann'), for a maximum consideration, excluding cash/bank balances and bank borrowings acquired, of £7.4m. £5.9m was paid in cash on acquisition and a recovery for closing balance sheet adjustments of £0.6m was received on 30 August 2022 primarily related to net bank borrowings inherited by the Group. Deferred consideration of £1.5m is payable in the second quarters of 2023 and 2024, subject to certain stretching trading targets being met in the two twelve-month periods ending on 31 May 2023 and 2024 respectively.

The trading targets set for the two twelve month periods are an enhancement over the profit levels being achieved in the period prior to acquisition and these are considered unlikely to be achieved. Therefore its not considered probable that deferred consideration will be payable.

Following strong trading performances from both GWP Holdings Limited and Carters Packaging (Cornwall) Limited in their first year post acquisition contingent consideration payments of £2.2m and £0.7m respectively were made in 2022, in line with the amounts recognised as contingent consideration at 31 December 2021. We expect to pay a further £3.7m in contingent consideration for the GWP and Carters Packaging acquisitions in 2023 based on their continuing strong trading performances.

Market capitalisation and share price movements

The number of shares in issue at 31 December 2022 was 158,337,000 an increase of 525,000 from 31 December 2021. On 16 May 2022, the Company issued 525,000 ordinary shares of 25p to settle 2019 share awards under the Company's 2016 Performance Share Plan.

At the year-end the Company's market capitalisation was £164.7m, compared with £205.2m last year. The share price at 31 December 2022 was 104.00p, compared with 130.00p at 31 December 2021. The range of transaction prices for Macfarlane Group shares during 2022 was 85.20p to 135.25p for each ordinary share of 25p.

The Group's cash generation continued to be strong enabling us to finance growth, make agreed levels of pension contributions, fund acquisitions and meet capital expenditure requirements.

Finance review

(continued)

Financial instruments

The Group's principal financial instruments comprise bank borrowings, cash balances and other items, such as trade receivables and trade payables that arise directly from its operations as well as shareholders' equity and deferred consideration arising from acquisitions. The main purpose of these financial instruments is to provide finance for the Group's operations. It is the Group's policy that no speculative trading in financial instruments is undertaken. The main risks arising are liquidity risk and credit risk and the secondary risks are interest rate risk and currency risk. The policies for managing these risks, which have remained unchanged since the beginning of 2022 are set out in note 15 to the financial statements.

Pension schemes

The Group's pension scheme surplus at 31 December 2022 was £10.2m (2021: £8.3m). This is sensitive to movements in bond yields, inflation, longevity assumptions and investment returns. The impact of these sensitivities is set out in note 24 to the financial statements. This, combined with careful stewardship of the investment portfolio by the trustees, in conjunction with the Group, has helped match the investments with the scheme's liability profile.

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

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

Following the sale of Macfarlane Labels Limited, the company ceased to be a sponsoring employer and during 2022 the Group paid £0.7m into the pension scheme in 2022 to satisfy the debt agreed with the trustees in relation to this event. The Scheme was closed to future accrual on 30 November 2022 with the three remaining active members transferring to the Group's defined contribution pension scheme.

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

International Financial Reporting Standards and accounting policies

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

Going concern

The Directors, in their consideration of going concern, have reviewed the Group's cash flow forecasts and profit projections, which are based on the Directors' past experience and their assessment of the current market outlook for the business. The Group's business activities together with the factors likely to affect its future development, performance and financial position are set out in the Chair's Statement and the Strategic Report on pages 4 to 50. The Directors have carried out a detailed scenario analysis over three years to 31 December 2025 as set out in the Viability Statement on page 23.

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



Ivor Gray
Finance Director
23 February 2023

We will continue to invest where there are needs or opportunities to meet future growth plans.

Viability statement

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

To support this statement, the Board is required to consider the Group's current financial position, its strategy, the market outlook and its principal risks. The Board's assessment of the principal risks facing the Group and how these risks affect the Group's prospects are set out on pages 24 to 28. The review also includes consideration of how these risks could prevent the Group from achieving its strategic plan and the potential impact these risks could have on the Group's business model, future performance, solvency and liquidity over the next three years (starting from 1 January).

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

Financial modelling and scenarios

The Group's existing bank facilities comprise a £30m committed facility with Lloyds Banking Group, which is available until December 2025. The Group has performed well during 2022, despite the ongoing challenging market conditions, which gives confidence in the strength of the underlying business model. The Directors have also considered the longer-term economic outlook for the UK. Given the current uncertainty of the economic outlook we have modelled a 'severe but plausible downside' scenario as described below. In forming conclusions, the Directors have also considered potential mitigating actions that the Group could take to preserve liquidity and ensure compliance with its financial covenants.

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

We have modelled a range of scenarios, including a central case, a downside scenario, a severe but plausible downside and a reverse stress test, over the three-year horizon. The 'severe but plausible downside' scenario is conservative in assuming, compared to the central case, revenue reductions of 10% and gross margin reductions at the rate of 2% in each of the three years, with no reduction in costs. Even under this scenario, and

before reflecting any mitigating actions available to Group management, the Group forecasts compliance with all financial covenants throughout the period and would not require any additional sources of financing.

The Group has also modelled a reverse stress test scenario. This models the decline in sales that the Group would be able to absorb before breaching any financial covenants. Such a scenario, and the sequence of events that could lead to it, is considered to be remote, as it requires sales reductions of c.15% per annum between 2023 and 2025, compared to the central case, before there is a breach in financial covenants in the period under review and is calculated before reflecting any mitigating actions.

Even in the severe but plausible scenario, Macfarlane Group is forecast to have sufficient liquidity to continue trading, comfortably meeting its financial covenants and operating within the level of its facilities for the foreseeable future. The reverse stress test modelling has shown that a c.27% reduction in sales in 2023 compared to 2022 could lead to a breach of covenants in the period under review. However, in this scenario, management would also be able to take significant mitigating actions to reduce its costs and conserve cash.

Conclusions

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

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

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group and the factors mitigating these risks are detailed on pages 24 to 28. These risks are addressed within an overall governance framework including clear and delegated authorities, business performance monitoring and appropriate insurance cover for a wide range of potential risks. There is a dependence on good quality local management, which is supported by an investment in training and development and ongoing performance evaluation.

Risks are identified and assessed through a range of 'top down' and 'bottom up' analyses that are updated

on a regular basis. This in turn provides the basis for making informed risk-based decisions regarding the scope and focus of assurance work, as described in the report of the Audit Committee on page 69. In addition to scheduled updates from Finance, Health & Safety, IT, Sales, Procurement and other business functions, the Board and Audit Committee may seek assurance work in other areas from time to time, either from internal sources or externally commissioned work.

We continue to evolve our risk management processes to ensure they are robust, effective and integrated within our decision-making processes. We have included a brief description of how we assess that each risk level has changed.

For risks shown as  the risk level is broadly similar between 2021 and 2022. If the risk is shown as  the risk level has increased or decreased respectively during 2022 and is being addressed accordingly through mitigating actions by management.

The business has added the Uncertain Economic Environment as a new risk in 2022. Due to a range of prolonged geopolitical and economic uncertainties within the UK and other markets, there is an increased risk that we are entering into a recessionary trading environment.

Risk governance framework

Strategic changes in the market

Risk description

Failure to respond to strategic shifts in the market, including the impact of weaknesses in the economy as well as disruptive behaviour from competitors and changing customer needs (e.g. the move towards online retail) could limit the Group's ability to continue to grow revenues.

We monitor this through Net Promoter Score (see Sustainability Report page 44), an annual customer satisfaction survey (see Sustainability Report page 44) and interaction with customers at our Innovation Lab.

Mitigating factors

- The Group has a well-diversified customer base giving protection from changes in specific industry sectors as well as a flexible business model with a strong value proposition to meet the changing needs of customers.
- The Group strives to maintain high service levels for customers ensuring that customer needs are met. The Group continues to invest in information technology, including its new Customer Relationship Management System being rolled out across the Group, while also enhancing its service offering.
- The Group maintains strong partnerships with key suppliers to ensure that a broad range of products is available to respond to customers' requirements, including any changes in their environmental and sustainability priorities.

Change in risk level



- The Group's supply chain challenges experienced in 2021 have stabilised in 2022 with lead times returning to normal levels. However, the Group has continued to experience volatility in input prices across all product categories which is being managed effectively.
- During 2022 the Group has experienced weaker demand from customers, particularly in the e-commerce retail sector.
- During 2023 the Group expects to realise some of the benefits of the new Customer Relationship Management system which will help the customer service teams in managing the complex and changing needs of our customers in an increasingly competitive environment.

Impact of environmental, social and governance ('ESG') changes

Risk description

Customers are increasingly focused on the environmental impacts of packaging, changing their buying behaviours in response to climate and sustainability concerns.

Investors are looking to invest in companies that demonstrate strong ESG credentials.

There is increasing regulatory focus around reporting disclosures and new requirements, such as the Plastic Tax introduced from April 2022. The Plastic Tax cost £0.9m in 2022. This cost is recharged directly onto our customers.

If the Group is not proactive and transparent in how it is responding to environmental changes, this could lead to a loss of employees, customers and investors.

The key measure the Group monitors is Scope 1 and 2 CO₂ emissions.

Mitigating factors

- The Group has an ESG working group to examine specifically how we can reduce our impact on the environment.
- The working Group is focused on measuring the CO₂ footprint and setting and monitoring progress against reduction targets for TCFD (Taskforce for Climate-related Financial Disclosures).
- A full-time Head of Sustainability was appointed and started in January 2023.
- The Group has committed to the development of a transition plan towards net-zero and, on an ongoing basis, reviews all relevant developments and available technologies to support that transition.
- Regular reviews of our environmental strategy are carried out at Board level to challenge performance against key milestones, as well as to ensure that priorities are aligned with stakeholder objectives.

Change in risk level



- The Group recognises the increased significance of our ESG obligations. Our plans include actions to reduce our own carbon footprint, including:
 - the introduction of electric trucks to our fleet in 2022/2023;
 - investment in solar panels at sites with high energy use; and
 - ongoing actions to support our customers to reduce their CO₂ emissions, including using our 'Packaging Optimiser' tool.
- The Group has actively engaged with customers to minimise the impact of the Plastic Tax by switching to alternative products.
- See Sustainability Report on pages 33 to 49.

Raw material prices

Risk description

The Group's businesses are impacted by commodity-based raw material prices and manufacturer energy costs, with profitability sensitive to input price changes including currency fluctuations.

The principal components are corrugated paper, polythene films, timber and foam, with changes to paper and oil prices having a direct impact on the price we pay to our suppliers.

This risk is monitored through our procurement teams interacting with key suppliers and management regularly reviewing gross margin by customer.

Mitigating factors

- The Group works closely with its supplier and customer base to manage effectively the scale and timing of price changes and any resultant impact on profit. Our IT systems monitor and measure effectiveness in these changes.
- Where possible, alternative supplier relationships are maintained to minimise supplier dependency.
- We work with customers to redesign packs and reduce packing cost to mitigate the impact of cost increases including switching to alternative products to minimise the impact of the Plastic Tax introduced in April 2022.
- The Group has a well-established supplier relationship management process which is subject to periodic management review and internal audit.

Change in risk level



- Input prices have continued to change throughout 2022 primarily due to volatility in timber, paper and polymer prices and the impact of rising fuel and energy costs. The business has managed these challenges robustly and gross margins have remained strong throughout 2022, reflecting the effort of our teams to mitigate these increases.
- The Group expects input prices to stabilise and potentially soften in 2023. However, this remains uncertain due to the general economic landscape and inflationary pressures on suppliers operating costs.

Principal risks and uncertainties

(continued)

Acquisitions

Risk description

The Group's growth strategy has included a number of acquisitions in recent years. There is a risk that such acquisitions may not be available on acceptable terms in the future.

It is possible that acquisitions will not be successful due to the loss of key people or customers following acquisition or acquired businesses not performing at the level expected. This could potentially lead to impairment of the carrying value of the related goodwill and other intangible assets. Execution risks around the failure to successfully integrate acquisitions following conclusion of the earn-out period also exist. This is monitored through regular reporting of acquisition prospects and post-acquisition performance by executive management, with reporting to the Board.

Mitigating factors

- The Group carefully reviews potential acquisition targets, ensuring that the focus is on high-quality businesses which complement the Group's existing profile and provide good opportunities for growth.
- Having completed a number of acquisitions in recent years, the Group has well-established due diligence and integration processes and procedures, while only acquiring well-established quality businesses which will perform well in the Group.
- The Group's management information system enables effective monitoring of post-acquisition performance with earn-out mechanisms also mitigating risk in the post-acquisition period.
- Goodwill and other intangible assets are tested annually for impairment with the results set out in note 10.

Change in risk level



- The Group has made 15 acquisitions since 2014, including one in 2022.
- The acquisition made in 2022 of PackMann, based in Germany, was the Group's first investment in Europe. This is inherently a higher risk acquisition due to cultural differences and less depth in local management expertise and support when compared to previous UK-based acquisitions. However, there are also important strategic opportunities for the Group in terms of extending service coverage for existing and new customers as well as integration synergies.
- The Group has a strong pipeline of potential protective packaging acquisition opportunities in both the UK and Northern Europe.

Property

Risk description

The Group has a property portfolio comprising 1 owned site and 48 leased sites. This multi-site portfolio gives rise to risks in relation to ongoing lease costs, dilapidations and fluctuations in value.

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

Mitigating factors

- The Group adopts a proactive approach to managing property costs and exposures.
- Where a site is non-operational the Group seeks to assign, sell or sub-lease the building to mitigate the financial impact.
- If this is not possible, rental voids are provided on vacant properties taking into consideration the likely period of vacancy and incentives to re-let.
- The Group engages with external property advisers to assess the level of provisioning required for dilapidations and negotiate to minimise the final costs.

Change in risk level



- Our property consolidation strategy has continued during 2022. Work is ongoing to finalise exit costs following the expiry of two leases and there are known future exits from another five existing operating sites. Provisions have been established to cover the anticipated exit costs (note 21).
- The Group currently has no vacant or sub-let properties.

Cyber-security

Risk description

The increasing frequency and sophistication of cyber-attacks is a risk which potentially threatens the confidentiality, integrity and availability of the Group's data and IT systems.

These attacks could also cause reputational damage and fines in the event of personal data being compromised.

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

Mitigating factors

- The Group continually invests in its IT infrastructure to protect against cyber-security threats. This includes regular testing of IT Disaster Recovery Plans.
- We engage the services of a cyber-security partner to perform regular penetration tests to assess potential vulnerabilities within our security arrangements.
- This is complemented by a program of cyber-security awareness training to ensure that all staff are aware of the potential threats caused by deliberate and unauthorised attempts to gain access to our systems and data.

Change in risk level



- Remote working practices are the norm, with the Group adopting hybrid home/office flexibility for its employees. This is a feature within the Group's risk to cyber-security attacks.
- The Group continues to invest in prevention/detection software and education programmes to mitigate the risks of cyber-security attacks.
- The frequency and sophistication of cyber-attacks is anticipated to continue to evolve, and the Group is committed to continually investing in upgrading its infrastructure to respond to the changing threats.

Financial liquidity, debt covenants and interest rates

Risk description

The Group needs continuous access to funding to meet its trading obligations and to support organic growth and acquisitions. There is a risk that the Group may be unable to obtain funds and that such funds will only be available on unfavourable terms.

The Group's borrowing facility comprises a committed facility of up to £30m. This includes requirements to comply with specified covenants, with a breach potentially resulting in Group borrowings being subject to more onerous conditions.

Mitigating factors

- The Group's borrowing facility comprises a committed facility of £30m with Lloyds Bank PLC, which finances our trading requirements and supports controlled expansion, providing a medium-term funding platform for growth.
- The Group regularly monitors net bank debt and forecast cash flows to ensure that it will be able to meet its financial obligations as they fall due.
- Compliance with covenants is monitored on a monthly basis and sensitivity analysis is applied to forecasts to assess the impact on covenant compliance.

Change in risk level



- The Group has proved to be strongly cash generative in 2022 and has operated well within its existing bank facilities throughout the year.
- Interest rates have increased from 2.00% at 31 December 2021 to 5.25% at 31 December 2022 and are expected to increase further in 2023. The increase in rates, which are in line with the market, do not increase the risk of the Group being unable to obtain funds and the Group operates well within the specific covenant related to interest i.e. 3 times EBITDA to interest.

Working capital

Risk description

The Group has a significant investment in working capital in the form of trade receivables and inventories. There is a risk that this investment is not fully recovered.

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

Mitigating factors

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

Change in risk level



- Bad debt write-offs in 2022 have increased from 2021, albeit still at a relatively low level. This is reflected in the Expected Credit Loss allowance being increased accordingly (note 14).
- Aged stock over 6 months old has increased in 2022 (note 13) due to a slowdown in demand particularly from the e-commerce retail sector. The Group is working to reduce stock over 6 months and has invested in a new IT system, Slimstock to support this initiative.
- The current economic environment is likely to increase the risk of bad debts and stock write-offs in 2023, although management will continue to take all appropriate steps to mitigate this risk and limit the need for additional provisions or write-offs.

Principal risks and uncertainties

(continued)

Defined benefit pension scheme

Risk description

The Group's defined benefit pension scheme is sensitive to a number of key factors including investment returns, the discount rates used to calculate the scheme's liabilities and mortality assumptions.

Small changes in these assumptions could cause significant movements in the pension surplus/deficit.

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

Mitigating factors

- The scheme was closed to new members in 2002. Benefits for active members were amended by freezing pensionable salaries at April 2009 levels.
- A Pension Increase Exchange option is available to offer flexibility to new pensioners in both the level of pension at retirement and the rate of future increases.
- The investment profile is regularly reviewed to ensure continued matching of investments with the scheme's liability profile.
- The scheme invests in Liability Driven Investments ('LDI') which hedge the scheme against movements in the discount rate and inflation. These are leveraged instruments which require active investments and divestments to maintain the level of leverage.
- The scheme was closed to future accrual during 2022.

Change in risk level



- The IAS 19 valuation of the Group's defined benefit pension scheme as at 31 December 2022 estimated the scheme surplus to be £10.2m, compared to a surplus of £8.3m at 31 December 2021.
- Deficit repair contributions were set at £1.3m per annum following the triennial actuarial valuation at 1 May 2020. The Group is committed to making these contributions until May 2024.
- The Group paid £0.7m into the scheme in 2022 to satisfy the debt agreed with the trustees in relation to the cessation of Macfarlane Labels Limited as a sponsoring employer.
- 2022 saw unprecedented levels of volatility in gilt markets. Longer dated yields rose from approximately 1.6% at the beginning of the year to 4.3% at the recent peak. Whilst this significantly decreased the schemes liabilities it required additional collateral payments into the LDIs to preserve the hedging the LDIs provide against movements in interest and inflation. The leverage on the LDIs was also lowered to reduce the likelihood of collateral calls from the scheme's LDI manager.

Uncertain economic environment

Risk description

Due to a range of prolonged geopolitical and economic uncertainties within the UK and other markets, there is an increased risk that we are entering into a challenging trading environment. If this materialises, the length and depth of such an environment is unknown and may adversely affect our ability to deliver upon agreed strategic initiatives. We may also need to adapt our business quickly in order to limit the impact upon the Group's results, prospects and reputation.

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

Mitigating factors

- A twice yearly viability assessment and sensitivity analyses is performed by management.
- The Group's borrowing facility comprises a committed facility of £30m with Lloyds Bank PLC, which finances our trading requirements and supports controlled expansion, providing a medium-term funding platform for growth.
- The Group regularly monitors net bank debt and forecast cash flows to ensure that it will be able to meet its financial obligations as they fall due.
- Compliance with covenants is monitored on a monthly basis and sensitivity analysis is applied to forecasts to assess the impact on covenant compliance.
- The Group has scope to curtail capital expenditure and acquisition investment to preserve cash, if required.
- In the event of a significant reduction in customer demand the Group would take rigorous actions to reduce operating costs and working capital investment.

Change in risk level



New risk in 2022

- It is predicted that the UK economy will experience a challenging economic environment during 2023.
- The Group could potentially experience a reduction in demand for its products in 2023 if the impact of rising costs of living and interest rates slows down the economy.
- The Group is experiencing rising operating costs particularly, energy, fuel and employee costs and increased interest rates.
- To mitigate this risk, executive management monitors monthly revenue and cost performance and market trends closely, and has detailed action plans to respond to any significant or prolonged trading pressures.

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

Stakeholder engagement s172 statement

The Board and its individual Directors consider that they have acted in good faith in the manner that is most likely to promote the success of Macfarlane Group for the benefit of its members as a whole and have done so having regard to the stakeholders and matters set out in Section 172 of the Companies Act 2006.

There is a recognition by the Directors that they are not expected to balance the interests of the members of Macfarlane Group against those of other stakeholders but rather, after considering all relevant factors, to decide on the actions which will best lead to success for the Group having regard to the long term. Decisions may not affect all stakeholders equally. Depending on the particular matter requiring Board decision, this can mean that certain Stakeholder Groups may be inadvertently adversely affected, but this will not of itself call into question the decisions made.

Given the listed status of the Group and the nature of its operational activities, the Directors view the key Stakeholders Groups and means of engagement as shown on the right.

Shareholders

Principal methods of engagement

Members of the Board engage with shareholders throughout the year at events such as the Annual General Meeting, the results roadshows and Capital Markets days. Our Chair also consults with major shareholders each year. These meetings give shareholders a number of opportunities to raise concerns. Presentations to Shareholders are also shared on the www.macfarlanegroup.com website. The key areas discussed with shareholders in 2022 included reviews of business performance with a focus on sales growth, operating margins and cash flows, progress on acquisitions, review of the Group's strategy and resilience of the business model given the economic uncertainties and inflationary environment.

Employees

Principal methods of engagement

The Board normally holds at least two of its meetings at different Group locations. This provides the opportunity to engage with the local teams and hear their views on working within Macfarlane Group. In addition, employee representatives are invited to all Board meetings to engage with the Board on issues affecting employees, including Health & Safety and wellbeing. In addition, Executive Board members hold regular communication meetings with teams across the Group to provide an update on key issues and discuss any concerns.

Pension members

Principal methods of engagement

The Group Finance Director attends all Trustee Board meetings of the Macfarlane Group PLC Pension & Life Assurance Scheme (1974) and works with the Board of Trustees to ensure the pension scheme is funded in line with UK pension legislation to meet our commitments to over 550 current and former employees who are members. Feedback from each of these meetings is provided to the Board for consideration of any actions required in the interests of pension scheme members.

Customers

Principal methods of engagement

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

Suppliers

Principal methods of engagement

Our procurement teams and employees at all our locations interact with both our strategic and operating suppliers on a daily basis to ensure that the supply chain is robust and that the trading relationships with suppliers continue to operate well. The Group pays suppliers in line with agreed credit terms.

Community

(Our trading locations and the impact of our activities on the local environment)

Principal methods of engagement

We operate from good quality facilities throughout the UK and in our European locations and deliver to customers using our own fleet of trucks, driven by our drivers. We act in a manner intended to recognise and reduce any adverse impact on our local environments in terms of the types of product supplied, usage of energy and CO₂ emissions. We employ people from the local areas of each of our businesses and invest in their training and development.

Stakeholder engagement s172 statement (continued)

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

We expect our people to act with the highest level of integrity in dealing with all stakeholders. We operate a suite of policies intended to ensure that Macfarlane Group employees are empowered to make decisions locally that are aligned with those values but within a control framework which meets Group objectives.

The Board uses its regular meetings as a mechanism to address and meet its obligations under Section 172 of the Companies Act 2006. The following narrative covers the key decisions made during the year and the Stakeholder Groups impacted by those decisions.

Board decision: Strategy and performance

Strategy stakeholder group engagement

Shareholders

Employees

Customers

Suppliers

Community

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

In 2022, the Board approved the acquisition of PackMann as part of the Group's growth strategy. The Board concluded that the business had a similar customer and business approach to Macfarlane and would be a good strategic fit, providing the Group with a strong platform to grow its packaging distribution presence in Northern Europe for the benefit of both local European markets and UK-based customers requiring international coverage. As such, the Board concluded that the acquisition was in the interests of suppliers, customers and employees of both the Group and the acquired business.

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

Performance stakeholder group engagement

Shareholders

Employees

Customers

Suppliers

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

The Board reviews the trading performance of the business throughout the year, monitoring performance against the agreed budget and the previous financial year.

At each meeting the Board receives reports from the Chief Executive and the Finance Director. These reports cover trading performance, relationships with key customers and suppliers as well as aspects of operational performance and the impact on our employees. The reports also give the Board visibility of the up to date trading terms with both customers and suppliers.

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

The Board approves all location moves, including property exits as well as the terms of new property arrangements, in order to ensure that these are aligned with the interests of all stakeholders and provide sustainable solutions for the long term success of the Group. In 2022, the Board approved the exit from property leases in Leicester, Nottingham and Grantham in 2023 to move to a new larger property in Nottingham to support the growth of the business in East Midlands. The new Nottingham lease is being negotiated for a period of twenty years with a break clause after ten years.

Board decision:

Financing

Stakeholder group engagement

Shareholders

Employees

Pension members

Customers

Suppliers

Community

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

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

At the conclusion of each triennial actuarial valuation of the pension scheme surplus/deficit, the Board approves the contributions being proposed under the recovery plan for any deficit and ensures that these are within the financing and cashflow capacities of the Group. During 2022, the Board approved the additional contribution of £700,000 made to the pension scheme to satisfy the debt agreed with the trustees in relation to the cessation of Macfarlane Labels Limited as a sponsoring employer. In addition, the Board held an unscheduled meeting in the year to consider the impact of the significant rise in gilt yields, following the mini-budget in September 2022, on the Liability Driven Investments ('LDIs') held by the pension scheme and actions required to maintain the interest

and inflation hedging protections the LDIs provide the pension scheme. The Board considered expert advice from the pension scheme's investment adviser and supported the actions being taken to re-allocate funds from existing growth assets held by the pension scheme to the LDIs to ensure the scheme maintains appropriate hedging protection. This decision was taken in the interests of the scheme's pensioners and the shareholders of the Group.

The Board considers and approves any items of capital expenditure with a value in excess of £100,000 and contracts which commit the Group to annual operational expenditure in excess of £250,000. During 2022 the major capital expenditure approved at a cost of £3,475,000 included six commercial vehicles, IT equipment for remote working, an Innovation Centre at the new North West property, costs of fitting out the new East Midlands property and solar panels at the Grantham manufacturing facility. The significant contracts approved during 2022 were related to the continued upgrading of the Group's cyber security defences and the renewal and upgrade of the Group's wide area network and printer infrastructure. Major capital allocation decisions are a matter reserved for the Board, which considers the interests of all relevant Stakeholder Groups prior to approval.

Board decision:

Risk

Stakeholder group engagement

Shareholders

Employees

Pension members

Customers

Suppliers

Community

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

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

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

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

Stakeholder engagement s172 statement (continued)

Board decision: Governance and legal requirements

Stakeholder group engagement

Shareholders

Employees

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

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

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

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

The Board accepted the Audit Committee's recommendation to re-appoint Deloitte LLP as external auditor in 2022.

Board decision: Culture and organisation

Stakeholder group engagement

Shareholders

Employees

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

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

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

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

Board decision: Environment

Stakeholder group engagement

Community

The Board recognises that the largest contributor to the Group's CO₂ footprint (71%) is the operation of its commercial vehicles used to deliver product to its customers. The Board is committed to the gradual electrification of its commercial vehicles fleet as technology advances and infrastructure provision make this a realistic and practical option for our logistical needs, taking delivery of one new electric commercial vehicle in 2022 and a further four in 2023.

The Board is also committed to reducing the Group's energy consumption. During 2022 the Board approved investment in solar panels at the manufacturing site in Grantham, the site that consumes most electricity in the Group, to eliminate the need to purchase electricity from external providers and reduce the ongoing operating cost of the Manufacturing Operations.

As technology improves, the Group will progressively manage the risk and cost of advancing the Group's sustainability strategies, thereby serving the interests of both financial and wider stakeholders in the Group.

TCFD report

Introduction

In line with the listing rules for premium listed companies, the Group reports on its compliance with the Task Force on Climate-related Financial Disclosures ('TCFD'). This report sets out the climate-related financial disclosures for the Group in 2022.

The Group is fully committed to the adoption of the TCFD's proposals, and we are keen to demonstrate to investors and wider stakeholders our clear focus on climate change. The report below sets out our progress in each of the four key TCFD reporting areas:

Strategy

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

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

- The main role of protective packaging is to reduce product damage during both storage and delivery. Product damage and returns create additional, avoidable carbon emissions. Therefore minimising product damage is critical in the design and manufacturing service we provide to our customers.
- We design packaging with the objective of minimising the amount of packaging materials employed and we achieve this by ensuring the protective packaging we sell is fit for purpose and 'right-sized' for its contents, in order to effectively transport and protect the contents.

- Our designs prioritise the use of recycled materials and, where possible, the used pack can also be recycled.
- In addition to ensuring the pack design is environmentally friendly, we have a Packaging Optimiser tool that allows us to help reduce the carbon footprint of our customers in areas such as logistics, warehousing, and operations.

Macfarlane Group is principally a distribution business and as such is strategically positioned to provide our customers with independent, unbiased advice. We can help them to make informed choices on pack designs, the most environmentally friendly materials and to work with manufacturing partners who themselves operate to a strong environmental agenda. An example of this in 2022 has been with the introduction of the Plastics Packaging Tax ('PPT'), which enabled us to persuade customers to switch to more environmentally friendly plastic products that did not incur the new tax. In 2022, 77% of our customer spend on products that attracted the Plastic Packaging Tax has been switched to plastic products with a recycled content over 30%.

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

Macfarlane Group's exposure to climate change

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

- We have Innovation Labs (second one opening in 2023) where we design bespoke packaging that adds value to the customer, and their end consumers – whilst also satisfying carbon reduction goals. We also use the Innovation Labs to help our customers reduce their carbon footprint through improved vehicle utilisation and more effective management of warehouse space.
- We operate our own vehicle fleet using route optimisation software that ensures we minimise the miles driven and carbon used for all deliveries.
- We have commenced a programme to replace our diesel vehicle fleet with electric vehicles in line with the planned technological advancements in electric vehicle design.
- Our financial planning considers key initiatives and investment required in sustainability to meet our CO₂ reduction targets. An example of this in 2022 is the approval of the solar panels project at our Grantham manufacturing site.
- Our risk management process has highlighted both intermediate and longer-term risks relating to climate change. This includes the location of our distribution centres, such as those which may be more likely to suffer extreme weather events such as flooding. This occurred at our former distribution centre in Wigan in 2022, before the end of our lease at that site. In 2022, the Board considered future environmental 'scenarios' for the first time as part of our strategic process. This gives us a framework to consider moving forward into 2023.

In 2022, we have provided statistics for the first time on the % of our sales that relates to products that are recyclable, as well as products that already contain at least 30% recycled content, as per the Environmental, Social and Governance ('ESG') section of this report on pages 36 to 49. This is a specific initiative that we will continue in 2023, to help us achieve our target of 90% for both categories by 2025.

TCFD report (continued)

Governance

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

- ESG is now a standing item on the Board agenda, providing the framework to discuss sustainability issues at each meeting – including factoring in these considerations into major decisions. On top of the decision to approve 5 electric trucks in 2021, the solar panels project at Grantham was also approved in 2022. These are clear commitments that have been subjected to Board scrutiny to ensure they are the right way forward for the business in balancing commercial objectives with our climate goals.
- The Board considers the reporting of the Company's CO₂ emissions to be fair, balanced and understandable. As a growing company with an acquisitive strategy, it is appropriate that we continue to assess our carbon emissions on a volume basis. In future this will be based on the tonnage of our sales, rather than sales revenue. This is the best way to measure our progress, as it takes away external factors such as material price inflation from the calculation. This also enables consistency of reporting when assessing progress towards our 2030 target of a reduction of 30% in carbon intensity.
- The executive sponsor for ESG is the Company Secretary. In 2022, a Head of Sustainability was recruited and started in January 2023. This role reports to the Company Secretary and will provide regular updates to the Board on sustainability. Our existing ESG committee has a broad range of

leaders from a wide spectrum of the business, including sales, procurement, operations and HR. This committee has responsibility for developing the sustainability strategy of the Group, as well as promoting sustainability throughout the Group.

- In 2023, the Board will continue to ensure it has the right skills and expertise on climate related matters – using external input where appropriate to bolster the existing personnel. The Board will continue to report against TCFD on a regular basis, providing updates on progress made towards our goal of a CO₂ per tonne reduction of 30% by 2030. From this report onwards, data will also be provided on an annual basis in relation to the recyclability of our product range, and percentage of products that contain at least 30% recycled content.

Risk management

Macfarlane has a robust approach to Risk Management, as outlined in the Principal Risks and Uncertainties section on pages 24 to 28 and the Governance section on pages 65 to 73.

- In 2022, the Board continued discussion and oversight in relation to our corporate risk on sustainability. This risk highlights the environmental challenge faced by the Group, both in the intermediate period and longer-term horizon, including that of losing market share due to our environmental credentials not being perceived favourably or even by moving too fast in this area. This transition risk reflects the risk of significant market and regulatory change as a result of sustainability issues.
- There is also the risk of an increased frequency of extreme weather events affecting the operations at our sites. This transition risk and physical risk are only increasing in likelihood and consequently will be subject to regular review by the Board throughout 2023. This risk is also considered for any new sites as part of our property consolidation projects.

- Climate change risk ties in with other risks faced by the business that could result in overall loss of market share. The risk is inclusive, as it embraces reputational risk from a perception of 'not doing enough' in this area, as well as pressure from shareholders, customers and end-consumers alike. The risk will be considered along with other key corporate risks on a rolling basis in 2023 as part of the regular Board agenda.

The Board typically considers a 5-10 year horizon when approaching environmental risk. Whilst the risk certainly will sustain well beyond this, it is important in reinforcing our requirement to act in the short and intermediate term or risk the consequences from acting too late.

In line with the core Group value of integrity, our focus is on what clear actions we can take in the next period to 2030. Therefore, we have set our reduction target for 2030 with a clear plan in place on how to achieve the reduction. While the Board fully supports the ultimate achievement of Net-Zero carbon emissions, at present no firm target is in place on when this will be achieved. This is because any such plan is inevitably dependent on technological advances, infrastructure provision and other factors in the external environment which are outwith our control. It is not in our nature to set vague or distant targets without a clear plan on how they can be achieved.

Our 2030 target will require significant change and investment. Only once our electric truck program is further developed and demonstrating success, would we look to consider a realistic timetable/investment level to be able to make a Net-Zero commitment.

Over the longer-term, we consider our business to be resilient and viable in a situation where global temperatures have risen 2 degrees or more. The key to this is the flexibility of our geographic footprint, through our leased facilities – as well as our strategic partnerships with suppliers which allows us to operate flexibly with our customers as their needs change.

Metrics and targets

Following the detailed review conducted in 2021, no further changes have been made to our metrics and targets in 2022. As the leading UK packaging distributor, we believe that making investments to reduce our own carbon footprint complements our business model and strategy by ensuring we continue to operate with strong and demonstrable sustainability credentials.

The Group has used external expertise from 'EcoAct' in capturing our carbon emissions for the year. This year, we introduced the first fully electric 16 tonne truck to our fleet, in partnership with Renault. We plan to work closely with them, providing data and feedback on its performance. This could lay the foundation for a future partnership in a more extended and faster roll-out of electric trucks into our fleet.

The methodology behind the metrics is in line with other companies in the sector, with CO₂ per tonne deemed the most appropriate measure to capture the planned reductions. In 2022, we also added an environmental objective into the Annual Bonus Programme of the senior management team. This has helped to get buy-in for our sustainability strategy, and reinforces that real actions and progress are expected in the intermediate period, rather than just talking about green initiatives. At present we have chosen to focus on Scope 1 and 2 CO₂, being the direct emissions that we can fully control. As we continue to make progress and embed these changes, we will increasingly look at how we can influence Scope 3 emissions that are emitted outside our organisational boundary, working with our suppliers and customers to drive further material carbon reductions.

1. Our carbon footprint

Our own direct (Scope 1 and 2) carbon footprint is the first important metric for us to track. Following a detailed review of our carbon emissions, the following target was set in 2021:

- By 2030, we will have reduced our CO₂ per tonne of sales by 30%.

This target is greatly dependent on further advances in battery technology used in electric trucks, given this currently comprises two thirds of our carbon footprint. The Board's policy is to keep the target under review, and to be prepared to increase target reduction where this is facilitated by transition in operating cost reductions and advances in technology.

2. Our products

As a packaging distributor, we believe the products we sell and their usage by our customers is a key element of our environmental strategy. Therefore, the aim is to reduce the number of products we sell that are currently not recycled, or have less than 30% recycled content. By 2025, we aim to have 90% of our products containing at least 30% recycled content, and we will report on progress annually. We will also include a report annually of how we have reduced the CO₂ of our customers operations, through more efficient packaging usage and materials.

3. Other carbon targets

- We aim to have all of our sites FSC certified by 2025 (currently 85%). From 2025-2030, the focus will shift to specific product FSC certification.
- By 2025, 100% of our energy will come from renewable sources (currently 88%, up from 67% in 2021).

4. Other Natural Resources

i) Water

Our business model requires very little water usage, given our relatively small manufacturing footprint compared to our distribution business. This is a balance we will seek to maintain, therefore keeping our water usage low is of paramount importance in our strategy and business model. In 2022 all sites were assessed for water stress, with no high-risk sites being identified. The Group's four manufacturing sites, which have higher water usage, have processes in place to reduce usage where possible.

ii) Waste

Currently 99% of our waste avoids landfill – we plan to maintain this and increase to 100% by 2030, as well as continue to promote our recycling arm as an option for customers. Monitoring of waste streams to maximise segregation and recycling rates.

iii) Land-use

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

Summary

Overall, 2022 has been a further year of progress against the main TCFD initiatives. Highlights of the year have included: the appointment of a Head of Sustainability starting January 2023; the introduction to our delivery fleet of an electric vehicle; approval of our solar panels project at Grantham; as well as our first incorporation of scenario planning into our strategic processes. We remain fully committed to our goal of a 30% reduction in CO₂ per tonne of goods sold. Further detail on this and other environmental targets can be found in the ESG section of our Sustainability Report on pages 36 to 49.

ESG report

Introduction from our CEO

Throughout the past year at Macfarlane Group, we have continued to work towards a more sustainable and equitable future for our customers, colleagues, communities, and investors. The targets we have set are focussed on reducing our carbon emissions, to reduce the Group's impact on the environment, as well as supporting our customers to achieve their sustainability objectives. In addition we continue to work to improve our customer engagement and provide support for our colleagues and the communities we serve.

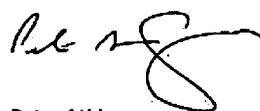
Highlights of the last 12 months include:

- A reduction in our absolute scope 1 and 2 carbon footprint by 765 tonnes from 6,676 to 5,911, an 11% reduction as a result of the sale of Macfarlane Labels Limited and its subsidiaries ('Labels') on 31 December 2021 (628 tonnes or 9%) and efficiency improvements in fuel and electricity usage (137 tonnes or 2%).
- 88% of our energy usage now comes from renewable sources, a significant improvement from 2021 (67%).
- The launch of colleague volunteer days in the second half of 2022 has seen our staff donate 204 hours of their time to charitable causes.
- Macfarlane Group has also welcomed a partnership with Blue Cross, a charity that provides specialist care, services and support for pets and their owners.

- Supporting customers has remained at the heart of everything we do and this has been reflected in our Net Promoter Score, which increased from 48 points to 50 in the past 12 months.
- We have re-launched the Packaging Optimiser tool which has enabled businesses to understand the total cost of their packaging operations and the impact it is having on the environment. This has been instrumental in helping our customers improve efficiency and minimise carbon emissions.
- Our Significant Six programme remains a key aid to help customers drive down their emissions associated with packaging and will be an important tool in the coming months as many businesses look to control costs in the current economic climate.
- During 2022, the Group's seventh annual unboxing survey, which generated over 1,000 respondents, further reinforced the need for businesses to prioritise sustainability when it comes to packaging.
- We have worked with our customers on key legislative changes like the Plastic Packaging Tax and updated our product portfolio to increase recycled content and recyclable protective packaging solutions alongside capturing environmental attribute data and will continue to do so. This positions the Group well to prepare ourselves and customers for future regulatory requirements, such as Extended Producer Responsibility.
- We have been awarded a Silver EcoVadis rating, as well as making our first ever submission to the Carbon Disclosure Project ('CDP'), signalling our commitment to continue to reduce our environmental impact.

- From a governance perspective, we have our first female Chair of Macfarlane, following the appointment of Aleen Gulvanessian in October 2022. The addition of Laura Whyte as Remuneration Committee Chair is also very positive and means 33% of our Board Directors are now female.
- We have appointed a new Head of Sustainability, David Patton. David's experience at Zero Waste Scotland means he is well placed to drive our sustainability strategy.

In the coming year, we will continue to implement our ESG strategy. I remain confident that in 2023 we will make further progress in supporting a sustainable future for us all by protecting what matters.



Peter Atkinson
Chief Executive Officer

How we manage Environment, Social and Governance (ESG)

We manage ESG through our ESG committee which meets monthly and is chaired by our Company Secretary. With the appointment of our new Head of Sustainability, David Patton, he will assume responsibility for this Committee in 2023. The Head of Sustainability will report directly to the Company Secretary. Macfarlane's ESG committee is guided by our core values and has clear objectives that drive our overall sustainability strategy.

Our ESG committee objectives

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

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

Highlights 2022

Environment

- 11.5% or 765 tCO₂e absolute reduction in carbon footprint in 2022 from 6,676 tCO₂e in 2021 to 5,911 tCO₂e in 2022. 628 tCO₂e of the reduction related to the Labels business sold in December 2021.
- 19.4% improvement in carbon intensity relative to sales value from 0.023 to 0.020 (tCO₂e per £000 sales).
- This represents a 12% reduction in absolute carbon footprint and a 33% improvement in carbon sales intensity relative to the 2019 baseline year.
- Improvement in our percentage of energy from renewable sources from 67% to 88%.
- First new 16T Electric Truck added to the commercial vehicle fleet, paving way for learnings for a future wider rollout.
- Helping customers move to more environmentally friendly products, in lieu of the introduction of the PPT.
- First submission made to the CDP, outlining our commitment to carbon reduction and transparency of our journey.

Social

- 50 – our average Net Promotor Score for 2022 (2021:48).
- Installed Automatic External Defibrillators (AED's) in all the UK and Ireland Group sites.
- Continued our established colleague engagement survey programme, obtaining a 57% participation rate which has directed areas of focus for improved colleague engagement for 2023.
- Launched our new Diversity, Equality and Inclusion Policy, including training to 95% of senior managers in the Group and the introduction of guides to Discrimination, Bullying, Harassment, Sexual Harassment & Victimisation.
- Launched our new volunteering initiative (1 paid day per colleague per annum), allowing colleagues to give back to the community. Alongside this we launched our new partnership with Blue Cross, offering direct volunteering opportunities.

Governance

- ESG continuing as an established standing agenda item in Board meetings.
- Appointment of first female Chair of Macfarlane Group, with Aleen Gulvanessian becoming chair on 1st October 2022.
- 33% of Board Directors now female, with the appointment of Laura Whyte as Remuneration Committee Chair.
- Continued capital investment in ESG, shown by approval of the installation of solar panels at our Grantham manufacturing site.

ESG report (continued)

Environment: helping our customers achieve their sustainability goals, whilst reducing our own carbon footprint

Tackling carbon emissions and climate change

Macfarlane currently emits 5,911 tonnes of carbon (2021: 6,676 tonnes). The major sources of carbon emissions are fuel from our vehicle fleet (82%) and our electricity usage (11%). By 2030 we will reduce our scope 1 and 2 carbon emissions (CO₂e) by at least 30% per tonne of products sold compared to the base year of 2019. Due to the variability of performance in 2021 and 2020 with the impact of Covid-19 which resulted in abnormal trading patterns, sales volumes and costs, 2019 is the last full year of more typical trading conditions. As such, it is deemed to be the most appropriate base year to compare our performance against.

Macfarlane Group key initiatives to tackle carbon emissions and climate change

Key goals: carbon emissions	Status	2022 update
<p>Aiming to convert the delivery fleet to 50% electric vehicles by 2030.</p> <p>The first five electric vehicles will be introduced to the fleet in 2022-23. 100% of vehicles of 3.5T or under will be electric by 2030. All new vehicles have zero emissions. Assuming technology develops allowing greater range and payload we would expect beyond 2030 to have the majority of our fleet converted to electric vehicles. This commitment to electric vehicles has been made despite a significant cost disadvantage over the existing fleet. (Estimated tCO₂e saving of 1,500 tonnes per year).</p>	On track	<ul style="list-style-type: none"> • 16T truck received in December 2022 • 4 x 4.5T vehicles moved to 2023 due to supply chain delays from the manufacturer
<p>50% of Company cars will be electric by 2026.</p> <p>Macfarlane Group commits to offering Company car users more choice of electric vehicles. To support all employees using electric vehicles. 100% of Macfarlane Group sites will have electric vehicle charging points by 2030. (Estimated tCO₂e saving of 180 tonnes per year).</p>	On track	<ul style="list-style-type: none"> • As at 2022, 18% (2021: 13%) of Company cars are electric with this expected to increase again in 2023
<p>Solar panels to be installed at one site per year, saving an average of 20 tonnes of CO₂e per site.</p> <p>We aim for solar panels to be installed in at least 10 sites by 2030. (Estimated tCO₂e saving of 90 tonnes per year).</p>	On track	<ul style="list-style-type: none"> • Solar Panel capital expenditure at Grantham manufacturing site approved by the Board in December 2022 to be installed in 2023

With fuel from running our own truck fleet accounting for two thirds of Scope 1 and 2 carbon emissions, there are several other initiatives in place to help reduce our footprint in this area. This includes our driver performance scheme, introduced in 2021, which encourages optimal driving behaviour that reduces fuel consumption and emissions. This programme makes use of telematics to track speed, braking and acceleration.

We also have in place our Paragon software and vehicle tracking system, which plans our routes to minimise our fuel usage. As this is rolled out to more of our sites, this will help reduce our overall emissions and make our fleet as efficient as possible.

Mandatory greenhouse gas reporting 2022

The Group seeks to minimise the impact of our operations on the environment and is committed to reducing its greenhouse gas ('GHG') emissions. This report outlines the Group's GHG emissions for 2022. Using an operational approach, the Group identified its boundaries to ensure all activities and facilities for which it is responsible were being recorded and reported in line with Scope 1 and 2 of the SECR regulation, which applies to Company financial years starting on or after 1st April 2019. Relevant data was provided to an independent consultant, EcoAct. The validity, accuracy and completeness of the data was audited by EcoAct and then used to calculate the GHG for Macfarlane Group. Calculations were completed in accordance with the main requirements of ISO-14064-1 standard and deliver both absolute values and an intensity ratio for the Group's emissions. Activities conducted in the Republic of Ireland, the Netherlands and Germany are included below to represent the Group's full Scope 1 and 2 footprint. Scope 3 emissions tied to business travel fuel are included separately as per the SECR regulations¹.

The Group continues to report on the absolute carbon footprint and intensity of carbon footprint relative to sales. The Group considers an intensity metric to be appropriate in light of the Company's ongoing growth plans and acquisition of an average of two companies per year. During the period work has been undertaken to move towards an intensity footprint based on tonnage of product produced and further work will be undertaken during 2023 to reflect on the most representative measures the organisation can utilise to further enhance reporting.

Type of emission	Activity	2022 Units	2021 Units	2022 Tonnes of CO ₂ e	2021 Tonnes of CO ₂ e
Direct (Scope 1)	Natural gas (kWh)	1,395,619	2,375,152	255	435
	Vehicle fuel (litres)	1,779,666	1,842,699	4,547	4,627
	Vehicle fuel (miles) ²	1,044,334	661,123	287	182
	Other (litres)	99,386	120,056	178	221
	Subtotal			5,267	5,465
Indirect (Scope 2)	Purchased electricity (kWh)	3,259,944	5,700,248	644	1,211
	Subtotal			644	1,211
Total gross emission (tCO ₂ e)				5,911	6,676

	2022	2021
Total gross GHG emissions (tCO ₂ e)	5,911	6,676
Total sales (£000)	290,431	285,685
Carbon intensity (based on sales £000, previous measure)	0.0204	0.0234

Business segment	2022 Tonnes of CO ₂ e	2021 Tonnes of CO ₂ e	2022 Sales £000	2021 Sales £000	2022 tCO ₂ e/ £000	2021 tCO ₂ e/ £000
Packaging	4,883	4,949	259,651	239,508	0.0188	0.0207
Distribution						
Manufacturing	1,028	1,727	30,780	46,177	0.0333	0.0374
Operations						
Total	5,911	6,676	290,431	285,685	0.0204	0.0234

The tables above includes the Labels division data for 2021, but not 2022. The Labels division was sold on 31 December 2021.

CO ₂ e per annum	2022	2021	2020	2019
Total (Absolute tonnes)	5,911	6,676	6,786	6,752
tCO ₂ e (Intensity based on sales)	0.020	0.023	0.029	0.030

As the Group is a growing business, we believe it is important to measure our environmental performance, specifically carbon reduction, in intensity terms as well as absolute terms. The high inflationary environment experienced recently has made our sales intensity ratio less meaningful and we therefore plan to move to an intensity ratio based on volume of product sold. Work has been undertaken to increase the quality of our tonnage data and ensure that we have consistency across the Group and we expect to be in a position to start reporting on this from the 2023 financial year onwards.

¹ Scope 3 emissions relating to business travel in rental cars or employee owned vehicles where the Group purchased the fuel amounted to 14 tonnes of CO₂e during 2022.

² Vehicle fuel measured in miles for the prior year has been restated here to reflect the accurate unit of measurement (previously presented in litres). Other litres has also been restated for 2021 at the correct value of 120,056 litres (previously 50,627 reported). The carbon remains accurate and in line with what was previously reported. Truck data is measured in litres, whereas Company cars are measured in miles.

ESG report

(continued)

Investing in sustainable distribution

ESG report

(continued)

Protecting natural resources

Macfarlane Group is taking a range of actions that aim to conserve natural resources for future generations. The key actions are as follows:

Key goals: protecting natural resources	Status	2022 update
100% of Group sites will be FSC® certified (FSC® – C149407) by the end of 2025. This gives us the ability to source all paper and timber products from sustainably managed forestry. At the end of 2021, we had 80% of sites that were FSC certified.	On track	• As at 31 December 2022 85%* of sites were certified, increasing to 94% by the date of this report.
We aim to have 100% of our energy coming from renewable sources by 2025. The Group purchases green energy via renewable tariffs certified through a REGO (Renewable Energy Guarantees of Origin) – we are committed to promoting green energy and reducing our overall energy usage. Our goal includes all sites where we have full control over energy sources. Where possible, we also work with landlords to promote renewable energy.	On track	• 88% of our sites at 31 December 2022 on a 'green' energy tariff, compared to 67% at 31 December 2021.

* First year reporting therefore no prior year comparative.

Recycling and recovery rate

Recycling and recovery (diversion from landfill)

In terms of other natural resources, we have other initiatives in place as follows:
Water

As primarily a distribution business, we generally have low usage of water. In 2022 all sites were assessed for water stress, with no high-risk sites being identified. The Group's four manufacturing sites, which have higher water usage, have processes in place to reduce usage where possible. All sites have reminders in place around conserving water.

Paper

We have initiatives in progress to reduce our overall usage of paper. This includes making our internal processes more efficient by moving to paperless solutions, through gradual digitisation. This will enable a 75% reduction in paper usage at the head office in Coventry. The gradual rollout of our digital warehouse management system will also help our operating sites reduce paper usage.

Waste management reporting 2022

The Group continues to manage waste generated through its activities in a legal and environmentally responsible manner. We continue to prioritise segregation of recyclable materials and minimise waste contamination. Waste generated at our sites is segregated into differing waste streams and the Group's manufacturing sites continue to re-use material where possible. The overall waste tonnages increased in line with full year reporting of acquisitions and additional turnover within the Group whilst maintaining our waste management objectives to deliver a high recycling and recovery rate.

We aim for 100% landfill avoidance by 2030. Currently, over 99% of waste generated by Macfarlane Group avoids landfill and is re-used or recycled, contributing to a circular economy.

Reducing the environmental impact of our products

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

The Group is committed to helping create a circular economy. This is helped by our primary focus on corrugated paper products, which represent around two-thirds of the value of products sold in 2022 and are intrinsically environmentally friendly. They can be recycled up to seven times and are compostable at end of life. We will do this by ensuring better packaging design and sourcing. Our initiatives and goals include:

Key goals: recycling and our products	Status	2022 update
By 2025 at least 90% of products will contain recycled content.	On track	<ul style="list-style-type: none"> • Overall % of products sold that contain recycled content is 77%*. • Good progress in the year of cleansing data, following introduction of Plastics Packaging Tax. • Effective collaboration with strategic suppliers to increase plastic products that have recycled content.
By 2025 at least 90% of products will be recyclable. We classify 'recyclable' using OPRL guidelines, including kerbside pickup, as well as supermarket recycling. We do not include other schemes such as Terracycle.	On track	<ul style="list-style-type: none"> • Overall % of products sold that are recyclable is 89%*. • Good progress in the year of cleansing data and updating environmental attributes. • Recyclability of products continues to evolve slowly, especially in areas such as packaging tape. 90% remains our aspirational goal.

* First year reporting therefore no prior year comparative.

Work has been undertaken to evaluate the recycled content within our products. Given the vast range of products that the Group supplies this has been a significant undertaking. We are pleased to report that we have now analysed the majority of our Distribution product mix and confirmed 77% of our packaging has recycled content of 30% or more within it, while 89% of our packaging is recyclable. This initiative will continue into 2023, to ensure our data is as accurate as possible.

Leading sustainable change in protective packaging

We recognise our responsibility to lead sustainable change in packaging distribution through ethical and environmentally friendly procurement and sourcing. Packaging

should be designed with consideration of its entire lifecycle to help reduce its impact on the planet.

To make recycling as easy as possible for our end-consumers, we are also looking to provide clear and consistent recycling instructions on any own-brand packaging we supply.

We are investing in our circular design capability, through training for our procurement and iLab teams, including our Northern iLab to be opened in 2023. We also continue to be a member of Sedex, who provide independent verification of responsible operations and ethical sourcing.

ESG report

(continued)

Social: supporting our employees and the communities we operate within

Supporting our customers to build a sustainable future

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

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

By 2025 we aim for our Net Promotor Score, in the Distribution division, to be 60 (the average NPS score for B2B companies in 2022 was 33) to ensure we are providing world class customer satisfaction. Macfarlane Group aims for customer satisfaction scores in our annual survey for all divisions to remain above 90%. By 2025, we aim for this to be 95%.

Throughout 2022 we have continued to support our customer in building a sustainable future. This has included:

- Successfully piloting out Microsoft Dynamics as the new CRM system, and commencing our rollout across key operating sites;
- Training of Distribution's external sales staff to use the Macfarlane Packaging Optimiser so they can help customers make informed choices about sustainability and packaging.

Microsoft Dynamics will continue to be rolled out as the new Macfarlane Packaging CRM system in 2023. This will allow us to protect and use customer data more effectively to make sure customers are offered products and services that enhance their experience.

Investing in the community we serve

Engaging with the community and its stakeholders is more than providing financial support. Macfarlane Group believes that understanding the communities within which we operate allows us to serve our people and stakeholders in these local areas better and more sustainably. To support our approach, we launched our colleague Volunteer Day scheme in the Summer 2022, giving our colleagues the opportunity to get involved in community projects, along with empowering them to pro-actively fundraise, and support charity initiatives throughout the year.

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

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

Protecting our colleagues and culture

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

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

- We protect our colleagues' wellbeing now and in the future by providing an 'employee assistance programme' (EAP). This includes access to independent specialised counselling, a 24/7 support line and online portal, and our own internal fully qualified Mental Health First Aiders. We also launched a dedicated intranet page on Mental Health and Wellbeing this year, with information, advice, and top tips on mental, physical, and financial health topics.

Net Promoter Score/customer satisfaction

	2022	2021	2020
NPS	50	48	53
Annual customer satisfaction score	92%	91%	91%

Commentary

Throughout 2022, Net Promotor Score engagement programmes have assisted colleagues in understanding the importance of world-class customer satisfaction. Despite challenging market conditions, customer satisfaction has increased.

- We launched our Group colleague engagement survey, 'You told us! We are taking Action.' Our Group survey was open to all colleagues across the organisation, including acquisitions, and received 57% participation. Since the results were compiled and distributed, a group of managers and HR personnel have collaborated to identify key areas for improvement and actions to improve. This year, we communicated our action plans and commitments. Furthermore, we've launched our first site-specific 'Great Place to Work' (GPTW) listening group, which will allow for greater collaboration, the development of trust and respect, and improved communications.
- We aim to increase awareness of Diversity, Equality, and Inclusion (DEI) through mandatory training for colleagues in leadership roles. To support our ambitions, we have designed a two-part DEI Training course in collaboration with ACAS. Part 1 – Overview of DEI, Part 2 consists of two sections: 'Managing Difficult Conversations' and 'Unconscious Bias.'
- In 2022, we launched our new Diversity, Equality and Inclusion Policy and Guide to Discrimination, Bullying, Harassment, Sexual Harassment & Victimisation.
- In 2022, 95% of our senior managers have received full DEI training. 50% of our remaining managers completed or are scheduled to complete the training between December 2022 and February 2023. As previously stated, we have taken our ambitions a step further by making a Part 2 DEI offer. We aim for all managers to complete Part 2 training by the end of 2023.
- Each site will have a DEI champion by 2023.

Employee development

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

The significant developments in technology within Macfarlane Group over the past two years have enabled us to enhance virtual training programmes, supporting our ability to engage all employees in their development no matter where they are geographically located. The Group has provided an average of 15 hours of training per employee in 2022, a decrease on 2021: 16 hours due primarily to the sale of Labels in December 2021 which had a higher hours of training per employee related to health and safety.

Employee engagement

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

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

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

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

ESG report

(continued)

Employee wellbeing

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

Guides, support tools and online training have been made available to all employees with the aim of creating a healthy, supportive working environment. A full Employee Assistance Programme (EAP) is available 24/7 to all our colleagues with Mental Health First Aiders available for support in the workplace. In 2022, we've also launched our international EAP service for our colleagues in Ireland, the Netherlands and Germany.

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

Diversity

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

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

Gender pay gap

Macfarlane Group, as in previous years, reported its Gender Pay Gap information for the snapshot date 5 April 2021. The report showed men's mean hourly rate to be 2.4% higher than women's and women's median hourly rate to be 12.1% higher than men. The median pay gap is reflective of the number of women employed in the sales function, where their pay is impacted by the ability to earn bonus in a set period. This result is also influenced by the fact that the lower earning band of employees in production and logistics is predominantly male.

These results do however change when reviewing the mean pay gap information. This is reflective of the demographics of the Senior Executive team and those Printers (typically male) employed in Macfarlane Labels (sold in December 2021) as skilled professionals, who receive competitive basic pay and a full shift system, offering a significant uplift on standard hourly rates.

It is worth noting that the mean bonus pay gap for 2021 was 16.1% higher for females, whereas in previous years the gap was 46%. This shift is reflective of the bonus scheme paid within the relevant period, being adopted to deal with the impact of Covid-19, with all employees being placed on a same scheme.

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

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

Diversity

	2022		2021*	
	Male	Female	Male	Female
Directors	5	2	6	1
Senior Managers	12	6	13	6
All other employees	616	327	597	333

* 2021 numbers have been restated to reflect the sale of the Labels business in December 2021.

Human rights

- In 2022, Macfarlane Group launched a new Human Rights policy.

We also have other policies that reflect established human rights principles. These include:

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

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

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

Engagement – the Group recognises the importance of meaningful communication and consultation in maintaining good employee relations. This is achieved through formal and informal meetings across all business units.

- Anti-bribery and corruption – the Group has an anti-bribery and corruption policy, which is supplemented by a gift register and an associated policy on accepting gifts. This was externally reviewed in 2020.
- Whistleblowing policy – there is provision for employees to use an independent service if they are not comfortable speaking to anyone within the Group about any matters which give them concern. This service is promoted throughout the Group. This provision was extended during 2020 to include a specific support line linked to Covid-19 and the Health & Safety of every stakeholder.
- Modern Slavery Act – each year, the Group make a statement under the Modern Slavery Act which is supported by internal procedures to ensure that the principles of the act are adhered to. The statement is available on the website (www.macfarlanegroup.com).

No material breaches of the above policies were noted during 2022, nor were any matters of significant concern reported through our whistleblowing service.

Recent partnership with the charity Blue Cross

ESG report

(continued)

Health & Safety

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

In 2022 we:

- Embedded the Health and Safety Management System into the Group including 2021 acquisitions – this is to ensure all Accidents, Incidents, Near Misses and Safety Observations are captured and all investigation findings are identified and actioned. We are currently reviewing legacy Health and Safety reporting systems at the 2022 acquisition, PackMann, with a view to integrating them into the Group system.
- Installed Automatic External Defibrillators (AED's) in all the UK and Ireland Group sites – to promote that the welfare of our people is important to the Group.
- Developed a Health and Safety Training Programme – ensuring all our people understand why Health and Safety is important and the key role that they play in improving the safety of our sites.

- Full Health and Safety Audit Schedule completed – all Group sites including 2021 and 2022 acquisitions were audited against legislative and Macfarlane Group policies and standards.

Four reportable incidents occurred in 2022 compared to five in 2021. All reportable incidents are investigated thoroughly by our Health & Safety team and changes to working practices implemented if required. We also ensure that training in a particular area where incidents have arisen is reinforced.

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

Accident Frequency Rate

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

In 2023, our aims are continuous improvement in our positive safety culture and reduce recorded accidents, ensuring all our sites are safe places of work for our colleagues and all stakeholders. Some of the actions we plan to complete include:

- delivering Health and Safety awareness training to all site managers;
- conducting HSQE Representative training, including accident/incident investigations;
- identifying a suitable E-learning platform to enhance training;
- detailed analysis of our leading and trailing indicators to identify trends and areas for further improvements which will be used to drive the safety culture improvements and Health and Safety strategy for the next few years;
- monitoring actions identified through monthly site inspections and ensuring these are regularly reviewed; and
- continue to engage all members of the leadership team in the safety inspection programme.

Accident Frequency Rate (AFR)

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

Packaging Distribution

Manufacturing
Operations

Group

.....
Linear (Packaging
Distribution)

.....
Linear (Manufacturing
Operations)

.....
Linear (Group)

Governance: having the governance structures in place to support values-based decision-making

Board

Background

The Board makes decisions in full consideration of their potential effect on the environment, employees and local communities. Since the end of 2021, ESG has been embedded as a standing item on the Board agenda, although prior to this it was an area of frequent Board discussion. It is clearly understood that only with a firm commitment to sustainability can the Group continue to grow and flourish.

Diversity

The Board is fully committed to diversity, on the basis that the best quality personnel from a range of backgrounds can enhance the overall quality of our business. This is also fully supported across the Group. The positive gender pay gap in the organisation is clear evidence of this positive approach and the appointment of our first female Chair of the Board, Aleen Gulvanessian, in 2022, as well as 33% of Board Directors now being female.

Executive Pay

Macfarlane Group is proud of its prudent and transparent approach to Executive Remuneration. Further details on this can be found in our Directors' Remuneration Report on pages 56 to 64.

Tax

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

Ethics

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

About this report

- Transparent reporting and benchmarking
- Statistics and scope

How Macfarlane Group has measured carbon emissions for this report

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

All data is generated from invoices and purchases of energy. Some electricity data has been generated by landlords; where meters are shared across multiple tenants and therefore the site is allocated a proportion of total consumption. Some invoices are only issued after the reporting period, or quarterly invoices covering the year end in part and not received until after publication of the report. These invoices are estimated, but do not cover greater than 5% of total energy consumption. Estimated usages are based on the preceding three months consumption data.

In this report, the term Carbon emissions not only includes carbon dioxide (CO₂) but all other greenhouse gasses: methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFC), perfluorocarbons (PFC) and sulphur hexafluoride (SF₆).

Carbon emissions are calculated and reported in tonnes of CO₂ equivalent (tCO₂e) following recommended best practice.

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

Recycled and recyclable

Recycling is the process of converting waste materials into new materials and objects. The recovery of energy from waste materials is often included in this concept.

Recyclable material can be defined as material which would otherwise become municipal waste, which can be processed into the form of raw material for new products.

We have cleansed and updated the recycling statistics for over 80% of our turnover, as part of the introduction of this metric, given we have over 20,000 different items. This percentage will be further increased in 2023.

Non-financial information statement

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

Reporting requirement	Details including the impact on Macfarlane Group including any risks in relation to these matters and financial and non-financial KPIs
Business model	Our business model is described on page 8.
Outlook and developments	Main trends/factors likely to affect the future development, performance and position of the business including KPIs are set out in the Business and Finance reviews and in the Sustainability Report both within the Strategic Report on pages 4 to 50.
Principal risks	The Principal Risks, potential adverse impacts and mitigating actions are set out in the Principal Risks and Uncertainties section on pages 24 to 28.
Stakeholder engagement	The Stakeholder Engagement section on pages 29 to 32 includes details summarising how Directors have had regard to the need to foster the Company's and the Group's business relationships with all stakeholders, and the effect on the principal decisions taken by the Group during the financial year.
Employees	The main policies and interactions with our employees are set out in the Business Review on pages 10 to 19, Principal Risks and Uncertainties on pages 24 to 28, the Stakeholder Engagement section on pages 29 to 32, the Employees section of the Sustainability Report on pages 44 to 48 and the Directors' Remuneration Report on pages 56 to 64.
Environmental matters	Environmental matters are disclosed in the Environmental Care section of our Sustainability Report on pages 38 to 43 and the Stakeholder Engagement section on pages 29 to 32.
Financial risk management	Details of the use of financial instruments and financial risk management are set out in the Finance review on page 22.
Human rights	Details of our policies in these areas are set out in the Human Rights section of our Sustainability Report on page 47.
Social and community matters	Social and Community matters are disclosed in the Stakeholder Engagement section on pages 29 to 32 and the Sustainability Report on pages 44 to 48.
Anti-bribery and corruption and whistleblowing	Details of our policies in these areas are set out in the Human Rights section of our Sustainability Report on page 47.
Post year end events	Details of important events affecting the Group which have occurred since the end of the financial year are included on page 117.
Overseas branches	Details of the Group's overseas branches are included on page 132.

Chair's introduction to governance

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

Dear shareholder,

I am pleased to present the Group's Corporate Governance Report for the year ended 31 December 2022. The business aims to apply and maintain the highest standards of Corporate Governance, offering a strong framework that delivers and protects value for all our stakeholders. Further detail on how we engage with our stakeholders, as per s172 of the Companies Act 2006, can be found on pages 29 to 32.

Board effectiveness

The Board undertakes a performance evaluation each year to ensure that the Board and its underlying Committees are operating effectively. Details of this evaluation are covered within the Corporate Governance Report. The findings confirm that the Board has the right balance of skills, experience, knowledge and independence, further reinforced by the appointment of Laura Whyte on 1 October 2022.

Compliance with the UK Corporate Governance Code

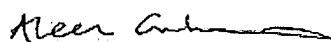
The Board confirms that, during 2022, the Group has complied with the provisions of the UK Corporate Governance Code (the 'Code'), with the exception of;

- Provision 10 which relates to the independence of Non-Executive Directors. One Non-Executive Director has served on the Board for more than nine years and this is explained in the Corporate Governance report on page 65.
- Provision 38 which relates to alignment of Executive Directors pension contribution rates to those available to the workforce. The Executive Directors receive pension contributions equivalent to 8% of basic salary which is aligned to other senior managers but not the majority of the workforce.

There is a culture of integrity on the Board, which underpins our transparent approach with our key stakeholders. There is also a highly transparent approach to Executive Remuneration, as outlined in our Directors' Remuneration Report on pages 56 to 64. A full version of the Code can be found on the Financial Reporting Council's website www.frc.org.uk.

Sustainability

As the leading packaging distributor in the UK, we have a vital role to play in the sustainability of our products and in the circular economy. The Board places great emphasis on this and other Environmental, Social and Governance ('ESG') matters, with ESG now a standing item on the Board agenda. I am pleased that in 2022 the Board approved the commissioning of solar panels at our Grantham manufacturing site. It was also pleasing to see the introduction of our first electric truck in the year, as part of a wider planned rollout. We remain committed to reduce the carbon footprint of our CO₂ per tonnage of sold items by 30% by 2030.



Aileen Gulvanessian
Chair

23 February 2023

Board of Directors

Aleen Gulvanessian

Chair

Aleen joined the Board on 1 October 2021, becoming Chair on 1 October 2022 following a year as Remuneration Committee Chair. Aleen was a corporate partner at Eversheds Sutherland for 30 years before stepping down in May 2019 to become a Consultant on Boards and Governance matters. Aleen is an experienced corporate lawyer who has advised private and quoted UK companies (including cross border transactions) across a range of sectors. Her areas of focus have been mergers and acquisitions, joint ventures, corporate finance transactions and reorganisations, as well as general boardroom and governance advice for quoted companies. Aleen is a member of the Governance Committee of the Institute of Chartered Accountants in England and Wales, to which she was appointed in June 2019. In 2022, Aleen became Chair of Xitus Insurance Limited and its holding company, an insurance business focused on run-off liabilities, which is regulated by the FCA and PRA. Aleen also serves on not for profit boards.

Peter Atkinson

Chief Executive

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

Ivor Gray

Finance Director

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

Bob McLellan

Non-Executive Director and Senior Independent Director

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

James Baird

Non-Executive Director

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

Laura Whyte

Non-Executive Director

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

James Macdonald

Company Secretary

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

Aleen Gulvanessian**Peter Atkinson****Ivor Gray****James Baird****Bob McLellan****Laura Whyte****James Macdonald****Corporate information****Registration number**

No. SC 004221
Registered in Scotland

Company Secretary

James Macdonald

Registered office

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

Principal bankers

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

Solicitors

CMS Cameron McKenna
Nabarro Olswang LLP
1 West Regent Street
Glasgow G2 1AP
Wright Johnston & Mackenzie LLP
302 St. Vincent Street
Glasgow G2 5RZ

Stockbrokers

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

Independent auditor

Deloitte LLP
110 Queen Street
Glasgow G1 3BX

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Report of the Directors

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2022. Pages 8 to 74 inclusive comprise the Directors' Report, which in turn includes the Chair's Statement and the Strategic Report on pages 4 to 50. These reports have been drawn up and presented in accordance with and in reliance upon applicable company law and any liability of the Directors in connection with these reports shall be subject to the limitations and restrictions provided by such laws.

The Company has chosen to disclose the following information within the Annual Report:

- Details of the use of financial instruments and financial risk management by the Group (page 22).
- Details of important events affecting the Group which have occurred since the end of the financial year (page 117).
- An indication of likely future developments in the business of the Group (pages 10 to 19).
- Details of the Group's overseas branches (page 132).

Corporate governance

The information that fulfils the requirement of the Corporate Governance Statement can be found in the Corporate Governance Report on pages 65 to 73 (and is incorporated into this report by reference) with the exception of the information referred to in the Financial Conduct Authority Disclosure and Transparency Rules 7.2.6, which is located within this report.

Report on greenhouse gas emissions

Details of the Group's emissions and policies are contained within the Sustainability Report on pages 36 to 49.

Cautionary statement

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

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

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

Results and dividends

The Group's profit before tax from continuing activities was £19,934,000 (2021: £18,655,000). This resulted in a profit for the year of £15,637,000 (2021: £12,598,000).

The Directors declared an interim dividend of 0.90p per share, which was paid on 13 October 2022 (2021: 0.87p per share). The proposed final dividend of 2.52p per share (2021: 2.33p per share) is subject to approval by shareholders at the AGM in May 2023 and has not been included as a liability in these financial statements.

Capital structure

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

The Company has one class of ordinary share, which carries no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company. There are no restrictions

on the size of shareholdings nor on the transfer of shares. Both are governed by the Articles of Association of the Company ('the Articles') and prevailing legislation. The Directors are not aware of any agreements between the Company's shareholders that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid. 525,000 shares were issued in 2022 in relation to the vesting of the 2019 award under the 2016 Performance Share Plan to Executive Directors. Further details of this can be seen in Note 19 to the financial statements.

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

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

The Directors will propose an ordinary resolution at the 2023 AGM seeking authority to allot shares in the Company under section 551 of the Companies Act 2006 up to an aggregate nominal amount of £13,194,750.

At the 2022 AGM, the Directors were given authority to allot further ordinary shares, disapplying any pre-emption rights, beyond those committed to the share option schemes or long-term incentive plans up to an aggregate nominal value of £3,945,300, which expires at the conclusion of the 2023 AGM. Resolutions at the 2023 AGM will seek to renew for a further year the authority over the existing unissued and uncommitted ordinary share capital of £3,958,425 – being 10% of share capital following the 2022 issuance of shares noted above.

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

Substantial holdings	Number of shares held	Percentage
Funds managed or advised by Rights & Issues Investment Trust plc	17,250,000	10.9%
Funds managed by Canaccord Genuity Group Inc.	16,004,821	10.1%
Funds managed or advised by Blackrock	11,319,377	7.1%
Funds managed or advised by Charles Stanley	10,376,912	6.6%
Funds managed or advised by Otus Capital Management	7,973,482	5.0%
Almadon Limited	7,284,058	4.6%
Funds managed or advised by BGF Investment Management	6,985,420	4.4%

Employees and employee share schemes

The Company's policies for employees and employee engagement are set out in the Sustainability Report on pages 44 to 48. Option awards are detailed in the Directors' Remuneration Report with those awards outstanding at 31 December 2022 set out on pages 59 and 60.

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

Substantial holdings of shares in the Company

The Company has received notification prior to 23 February 2023 in accordance with Rule 5 of the Financial Conduct Authority's Disclosure and Transparency Rules of the voting rights as a shareholder of the Company shown in the table above.

Directors

The names of the Directors in office at 31 December 2022 and to the date of this report together with short biographical details, are set out on page 52. The Board considers its three Non-Executive Directors to be independent.

All Directors retire by rotation at the AGM in May 2023 and offer themselves for re-election. P.D. Atkinson and I. Gray have service contracts dated 6 October 2003 and 23 December 2020 respectively, with notice periods of twelve months. A. Gulvanessian has a letter of appointment dated 27 September 2022 with a notice period of six months. R. McLellan, J.W.F. Baird and L. Whyte each have letters of appointment dated 10 March 2021, 8 January 2021 and 13 September 2022 respectively for periods of three years, with notice periods of three months. S. Paterson served as Chairman until 30 September 2022.

No Director, either during or at the end of the financial year, had an interest in any contract relating to the business of the Company or any of its subsidiaries. The statement of Directors' interests in the ordinary share capital of Macfarlane Group is contained in the Directors' Remuneration Report on page 60.

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

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

Political donations

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

Special business

A special resolution will be put to shareholders to renew for a further year the authority in relation to the disapplication of pre-emption rights over the existing unissued and uncommitted ordinary share capital. This authority is limited to a maximum nominal amount of £3,958,425, representing 10% of the current share capital.

Disclosure of information to auditor

The Directors holding office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Independent auditor

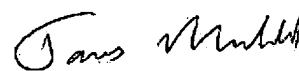
A resolution to re-appoint Deloitte LLP as the Company's auditor will be proposed at the AGM in 2023.

Company information

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

Approval

The Strategic Report on pages 4 to 50 and the Directors' Report on pages 4 to 74 were both approved by the Board on 23 February 2023.



James Macdonald
Company Secretary
23 February 2023

Remuneration report

Remuneration Committee Chair's summary statement

Following my appointment as Chair of the Remuneration Committee in October 2022, I am pleased to present the Directors' Remuneration Report for Macfarlane.

I would like to thank Aleen Gulvanessian for her work as the previous Remuneration Committee Chair.

This Chair's statement summarises the main areas of activity for the Remuneration Committee in the year and introduces the other sections of the Directors' Remuneration Report. This year it comprises the Annual Report on Remuneration, which sets out the remuneration arrangements and incentive outcomes for the year under review and how the Remuneration Committee intends to implement our Policy in 2023.

Remuneration in 2022

Group results for 2022 are set out in our Strategic Review. We believe the financial results in the year are appropriately reflected in the remuneration of our Executive Directors, as follows:

- Annual bonus outcomes for the CEO and Finance Director for 2022 of 66% and 64% of maximum amounts available respectively (maximum being 100% of base salary).
- Performance Share Plan ('PSP') awards were made in March 2022, subject to three year EPS growth targets, which the Committee regards as appropriately stretching.
- PSP vesting took place in relation to the 2019 PSP awards, with a maximum pay-out made to the CEO and Finance Director, as well as an award to the former Finance Director. This was the first vesting of the scheme introduced in 2019, and we are pleased that the award reflected the significant growth in the business during the period.

- PSP vesting will occur in 2023 relating to the 2020 PSP awards, with a maximum pay-out also expected due to the strong performance in the three year period ended 31 December 2022.

We have disclosed the performance measures for our 2022 annual bonus plan on pages 58 and 59.

In 2022 our Board maintained its focus on our obligations to our workforce and to other stakeholders, with 94% of our employees receiving a bonus (2021: 87%). We also topped up mileage claims amount available to staff, to take into account higher petrol prices. We have staggered 2023 salary increases with the lowest earners receiving the highest increases in a range from 3% to 8%. The salary increase for the 2022 period was 3%.

We are committed to supporting our valued team members in the face of cost of living increases and adopted this approach to doing so rather than making one off payments which would not deliver the longer term uplifts in pay.

With regards to the incentive plan outcomes for our Executive Directors described above, the Remuneration Committee reviewed these against the backdrop of overall performance and the experience of investors and other stakeholders over the period and the Remuneration Committee is satisfied that the total remuneration received by Executive Directors in 2022 is a fair reflection of performance over the period.

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

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

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

Remuneration in 2023

The key components of executive remuneration at Macfarlane in 2023 are substantially unchanged from 2022:

Base Salaries and Benefits – base salaries for 2023 have increased by 7.4% (CEO) and 3% (Finance Director), with total fixed pay increasing by 1% (CEO) and 3% (Finance Director).

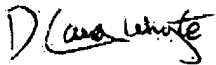
In last year's Directors' remuneration report we set out in detail our proposal to increase the CEO's salary on a phased basis over a two year period together with the rationale for this change. The second phase of the increase was subject to the Remuneration Committee's review of continued appropriateness. The Remuneration Committee has undertaken this review and agreed the proposed base pay increase of 7.4% for the CEO remains appropriate in the context of his total pay.

Last year the Remuneration Committee noted that the Finance Director's salary is at the low end of the range for small cap quoted companies of our size and would be subject to further reviews in years to come. However, the Committee together with the Finance Director have agreed that it is not appropriate this year to undertake such a review due to the wider economic backdrop, but will do so in future.

- Annual bonus – in 2023 there is again a maximum payment opportunity of 100% of salary, with 75% of salary based on Profit before tax ('PBT') and 25% based on personal objectives, including an ESG metric.
- Pension – the CEO and Finance Director pension contributions are now 8% of base salary, with the CEO's contribution rate reduced from 15% for 2022.

- Long term Incentives – the Committee's intention is to make further PSP awards in 2023. The level of PSP awards for Executive Directors will be over shares with a value equivalent to up to 100% of base salaries. Vesting will again be subject to three-year EPS growth conditions with a further underpin vesting condition. Details of these awards will be set out in the 2023 Directors' Remuneration Report.

I do hope that you will feel able to continue to support the resolution to approve this Directors' Remuneration Report at the AGM in May 2023. As a new Chair, I am available to shareholders for questions should you desire to contact me on any matters as disclosed in this report.



Laura Whyte
Chair of the Remuneration Committee

23 February 2023

Remuneration report

(continued)

Annual report on remuneration

The details set out on page 58 and 60 of this report have been audited by Deloitte LLP.

Single total figure of remuneration for each Director

	Salary and fees £000	Taxable benefits £000	Pension costs £000	Fixed pay £000	Bonus £000	LTIP vesting £000	Variable pay £000	Total pay £000
2022								
Chair								
S.R. Paterson (to 30 Sep 22)	54	–	–	54	–	–	–	54
A. Gulvanessian (from 1 Oct 22) ¹	47	–	–	47	–	–	–	47
Executive Directors								
P.D. Atkinson	405	18	61	484	266	411	677	1,161
I. Gray	201	8	16	225	129	71	200	425
Non-Executive Directors								
R. McLellan	36	–	–	36	–	–	–	36
J.W.F. Baird	36	–	–	36	–	–	–	36
L.D. Whyte (from 1 Oct 22)	9	–	–	9	–	–	–	9
Total	788	26	77	891	395	482	877	1,768
2021								
Chair								
S.R. Paterson	70	–	–	70	–	–	–	70
Executive Directors								
P.D. Atkinson	369	16	80	465	184	–	184	649
I. Gray	191	8	15	214	96	–	96	310
J. Love (retired 31 Mar 21)	45	2	11	58	–	–	–	58
Non-Executive Directors								
R. McLellan	35	–	–	35	–	–	–	35
J.W.F. Baird	35	–	–	35	–	–	–	35
A.M. Dunstan (to 31 Aug 21)	23	–	–	23	–	–	–	23
A. Gulvanessian (from 1 Oct 21)	9	–	–	9	–	–	–	9
Total	777	26	106	909	280	–	280	1,189

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

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

Directors' pension entitlements

P.D. Atkinson received a cash allowance which equates to 15% of his base salary, but reduced for the related employer's national insurance contributions. (Note: this will be reduced to 8% in 2023, in line with the Finance Director).

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

Annual bonus for the year ended 31 December 2022

The 2022 annual bonus plan is based on performance against financial targets and personal objectives as set out in the Remuneration Policy and is paid in cash and deferred shares following Board approval of the Group Accounts. Both the financial targets and personal objectives were partially met and, as a result, an annual bonus of 66% of salary will be payable to the CEO and 64% of salary will be payable to the Finance Director. The original financial targets for 2022 are shown below:

2022 profit before tax		
Threshold	25% of incentive	£19.0m
Target	50% of incentive	£20.0m
Maximum	100% of incentive	£21.0m
Actual performance		£19.9m

Actual performance and targets includes only continuing operations for 2022.

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

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

Peter Atkinson	Ivor Gray
<ul style="list-style-type: none"> • Succession planning in Packaging Distribution • Effective execution of the growth by acquisition strategy • Exceed European Budget through either organic or acquisition programmes • Develop full potential of investment in new CRM, MS Dynamics • Lead Macfarlane Group sustainability agenda through strategy execution, customer and staff engagement 	<ul style="list-style-type: none"> • Successful induction and integration of new IT Director • Complete one acquisition • Manage cash to achieve a £3m over Budget performance • Gain Board approval to Group Sustainability Programme

The total bonus payable for 2022 to P.D. Atkinson was £265,832 (66% of salary), and I. Gray £129,045 (64% of salary). 25% of this bonus is payable in shares and deferred for two years, in line with the new Remuneration Policy approved at the 2022 AGM.

Long term incentives for the year ended 31 December 2022

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

Vesting outcomes for 2019 PSP awards

Performance measure	Target range	Performance achieved	Vesting outcome	% of total award vesting
Earnings per share growth (100%)	Target range between 6.77p (25% vests) and 8.12p (100% vests)	8.54p ¹	100%	100%

¹ Earnings per share for Y/E 31st December 2021 were 7.90p (reported diluted), including a 0.64p non-cash adjustment solely related to the change in deferred tax rate on future amortisation of investments. There was no cash impact to shareholders from this adjustment, and therefore for the purposes of the PSP it was considered appropriate to exclude this item. Accordingly, the adjusted EPS for the year was 8.54p, which is above the maximum PSP target threshold of 8.12p.

In addition to the above target, the Committee confirmed that the underpin performance condition relating to the overall Group performance in the 2019 – 2021 period was met, given the strong growth during this time.

Awards were granted on 25 March 2022 over shares worth 100% of salary to each of the Executive Directors (using the three day average market price of 129.00p to the last trading day prior to grant). PSP awards are granted in the form of conditional share awards and are subject to EPS performance conditions, as shown in the below table of existing awards. EPS is measured by dividing the profit after tax from total operations by the weighted average number of ordinary shares used to calculate diluted EPS.

Grant of PSP Award	Threshold (25%)	• Maximum (100%)	Year end target date
2022	10.16p	12.19p	31 December 2024
2021	7.95p	9.54p	31 December 2023
2020	6.53p	7.84p	31 December 2022

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

	Awards held at 1 January 2022	Awards granted during the year	Awards exercised during the year ²	Awards lapsed during the year	Awards held at 31 December 2022
P.D. Atkinson	1,072,142	313,953	(330,123)	–	1,055,972
I. Gray	364,913	155,465	(57,266)	–	463,112

² The 2019 PSP vesting at 100% and dividend equivalent awarded in shares were confirmed by the Remuneration Committee at its meeting on 21 February 2022. The total number of shares vesting were 330,123 and 19,394 shares delivered in respect of dividend equivalent for Peter Atkinson; 57,266 shares vesting and 3,364 shares delivered in respect of dividend equivalents for Ivor Gray. Former Finance Director, John Love, received a pro-rated award of 102,054 shares vesting and 5,995 shares delivered in respect of dividend equivalents, being 100% of the maximum pro-rated to his retirement date on 31 March 2021.

Remuneration report

(continued)

Payments to past Directors

As part of the 2019 PSP vesting John Love, former Finance Director, received a pro-rated award of 108,049 shares, being 100% of the maximum pro-rated to his retirement date on 31 March 2021.

Shareholdings and share interests of the Directors in office at 31 December 2022 were as set out below:

	2022 (or date of appointment if later)		2021 (or date of appointment if later)	
	Beneficial	Options	Beneficial	Options
P.D. Atkinson	1,035,047	1,055,972	854,172	1,072,142
I. Gray	116,076	463,112	66,652	364,913
R. McLellan	116,132	–	102,819	–
J.W.F. Baird	66,605	–	66,605	–
A. Gulvanessian	15,553	–	–	–
L.D. Whyte (from 1 Oct 22)	9,200	–	–	–
S.R. Paterson (to 30 Sep 22)	120,000	–	120,000	–

All options above are subject to performance conditions being satisfied. Executive Directors are expected to build up a prescribed level of shareholding equivalent to 100% of base salary. P.D. Atkinson materially exceeds this requirement, with shares worth £1,076,449 at 31 December 2022. I. Gray is currently below this requirement given his recent appointment as a Director in November 2020, with £120,719.

Options held by P.D. Atkinson and I. Gray are in respect of the PSP awards made in 2020, 2021 and 2022. These are unvested and subject to the achievement of performance targets described earlier.

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

The share price ranged from 85.20p to 135.25p during 2022. The closing share price on 31 December 2022 was 104.00p (2021: 130.00p).

The remainder of the Annual Report on Remuneration is not subject to audit.

Performance graph and table

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

Total shareholder return index

Macfarlane Group

FTSE All Share
General Industrials

FTSE All Share
Support Services

Source: Datastream
(a Refinitiv Product)

CEO single figure

		Single figure of total remuneration £000	Annual variable element award vs. maximum opportunity	Long term incentive vesting against maximum opportunity
2022	P.D. Atkinson	1,161**	66%	100%
2021	P.D. Atkinson	649	100%	n/a
2020	P.D. Atkinson	484	15%	n/a
2019	P.D. Atkinson	530	46%	n/a
2018	P.D. Atkinson	440	0%	n/a
2017	P.D. Atkinson	514	48%	0%
2016	P.D. Atkinson	516	55%	n/a
2015	P.D. Atkinson	508	56%	n/a
2014	P.D. Atkinson	586*	46%	n/a
2013	P.D. Atkinson	416	10%	n/a

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

** This includes £411k vesting of 2019 PSP.

Percentage change in remuneration of Directors and employees

The following table shows the percentage change in remuneration of the Directors and employees of the business between the 2021 and 2022 financial years.

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

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

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

Relative importance of spend on pay

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

	2022 £000	2021 £000	Change
Total employee pay	37,502	38,985*	-4%
Dividend	5,102	4,293	19%

* Includes £3,846,000 related to employees of the Labels business sold in December 2021.

CEO to employee pay ratio

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

Financial year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2022	Option B	46.2:1	41.5:1	15.8:1
2021	Option B	31.4:1	24.0:1	17.5:1
2020	Option B	23.1:1	17.8:1	14.9:1

Notes to CEO to employee pay ratio

Option B, using the gender pay gap reporting data to identify the individuals who represent the three quartiles, was chosen as the methodology as this data was readily available on a Group-wide basis and is consistent with 2021.

Total remuneration for the CEO and for the individuals who represent the three quartiles was determined for the year to 31 December 2022. The three individuals are all full-time employees and are considered to be representative of the 25th percentile, median and 75th percentile pay levels in the Group.

Remuneration report

(continued)

Median pay ratios are reflective of Macfarlane Group's policy of not paying excessive salaries to Executive Directors. The ratio has increased this year due to the vesting of the 2019 PSP award.

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

Financial year	Salary component of total pay and benefits			Total pay and benefits		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
2022	£21,662	£26,719	£33,500	£25,135	£27,984	£73,643

Statement of implementation of remuneration policy in 2023

As is more fully explained in the Remuneration Committee Chair's summary statement introducing the Directors' Remuneration Report, salaries for P.D. Atkinson and I. Gray at 1 January 2023 increased by 7% and 3% to £435,000 and £206,566 respectively.

P.D. Atkinson's pension contribution will reduce from 15% to 8% in 2023, in line with a phased reduction.

Executive Directors will be eligible to receive an annual bonus of up to 100% of base salary (2022: 100%), with 75% of salary based on PBT targets and 25% of salary based on personal objectives. 25% of the bonus will also be deferred, payable in shares, subject to a de minimis of £10,000. If the PBT threshold target is not achieved, payment of any element of the annual bonus is only payable at the discretion of the Committee. The precise PBT targets for 2023 are considered by the Board to be commercially sensitive. The nature of the targets includes continuing the business on its growth journey both organically and through targeted acquisition of quality protective packaging businesses. The main focus of the personal objectives are business growth; leadership development, ESG and executing earnings enhancing acquisitions.

Benefits will operate in an unchanged way from 2022.

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

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

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

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

The Remuneration Committee currently comprises three independent Non-Executive Directors and the Company Chair. Details of the Directors who were members of the Committee during the year are disclosed on page 52. During the year under review, the Committee, where appropriate, sought advice and assistance from the Executive Directors in connection with carrying out its duties. The Company Secretary acts as the secretary to the Committee.

The Remuneration Committee used the services of FIT Remuneration Consultants LLP to advise on certain aspects of remuneration during 2022 and fees of £29,160 (2021: £16,713) were charged during the year for that advice. FIT's fees were charged on the basis of that firm's standard terms of business for advice provided. The Directors consider FIT Remuneration Consultants LLP to be independent of the Group and objective in their advice. FIT were appointed to advise the Committee in 2016 following a competitive tender process. FIT is a signatory to the Remuneration Consultants Group's Code of Conduct.

Remuneration Committee's reporting obligations

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

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

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

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

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

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

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

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

	Total number of votes	% votes cast
For	88,355,213	96.96%
Against	2,772,881	3.04%
Total votes cast (for or against)	91,128,094	100.00%
Votes withheld	37,746	
Total	91,165,840	

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

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

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

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

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

Remuneration report

(continued)

Directors' remuneration policy

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

Corporate governance

Macfarlane Group is committed to the principles of corporate governance set out in the Financial Reporting Council's ('FRC') UK Corporate Governance Code issued in 2018 ('the Code'). The Company's compliance is set out in the narrative statement on pages 65 to 73 and for Directors' remuneration in the Directors' Remuneration Report on pages 56 to 64.

Compliance

The Company fully complied with all the Code provisions during 2022, with exception of:

- Provision 10 which relates to the independence of Non-Executive Directors. One Non-Executive Director has served on the Board for more than nine years and this is explained in the Corporate Governance report on page 65.
- Provision 38 which relates to alignment of Executive Directors pension contribution rates to those available to the workforce. The Executive Directors receive pension contributions equivalent to 8% of basic salary which is aligned to other senior managers but not the majority of the workforce.

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

The Board

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

The Board currently comprises the Chair, three independent Non-Executive Directors and two Executive Directors. Directors' names, and biographical details illustrating their range of experience and the benefit that each Director's appointment brings to Macfarlane Group, are set out on page 52.

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

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

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

The Company has maintained Directors' and officers' liability insurance cover throughout the financial year. The Company made qualifying third-party indemnity provisions for the benefit of Directors in 2009, and these have remained in force throughout 2022 and to the date of this report.

The Board confirms that it considers and authorises any conflicts or potential conflicts of interest in accordance with the Group's existing procedures. There were no conflicts of interest requiring consideration in 2022.

The Chair's other commitments are shown in her biography on page 52. The Board is satisfied that these do not interfere with the performance of Group duties, which is based on a commitment of approx. 45 days per annum.

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

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

With the exception of Bob McLellan, no Non-Executive Director has served on the Board for more than nine years from the date of their first election. Bob McLellan was first elected to the Board on 7 May 2013 and has now served on the Board for more than 9 years. The Board considers that the input provided by Bob McLellan, with his extensive packaging industry experience, remains both valuable and independent. The Board will keep under review the process of recruiting a suitable successor as candidates with an appropriate level of industry expertise are identified.

The balance of the Board's skills and experience is kept under regular review. The Board's succession plans recognise the need to consider wider diversity within the Group and in Board composition. In 2022, with the appointments of Aleen Gulvanessian as the Group's first female Chair and Laura Whyte as a new Non-Executive Director, the Group has made good progress in increasing the female representation on the Board to 33%. We are also committed to continuous improvement in the sustainability both of our operations and of the products that we offer our customers. The Board recognises that both of these objectives are to the benefit of all stakeholders of the Group.

Corporate governance

(continued)

The roles of the Chair and Chief Executive

The division of responsibilities between the Chair and the Chief Executive is very clearly defined and has been approved by the Board. The Chair is responsible for running the Board, ensuring that all Directors receive sufficient and relevant information on financial, business and corporate issues prior to meetings to allow Directors to bring independent judgement to bear on all issues.

The Chair facilitates the effective contribution of Non-Executive Directors and ensures effective communication channels with shareholders.

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

Senior Independent Director

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

Re-election of Directors

At each AGM, all Directors fall due to retire and, being eligible, offer themselves for election. Directors' service contracts and letters of appointment will be available for shareholder review prior to the AGM on 9 May 2023.

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

Company Secretary

James Macdonald, the Company Secretary, is responsible for advising the Board through the Chair on all matters relating to corporate governance. Under the direction of the Chair, the Company Secretary's responsibilities include ensuring good information flows within the Board and

its committees and between executive management and Non-Executive Directors. The Company Secretary also facilitates induction and assists with professional development for the Board. All Directors have access to the advice and services of the Company Secretary.

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

Board procedures

The Group is controlled by the Board of Directors. The Board's main roles are to set the Group's strategic objectives, guide and support executive management in achieving these objectives, create value for and safeguard the interests of all shareholders within the appropriate legal and regulatory framework. The Board met eight (2021: seven) times during 2022 and individual attendance at those and the Board Committee meetings is set out in the table on the following page.

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

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

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

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

Accountability

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

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

The Directors' Responsibilities Statement is set out on page 74.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least the next twelve months from the date of this report. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Given the economic uncertainties, the Directors have also extended their consideration of going concern with the review of additional scenario analyses set out in the Viability Statement on page 23.

Board and Committee meetings

The number of Board and Committee meetings attended by each member during 2022 is shown in the table below.

Professional development

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

Board performance evaluation

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

Results are collated by the Company Secretary and reviewed to identify areas for improvement and confirm objectives

for the year ahead. The Chair then holds individual meetings with each Director to review performance and set individual objectives.

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

Relationships with Shareholders

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

Detailed reviews of the performance, business model, ESG matters and financial position are included in the Strategic Report on pages 4 to 50 of this report. The Board uses this, together with the Chair's Statement on pages 5 to 7 and the remainder of the Report of the Directors, to present its assessment of the Group's position and prospects.

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

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

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

Attendance by Directors at Board and Committee meetings during 2022

		Board ¹	Audit Committee	Remuneration Committee	Nominations Committee
Stuart Paterson	Chair (to 30 September 2022)	5 (5)	3 (3) ²	2 (2)	5 (5)
Aleen Gulvanessian	Chair (from 1 October 2022)	3 (3)	1 (1) ²	1 (1)	2 (2)
	Non-Executive Director	5 (5)	3 (3)	2 (2)	5 (5)
Peter Atkinson	Chief Executive	8 (8)	4 (4) ²	–	–
Ivor Gray	Finance Director	8 (8)	4 (4) ²	–	–
Bob McLellan	Senior Independent Director	8 (8)	4 (4)	3 (3)	6 (7)
James Baird	Non-Executive Director	8 (8)	4 (4)	3 (3)	7 (7)
Laura Whyte	Non-Executive Director	2 (3)	1 (1)	1 (1)	2 (2)

¹ Seven regular meetings and one special meeting to approve actions related to the pension scheme.

² The Chair, CEO and Finance Director attend but not as members of the Audit Committee.

Figures in brackets indicate the maximum number of meetings in 2022 for which the individual was a Board or Committee member. Where a Director cannot attend a Board or Committee meeting, any comments the Director has on the papers being reviewed at that meeting are relayed in advance for consideration.

Corporate governance

(continued)

Nominations Committee

The Nominations Committee during 2022 was as follows:

Stuart Paterson (Chair)
(until 30 September 2022)
Aleen Gulvanessian (Chair)
(from 1 October 2022)
Bob McLellan
James Baird
Laura Whyte
(from 1 October 2022)

The Committee met 7 times during 2022.

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

The principal work undertaken by the Nominations Committee in 2022 was to consider and recommend that the Company propose for re-election any Directors falling due for re-appointment at the AGM and to oversee the process to identify and appoint a new Chair and Non-Executive Director.

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

Following a Nominations Committee held in 2022 the Committee proposed that all Directors make themselves available for re-election at the AGM on 10 May 2022.

Following a Nominations Committee meeting on 22 August 2022, the Committee approved the appointment of Aleen Gulvanessian as Chair of the Board with effect from 1 October 2022. Aleen replaced Stuart Paterson, who retired on 30 September 2022, after nine years as a Non-Executive Director including 5 years as Chair. This appointment was concluded following a review of the competencies required of a Chair, an extensive process which included interviewing and consideration of a number of external candidates, and an assessment of Aleen's performance and her understanding of the Group businesses and its strategy since she joined the Board as a Non-Executive Director and Chair of the Remuneration Committee in October 2021. The Committee concluded that Aleen had all the competencies required of the role of Chair and demonstrated the appropriate knowledge of the Group's businesses and strategy.

Following a Nominations Committee meeting on 22 August 2022, the Committee approved the appointment of Laura Whyte as a Non-Executive Director with effect from 1 October 2022. Laura replaces Aleen Gulvanessian as Chair of the Remuneration Committee. This appointment was concluded following a review of the competencies required of a Non-Executive Director and Chair of Remuneration Committee and an extensive process was followed. The Committee concluded that Laura had all the competencies required of the role of a Non-Executive Director and Chair of the Remuneration Committee, particularly with her experience as HR Director of John Lewis. Laura's profile is set out on page 52.

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

Remuneration Committee

The Remuneration Committee during 2022 was as follows:

Laura Whyte (Chair)
(from 1 October 2022)
Aleen Gulvanessian (Chair)
(until 30 September 2022)
Bob McLellan
James Baird
Stuart Paterson
(until 1 October 2022)

None of the members of the Remuneration Committee during 2022 has any personal financial interests, other than as a shareholder, in the matters to be decided, conflicts of interests arising from cross-directorships or any day-to-day involvement in running the business.

The Committee met three times during 2022. Its terms of reference are available on the Group website (www.macfarlanegroup.com).

The principal work undertaken by the Remuneration Committee in 2022 was:

- (a) To review performance against 2022 financial and personal objectives and to conclude on an appropriate performance related reward under the Annual Bonus Plan for senior executives including the Executive Directors;
- (b) To obtain approval for the new Remuneration Policy Statement, including proposed remuneration for Executive Directors, at the AGM on 10 May 2022;
- (c) To approve financial and personal objectives for 2023 in relation to the performance related Annual Bonus Plan;
- (d) To consider awards of share-based incentives and determining the performance conditions for these awards;

- (e) To approve the vesting of shares to the Executive Directors after reviewing the performance achieved compared to the conditions set when the shares were awarded in 2019; and
- (f) To approve the Directors' Remuneration Report.

The work of the Remuneration Committee is described in the Directors' Remuneration Report and Remuneration Policy on pages 56 to 64.

Audit Committee

During 2022 the Audit Committee comprised:

James Baird (Chair)

Bob McLellan

Aleen Gulvanessian
(until 30 September 2022)

Laura Whyte
(from 1 October 2022)

James Baird was appointed as Chair of the Committee on 8 January 2018 given his relevant experience. The remaining Committee members, Bob McLellan and Laura Whyte, have a wide range of commercial experience as evidenced in their biographical details on page 52. The Committee Chair will be available to answer questions on any aspect of the Committee's work at the AGM.

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

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

- **Internal control and risk management**
The Committee reviews annually the Group's system of risk management and internal control and processes for evaluating and monitoring the risks facing the Group. The overall responsibility for the systems of internal control and for reviewing their effectiveness rests with the Board.
- **Internal audit**
The Committee monitors and reviews the effectiveness of the Group's internal audit function and its terms of reference annually and recommends to the Board any changes required following its review. Reports from internal audit are considered at each meeting and the Committee actively engages in selecting and prioritising areas to be subject to audit.

- **Whistle-blowing**

The Committee monitors the Group's arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting and other areas including an external whistle-blowing service to take calls from employees.

- **External audit**

The Committee is responsible for monitoring the effectiveness of the external audit process and recommending to the Board the appointment, re-appointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the Group and the external auditor is maintained, including formal consideration of the independence of the external auditor. The Committee considers the framework for the supply of non-audit services by the external auditor and reviews any proposed non-audit services and fees.

- **Financial reporting**

The Committee monitors the integrity of the Group's financial statements and the significant judgements contained therein including assessing the fair, balanced and understandable presentation within the reporting. The Committee also considers any other formal announcements relating to the Group's performance. Further details are set out on the following pages.

Under an Audit and Assurance Policy formalised in 2022, the Executive Committee, senior managers and both internal and external assurance providers are required to provide the Audit Committee with regular updates on a range of topics to enable the Committee to form a view on the adequacy of the planned assurance work in relation to the Group's principal risks (set out on page 24), risk mitigation plans and any significant new risks, themes or developments. The Group's external auditors are expected to assess financial risks and the controls to mitigate them, ie those likely to impact on their audit of the financial statements, with consideration of the risk profile and strategy of the business

Corporate governance

(continued)

Audit Committee

(continued)

and the assessment performed by the Audit Committee. Internal audit is also required to form an independent view of the effectiveness of risk management and internal control arrangements where they are within the agreed scope of internal audit work.

The Audit Committee met four times during 2022. Its agenda is linked to events in the Group's financial calendar.

The Committee meets privately with the external auditor at least once in each year. In 2022 the Audit Committee discharged its responsibilities by:

- Reviewing its terms of reference;
- Reviewing the Group's draft financial statements and interim results statement prior to Board approval and reviewing the external auditor's reports on the final results and draft financial statements;
- Agreeing the continuing appropriateness of the Group's accounting policies;
- Monitoring compliance with International Financial Reporting Standards;
- Challenging the output from the Group-wide process used to identify, evaluate and mitigate risks and associated mitigating controls;
- Reviewing the effectiveness of the Group's internal controls and disclosures made in the Annual Report;
- Reviewing the effectiveness of the external auditor at the conclusion of the 2021 audit;
- Agreeing the programme of work for the internal audit function taking into account identified risks;
- Discussing reports from the Head of Internal Audit on internal audit reports and management responses to proposals made in these reports, ensuring that the responses are actioned and completed on a timely basis;

- Agreeing the external auditor's plan for the audit of the Group financial statements which includes confirmation of auditor independence and approval of the engagement letter;
- Reviewing and approving external audit fees and keeping the level and nature of non-audit fees under review; and
- Reviewing and approving the Audit and Assurance Policy (referred to on page 69).

During 2022 the Audit Committee focused specifically on a number of areas relating to management judgements to ensure that:

- There was sufficient stress testing of the Group's financial position through a full range of possible scenarios to assess the Group's going concern and viability;
- There was a robust review of trade receivables and inventory provisioning to ensure it remained appropriate;
- Appropriate provisions were recorded in respect of dilapidation and other property-related obligations under the Group's agreed accounting policy;
- The disclosures related to the use of an Alternative Performance Measure, being Operating profit before amortisation, and the presentation of reported profit with associated narrative were appropriate; and
- The internal control environment had been maintained, the risk of inappropriate management override of controls was being monitored and where necessary mitigating or additional controls were implemented.

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

2022 financial statements

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

audit. The Committee then makes a recommendation to the Board on the suitability of the policies and judgements supporting the reported results.

For the 2022 financial statements, the Committee considers the key areas of judgement to be:

Valuation of trade receivables

Trade receivables recorded in the Group's balance sheet comprise a large number of individual balances. The Group reviews all trade receivables and provides against potentially irrecoverable items throughout the year, applying an Expected Credit Loss model and reviewing local judgements in their assessment of the provision required. Whilst every attempt is made to ensure that the Expected Credit Loss ('ECL') allowance held against trade receivables is as accurate as possible, there remains a risk that the provision may not match the level of debt which ultimately proves uncollectible. At 31 December 2022, the Group retained an ECL allowance held against trade receivables of £795,000 (2021: £731,000) as set out in note 14.

The Audit Committee receives details of individual receivables > £25,000 twice in each year. The Committee reviews the extent to which year-end balances have been settled in 2023 to date, paying particular attention to receivables outwith terms and any bad debts written off, comparing this with similar analyses produced at previous reporting dates. This is then considered relative to the level of provision held against trade receivables.

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

Pension scheme surplus/(deficit)

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

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

The pension scheme surplus calculated by the actuary and the related disclosures are based on these assumptions and the components of the movement in the surplus in 2022 have been explained to the Committee's satisfaction. The sensitivities to movements in the key underlying assumptions are set out in note 24. The Committee is also satisfied that the surplus can be recognised as an asset based on legal opinion received, details of which are set out in note 24.

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

Accounting treatment of acquisitions

Acquired businesses are measured at the date of acquisition as the aggregate fair value of assets and liabilities. The excess of the cost of acquisition over the fair value of the identifiable net assets is classified as goodwill. The Committee reviews this process for each acquisition undertaken and discusses the methodology and assumptions used with management. Having reviewed the acquisition accounted for in 2022 including a review of the Purchase Price Allocation and measurement of the likelihood of contingent consideration being payable based on facts that existed at the acquisition date, the Committee has concluded that it is satisfied with the basis of accounting in this area and the resulting measurements.

Consideration of other matters

The Committee debates a number of other areas for each reporting period but does not consider these matters to be of similar significance to those above. For the 2022 financial statements, the main other areas included:

- The Group's Viability Statement includes 'severe but plausible' scenarios applied in arriving at the conclusions made. The Committee reviewed these scenarios as well as the reverse stress testing applied to the model (as disclosed on page 23) and was satisfied with the assumptions and judgements applied and the statement made;
- Goodwill is allocated to the cash generating units ('CGUs') expected to benefit from the synergies of the business combination for the purpose of impairment testing. The carrying values of goodwill and other operating assets for each CGU Grouping are reviewed at the half year and at the end of the financial year. The Committee reviews management's approach to impairment testing for each CGU Grouping, including the related sensitivity analysis. The Committee was satisfied with the assumptions and judgements applied, concluding that there was no evidence of impairment of goodwill under all reasonable sensitivity scenarios.
- The level of, and basis for, property-related provisions at 31 December 2022. The Committee considered the provisions recorded based on the circumstances of each relevant property and concluded that management's assessment of the provision, supported, where significant, by external opinions from the Group's property advisers, was appropriate;
- The level of, and basis for, inventory provisions at 31 December 2022; and
- The review of the Alternative Performance Measure ('APM'), being Operating profit before amortisation, including the consideration of the narrative presentation of performance during the year, the consideration of disclosure of any non-recurring elements and the adequacy of supporting explanations and reconciliations to related statutory performance measures.

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

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

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

Relationship with external audit

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

Corporate governance

(continued)

Audit Committee

(continued)

Each year the Audit Committee considers and agrees the scope of the audit proposed by the external auditor, including coverage of identified risk areas. In their review of the 2022 audit scope, the Committee requested that the external auditors report on the following additional areas:

- a) Compliance of receivables and inventories provisioning with the Group's approved accounting policies;
- b) The suitability of property-related provisions, including the results of independent discussions conducted by the external auditor with the Group's property adviser to corroborate underlying assumptions; and
- c) The appropriateness of disclosures related to the Alternative Performance Measure, Operating profit before amortisation, including the consideration of the narrative presentation of performance during the year, the disclosure of any non-recurring elements and the adequacy of supporting explanations and reconciliations to related statutory performance measures.

The external auditors reported to the Committee on all of these areas on conclusion of the 2022 audit. No adjustments were made to the 2022 financial statements or to the Group's internal controls following the external auditors report.

The Committee notes that there are no contractual obligations to restrict the choice of external auditor. In accordance with best practice, the audit partner from the external firm rotates off the audit engagement every five years. The 2022 audit is the fourth year for the current audit partner.

The Audit Committee monitors non-audit services, if any, provided to the Group by the external auditor, recognising that there may be certain non-audit work which the external auditor is best placed to undertake. The Committee's policy is to keep all services provided by the external auditor under review to ensure the independence and objectivity of the external auditor, taking account of relevant professional and regulatory requirements. Non-audit work to be undertaken by the external auditor is approved by the Audit Committee in advance of the work being undertaken. Amounts paid to Deloitte LLP during 2022 for audit and other services are set out in note 2 to the financial statements. The only non-audit work undertaken by the external auditor in 2022 related to the audit of the Report and Financial Statements of the Group's defined benefit pension scheme for the year-ended 30 April 2022.

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

Risk management and internal control

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

The Board confirms that an ongoing process for identifying, evaluating and managing the significant risks faced by the Group was in place in accordance with the principles of the Code and the related guidance. The process was in place throughout 2022 and has continued to the date of approval of the Annual Report and Accounts.

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

The key elements of the internal control process are:

- Formal Board reporting on a monthly basis by the Executive;
- Formal Board approval of the annual budget;
- Monthly and annual financial control checklists submitted by each business unit;
- Discussion by the Committee of the external auditor's conclusions from its annual audit;
- Completion of Internal Audit work in accordance with an agreed annual plan, with all reports and related recommendations reviewed by the Audit Committee after discussion with executive management; and
- A robust risk assessment process as set out below.

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

Since 2009, Internal Audit has been staffed in-house. Certain parts of the internal audit plan may be outsourced when specific expertise is required. The Committee challenges and agrees the annual internal audit plan, receives reports on internal audit issues raised, a six-monthly update and an annual report from the Head of Internal Audit. The risk register is taken into account in setting the Internal Audit plan each year.

The Audit Committee receives regular reports on cyber security matters in recognition of the importance of having robust cyber security measures in place as part of the controls framework. Monitoring reviews and compliance audits are undertaken with the involvement of external specialists to ensure that employees, customers and suppliers are protected to the extent practical from the impact of cyber security breaches.

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

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

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

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

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the United Kingdom and have also chosen to prepare the parent Company financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 'Reduced Disclosure Framework' has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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

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

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

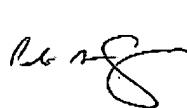
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

We confirm that to the best of our knowledge:

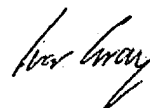
- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report, incorporated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

This responsibility statement was approved by the Board on 23 February 2023 and signed on its behalf by:



Peter D. Atkinson
Chief Executive

23 February 2023



Ivor Gray
Finance Director

23 February 2023

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

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Macfarlane Group plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

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

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

2. Basis for opinion

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

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

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

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: <ul style="list-style-type: none"> • Business combinations: valuation and allocation of acquired intangible assets and valuation of contingent consideration
Materiality	The materiality that we used for the Group financial statements was £975k which was determined on the basis of 4.9% of profit before tax.
Scoping	Our audit covered 91% of the Group's revenue, 96% of the Group's net assets and 93% of the Group's profit before tax.
Significant changes in our approach	There have been no significant changes in approach. Whilst this is consistent with the prior year, this key audit matter relates to the acquisition made in the current year.

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

(continued)

4. Conclusions relating to going concern

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

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

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

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

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

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

5. Key audit matters

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

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

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

Key audit matter description	<p>The Group acquired PackMann Gesellschaft für Verpackungen und Dienstleistungen mbH ('PackMann') in the year for total consideration of £5.3m. Goodwill of £3.0m and other intangible assets of £1.4m were recognised on acquisition. No contingent consideration has been recognised as the Directors do not consider it probable that any amount will be payable (maximum payable of £1.5m).</p> <p>The Directors have performed a purchase price allocation exercise to allocate consideration in excess of the net assets to goodwill and other intangibles.</p> <p>Given the judgement involved in valuing acquired intangible assets and in forecasting post-acquisition performance, we have identified a potential for fraud in relation to the valuation and allocation of acquired intangible assets, and of the valuation of contingent consideration.</p> <p>Business combinations are included within note 23 to the financial statements. The Audit Committee's consideration in respect of this risk is included on page 71.</p>
How the scope of our audit responded to the key audit matter	<p>The audit procedures we performed in respect of this matter included:</p> <ul style="list-style-type: none"> • Gaining an understanding of the process over the price allocation and contingent consideration calculation, and gaining an understanding of the relevant controls; • Reviewing share purchase agreements to assess whether each acquisition has been accounted for correctly in the financial statements; • Engaging with our valuation specialists to understand the inputs and methodology and assess the assumptions used by the Directors; • Challenging the assumptions for the inputs to the calculations with reference to comparable Company benchmarks; • Assessing the accuracy of forecast revenues used in the calculations and determination that the contingent consideration will not be payable; • Evaluating the assessment of the presence of further intangible assets not identified; and • Assessed the forecast of post-acquisition performance and valuation of the contingent consideration.
Key observations	<p>We concluded that the assumptions made by the Directors in determining the valuation and allocation of acquired intangible assets, and the valuation of contingent consideration are reasonable.</p>

6. Our application of materiality

6.1. Materiality

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

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

	Group financial statements	Parent company financial statements		
Materiality	£975k (2021: £865k)	£488k (2021: £433k)	Profit before tax £19,934k	Group materiality
Basis for determining materiality	4.9% of profit before tax (2021: 4.6% of profit before tax).	0.7% of net assets (2021: 0.6% of net assets), which is capped at 50% (2021: 50%) of Group materiality.		Component materiality range
Rationale for the benchmark applied	We have used profit before tax as the benchmark for our determination of materiality as we consider this to be the key performance metric for the Group and one which is a key metric to analysts and investors given the prominence in the annual report.	The parent company holds the investments in the Group subsidiaries, the value of which is the key metric for the users of the financial statements. As statutory materiality would have been higher than the component materiality, we have capped materiality to be 50% of Group materiality being £488k. 50% is deemed appropriate based on the Company only contribution to the Group.	<div>Profit before tax</div> <div>Group materiality</div>	Audit Committee reporting threshold £48k

6.2. Performance materiality

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

	Group financial statements	Parent company financial statements
Performance materiality	70% (2021: 70%) of Group materiality	70% (2021: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: <ul style="list-style-type: none"> • Our risk assessment, including the quality of the control environment, and that we considered it appropriate to rely on controls over certain business processes; and • Our past assessment of the audit, including consideration of the number and level of corrected and uncorrected misstatements identified in prior periods. 	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £48k (2021: £43k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

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

For components deemed significant to the Group, full scope audit procedures were performed to materiality levels applicable to each component, which was lower than the Group materiality level and ranged from £488k to £877k (2021: £433k to £797k). Components deemed significant are as follows:

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

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

(continued)

This provided audit coverage of over 91% (2021: 91%) of the Group's revenue, 96% (2021: 97%) of the Group's net assets and 93% (2021: 90%) of the Group's profit before tax.

Revenue	Profit before tax	Net assets
		Full audit scope
		Review at Group level

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

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

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

7.2. Our consideration of the control environment

The Group operates an IT system, Enterprise 7, which underpins the financial reporting processes. We planned to rely on the relevant IT controls associated with this system and the relevant controls within the following business processes: revenue, trade receivables, expenditure and trade payables. As such, we obtained an understanding of and tested these controls. Even though we identified deficiencies, after performing additional procedures, we were able to rely on the controls associated with the system and within all business processes.

The Audit Committee discusses their review of the effectiveness of risk management and internal control on pages 72 to 73.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements. We have considered management's own assessment of the related risks and opportunities as described on page 34, together with our cumulative knowledge and experience of the Group and environment in which it operates. The Directors have assessed that climate change does not have a significant impact on the financial statements as disclosed within the accounting policies. We performed our own risk assessment including inspecting the Group's risk register and Board minutes and did not identify any additional risks of material misstatement.

We have read the disclosures in relation to climate change made in the other information within the annual report and ascertained whether the disclosures are materially consistent with the financial statements and our knowledge obtained during our audit.

8. Other information

The other information comprises the information included in the annual report (including the Chair's Statement, Macfarlane Group Business Model and Strategy, Finance Review, Viability Statement, Sustainability Report, Report of the Directors, Remuneration Report, Corporate Governance Report and Statement of Directors' Responsibilities), other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

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

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

10. Auditor's responsibilities for the audit of the financial statements

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

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including valuations, pensions, and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

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

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

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

(continued)

11.2. Audit response to risks identified

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

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

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

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

Report on other legal and regulatory requirements

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

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

13. Corporate Governance Statement

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

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

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 66;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 66;
- the Directors' statement on fair, balanced and understandable set out on page 74;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 72;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 69; and
- the section describing the work of the audit committee set out on page 69.

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

14.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

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

We have nothing to report in respect of these matters.

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

(continued)

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 12 July 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years, covering the years ending 31 December 2019 to 31 December 2022.

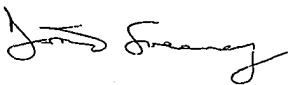
15.2. Consistency of the audit report with the additional report to the audit committee

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

16. Use of our report

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

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



David Sweeney CA
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom
23 February 2023

Consolidated income statement

For the year ended 31 December 2022

	Note	2022 £000	2021 £000
Continuing operations			
Revenue	1	290,431	264,465
Cost of sales		192,374	174,998
Gross profit		98,057	89,467
Distribution costs		10,736	8,651
Administrative expenses		65,825	60,761
Operating profit	2	21,496	20,055
Finance costs	4	1,562	1,390
Profit before tax		19,934	18,665
Tax	5	4,210	4,917
Profit for the year from continuing operations	20	15,724	13,748
Discontinued operations			
Loss for the year from discontinued operations	6	(87)	(1,150)
Profit for the year		15,637	12,598
Earnings per share from continuing operations	8		
Basic		9.94p	8.71p
Diluted		9.84p	8.62p
Earnings per share from continuing and discontinued operations	8		
Basic		9.89p	7.98p
Diluted		9.78p	7.90p

Consolidated statement of comprehensive income

For the year ended 31 December 2022

	Note	2022 £000	2021 £000
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences	20	45	(120)
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of pension scheme liability	24	(82)	8,212
Tax recognised in other comprehensive income			
Tax on remeasurement of pension scheme liability	18	21	(2,054)
Corporation tax rate change on deferred tax		–	88
Other comprehensive (expense)/income for the year, net of tax		(16)	6,126
Profit for the year		15,637	12,598
Total comprehensive income for the year		15,621	18,724

Consolidated statement of changes in equity

For the year ended 31 December 2022

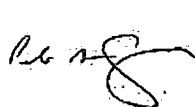
	Note	Share capital £000	Share premium £000	Revaluation reserve £000	Own shares £000	Translation reserve £000	Retained earnings £000	Total £000
At 1 January 2021		39,453	13,148	70	–	291	26,816	79,778
Comprehensive income								
Profit for the year		–	–	–	–	–	12,598	12,598
Foreign currency translation differences	20	–	–	–	–	(120)	–	(120)
Remeasurement of pension scheme liability	24	–	–	–	–	–	8,212	8,212
Tax on remeasurement of pension scheme liability	18	–	–	–	–	–	(2,054)	(2,054)
Corporation tax rate change on deferred tax	18	–	–	–	–	–	88	88
Total comprehensive income		–	–	–	–	(120)	18,844	18,724
Transactions with shareholders								
Dividends	7	–	–	–	–	–	(4,293)	(4,293)
Share-based payments	25	–	–	–	–	–	685	685
Total transactions with shareholders		–	–	–	–	–	(3,608)	(3,608)
At 31 December 2021		39,453	13,148	70	–	171	42,052	94,894
Comprehensive income								
Profit for the year		–	–	–	–	–	15,637	15,637
Foreign currency translation differences	20	–	–	–	–	45	–	45
Remeasurement of pension scheme liability	24	–	–	–	–	–	(82)	(82)
Tax on remeasurement of pension scheme liability	18	–	–	–	–	–	21	21
Total comprehensive income		–	–	–	–	45	15,576	15,621
Transactions with shareholders								
Dividends	7	–	–	–	–	–	(5,102)	(5,102)
New shares issued	19/20	131	425	–	(7)	–	(549)	–
Share-based payments	25	–	–	–	–	–	607	607
Total transactions with shareholders		131	425	–	(7)	–	(5,044)	(4,495)
At 31 December 2022		39,584	13,573	70	(7)	216	52,584	106,020

Consolidated balance sheet

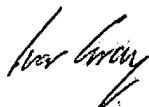
At 31 December 2022

	Note	2022 £000	2021 £000
Non-current assets			
Goodwill and other intangible assets	10	75,685	74,902
Property, plant and equipment	11	7,863	6,101
Right-of-use assets	12	33,938	34,718
Trade and other receivables	14	38	35
Deferred tax assets	18	105	19
Retirement benefit surplus	24	10,199	8,267
Total non-current assets		127,828	124,042
Current assets			
Inventories	13	22,608	21,269
Trade and other receivables	14	59,347	58,541
Current tax asset		675	–
Cash and cash equivalents	15	5,706	12,315
Total current assets		88,336	92,125
Total assets	1	216,164	216,167
Current liabilities			
Trade and other payables	16	54,577	60,975
Provisions	21	1,769	1,730
Current tax liabilities		304	771
Lease liabilities	17	6,641	6,364
Bank borrowings	15	9,143	9,840
Total current liabilities		72,434	79,680
Net current assets		15,902	12,445
Non-current liabilities			
Deferred tax liabilities	18	8,222	7,472
Trade and other payables	16	–	3,695
Provisions	21	1,560	1,848
Lease liabilities	17	27,928	28,578
Total non-current liabilities		37,710	41,593
Total liabilities	1	110,144	121,273
Net assets	1	106,020	94,894
Equity			
Share capital	19	39,584	39,453
Share premium	20	13,573	13,148
Revaluation reserve	20	70	70
Own shares	20	(7)	–
Translation reserve	20	216	171
Retained earnings	20	52,584	42,052
Total equity		106,020	94,894

The financial statements of Macfarlane Group PLC, company registration number SC004221, were approved by the Board of Directors on 23 February 2023 and signed on its behalf by



Peter D. Atkinson
Chief Executive



Ivor Gray
Finance Director

Consolidated cash flow statement

For the year ended 31 December 2022

	Note	2022 €000	2021 €000
Profit/(loss) before tax from:			
Continuing operations		19,934	18,665
Discontinued operations		(87)	(938)
Total operations		19,847	17,727
Adjustments for:			
Amortisation of intangible assets	10	3,577	3,311
Impairment of goodwill in discontinued operations		–	987
Depreciation of property, plant and equipment	11	1,498	1,989
Depreciation of right-of-use assets	12	7,542	7,282
Loss on disposal of property, plant and equipment		71	43
Loss on disposal of subsidiaries		87	232
Share-based payment expense		607	685
Finance costs	4	1,562	1,390
Operating cash flows before movements in working capital		34,791	33,646
Decrease/(increase) in inventories		1,025	(4,848)
Decrease/(increase) in receivables		285	(7,892)
(Decrease)/increase in payables		(9,027)	8,905
(Decrease)/increase in provisions		(249)	1,884
Pension scheme contributions (less current service cost)		(1,838)	(1,533)
Cash generated from operations		24,987	30,162
Income taxes paid		(5,251)	(4,975)
Interest paid		(1,738)	(1,383)
Net cash inflow from operating activities		17,998	23,804
Investing activities			
Acquisitions	23	(8,655)	(12,238)
Proceeds from sale of subsidiaries		166	5,212
Proceeds from disposal of property, plant and equipment		181	199
Purchase of property, plant and equipment		(3,285)	(2,132)
Cash outflow from investing activities		(11,593)	(8,959)
Financing activities			
Dividends paid	7	(5,102)	(4,293)
(Repayment)/drawdown of bank borrowing facility		(865)	3,889
Repayment of lease obligations		(7,215)	(7,539)
Cash outflow from financing activities		(13,182)	(7,943)
Net (decrease)/increase in cash and cash equivalents		(6,777)	6,902
Cash and cash equivalents at beginning of year		12,123	5,221
Cash and cash equivalents at end of year		5,346	12,123

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

	2022 €000	2021 €000
Reconciliation to consolidated cash flow statement		
Cash and cash equivalents per the consolidated balance sheet	5,706	12,315
Bank overdraft	(360)	(192)
Balances per consolidated cash flow statement	5,346	12,123

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

Accounting policies

For the year ended 31 December 2022

Basis of preparation

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

Basis of accounting

The principal activities of the Company and its subsidiaries ('the Group') and the nature of the Group's operations are set out in the strategic report on pages 4 to 50. The 2022 financial statements have been prepared in accordance with United Kingdom adopted international accounting standards. These consolidated financial statements are presented in Sterling, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

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

Going concern

The Directors, in their consideration of going concern, have reviewed the Group's future cash flow forecasts and profit projections, which they believe are based on an appropriate assessment of the market and past experience. The Group's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the Strategic Report on pages 4 to 50.

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

The Directors are of the opinion that the Group's cash flow forecasts and profit projections, which they believe are based on a prudent assessment of the market and past experience taking account of reasonably possible changes in trading performance given current market and economic conditions, show that the Group should be able to operate within the current facility and comply with its banking covenants. The Directors have modelled a range of scenarios, including a central case, a downside scenario, a severe but plausible downside and a reverse stress test, over a three-year horizon. Details are set out in the Viability statement review on page 23.

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

Critical judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. Due to the nature of estimation, the actual outcomes may well differ from these estimates. The Directors have assessed the impact of climate change and consider that this does not have a significant impact on these financial statements.

Critical judgements

As detailed in note 21, property provisions of £3.3m have been recognised as at 31 December 2022 (2021: £3.6m), representing the Directors' best estimate of dilapidations on property leases. The Directors have made the judgement that no provision is required for certain property leases where there is no intention to exit, having considered a number of factors including the extent of modifications to the property, the terms of the lease agreement, and the condition of the property.

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

Key sources of estimation uncertainty

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

Retirement benefit obligations

The determination of any defined benefit pension scheme asset or liability is based on assumptions determined with independent actuarial advice. The key assumptions used include discount rate and inflation rate assumptions, for which a sensitivity analysis is provided in note 24. The Directors consider that those sensitivities represent reasonable sensitivities which could occur in the next financial year.

Valuation of trade receivables

The provision held against trade receivables considers an expected credit loss model and related estimates of recoverable amounts, as detailed in note 14. Whilst every attempt is made to ensure that the provision held against doubtful trade receivables is as accurate as possible, there remains a risk that the provision may not match the level of debt, which ultimately proves uncollectable. For illustration only, an increase in the average default rate of overdue trade receivables from 1.44% to 2.43% above the historic loss rates observed would lead to an increase of £540,000 in the provision required.

Alternative performance measures

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

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

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

	Year to 31 December 2022 £000	Year to 31 December 2021 £000
Continuing operations		
Operating profit before amortisation	25,073	23,366
Customer relationships/brand values amortisation	(3,577)	(3,311)
Operating profit	21,496	20,055

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

Changes in accounting policies in 2022

There are no new accounting policies applied in 2022 which have had a material effect on these accounts. In addition, the Directors do not consider that the adoption of new and revised standards and interpretations issued by the IASB in 2022 has had any material impact on the financial statements of the Group.

New accounting standards and interpretations

The new standards which are effective during the year are:

- Amendments to IAS16: Property, Plant and Equipment (effective for periods beginning on or after 1 January 2022);
- Amendments to IAS37: Provisions, Contingent Liabilities and Contingent Assets (effective for periods beginning on or after 1 January 2022); and
- Amendments to IFRS3: Business Combinations (effective for periods beginning on or after 1 January 2022).

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- Amendments to IAS1: Presentation of Financial Statements (effective for periods beginning on or after 1 January 2023);
- Amendments to IAS8: Accounting Policies, Changes in Accounting Estimates and Errors (effective for periods beginning on or after 1 January 2023); and
- Amendments to IAS12: Income Taxes (effective for periods beginning on or after 1 January 2023).

The above standards are not yet effective and therefore have not been applied in the financial statements. It is anticipated that there will be minimal impact on the financial statements from the adoption of these revised standards.

Accounting policies (continued)

For the year ended 31 December 2022

Summary of significant accounting policies

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

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

(a) Basis of consolidation

Subsidiaries

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

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

Business combinations

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

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

Transactions eliminated on consolidation

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

Discontinued operations

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

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

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

(b) Goodwill and other intangible assets

Goodwill

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

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

Other intangible assets

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

Impairment

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

(c) Revenue recognition

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

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

(d) Leasing

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

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses appropriate incremental borrowing rates.

Lease liabilities are presented on two separate lines in the balance sheet for amounts due within one year and amounts due beyond one year. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the liability by payments made. The Company remeasures the lease liability (and adjusts the related right-of-use asset) whenever the lease term has changed or a lease contract is modified and the modification is not accounted for as a separate lease.

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

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

The Group's incremental borrowing rates applied to lease liabilities in 2022 ranged between 2.75% and 5.75%, with the average rate applied across all leases being 3.22%.

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

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

Accounting policies (continued)

For the year ended 31 December 2022

(e) Foreign currencies

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

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

(f) Retirement benefits

Defined contribution schemes

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

Defined benefit schemes

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

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

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

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

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

The Group's defined benefit pension scheme covers the Group companies at December 2022. The net defined benefit cost of the scheme is apportioned to these participating entities based on the employment history of scheme members, who are allocated to the relevant subsidiary, with any remaining members allocated to the parent company.

(g) Taxation

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

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

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

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

Deferred tax liabilities are generally recognised for all taxable temporary differences.

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

(h) Property, plant and equipment

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

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

(i) Inventories

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

(j) Financial instruments

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

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

Other financial assets comprise trade and other receivables that have fixed or determinable recoveries. The classification takes account of the nature and purpose of the financial assets and is determined on initial recognition. Trade and other receivables are measured at amortised cost less impairment having considered estimated recoverable amounts and the Expected Credit Loss ('ECL') model.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is measured on an expected credit loss basis at inception rather than an incurred loss model. When a trade receivable is uncollectible, it is written off against the provision made on inception or at a previous reporting period end. Subsequent recoveries of amounts previously written off are credited against the provision. In accordance with IFRS 9 'Financial Instruments' changes in the carrying value of the provision are recognised in the consolidated income statement.

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

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

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

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

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

Accounting policies (continued)

For the year ended 31 December 2022

(k) Provisions

Property provisions

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

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

(l) Share-based payments

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

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

Notes to the financial statements

For the year ended 31 December 2022

1. Business and geographical segments

(a) Business segments

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

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

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

	2022 £000	2021 £000
External revenues from major products and services		
Packaging Distribution	259,651	239,508
Manufacturing Operations	30,780	24,957
External revenues from Continuing operations	290,431	264,465

(b) Segmental information

	Packaging Distribution £000	Manufacturing Operations £000	2022 Total £000	Packaging Distribution £000	Manufacturing Operations £000	2021 Total £000
Revenue						
Total revenue	259,651	35,045	294,696	239,508	28,527	268,035
Inter-segment revenue	–	4,265	4,265	–	3,570	3,570
External revenue	259,651	30,780	290,431	239,508	24,957	264,465
Cost of sales	176,193	16,181	192,374	161,896	13,102	174,998
Gross profit	83,458	14,599	98,057	77,612	11,855	89,467
Net operating expenses	63,590	9,394	72,984	57,915	8,186	66,101
Operating profit before amortisation	19,868	5,205	25,073	19,697	3,669	23,366
Amortisation	2,774	803	3,577	2,642	669	3,311
Operating profit	17,094	4,402	21,496	17,055	3,000	20,055
Net finance costs			1,562			1,390
Profit before tax			19,934			18,665
Tax			4,210			4,917
Profit for the year from continuing operations			15,724			13,748
Loss for the year from discontinued operations			(87)			(1,150)
Profit for the year			15,637			12,598
Capital additions	12,125	67	12,192	14,031	15,584	29,615
Depreciation/amortisation	10,694	1,923	12,617	10,095	1,590	11,685
Segment assets	188,866	27,298	216,164	185,111	31,056	216,167
Segment liabilities	(102,937)	(7,207)	(110,144)	(110,212)	(11,061)	(121,273)
Net assets	85,929	20,091	106,020	74,899	19,995	94,894

Inter-segment revenues are charged at prevailing market prices.

Notes to the financial statements (continued)

For the year ended 31 December 2022

1. Business and geographical segments (continued)

(c) Geographical segments

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

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

Manufacturing Operations are primarily in the UK.

	Continuing operations UK £000	Europe £000	2022 Total £000	Continuing operations UK £000	Europe £000	2021 Total £000
External revenue	273,996	16,435	290,431	259,265	5,200	264,465
Operating profit	20,545	951	21,496	19,870	185	20,055
Non-current assets	123,003	4,825	127,828	124,038	5	124,043
Capital additions	7,198	4,994	12,192	29,615	-	29,615

(d) Information about major customers

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

2. Operating profit

Operating profit from continuing operations has been arrived at after charging:	2022 £000	2021 £000
Cost of inventories recognised as an expense in the consolidated income statement	187,829	183,507
Amortisation of other intangible assets (note 10)	3,577	3,311
Depreciation of property, plant and equipment	1,498	1,475
Depreciation of right-of-use assets	7,542	6,899
Acquisition related costs	186	217
Staff costs	43,850	40,201

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

Audit services

Fees payable to the auditor for the audit of these financial statements	59	57
Fees payable to auditor for the audit of the Company's subsidiaries	216	207
Total audit fees	275	264

Non-audit services

Other assurance services for the audit of the Company pension scheme	16	11
Total non-audit fees	16	11
Total fees paid to auditor	291	275

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

3. Staff costs

The average monthly number of employees (including Directors) was:	2022 No.	2021 No.
Production	189	245
Sales and distribution	550	512
Administration	273	281
	1,012	1,038

The costs incurred in respect of these employees were:	2022 £000	2021 £000
Wages and salaries	37,502	38,985
Social security costs	3,996	3,840
Pension costs		
Contributions to defined contribution schemes	1,704	1,828
Contributions to defined benefit schemes	41	130
Share-based payments (note 25)	607	685
	43,850	45,468

In accordance with section 411 of the Companies Act 2006 the above noted staff numbers and staff costs combine continuing and discontinued operations. The staff costs from continuing operations are £43,850,000 (2021: £40,201,000) as set out in note 2.

4. Finance costs

	2022 £000	2021 £000
Interest on bank borrowings	616	414
Interest on leases	1,122	969
Finance (income)/cost relating to defined benefit scheme (note 24)	(176)	7
Finance costs from continuing operations	1,562	1,390

5. Tax

	2022 £000	2021 £000
Current tax		
United Kingdom corporation tax	3,680	3,672
Foreign tax	253	245
Adjustments in respect of prior years	(21)	72
Current tax charge	3,912	3,989
Deferred tax		
Current year	207	(76)
Adjustments in respect of prior years	91	(61)
Change in corporation tax rate	–	1,277
Deferred tax charge (note 18)	298	1,140
Total tax charge	4,210	5,129

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2022

5. Tax (continued)

	2022 £000	2021 £000
Profit before tax from continuing operations	19,934	18,665
Loss before tax from discontinued operations	(87)	(938)
Profit before tax from total operations	19,847	17,727
Tax on profit at 19% (2021: 19%)	3,771	3,368
Factors affecting tax charge for the year:		
Change in rate for deferred tax from 19% to 25%	–	1,277
Difference in rate for deferred tax (25%) on pensions	120	–
Non-deductible expenses	189	413
Difference on overseas tax rates	60	(37)
Changes in estimates related to prior years	70	108
Tax charge for the year	4,210	5,129
Tax charge attributable to continuing operations	4,210	4,917
Tax charge attributable to discontinued operations	–	212
Tax charge for the year	4,210	5,129
Weighted average effective tax rate for the year	21.2%	28.9%

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

Deferred tax assets and liabilities at 31 December 2022 have been calculated based on a long-term corporation tax rate of 25%, which had been substantively enacted at the balance sheet date. This changed from 19% effective from 24 May 2021.

6. Discontinued operations

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

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

	2022 £000	2021 £000
Revenue	–	21,220
Expenses	(87)	22,158
Loss before tax	(87)	(938)
Attributable tax expense	–	212
Loss for the year from discontinued operations	(87)	(1,150)

7. Dividends

	2022 £000	2021 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for 2021 of 2.33p per share (2021: 1.85p per share)	3,677	2,920
Interim dividend for 2022 of 0.90p per share (2021: 0.87p per share)	1,425	1,373
	5,102	4,293

A proposed final dividend of 2.52p per share will be paid on 1 June 2023 to shareholders on the register at 12 May 2023. This is subject to approval by shareholders at the Annual General Meeting on 9 May 2023 and therefore is not included as a liability in these financial statements.

8. Earnings per share

	2022 £000	2021 £000
Earnings for the purposes of calculating earnings per share		
Profit for the year from continuing operations	15,724	13,748
Loss for the year from discontinued operations	(87)	(1,150)
Profit for the year from continuing and discontinued operations	15,637	12,598
	2022 Number of shares '000	2021 Number of shares '000
Number of shares in issue		
Weighted average number of ordinary shares to calculate basic earnings per share	158,162	157,812
Dilutive effect of Long-Term Incentive Plan awards in issue	1,661	1,627
Weighted average number of ordinary shares to calculate diluted earnings per share	159,823	159,439
Basic earnings per share from continuing operations	9.94p	8.71p
Diluted earnings per share from continuing operations	9.84p	8.62p
Basic earnings per share from discontinued operations	(0.06)p	(0.73)p
Diluted earnings per share from discontinued operations	(0.05)p	(0.72)p
Basic earnings per share from continuing and discontinued operations	9.89p	7.98p
Diluted earnings per share from continuing and discontinued operations	9.78p	7.90p

9. Subsidiary companies

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

The Group has agreed to exempt the two companies, Carters Packaging (Cornwall) Limited (Company number 12994605) and Carters Packaging Limited (Company number 04691446) from the provisions of the Companies Act relating to the audit of individual accounts by virtue of section 479A.

On the date of approval and signing of the consolidated financial statements, as set out on page 86, the outstanding liabilities at the Statement of Financial Position date, 31 December 2022, of the named subsidiaries were guaranteed by the parent undertaking Macfarlane Group UK Limited (registered number 01630389) pursuant to s479A to s479C of the Companies Act.

Notes to the financial statements (continued)

For the year ended 31 December 2022

10. Goodwill and other intangible assets

	Packaging Distribution £000	Manufacturing Operations £000	2022 Total £000	2021 Total £000
Goodwill	49,081	7,493	56,574	53,600
Other intangible assets	13,078	6,033	19,111	21,302
Goodwill and other intangible assets	62,159	13,526	75,685	74,902
Goodwill				
	Packaging Distribution £000	Manufacturing Operations £000	2022 Total £000	2021 Total £000
Fair value on acquisition				
At 1 January	46,107	7,493	53,600	45,467
Additions (note 23)	2,974	–	2,974	9,492
Impairment (note 6)	–	–	–	(987)
Disposals (note 6)	–	–	–	(372)
At 31 December	49,081	7,493	56,574	53,600
Accumulated impairment losses				
At 1 January and 31 December	–	–	–	–
Carrying amount				
At 31 December 2022	49,081	7,493	56,574	
At 31 December 2021	46,107	7,493		53,600

On 17 May 2022 Macfarlane Group PLC acquired 100% of PackMann Gesellschaft für Verpackungen und Dienstleistungen mbH ('PackMann'). Goodwill arising on the PackMann acquisition was added to the Packaging Distribution CGU.

At 31 December 2022, the Group had two CGU Groupings to which goodwill had been ascribed namely:

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

The recoverable amount of each CGU Grouping is determined using 'value in use' calculations with key assumptions relating to discount rates, sales growth rates, projected gross margin and overhead costs. A post-tax discount rate of 9.6% (2021: 12.2%) is used for both CGU's reflecting the Group's weighted average cost of capital adjusted for appropriate market risk, which is considered to be the most definitive basis for arriving at a discount rate. The Group believes the risk profiles across the markets in which it operates are not significantly different and has therefore deemed it appropriate to apply the same discount rate to both CGUs. The pre-tax discount rate is 12.8% (2021: 15.1%) for each CGU Grouping and the Group's effective tax rate is then applied to give the post-tax discount rate.

Sales growth rates of 1%, changes in gross margin and overhead costs are based on our expectation of future performance in the markets in which we operate. These are consistent with our budgets for 2023 and strategic plans for future years. The assumptions are used to extrapolate cash flows for five years after which a terminal value is calculated assuming no inherent growth.

The Directors believe the assumptions used are appropriate. In addition they have conducted a sensitivity analysis to determine the changes in assumptions that would result in an impairment of the carrying amount of goodwill. Based on this analysis the Directors believe that any reasonable changes in the key assumptions would maintain a value for each CGU Grouping that exceeds its carrying amount. Therefore at 31 December 2022 no impairment charge is required against the carrying amount of goodwill.

	Brand values €000	Customer relationships €000	2022 Total €000	2021 Total €000
Other intangible assets				
Fair value on acquisition				
At 1 January	1,070	36,356	37,426	27,944
Additions (note 23)	241	1,145	1,386	9,482
At 31 December	1,311	37,501	38,812	37,426
Amortisation				
At 1 January	944	15,180	16,124	12,813
Charge for year	130	3,447	3,577	3,311
At 31 December	1,074	18,627	19,701	16,124
Carrying amount				
At 31 December 2022	237	18,874	19,111	
At 31 December 2021	126	21,176		21,302

Other intangible assets comprise separately identifiable intangible assets recognised on the acquisitions of businesses and subsidiary companies between 2014 and 2022. They are recorded at fair value on acquisition less subsequent amortisation.

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

At 31 December 2022, the Group retained values in respect of:

Year of acquisition	Company/business acquired	Brand	Customer relationships
2014	Packaging business of Lane Packaging Limited		✓
2014	Network Packaging Limited		✓
2015	One Packaging Limited		✓
2016	Packaging business of Colton Packaging Teesside		✓
2016	Packaging business of Edward McNeil Limited		✓
2016	Nelsons for Cartons & Packaging Limited		✓
2017	Packaging business of Greenwoods Stock Boxes Limited and Nottingham Recycling Limited		✓
2018	Tyler Packaging (Leicester) Limited		✓
2018	Harrisons Packaging Limited	✓	✓
2019	Ecopac (U.K.) Limited		✓
2019	Leyland Packaging Company (Lancs) Limited		✓
2020	Packaging business of Armagrip		✓
2021	GWP Group Limited	✓	✓
2021	Carters Packaging Limited	✓	✓
2022	PackMann Gesellschaft für Verpackungen und Dienstleistungen mbH	✓	✓

Notes to the financial statements (continued)

For the year ended 31 December 2022

11. Property, plant and equipment

	Note	Property £000	Plant, machinery & vehicles £000	Total £000
Cost				
At 1 January 2021		8,114	26,799	34,913
Acquisitions		589	3,070	3,659
Additions		499	1,633	2,132
Transfer from right of use assets		–	602	602
Exchange movements		–	(229)	(229)
Disposals		(1,797)	(10,605)	(12,402)
At 31 December 2021		7,405	21,270	28,675
Acquisitions	23	–	564	564
Additions		904	2,381	3,285
Transfer from right of use assets		–	139	139
Exchange movements		–	19	19
Disposals		(199)	(2,113)	(2,312)
At 31 December 2022		8,110	22,260	30,370
Accumulated depreciation				
At 1 January 2021		4,542	21,731	26,273
Acquisitions		476	2,319	2,795
Charge for year		445	1,544	1,989
Transfer from right of use assets		–	56	56
Exchange movements		–	(152)	(152)
Disposals		(1,000)	(7,387)	(8,387)
At 31 December 2021		4,463	18,111	22,574
Acquisitions	23	–	428	428
Charge for year		336	1,162	1,498
Transfer from right of use assets		–	52	52
Exchange movements		–	15	15
Disposals		(174)	(1,886)	(2,060)
At 31 December 2022		4,625	17,882	22,507
Carrying amount				
At 31 December 2022		3,485	4,378	7,863
At 31 December 2021		2,942	3,159	6,101
At 1 January 2021		3,572	5,068	8,640

The main components of property, plant and equipment are:

- (i) Two properties owned in our Manufacturing Operations and tenant's improvements at a number of short and medium-term leases in Packaging Distribution, categorised as Property.
- (ii) A significant investment in plant and machinery in Manufacturing Operations, typically corrugated case-making machinery, as well as investments in our IT hardware systems throughout the Group, which are all categorised under the combined heading of Plant, machinery and vehicles.

	2022 £000	2021 £000
Property at net book value comprises:		
Freeholds	957	1,001
Long leaseholds	2,438	1,820
Short leaseholds	90	121
	3,485	2,942

Contractual commitments for capital expenditure for which no provision has been made in these accounts amount to £744,000 (2021: £1,778,000).

12. Right of use assets

	Note	Property £000	Plant, machinery & vehicles £000	Total £000
Cost				
At 1 January 2021		32,054	7,453	39,507
Acquisitions		2,978	876	3,854
Additions		7,738	1,365	9,103
Exchange movements		(174)	(2)	(176)
Lease modifications		1,167	(16)	1,151
Transfer to property, plant and equipment		–	(602)	(602)
Disposals		(2,507)	(684)	(3,191)
At 31 December 2021		41,256	8,390	49,646
Acquisitions	23	1,634	–	1,634
Additions		1,083	3,464	4,547
Lease modifications		227	(16)	211
Transfer to property, plant and equipment		–	(139)	(139)
Disposals		(3,139)	(1,240)	(4,379)
At 31 December 2022		41,061	10,459	51,520
Accumulated depreciation				
At 1 January 2021		8,314	2,609	10,923
Acquisitions		–	160	160
Charge for year		5,564	1,718	7,282
Exchange movements		(50)	(1)	(51)
Lease modifications		(1,480)	(44)	(1,524)
Transfer to property, plant and equipment		–	(56)	(56)
Disposals		(1,233)	(573)	(1,806)
At 31 December 2021		11,115	3,813	14,928
Charge for year		5,707	1,835	7,542
Lease modifications		(637)	(98)	(735)
Transfer to property, plant and equipment		–	(52)	(52)
Disposals		(3,068)	(1,033)	(4,101)
At 31 December 2022		13,117	4,465	17,582
Carrying amount				
At 31 December 2022		27,944	5,994	33,938
Carrying amount				
At 31 December 2021		30,141	4,577	34,718

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

Notes to the financial statements (continued)

For the year ended 31 December 2022

13. Inventories

	2022 £000	2021 £000
Raw materials and consumables	1,034	988
Work in progress	139	148
Finished goods and goods for resale	21,435	20,133
	22,608	21,269

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

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

Movement in the provisions for slow-moving and obsolete inventories	2022 £000	2021 £000
At 1 January	1,318	1,289
Acquisitions	193	20
Disposals	-	(184)
Additional provisions recognised in the consolidated income statement	633	571
Inventories written off during the year	(384)	(378)
At 31 December	1,760	1,318

14. Trade and other receivables

	2022 £000	2021 £000
Current		
Trade receivables	54,840	53,267
Loss allowance	(795)	(731)
	54,045	52,536
Other receivables	3,766	4,423
Prepayments	1,536	1,582
	59,347	58,541
Non-current		
Other receivables	38	35

Trade receivables represent amounts owed by customers in respect of revenues for goods or services provided prior to the year end. The Group's credit risk is primarily attributable to trade receivables. The average credit period taken at the reporting date is 55 days (2021: 54 days). No interest is charged on overdue receivables.

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

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

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

Risk profile category (ageing)	2022 £000	ECL rate	2022 ECL allowance £000	2021 £000	ECL rate	2021 ECL allowance £000
Current	39,855	0.92%	367	39,352	0.84%	329
Overdue						
0-30 days	12,694	1.71%	217	11,308	1.56%	176
30-60 days	1,351	2.74%	37	1,772	2.43%	43
60-90 days	486	9.05%	44	493	8.32%	41
Over 90 days	454	28.6%	130	342	41.50%	142
	54,840		795	53,267		731

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

	2022 £000	2021 £000
ECL allowance		
At 1 January	731	1,148
Acquisitions	14	5
Disposals	–	(108)
Change in loss allowance	368	(32)
Amounts written off as uncollectible (net of recoveries)	(318)	(282)
At 31 December	795	731

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

15. Financial instruments

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

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

There has been no significant change to the Group's exposure to market risks during 2022. Principal risks arising are liquidity risk and credit risk, with secondary risks being interest rate risk and currency risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below and have remained unchanged since the beginning of 2023.

Liquidity risk

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

Credit risk

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

Interest rate risk

The Group borrows in currencies at floating rates of interest. It was not considered necessary to cover interest rate exposures by the use of financial instruments during 2022.

Notes to the financial statements (continued)

For the year ended 31 December 2022

15. Financial instruments (continued)

A sensitivity analysis has been prepared based on bank interest rate exposures at the year-end date and the stipulated change taking place at the beginning of the financial year and held constant throughout the year. If interest rates had been 50 basis points higher and all other variables held constant, the Group's profit before tax would have decreased by £61,000 (2021: £66,000).

Currency risk

The Group had three overseas subsidiaries in 2022, one operating in Ireland, one operating in Holland and one operating in Germany. Revenues and expenses are denominated exclusively in Euros. Movements in the Euro to sterling exchange rates could affect the Group's sterling balance sheet. The Group's policy during 2022 has been to review the need to hedge currency exposures on a regular basis and it was not considered necessary to cover existing currency exposures by the use of financial instruments. The Group continues to review the need to hedge exposures on a regular basis.

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

	Assets 2022 £000	Assets 2021 £000	Liabilities 2022 £000	Liabilities 2021 £000
Euros	8,071	2,326	3,520	814

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

	2022 £000	2021 £000
Euros	1,015	185

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

	Result 2022 £000	Result 2021 £000	Other equity 2022 £000	Other equity 2021 £000
Euros	38	9	70	76

	2022 £000	2021 £000
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Cash and cash equivalents

Currency – Sterling	5,232	11,777
– Euros	413	519
– US Dollars	61	19

Cash and cash equivalents	5,706	12,315
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Bank borrowings

Currency – Sterling	8,245	9,840
– Euros	898	–

Bank borrowings	9,143	9,840
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Net bank debt/(funds)	3,437	(2,475)
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Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with an original maturity of three months or less. £360,000 included with cash and cash equivalents has a right of offset against the Sterling bank borrowings.

The Group bank borrowing facility with Lloyds Banking Group PLC ('Lloyds') of £30m is available until December 2025. Under the facility, trade receivables of the Group's largest trading subsidiary, Macfarlane Group UK Limited are assigned to Lloyds who then fund the Group in advance of the collection of these transferred receivables. The Invoice Discounting facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over trade receivables' balances.

The Group has been in compliance with all conditions in relation to its borrowing facility throughout 2022 and has remained in compliance in 2023 to date.

The Group's German subsidiary, PackMann, has bank borrowing facilities with Commerzbank of €0.9m repayable on demand.

Interest rates

Bank borrowings are held at floating rates of interest. The average effective interest rate on these borrowings approximates to 4.52% per annum (2021: 2.70%).

Fair value of financial instruments

Current assets and liabilities are all held at floating rates. The fair values of cash and cash equivalents and bank borrowings at 31 December 2022 all materially equate to book values.

Borrowing facilities

The Group's committed borrowing facilities, for which all conditions precedent had been met, are as follows:

	2022 €000	2021 €000
Drawn down	9,143	9,840
Undrawn	21,743	20,160
Committed borrowing facilities	30,886	30,000

The Group's borrowing profile is as follows:	2022 €000	2021 €000
At amortised cost		
Bank borrowings – secured	9,143	9,840
Lease liabilities	6,641	6,364
Current borrowings	15,784	16,204
Non-current – lease liabilities	27,928	28,578
Total borrowings	43,712	44,782
Equity	106,020	94,894
Gearing (net debt to equity) ratio	41%	47%

Financial instruments carried at fair value

IFRS 7 requires that all financial instruments carried at fair value be analysed under certain levels. The table below analyses financial instruments, into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

Financial instruments which are designated at fair value through profit or loss (note 16)	Carrying amount 2022 €000	Fair value 2022 €000	Level 1 2022 €000	Level 2 2022 €000	Level 3 2022 €000
Contingent consideration	(3,695)	(3,695)	–	–	(3,695)
	Carrying amount 2021 €000	Fair value 2021 €000	Level 1 2021 €000	Level 2 2021 €000	Level 3 2021 €000
Contingent consideration	(6,625)	(6,625)	–	–	(6,625)

Notes to the financial statements (continued)

For the year ended 31 December 2022

15. Financial instruments (continued)

The following table shows the valuation techniques used for Level 3 fair values, and significant unobservable inputs used for Level 3 items.

Financial instruments measured at fair value	Valuation technique	Significant unobservable inputs (Level 3 only)
Contingent consideration	The expected payment reflects calculated cash outflows under possible earn-out scenarios and is not discounted	Trading performance of acquired subsidiary companies in a period of 24 months following acquisition

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

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

Non-derivative financial instruments	Total £000	2021 Contractual cash flows		
		Due within one year £000	Due from 1-5 years £000	Due after five years £000
Secured bank borrowings	9,840	9,840	–	–
Lease liabilities	34,942	6,364	16,331	12,247
Trade payables	42,147	42,147	–	–
Accruals and deferred income	11,703	11,703	–	–
Contingent consideration	6,625	2,930	3,695	–
	105,257	72,984	20,026	12,247

16. Trade and other payables

	2022 £000	2021 £000
Due within one year		
Trade payables	36,291	42,147
Other taxation and social security	3,849	3,905
Contingent consideration	3,695	2,930
Other payables	575	290
Accruals and deferred income	10,167	11,703
	54,577	60,975
Due after more than one year		
Contingent consideration	–	3,695
	–	3,695

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs in all the Group's businesses. No interest is charged on overdue trade payables. £2,930,000 of deferred consideration was paid during 2022 related to the acquisitions of GWP Holdings Limited and Carters Packaging (Cornwall) Limited in 2021. The Directors consider that the carrying amounts for trade and other payables approximate to their fair value.

17. Lease liabilities

	2022 £000	2021 £000
Amounts payable under leases		
Within one year	6,641	6,364
Between one and five years	17,720	16,331
After more than five years	10,208	12,247
Present value of lease liabilities	34,569	34,942
Due for settlement within 12 months (current liabilities)	(6,641)	(6,364)
Due for settlement after more than 12 months (non-current liabilities)	27,928	28,578
	2022 £000	2021 £000
At 1 January	34,942	28,692
New leases	4,546	9,103
Acquisitions (note 23)	1,634	3,500
Disposals	(237)	(1,363)
Lease modifications	899	2,675
Exchange movements	–	(126)
Interest	1,122	1,034
Repayments under leases	(8,337)	(8,573)
At 31 December	34,569	34,942

The Directors consider that the carrying amounts for lease liabilities approximate to their fair value. Repayment of lease obligations in the cash flow statement of £7,215,000 consists of repayments under leases of £8,337,000 less interest of £1,122,000.

18. Deferred tax

	Tax losses/ accelerated capital allowances £000	Other intangible assets £000	Retirement benefit obligations £000	Total £000
At 1 January 2021	(79)	(2,876)	279	(2,676)
Acquisition (note 23)	(73)	(1,802)	–	(1,875)
Disposal	372	–	–	372
Transferred to corporation tax	(168)	–	–	(168)
Credited in income statement	(371)	(387)	(382)	(1,140)
Credited in other comprehensive income				
Deferred tax on remeasurement of pension scheme liability	–	–	(2,054)	(2,054)
Corporation tax rate change on deferred tax	–	–	88	88
At 31 December 2021	(319)	(5,065)	(2,069)	(7,453)
Acquisition (note 23)	–	(387)	–	(387)
(Charged)/credited in income statement	(484)	689	(503)	(298)
Credited in other comprehensive income				
Deferred tax on remeasurement of pension scheme liability	–	–	21	21
At 31 December 2022	(803)	(4,763)	(2,551)	(8,117)
2022 deferred tax assets				
Due outwith one year	105	–	–	105
2022 deferred tax liabilities				
Due outwith one year	(908)	(4,763)	(2,551)	(8,222)
	(803)	(4,763)	(2,551)	(8,117)
2021 deferred tax assets				
Due outwith one year	19	–	–	19
2021 deferred tax liabilities				
Due outwith one year	(338)	(5,065)	(2,069)	(7,472)
	(319)	(5,065)	(2,069)	(7,453)

Notes to the financial statements (continued)

For the year ended 31 December 2022

18. Deferred tax (continued)

Deferred tax balances represent tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax assets and liabilities at 31 December 2022 have been calculated based on a corporation tax rate of 25% where it is not anticipated to reverse by 1 April 2023 when the 25% rate comes into effect.

19. Share capital

	Number of 25p shares	2022 £000	2021 £000
Allotted, issued and fully paid:			
At 1 January	157,812,000	39,453	39,453
Issued during the year	525,000	131	–
At 31 December	158,337,000	39,584	39,453

The Company has one class of ordinary shares, which carry no right to fixed income.

Each ordinary share carries one vote in any General Meeting of the Company.

On 16 May 2022, the Company issued 525,000 ordinary shares of 25p at a value of 106.00p to settle 2019 share awards under the Company's 2016 Performance Share Plan.

20. Reserves

	Share premium £000	Revaluation reserve £000	Own shares £000	Translation reserve £000	Retained earnings £000
Balance at 1 January 2021	13,148	70	–	291	26,816
Profit for the year	–	–	–	–	12,598
Dividends paid (see note 7)	–	–	–	–	(4,293)
Foreign currency translation differences – foreign operations	–	–	–	(120)	–
Share-based payments	–	–	–	–	685
Remeasurement of pension scheme liability taken direct to equity	–	–	–	–	8,212
Deferred tax taken direct to equity	–	–	–	–	(1,966)
Balance at 31 December 2021	13,148	70	–	171	42,052
Profit for the year	–	–	–	–	15,637
Dividends paid (see note 7)	–	–	–	–	(5,102)
Issue of new shares	425	–	(7)	–	(549)
Foreign currency translation differences – foreign operations	–	–	–	45	–
Share-based payments	–	–	–	–	607
Remeasurement of pension scheme liability taken direct to equity	–	–	–	–	(82)
Deferred tax taken direct to equity	–	–	–	–	21
Balance at 31 December 2022	13,573	70	(7)	216	52,584

Exchange differences arising in the consolidated accounts on the retranslation at closing rates of the Group's net investments in foreign subsidiary companies are recorded as movements on the translation reserve.

21. Provisions

	Note	Property £000	Other £000	Total £000
At 1 January 2021		1,567	859	2,426
Additions in the year		1,775	–	1,775
Acquisitions		597	–	597
Releases		(187)	(127)	(314)
Disposals		–	(732)	(732)
Payments		(174)	–	(174)
At 31 December 2021		3,578	–	3,578
Additions in the year		817	–	817
Releases		(124)	–	(124)
Payments		(942)	–	(942)
At 31 December 2022		3,329	–	3,329
2022 – Due within one year		1,769	–	1,769
2022 – Due after more than one year		1,560	–	1,560
At 31 December 2022		3,329	–	3,329
2021 – Due within one year		1,730	–	1,730
2021 – Due after more than one year		1,848	–	1,848
At 31 December 2021		3,578	–	3,578

Property provisions relate to sums due in respect of dilapidations.

22. Analysis of changes in net debt

	Cash and cash equivalents £000	Bank borrowing £000	Lease liabilities £000	Total debt £000
At 1 January 2021	7,228	(7,766)	(28,692)	(29,230)
Non-cash movements				
New leases	–	–	(9,103)	(9,103)
Acquisitions	–	–	(3,500)	(3,500)
Disposals	–	–	1,363	1,363
Lease modifications	–	–	(2,675)	(2,675)
Exchange movements	–	–	126	126
Cash movements	5,087	(2,074)	7,539	10,552
At 31 December 2021	12,315	(9,840)	(34,942)	(32,467)
Non-cash movements				
New leases	–	–	(4,546)	(4,546)
Acquisitions	–	–	(1,634)	(1,634)
Disposals	–	–	237	237
Lease modifications	–	–	(899)	(899)
Cash movements	(6,609)	697	7,215	1,303
At 31 December 2022	5,706	(9,143)	(34,569)	(38,006)

	Cash and cash equivalents £000	Bank borrowing £000	Net bank (debt)/funds £000
Net bank debt 2022	5,706	(9,143)	(3,437)
Net bank funds 2021	12,315	(9,840)	2,475

Cash and cash equivalents (presented as a single class of asset on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with maturity of three months or less.

The movement in net bank debt is inclusive of the net cash outflow in respect of acquisitions set out in note 23.

Notes to the financial statements (continued)

For the year ended 31 December 2022

23. Acquisitions

On 17 May 2022, Macfarlane Group PLC acquired 100% of PackMann Gesellschaft für Verpackungen und Dienstleistungen mbH ('PackMann'), for a maximum consideration, excluding cash/bank balances and bank borrowings acquired, of £7.4m. £5.9m was paid in cash on acquisition, in addition to cash/bank balances and bank borrowings retained by Macfarlane Group PLC, and the deferred consideration of £1.5m is payable in the second quarters of 2023 and 2024, subject to certain trading targets being met in the two twelve-month periods ending on 31 May 2023 and 2024 respectively. The trading targets set for the two twelve month periods are an enhancement over the profit levels being achieved in the period prior to acquisition and they are considered unlikely to be achieved. Therefore the Directors do not consider it probable that deferred consideration will be payable. A recovery for closing balance sheet adjustments of £0.6m was received on 30 August 2022.

£2.2m was paid in 2022 to the sellers of GWP Holdings Limited, acquired in 2021, as the profit target was met for the twelve month period ending 28 February 2022 and deferred consideration of £2.9m is payable in the first quarter of 2023, subject to profit targets being met in the twelve-month period ending 28 February 2023.

£0.7m was paid in 2022 to the sellers of Carters (Cornwall) Limited, acquired in 2021, as the profit target was met for the twelve month period ending 31 March 2022 and deferred consideration of £0.8m is payable in the second quarter of 2023, subject to profit targets being met in the twelve-month period ending 31 March 2023.

Contingent considerations are recognised as a liability in trade and other payables and are remeasured to fair value of £3.7m at the balance sheet date based on a range of outcomes between £Nil and £5.2m. Trading in the post-acquisition period supports the remeasured value of £3.7m.

The impact of the acquisition of PackMann on 2022 results was revenue for the year of £7.8m and profit of £0.2m. If the PackMann acquisition had been completed on the first day of 2022, revenues for the year would have been £13.4m and profit would have been £0.3m.

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

	2022 Total £000
Net assets acquired	
Other intangible assets (note 10)	1,386
Tangible assets (inc. ROU assets)	1,770
Inventories	2,364
Trade and other receivables	1,347
Cash and bank balances	290
Bank borrowings	(730)
Trade and other payables	(1,899)
Current tax liabilities	(196)
Lease liabilities	(1,634)
Deferred tax liabilities (note 18)	(387)
Net assets acquired	2,311
Goodwill arising on acquisition (note 10)	2,974
Total consideration	5,285
Contingent consideration on acquisitions	
Prior years	2,930
Total cash consideration	8,215
Net cash outflow arising on acquisitions	
Cash consideration	(8,215)
Cash and bank balances acquired	(440)
Net cash outflow – acquisitions	(8,655)

24. Retirement benefit obligations

Introduction

Macfarlane Group PLC sponsors a defined benefit pension scheme for former UK employees – the Macfarlane Group PLC Pension & Life Assurance Scheme (1974) ('the Scheme'). One of the trading subsidiaries, Macfarlane Group UK Limited is also a sponsoring employer of the Scheme. Macfarlane Labels Limited was a sponsoring employer until 31 December 2021 when the company was sold and ceased to be a sponsoring member. The Group paid £0.7m into the pension scheme in 2022 to satisfy the debt agreed with the trustees in relation to the cessation of Macfarlane Labels Limited as a sponsoring employer. The Scheme is currently in surplus and disclosure of the respective proportions of the Group surplus are included and disclosed in the financial statements of each of the two participating employers.

The Scheme is an HMRC registered pension scheme, administered by a Board of Trustees composed of employer-nominated representatives and member-nominated Trustees which is legally separate from the Group. The Scheme's investments are held separately from those of the Group in managed funds under the supervision of the Trustees. The Trustees are required by law to act in the interest of all classes of beneficiary in the Scheme and are responsible for investment policy and the administration of benefits. Macfarlane Group PLC, based on legal opinion provided, has an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a wind up of the Scheme. Furthermore, in the ordinary course of business the trustees have no rights to unilaterally wind up the Scheme, or otherwise augment the benefits due to members of the Scheme. Based on these rights, any net surplus in the Scheme is recognised in full.

The Scheme provides qualifying employees with an annual pension of 1/60 of pensionable salary for each completed years' service on attainment of a normal retirement age of 65. Pensionable salaries were frozen for the remaining active members at the levels current at 30 April 2009 with the change taking effect from 30 April 2010. As a result no further salary inflation applies for active members who elected to remain in the Scheme. Active members' benefits also include life assurance cover, with the payment of these benefits at the discretion of the Trustees of the Scheme. The Scheme was closed to new entrants during 2002. The Scheme was closed to future accrual on 30 November 2022 with the 3 remaining active members transferring to the Group's defined contribution pension scheme.

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

During 2012, Macfarlane Group PLC agreed with the Board of Trustees to amend benefits for pensioner, deferred and active members in the Scheme by offering a Pension Increase Exchange ('PIE') option to pensioner members and a PIE option to all other members at retirement after 1 May 2012.

Balance sheet disclosures at 31 December 2022

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

The investment classes held by the Scheme and the Scheme deficit, based on the results of the actuarial valuation as at 1 May 2020, updated to the year-end are as shown below:

Notes to the financial statements (continued)

For the year ended 31 December 2022

24. Retirement benefit obligations (continued)

Investment class	Valuation 2022 £000	Asset allocation	Valuation 2021 £000	Asset allocation	Valuation 2020 £000	Asset allocation
Equities						
UK equity funds	6,616	9.4%	9,392	9.4%	8,351	8.4%
Overseas equity funds	13,671	19.4%	17,010	16.9%	14,585	14.7%
Multi-asset diversified growth funds	12,674	18.0%	29,113	29.0%	31,559	31.7%
Bonds						
Liability-driven investment funds	23,352	33.3%	30,531	30.4%	31,463	31.7%
Other						
European loan fund	6,546	9.3%	6,778	6.7%	6,493	6.5%
Secured property income fund	5,670	8.0%	6,995	7.0%	6,254	6.3%
Cash	1,957	2.6%	604	0.6%	725	0.7%
Fair value of scheme investments	70,486	100.0%	100,423	100.0%	99,430	100.0%
Present value of scheme liabilities	(60,287)		(92,156)		(100,901)	
Pension scheme surplus/(deficit)	10,199		8,267		(1,471)	

The Trustees review the scheme's investments on a regular basis and consult with the Company regarding any proposed changes to the investment profile. During 2022 the Trustees maintained the overall allocations in line with the strategic asset allocation in the Trustees' Statement of Investment Principles.

Liability-Driven Investment Funds provide a match of 100% against the impact of inflation movements on pension liabilities and against the impact of movements in interest rates on pension liabilities.

The ability to realise the Scheme's investments at, or close to, fair value was considered when setting the investment strategy. 83% (2021: 86%) of the Scheme's investments can be realised at fair value on a daily or weekly basis. The remaining investments have monthly or quarterly liquidity, however, whilst the income from these helps to meet the Scheme's cash flow needs, they are not expected to be realised at short notice. The present value of the Scheme liabilities is derived from cash flow projections over a long period and is thus inherently uncertain.

Assumptions

The Scheme's liabilities at 31 December 2022 were calculated on the following bases as required under IAS 19:

	2022	2021	2020
Discount rate	4.80%	1.90%	1.35%
Rate of increase in salaries	0.00%	0.00%	0.00%
Rate of increase in pensions in payment	3% or 5%	3% or 5%	3% or 5%
	for fixed increases or 3.17% for LPI.	for fixed increases or 3.30% for LPI.	for fixed increases or 2.95% for LPI.
	2.09% post 5 April 2006	2.27% post 5 April 2006	2.15% post 5 April 2006
Spouse's pension assumption			
Pensioner/active and deferred members	75%/75%	75%/75%	75%/75%
PIE take up rate	65%	65%	65%
Inflation assumption (RPI)	3.40%	3.40%	3.00%
Inflation assumption (CPI)	2.80%	2.90%	2.50%
Life expectancy beyond normal retirement age of 65			
Scheme members aged 55			
Male	22.6 years	22.8 years	22.8 years
Female	24.2 years	24.4 years	24.3 years
Scheme members aged 65			
Male	22.0 years	22.3 years	22.2 years
Female	23.4 years	23.6 years	23.5 years
Average uplift for GMP service	0.40%	0.40%	0.40%

Sensitivity to significant assumptions

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

	2022 £000	2021 £000
Assumptions		
Discount rate movement of +3.0%	14,101	28,740
Inflation rate movement of +0.25%	(375)	(765)
Mortality movement of +0.1 year in age rating	88	180

Positive figures reflect a reduction in scheme liabilities and therefore a reduction in the deficit or increase in the surplus. The sensitivity information has been prepared using the same method as adopted when updating the results of the most recent actuarial valuation to the balance sheet date and is consistent with the approach adopted in previous years.

The level of sensitivities shown reflect average movements in the assumptions in the last three years.

The sensitivity information assumes that the average duration of the scheme's liabilities is twelve years.

GMP equalisation

In 2018, the Directors made the judgement that the estimated effect of GMP equalisation on the Group's pension liabilities was a past service cost. The average uplift for GMP service for impacted members was reflected through the consolidated income statement in 2018, with any subsequent changes in the estimate to be recognised in other comprehensive income.

Right to surplus

UK pension legislation requires that pension schemes are funded prudently. Following the conclusion of the 2021 actuarial valuation, the scheme's trustees agreed with the Company to a deficit recovery period of 4 years. As part of this agreement, the Group reconfirmed its effective unconditional right to a refund of any surplus, based on and in accordance with the terms and conditions of the defined benefit scheme and minimum funding requirements. Accordingly IFRIC 14 does not require an adjustment to the net pension surplus.

Macfarlane Group PLC is committed to paying contributions of £1,250,000 per annum, which along with investment returns from return-seeking assets is expected to make good the actuarial shortfall, based on the results of the most recent triennial valuation at 1 May 2020, by April 2024.

The employer contribution rate for active members from 1 May 2020 is 37.4% of pensionable salary and the employee contribution rate is 7.0% of pensionable salary. Following the closure of the Scheme to future accrual on 30 November 2022 there are no active members at 31 December 2022.

	2022 £000	2021 £000
Movement in the scheme surplus/(deficit) during the year		
At 1 January	8,267	(1,471)
Current service costs	(42)	(126)
Contributions from sponsoring employers	1,991	1,992
Past service cost (curtailed due to closure of scheme/disposal of business)	(111)	(333)
Net finance income/(cost) (note 4)	176	(7)
Remeasurement of pension scheme liability in the year	(82)	8,212
At 31 December	10,199	8,267
Analysis of amounts charged to profit before tax		
Current service cost	(42)	(126)
Past service cost (curtailed due to closure of scheme/disposal of business)	(111)	(333)
Net finance income/(cost)	176	(7)
Pension expense charged to profit before tax	23	(466)

Notes to the financial statements (continued)

For the year ended 31 December 2022

24. Retirement benefit obligations (continued)

Analysis of the remeasurement of the pension scheme liability recognised in the statement of other comprehensive income	2022 £000	2021 £000			
Return on scheme investments excluding amount shown in interest income	(29,475)	1,273			
Changes due to scheme experience	(1,935)	850			
Changes in assumptions underlying the present value of scheme liabilities	31,328	6,089			
Remeasurement of the pension scheme liability recognised in the statement of other comprehensive income	(82)	8,212			
Movement in the fair value of scheme investments					
At 1 January	100,423	99,430			
Interest income	1,886	1,332			
Return on scheme investments (excluding amount shown in interest income)	(29,475)	1,273			
Contributions from sponsoring employers	1,991	1,992			
Contributions from scheme members	9	23			
Benefits paid	(4,348)	(3,627)			
At 31 December	70,486	100,423			
Movement in the present value of scheme liabilities					
At 1 January	(92,156)	(100,901)			
Current service cost	(42)	(126)			
Past service cost (curtailed due to closure of scheme/disposal of business)	(111)	(333)			
Interest cost	(1,710)	(1,339)			
Contributions from scheme members	(9)	(23)			
Changes due to scheme experience	(1,935)	850			
Changes in assumptions underlying the scheme liabilities	31,328	6,089			
Benefits paid	4,348	3,627			
At 31 December	(60,287)	(92,156)			
The history of experience adjustments and actual returns on scheme assets and scheme liabilities is as follows:					
	2022 £000	2021 £000	2020 £000	2019 £000	2018 £000
Present value of defined benefit obligations	(60,287)	(92,156)	(100,901)	(94,526)	(85,592)
Fair value of scheme investments	70,486	100,423	99,430	88,061	75,827
Pension scheme surplus/(deficit)	10,199	8,267	(1,471)	(6,465)	(9,765)
Actual return on scheme investments					
Amount	(27,589)	2,605	12,406	13,263	(2,156)
Percentage of scheme investments	(39.1%)	2.6%	12.5%	15.1%	(2.8%)
Experience adjustment on scheme liabilities					
Amount	29,393	6,939	(8,543)	(10,617)	4,111
Percentage of scheme liabilities	48.8%	7.5%	(8.5%)	(11.2%)	4.8%
Experience adjustment on scheme investments					
Amount	(29,475)	1,273	10,655	11,154	(4,143)
Percentage of scheme investments	(41.8%)	1.3%	10.7%	12.7%	(5.5%)

Defined contribution schemes

The Group also operates a number of defined contribution pension arrangements, set up as the Macfarlane Group Personal Pension Plan, including an Auto-enrolment scheme. The assets of these plans are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions paid by the Group to these plans and amounted to £1,704,000 (2021: £1,828,000). Contributions amounting to £202,000 (2021: £219,000) were payable to the plans and are included in trade and other payables at 31 December.

25. Share-based payments

Equity-settled long-term incentive plans	Number of shares	Number of shares
Movements in PSP awards during the year	2022	2021
Outstanding at 1 January	1,627,156	1,267,311
Awarded during the year	662,582	579,547
Vested during the year	(518,196)	–
Lapsed during the year	–	(219,702)
Outstanding at 31 December	1,771,542	1,627,156

A nil cost option award was granted under The Macfarlane Group PLC Long Term Incentive Plan in March 2022 based on 100% of salary. The performance condition requires EPS in 2024 to be between 10.16p and 12.19p for between 25%-100% of this part of the award to vest, working on a straight-line basis.

A nil cost option award was granted under The Macfarlane Group PLC Long Term Incentive Plan in March 2021 based on 100% of salary. The performance condition requires EPS in 2023 to be between 7.95p and 9.54p for between 25%-100% of this part of the award to vest, working on a straight-line basis.

A nil cost option award was granted under The Macfarlane Group PLC Long Term Incentive Plan in September 2020 based on 100% of salary. The performance condition requires EPS in 2022 to be between 6.53p and 7.84p for between 25%-100% of this part of the award to vest, working on a straight-line basis.

All awards are subject to an underpin based on the Remuneration Committee's view of overall performance in the three-year periods to 31 December 2022, 2023 and 2024 respectively. No re-setting of either award is allowed. Vesting periods are three years and awards vesting then have a holding period of two years after vesting.

A nil cost option award was granted under The Macfarlane Group PLC Long Term Incentive Plan in May 2019 based on 100% of salary. The performance conditions required EPS in 2021 to be between 6.77p and 8.12p for between 25%-100% of this part of the award to vest, working on a straight-line basis. The 2019 vesting at 100% and dividend equivalent awarded in shares were confirmed by the Remuneration Committee at its meeting on 21 February 2022. The total number of shares vesting were 518,196.

The Group recognised an expense of £607,000 (2021: £685,000) in 2022 relating to equity-settled long-term incentive plan awards on the basis that the 2019 awards vested at 100% (2021: 100%), the 2020 awards had an estimated probability of vesting of 100% (2021: 100%), the 2021 awards had an estimated probability of vesting of 100% (2021: 100%) and the 2022 awards had an estimated probability of vesting of 50%.

26. Post balance sheet event

There are no post balance sheet events to be disclosed.

27. Related party transactions

The Group has related party relationships with

- (i) its subsidiaries, listed on page 132.
- (ii) its Directors who comprise the Group Board; and
- (iii) the Macfarlane Group PLC sponsored pension schemes (see note 24).

Transactions between the Company and its subsidiaries are eliminated on consolidation and are not disclosed.

Key management personnel comprise the Group Board. Their remuneration is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2022	2021
	£000	£000
Directors' remuneration	1,768	1,189
Employer's national insurance contributions	243	150
	2,011	1,339

Notes to the financial statements (continued)

For the year ended 31 December 2022

27. Related party transactions (continued)

Further details of Directors' individual and collective remuneration are set out in the Directors' Remuneration Report on page 58. The details provided in the Directors' Remuneration Report address the Companies Act disclosure requirements relating to Directors' remuneration.

Details of Directors' shareholdings in the Company are shown on page 60 and total dividends of £41,000 were paid in respect of these shareholdings in 2022 (2021: £33,000).

Disclosures in relation to the pension schemes are set out in note 24.

The Directors have considered the implications of IAS 24 '*Related Party Disclosures*' and are satisfied that there are no other related party transactions occurring during the year, which require disclosure other than those already disclosed in these financial statements.

Company balance sheet

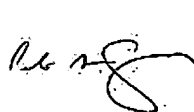
At 31 December 2022

	Note	2022 £000	2021 £000
Non-current assets			
Property, plant and equipment	29	40	48
Right-of-use assets	30	89	104
Investments	31	28,370	23,085
Retirement benefit obligations	41	3,570	2,894
Trade and other receivables	33	32,222	30,997
Total non-current assets		64,291	57,128
Current assets			
Trade and other receivables	33	3,743	3,825
Current tax asset		–	59
Cash and cash equivalents		316	5,895
Total current assets		4,059	9,779
Total assets		68,350	66,907
Current liabilities			
Trade and other payables	34	1,214	1,106
Lease liabilities	36	15	14
Bank borrowings		–	63
Total current liabilities		1,229	1,183
Net current assets		2,830	8,596
Non-current liabilities			
Deferred tax liabilities	32	894	726
Lease liabilities	36	84	99
Provisions	35	825	825
Total non-current liabilities		1,803	1,650
Total liabilities		3,032	2,833
Net assets		65,318	64,074
Equity			
Share capital	37	39,584	39,453
Share premium	38	13,573	13,148
Own shares	38	(7)	–
Profit and loss account	38	12,168	11,473
Total equity	39	65,318	64,074

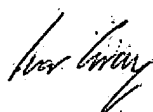
The Company has taken advantage of Section 408 of the Companies Act 2006 and consequently a separate profit and loss account for the parent company is not presented as part of these financial statements.

The Company's profit for the year is £5,735,000. The accompanying notes are an integral part of this Company balance sheet.

The financial statements of Macfarlane Group PLC, Company registration number SC004221, were approved by the Board of Directors on 23 February 2023 and signed on its behalf by



Peter D. Atkinson
Chief Executive



Ivor Gray
Finance Director

Company statement of changes in equity

For the year ended 31 December 2022

	Note	Share capital £000	Share premium £000	Own shares £000	Retained earnings £000	Total £000
At 1 January 2021		39,453	13,148	–	13,406	66,007
Comprehensive income						
Loss for the year		–	–	–	(633)	(633)
Remeasurement of pension scheme liability	41	–	–	–	3,031	3,031
Tax on remeasurement of pension scheme liability	32	–	–	–	(758)	(758)
Corporation tax rate change on deferred tax		–	–	–	35	35
Total comprehensive income		–	–	–	1,675	1,675
Transactions with shareholders						
Dividends	7	–	–	–	(4,293)	(4,293)
Share-based payments	25	–	–	–	685	685
Total transactions with shareholders		–	–	–	(3,608)	(3,608)
At 31 December 2021		39,453	13,148	–	11,473	64,074
Comprehensive income						
Profit for the year		–	–	–	5,735	5,735
Remeasurement of pension scheme liability	41	–	–	–	5	5
Tax on remeasurement of pension scheme liability	32	–	–	–	(1)	(1)
Total comprehensive income		–	–	–	5,739	5,739
Transactions with shareholders						
Dividends	7	–	–	–	(5,102)	(5,102)
New shares issued		131	425	(7)	(549)	–
Share-based payments	25	–	–	–	607	607
Total transactions with shareholders		131	425	(7)	(5,044)	(4,495)
At 31 December 2022		39,584	13,573	(7)	12,168	65,318

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

Notes to the Company financial statements

For the year ended 31 December 2022

28. Significant accounting policies

Macfarlane Group PLC is a public company listed on the London Stock Exchange, incorporated and domiciled in the United Kingdom and registered in Scotland.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ('FRS 101').

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

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

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

- (i) IFRS 2 *Share Based Payments* in relation to Group-settled share-based payments;
- (ii) IFRS 3 *Business Combinations* relating to business combinations undertaken by the Company; and
- (iii) IFRS 7 *Financial Instruments*.

Going concern

The Directors, in their consideration of going concern, have reviewed the Company and Group's future cash flow forecasts and revenue projections, which they believe are based on a prudent assessment of the market and past experience as set out on page 23.

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

Critical judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. Due to the nature of estimation, the actual outcomes may well differ from these estimates.

Critical judgements

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

Key sources of estimation uncertainty

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

Retirement benefit obligations

The determination of any defined benefit pension scheme liability is based on assumptions determined with independent actuarial advice. The key assumptions used include discount rate, inflation rate and mortality assumptions, for which a sensitivity analysis for the Group deficit is provided in note 24. The Directors consider that these sensitivities represent reasonable sensitivities which could occur in the next financial year.

Changes in accounting policies and application of revised standards and interpretations

There are no new accounting policies applied in 2022 which have had a material effect on these accounts.

The Directors do not consider that the adoption of new and revised standards and interpretations issued by the IASB in 2022 has had any material impact on the financial statements of the Group.

Notes to the Company financial statements (continued)

For the year ended 31 December 2022

28. Significant accounting policies (continued)

Accounting policies

The financial statements are prepared on the historical cost basis except that certain of the following assets and liabilities are stated at their fair value. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the preparation of these financial statements.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line basis to write off the cost or valuation of the assets to their estimated residual values over the period of their expected useful lives. The rates of depreciation vary between 2%-5% per annum on property and 7%-25% per annum on plant and equipment. Rates of depreciation are reviewed annually to ensure they remain relevant and residual values are reviewed once in each calendar year.

Investments

Investments held as fixed assets are stated in note 31 at cost less any provision for impairment.

Non-derivative financial instruments

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

Trade and other receivables

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

Trade and other payables

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

Interest-bearing borrowings

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

IFRS 16 'Leases'

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

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

Lease liabilities are presented on two separate lines in the balance sheet for amounts due within one year and amounts due beyond one year. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the liability by payments made. The Company remeasures the lease liability (and adjusts the related right-of-use asset) whenever the lease term has changed or a lease contract is modified and the lease modification is not accounted for as a separate lease. The Company did not make any such adjustments during the period presented.

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

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

The Company's incremental borrowing rate applied to lease liabilities in 2022 is 4.0%.

Movements in lease liabilities during 2022 are set out in note 36.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for management services provided to Group undertakings, net of VAT. Revenue is recognised over time as the related charges are made.

Financial instruments

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

Financial assets

Financial assets, categorised as investments, are recognised and derecognised on the effective date where the purchase or sale of an investment is under a contract whose terms require the delivery of the investment within the timeframe established. They are initially measured at fair value, net of transaction costs except for those financial assets classified at fair value through the income statement, which are initially measured at fair value.

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

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

The carrying amount of the financial asset is reduced by the impairment loss.

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

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

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

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

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

Contingent consideration classified as a liability will be subsequently re-measured through the income statement under the requirements of the revised IFRS 3.

Taxation

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

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

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

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

Deferred tax liabilities are generally recognised for all taxable temporary differences.

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

Notes to the Company financial statements (continued)

For the year ended 31 December 2022

28. Significant accounting policies (continued)

Retirement benefit costs

Defined contribution schemes

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

Defined benefit schemes

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

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

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

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

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

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

Property provisions

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

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

Share-based payments

The fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. Details of the determination of the fair value of equity-settled share-based transactions are set out in note 25.

29. Property, plant and equipment

	Plant and equipment €000	Total €000
Cost		
At 1 January 2022 and 31 December 2022	173	173
Depreciation		
At 1 January 2022	125	125
Charge for the year	8	8
At 31 December 2022	133	133
Net book value		
At 31 December 2022	40	40
At 31 December 2021	48	48

30. Right of use assets

Property	€000
Cost	
At 1 January 2022 and 31 December 2022	148
Depreciation	
At 1 January 2022	44
Charge for year	15
At 31 December 2022	59
Net book value	
At 31 December 2022	89
At 31 December 2021	104

31. Investments

	2022 €000	2021 €000
Investment in subsidiaries at cost		
At 1 January	23,085	26,935
Acquisitions	5,285	–
Disposals	–	(3,850)
At 31 December	28,370	23,085

The parent company sold its investment in Macfarlane Labels Limited on 31 December 2021 (note 6).

On 17 May 2022, the parent company acquired 100% of PackMann Gesellschaft für Verpackungen und Dienstleistungen mbH ('PackMann'), for a maximum consideration, excluding cash/bank balances and bank borrowings acquired, of €7.4m. €5.9m was paid in cash on acquisition, in addition to cash/bank balances and bank borrowings retained by Macfarlane Group PLC, and the deferred consideration of €1.5m is payable in the second quarters of 2023 and 2024, subject to certain trading targets being met in the two twelve-month periods ending on 31 May 2023 and 2024 respectively. The trading targets set for the two twelve month periods are an enhancement over the profit levels being achieved in the period prior to acquisition and they are considered unlikely to be achieved. Therefore the Directors do not consider it probable that deferred consideration will be payable. A recovery for closing balance sheet adjustments of €0.6m was received on 30 August 2022.

Details of the principal operating subsidiaries are set out on page 132.

Notes to the Company financial statements (continued)

For the year ended 31 December 2022

32. Deferred tax (liability)/asset

	2022 £000	2021 £000
Deferred tax on pension scheme (surplus)/deficit		
At 1 January	(726)	111
Charged to reserves	(1)	(723)
Charged to profit and loss account	(167)	(114)
At 31 December	(894)	(726)

33. Trade and other receivables

	2022 £000	2021 £000
Due within one year		
Amounts owed by subsidiary undertakings	3,000	3,000
Other receivables	592	651
Prepayments and accrued income	147	134
Other taxation and social security	–	21
Deferred tax asset (see below)	4	19
	3,743	3,825

Deferred tax asset – Corporation tax losses/timing differences

At 1 January	19	19
Charged to profit and loss account	(15)	–
At 31 December	4	19

	2022 £000	2021 £000
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Due after more than one year

Amounts owed by subsidiary undertakings	32,222	30,997
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Amounts owed by subsidiary undertakings attract interest at normal commercial rates.

34. Trade and other payables

	2022 £000	2021 £000
Trade creditors	502	526
Other taxation and social security	15	–
Accruals and deferred income	697	580
	1,214	1,106

The Company is a party to the Group bank borrowing facility with Lloyds Banking Group PLC, a committed facility of £30m now available until December 2025. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over the trade receivables of Macfarlane Group UK Limited, the principal trading subsidiary.

The Company and certain subsidiaries have given inter-company guarantees to secure the drawdown on this facility. The drawdown at 31 December 2022 by the subsidiary company, Macfarlane Group UK Limited amounted to £8.2m (2021: £9.8m).

35. Provisions

	Property €000
At 1 January 2022	825
At 31 December 2022	825

The provision is due after more than one year. Property provisions relate to sums due in respect of dilapidations.

36. Lease liabilities

	2022 €000	2021 €000
Amounts due under leases		
Within one year	15	14
Between one and five years	66	63
After more than five years	18	36
Total amount due	99	113
Due within one year	(15)	(14)
Due after more than one year	84	99
At 1 January	113	128
Repayments under leases	(14)	(15)
At 31 December	99	113

37. Share capital

	Number of 25p shares	2022 €000	2021 €000
Called up, allotted and fully paid:			
At 1 January	157,812,000	39,453	39,453
Issued during the year	525,000	131	—
At 31 December	158,337,000	39,584	39,453

The Company has one class of ordinary shares, which carry no right to fixed income.

Each ordinary share carries one vote in any General Meeting of the Company.

On 16 May 2022, the Company issued 525,000 ordinary shares of 25p at a value of 106.00p to settle share awards under the Company's 2016 Performance Share Plan.

Notes to the Company financial statements (continued)

For the year ended 31 December 2022

38. Reserves

	Share premium £000	Own shares £000	Profit and loss account £000	Total £000
Balance at 1 January 2021	13,148	–	13,406	26,554
Loss for the year	–	–	(633)	(633)
Dividends paid (note 7)	–	–	(4,293)	(4,293)
Post-tax actuarial gain in pension scheme taken direct to reserves	–	–	2,308	2,308
Share-based payments (note 25)	–	–	685	685
Balance at 1 January 2022	13,148	–	11,473	24,621
Profit for the year	–	–	5,735	5,735
Dividends paid (note 7)	–	–	(5,102)	(5,102)
Issue of new shares	425	(7)	(549)	(131)
Post-tax actuarial gain in pension scheme taken direct to reserves	–	–	4	4
Share-based payments (note 25)	–	–	607	607
Balance at 31 December 2022	13,573	(7)	12,168	25,734

39. Reconciliation of movements in shareholders' funds

	2022 £000	2021 £000
Profit/(loss) for the year	5,735	(633)
Dividends to equity holders in the year	(5,102)	(4,293)
Post-tax actuarial gain in pension scheme taken direct to equity	4	2,308
Share-based payments	607	685
Movements in shareholders' funds in the year	1,244	(1,933)
Opening shareholders' funds	64,074	66,007
Closing shareholders' funds	65,318	64,074

40. Operating profit

	2022 £000	2021 £000
Operating profit for the parent company has been arrived at after charging:		
Depreciation	8	6
Depreciation on right-of-use assets	15	15
Auditor's remuneration	59	57
Audit services		
Non-audit services	16	11
	2022 No.	2021 No.
Staff costs		
The average monthly number of employees was:		
Administration	10	10
	2022 £000	2021 £000
The costs incurred in respect of these employees were:		
Wages and salaries	1,559	1,451
Social security costs	292	188
Other pension costs	32	42
Share-based payments (note 25)	607	685
	2,490	2,366

41. Retirement benefit obligations

Introduction

Macfarlane Group PLC sponsors a defined benefit pension scheme for certain active and former UK employees – the Macfarlane Group PLC Pension & Life Assurance Scheme (1974) ('the Scheme'). One of the trading subsidiaries, Macfarlane Group UK Limited is also sponsoring employers of the Scheme. Macfarlane Labels Limited was a sponsoring employer until 31 December 2021 when the company was sold and ceased to be a sponsoring member. The Group paid £0.7m into the pension scheme in 2022 to satisfy the debt agreed with the trustees in relation to the cessation of Macfarlane Labels Limited as a sponsoring employer. The Scheme is currently in surplus and disclosure of the respective proportions of the Group surplus are included and disclosed in the financial statements of each of the three participating employers.

The Scheme is an HMRC registered pension scheme and is administered by a Board of Trustees composed of employer-nominated representatives and member-nominated Trustees which is legally separate from the Group. The Scheme's investments are held separately from those of the Group in managed funds under the supervision of the Trustees. The Trustees are required by law to act in the interest of all classes of beneficiary in the Scheme and are responsible for investment policy and the administration of benefits. Macfarlane Group PLC, based on legal opinion provided, has an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a wind up of the Scheme. Furthermore, in the ordinary course of business the trustees have no rights to unilaterally wind up the Scheme, or otherwise augment the benefits due to members of the Scheme. Based on these rights, any net surplus in the Scheme is recognised in full.

The Scheme provides qualifying employees with an annual pension of 1/60 of pensionable salary for each completed years' service on attainment of a normal retirement age of 65. Pensionable salaries were frozen for the remaining active members at the levels current at 30 April 2009 with the change taking effect from 30 April 2010. As a result no further salary inflation applies for active members who elected to remain in the Scheme. Active members' benefits also include life assurance cover, with the payment of these benefits at the discretion of the Trustees. The Scheme was closed to new entrants during 2002. The Scheme was closed to future accrual on 30 November 2022 with the 3 remaining active members transferring to the Group's defined contribution pension scheme.

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

During 2012, Macfarlane Group PLC agreed with the Board of Trustees to amend benefits for pensioner, deferred and active members in the Scheme by offering a Pension Increase Exchange ('PIE') option to pensioner members and a PIE option to all other members at retirement after 1 May 2012.

Balance sheet disclosures at 31 December 2022

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

The investments held by the Scheme and the Scheme deficit, based on the results of the actuarial valuation as at 1 May 2020, updated to the year-end to reflect amounts attributable to Macfarlane Group PLC, the parent company, are as shown below:

Investment class	2022 £000	2021 £000	2020 £000
Equities	7,100	9,241	9,175
Multi-asset diversified funds	4,436	10,189	12,624
Liability-driven investment funds	8,173	10,686	12,585
European loan fund	2,291	2,372	2,598
Secured property income fund	1,984	2,449	2,501
Cash	686	211	288
Fair value of scheme investments	24,670	35,148	39,771
Present value of scheme liabilities	(21,100)	(32,254)	(40,360)
Pension scheme surplus/(deficit)	3,570	2,894	(589)

Notes to the Company financial statements (continued)

For the year ended 31 December 2022

41. Retirement benefit obligations (continued)

The Trustees review the Scheme's investments on a regular basis and consult with the Company regarding any proposed changes to the investment profile. During 2022 the Trustees maintained the strategic asset allocation in the Trustees' Statement of Investment Principles.

Liability-Driven Investment Funds provide a match of 100% against the impact of inflation movements on pension liabilities and against the impact of movements in interest rates on pension liabilities.

The ability to realise the Scheme's investments at, or close to, fair value was considered when setting the investment strategy. 83% (2021: 86%) of the Scheme's investments can be realised at fair value on a daily or weekly basis. The remaining investments have monthly or quarterly liquidity, however, whilst the income from these helps to meet the Scheme's cash flow needs, they are not expected to be realised at short notice. The present value of the Scheme liabilities is derived from cash flow projections over a long period and is thus inherently uncertain.

The Scheme's liabilities at 31 December 2022 were calculated on the following bases as required under IAS19:

Assumptions	2022	2021	2020
Discount rate	4.80%	1.90%	1.35%
Rate of increase in salaries	0.00%	0.00%	0.00%
Rate of increase in pensions in payment	3% or 5%	3% or 5%	3% or 5%
	for fixed increases or 3.17% for LPI.	for fixed increases or 3.30% for LPI.	for fixed increases or 2.95% for LPI.
	2.09% post 5 April 2006	2.27% post 5 April 2006	2.15% post 5 April 2006
Spouse's pension			
Pensioner/active and deferred members	75%/75%	75%/75%	75%/75%
PIE take up rate	65%	65%	65%
Inflation assumption (RPI)	3.40%	3.40%	3.00%
Inflation assumption (CPI)	2.80%	2.90%	2.50%
Life expectancy beyond normal retirement age of 65			
Members aged 55			
Male	22.6 years	22.8 years	22.8 years
Female	24.2 years	24.4 years	24.3 years
Members aged 65			
Male	22.0 years	22.3 years	22.2 years
Female	23.4 years	23.6 years	23.5 years
Average uplift for GMP service	0.40%	0.40%	0.40%

Movement in scheme surplus/(deficit) during the year	2022 £000	2021 £000
At 1 January	2,894	(589)
Current service cost	(15)	(31)
Past service cost (curtailed due to closure of scheme)	(73)	–
Company contributions	697	485
Net finance income/(cost)	62	(2)
Remeasurement of pension scheme liability in the year	5	3,031
At 31 December	3,570	2,894

Analysis of amounts charged to operating profit		
Current service cost	(15)	(31)
Past service cost (curtailed due to closure of scheme)	(73)	–
Pension cost charged to operating profit	(88)	(31)

Analysis of amounts charged to other financial charges		
Expected return on pension scheme investments	660	467
Interest cost of pension scheme liabilities	(598)	(469)
Other financial charges	62	(2)

	2022 £000	2021 £000
Analysis of the remeasurement of the scheme surplus/(deficit)		
Return on scheme assets (excluding amount shown in interest income)	(10,316)	(4,311)
Changes in assumptions underlying the present value of the scheme's liabilities	10,321	7,342
Remeasurement of the pension scheme surplus/(deficit)	5	3,031
Movement in the fair value of scheme assets		
At 1 January	35,148	39,771
Interest income	660	467
Return on scheme assets (excluding amounts shown in interest income)	(10,316)	(4,311)
Contributions from the Company	697	485
Contributions from scheme members	3	5
Benefits paid	(1,522)	(1,269)
At 31 December	24,670	35,148
Movement in the present value of scheme liabilities		
At 1 January	(32,254)	(40,360)
Service cost	(15)	(31)
Past service cost (curtailed due to closure of scheme)	(73)	–
Interest cost	(598)	(469)
Contributions from scheme members	(3)	(5)
Actuarial gain/(loss) in the year	10,321	7,342
Benefits paid	1,522	1,269
At 31 December	(21,100)	(32,254)

	2022 £000	2021 £000	2020 £000	2019 £000	2018 £000
Present value of defined benefit obligations	(21,100)	(32,254)	(40,360)	(37,811)	(34,238)
Fair value of scheme investments	24,670	35,148	39,771	35,225	30,330
Pension scheme surplus/(deficit)	3,570	2,894	(589)	(2,586)	(3,908)
Return on scheme investments	(9,656)	(3,844)	5,864	6,179	(22)
Percentage of scheme investments	(39.1%)	(10.9%)	14.7%	17.5%	(0.1%)
Experience adjustment to scheme investments	(10,316)	(4,311)	5,164	5,336	(817)
Percentage of scheme investments	(41.8%)	(12.3%)	13.0%	15.2%	(2.7%)
Experience adjustment on scheme liabilities	10,321	7,342	(3,466)	(4,298)	1,587
Percentage of scheme liabilities	(48.9%)	22.8%	(8.6%)	(11.4%)	4.6%

Defined contribution schemes

The Company also participated in a defined contribution scheme, the Macfarlane Group Personal Pension Plan. Contributions to the plan for the year were £32,000 (2021: £31,000) with contributions £6,000 (2021: £3,000) payable to the plan at the balance sheet date.

42. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation in the Group financial statements. The Directors have considered the implications of IAS 24 'Related Party Disclosures' and are satisfied that there are no other related party transactions occurring during the year, which require disclosure, other than those already disclosed in these financial statements.

Principal operating subsidiaries and related undertakings

Company name	Principal activities	Country of registration
Macfarlane Group UK Limited ¹ Coventry Tel: 02476 511511	Supply and distribution of all forms of packaging materials and equipment. Design and manufacture of specialist packaging.	England
Nelsons for Cartons & Packaging Limited ¹ Leicester Tel: 0116 2641050	Supply and distribution of all forms of packaging materials and equipment.	England
Carters Packaging Limited ¹ Redruth Tel: 01209 204777	Supply and distribution of all forms of packaging materials and equipment.	England
Ecopac (U.K.) Limited ¹ Aylesbury Tel: 01296 652700	Supply and distribution of all forms of packaging materials and equipment.	England
GWP Group Limited ¹ Swindon Tel: 01793 754444	Design and manufacture of specialist packaging.	England
Nottingham Recycling Limited ¹ Nottingham Tel: 0115 986 7181	Recovery of waste paper and corrugated board for recycling.	England
Macfarlane Group B.V. ² Hoofddorp Tel: 00 31 235689207	Supply and distribution of all forms of packaging materials and equipment.	Netherlands
Macfarlane Packaging Ireland Limited ³ Wicklow Tel: 00 353 1281 0234	Supply and distribution of all forms of packaging materials and equipment.	Ireland
PackMann Gesellschaft für Verpackungen und Dienstleistungen mbH ⁴ Eppelheim Tel: 00 49-6221 759090	Supply and distribution of all forms of packaging materials and equipment.	Germany

All the above subsidiaries are wholly owned either by Macfarlane Group PLC or one of its subsidiary companies and operate in the country of registration. The Group controls 100% of the ordinary share capital of each subsidiary.

The Group's other related undertakings are the dormant subsidiary undertakings disclosed below. In all cases the Company listed as owner controls 100% of the issued share capital of the dormant subsidiary undertaking.

Company name	Company number	Country of registration
Owned by Macfarlane Group PLC		
National Packaging Group Limited ¹	01355867	England
Adhesive Labels Limited ¹	00723320	England
Owned by Macfarlane Group UK Limited		
Online Packaging Limited ¹	02903657	England
Macfarlane Packaging Limited ⁵	SC041678	Scotland
Abbott's Packaging Limited ¹	00372831	England
Mitchell Packaging Limited ¹	00535311	England
Greenwoods Stock Boxes Limited ⁵	SC576825	Scotland
Network Packaging Limited ¹	03400627	England
One Packaging Limited ¹	09647045	England
Tyler Packaging (Leicester) Limited ¹	03460830	England
Harrisons Packaging Limited ¹	06999588	England
Leyland Packaging Company (Lancs) Limited ¹	03775077	England
Owned by GWP Group Limited		
Eastman Packaging Limited ¹	03837450	England
The Great Western Packaging Co. Limited ¹	02455095	England
Corstat Containers Limited ¹	02454197	England
Owned by Harrisons Packaging Limited		
Temperature Controlled Packaging Limited ¹	06896225	England
Owned by Network Packaging Limited		
Networkpack Limited ¹	07076439	England

Registered offices

¹ Siskin Parkway East, Middlemarch Business Park, Coventry, CV3 4PE

² Siriusdreef 17, 2132 WT, Hoofddorp, The Netherlands

⁵ 6th Floor, South Bank House, Barrow Street, Dublin 4

⁴ Wasserturmstraße 79, 69214 Eppelheim, Germany

⁵ 3 Park Gardens, Glasgow, G3 7YE

Financial diary

Financial results

Interim: Announced – August

Final: Announced – February

Accounts and Annual General Meeting

Report and financial statements – Posted to shareholders on 31 March 2023

Annual General Meeting – Held in Glasgow on 9 May 2023

Shareholder enquiries

Macfarlane Group PLC's ordinary shares are classified under the 'Industrial – General' section of the Industrial Sector on the London Stock Exchange.

Enquiries regarding shareholdings, dividend payments, dividend mandate instructions, lost share certificates, tax vouchers, changes of address, transfers of shares to another person and other administrative matters should be addressed to the Company's registrars.

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Website: www.shareview.co.uk

The Company's website, www.macfarlanegroup.com provides details of all major Stock Exchange announcements, details of the current share price and information about Macfarlane Group's business.

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Designed and produced by Thunderbolt Projects.

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