MACFARLANE GROUP

26 August 2021

MACFARLANE GROUP PLC

INTERIM RESULTS FOR THE SIX MONTHS TO 30 JUNE 2021

Financial Highlights		**Restated (1)**	**Year on Year**
	H1 2021	**H1 2020**	**Change**
	£000	**£000**	**%**
Group turnover	**133,513**	105,509	26.5%
Operating profit before amortisation and impairment (2)	**11,083**	5,463	102.9%
Operating profit	**8,535**	4,201	103.2%
Profit before tax	**7,825**	3,547	120.6%
Interim dividend (pence)	**0.87p**	0.70p	24.3%
Basic earnings per share (pence)	**3.83p**	1.79p	114.0%

(1) Restatement, as previously noted for 2019 comparatives in the Annual Report and Accounts for 2020, resulting in a reduction in turnover and profit before tax of £0.1m relating to backdated duty, with details set out on page 14.

(2) Details set out on page 15, note 2.

Macfarlane Group PLC ("Macfarlane Group", "Macfarlane" or "the Group") announces its unaudited results for the six months ended 30 June 2021.

Highlights

- Macfarlane Group grew its sales by 26.5% versus H1 2020 to £133.5m, while operating profit before amortisation and impairment at £11.1m and profit before tax at £7.8m have both more than doubled.
- This also represents a 24.2% increase in sales and a doubling of profit before tax compared to the same period in 2019, prior to any impact from Covid-19.
- The Board expects that the Group's full year outlook for 2021 will be ahead of its previous expectations, despite the challenges we are expecting in H2 2021.
- Packaging Distribution achieved strong sales growth of 21.3% and growth in operating profit before amortisation and impairment of 71.4% versus H1 2020.
- Manufacturing Operations saw an encouraging recovery in both sales and operating profit before amortisation and impairment.
- The acquisitions of GWP Holdings Limited ("GWP") and Carters Packaging (Cornwall) Limited ("Carters") in H1 2021 have contributed £8.1m of sales and £1.9m of operating profit before amortisation and impairment versus 2020.
- Profit before tax is stated after charging amortisation of customer relationships and brand values of £1.6m (H1 2020: £1.3m), goodwill impairment of £1.0m and finance costs of £0.7m (H1 2020: £0.7m).
- Net cash inflow from operating activities of £11.3m reflects increased activity and continuing good management of working capital (H1 2020: £16.6m).
- Net bank debt at 30 June 2021 was £8.7m, an increase of £8.1m from 31 December 2020 following £12.2m of investment in the acquisition of GWP and Carters. The Group is operating well within its existing bank facility of £30.0m which runs until 31 December 2025.
- The pension scheme was in surplus at 30 June 2021 compared to a deficit at 31 December 2020 of £1.5m. The improvement is due to continued contributions from Macfarlane Group and an increase in the discount rate, offset by lower investment returns during the period.
- Basic earnings per share are up 114.0% to 3.83p per share (H1 2020: 1.79p per share).
- Interim dividend increased by 24.3% to 0.87p per share (H1 2020: 0.70p per share).

Stuart Paterson, Chairman of Macfarlane Group PLC, today said: -

"Macfarlane Group achieved good sales growth in the first half of 2021, benefiting from the ongoing structural shift to e-commerce retail and recovery in certain industrial sectors which were affected by Covid-19 in the first six months of 2020. Despite ongoing difficult operating conditions due to Covid-19, significant inflationary pressure on input costs and supply shortages of some materials, the business has produced a strong profit performance. Our people have excelled, maintaining service to our customers in the most challenging environment.

Packaging Distribution has grown sales through strong demand from existing customers in the e-commerce retail and medical sectors and recovery in a number of industrial sectors. Demand from the aerospace, high street retail and hospitality sectors continues to be weak. New business activity has increased significantly compared to the same period in 2020 and Carters has traded strongly since acquisition.

Manufacturing Operations has benefited from the acquisition of GWP, which is performing ahead of expectations, and a strong recovery in the Packaging Design and Manufacture business which returned to profit following the restructuring actions we took in H2 2020. Labels' profitability is below the same period in 2020 due to higher costs to serve customers offsetting growth in sales.

After re-assessing projected profits and cash flows in Manufacturing Operations, an impairment of historic goodwill held at consolidated level of £1m has been charged in H1 2021.

It is pleasing to report that the effective management of operating cash has enabled the business to finance two further good quality acquisitions through our existing bank facility. In addition, the pension scheme is now in surplus.

The performance of the business in the first half of 2021 continues to demonstrate the effectiveness of our strategy and the resilience of our business model. We expect the second half of 2021 to be challenging as we anticipate further inflationary pressure on input prices, continuing supply constraints on most raw materials and operating costs increasing due to staffing pressures. However, the Group has previously demonstrated effective management of these challenges and, as a result of this and the performance in H1 2021, the Board expects the Group will exceed its previous expectations for the full year.

The Board is recommending a 24.3% increase in the interim dividend to 0.87p per share to be paid on 14 October 2021 to shareholders on the register as at 17 September 2021."

Further enquiries:	**Macfarlane Group**		Tel: 0141 333 9666
	Stuart Paterson	Chairman	
	Peter Atkinson	Chief Executive	
	Ivor Gray	Finance Director	
	Spreng Thomson		
	Callum Spreng		Mob: 07803 970103

Legal Entity Identifier (LEI): 213800LVRYDERSJAAZ73

Notes to Editors:

- Macfarlane Group PLC has been listed on the Premium segment of the Main Market of the London Stock Exchange (LSE: MACF) since 1973 with over 70 years' experience in the UK packaging industry.
- Through its two divisions Macfarlane Group services a broad range of business customers, supplying them high quality protective packaging and labels which help customers reduce supply chain costs, improve their operational efficiencies and enhance their brand presentation. The divisions are:
  - **Packaging Distribution** – **Macfarlane Packaging Distribution** is the leading UK distributor of a comprehensive range of protective packaging products; and
  - **Manufacturing Operations - Macfarlane Labels** who design and print high quality self-adhesive and resealable labels, principally for FMCG companies, and **Macfarlane Design and Manufacture** who design and produce protective packaging for high value and fragile products.
- Headquartered in Glasgow, Scotland, Macfarlane Group employs over 1,000 people at 39 sites, principally in the UK, as well as in Ireland, Sweden and the Netherlands.
- Macfarlane Group supplies more than 20,000 customers in the UK, Europe and the USA.
- In partnership with 1,700 suppliers, Macfarlane Group distributes and manufactures 600,000+ lines across a wide range of sectors, including: retail e-commerce; consumer goods; food; logistics; mail order; electronics; defence, automotive and aerospace.

Interim Results - Management Report

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

Packaging Distribution is the leading UK specialist distributor of protective packaging materials. Macfarlane operates a stock and serve supply model from 26 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 focus, expertise and a breadth of product and service knowledge, all of which enables it to compete effectively against non-specialist packaging distributors.

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

	H1 2021	H1 2020
	£000	£000
Sales	**110,957**	91,496
Cost of sales	**74,727**	62,013
Gross margin	**36,230**	29,483
Overheads	**27,152**	24,188
Operating profit before amortisation and impairment	**9,078**	5,295
Customer relationships/brand values amortisation	**1,293**	1,262
Operating profit	**7,785**	4,033

The main features of our first half performance in 2021 were:

- Continued strong demand from existing customers, particularly in the e-commerce retail and medical sectors, and recovery in the home & garden, automotive and electronics sectors which were adversely impacted in the first six months of 2020 due to Covid-19;
- New business has increased by 47% in the first six months of 2021 due primarily to the impact of Covid-19 on the same period in 2020. However, new business is also ahead of the same period in 2019 by 9%;
- Increasing numbers of customers switching to buying online either through our www.macfarlanepackaging.com shop or using our "Simplicit-e" electronic trading platform;
- Positive impact from acquiring Carters, the leading protective packaging distributor in Cornwall in March 2021;
- We achieved an improved gross margin at 32.7% (2020: 32.2%) through effective management of input price changes against a backdrop of significant inflation across all product categories in the second quarter of 2021; and
- Overheads were higher than the same period in 2020, primarily due to an increase in transport costs to service higher sales, an increase in employee incentive costs accrued due to the strong performance of the business and the impact of the Carters acquisition.

Interim Results - Management Report (continued)

We expect sales to once again be weighted towards H2, reflecting the busiest trading period for e-commerce retail customers, which will be a key contributor to our results in H2 2021. However, we do not expect the effect to be as great in 2021 compared to previous years given the unusually strong e-commerce retail demand in H2 2020 and H1 2021 due to lockdown measures and Brexit stock building in H2 2020. The key areas we will focus on in H2 2021 are to:

- Prioritise engagement with potential new customers in stable and growing sectors such as e-commerce retail, medical, scientific and third-party logistics;
- Effectively manage the significant input price increases and supply shortages being experienced across all product categories;
- Invest in new technology to allow our sales teams to demonstrate our ability to add value for customers through ongoing implementation of our "Significant Six" sales approach to optimise their "Total Cost of Packaging" in both face-to-face and virtual environments;
- Accelerate implementation of our web-based solutions to allow customers access to our full range of products and services more easily;
- Increase the progress we have made in our "Follow the Customer" programme in Europe (subject to any continued market disruption related to Covid-19);
- Reduce operating costs through efficiency programmes in sales, logistics and administration;
- Maintain the focus on working capital management to facilitate future investment and manage effectively the ongoing bad debt risk within the current economic environment; and
- Supplement organic growth through progressing further high-quality acquisitions.

Manufacturing Operations comprises Packaging Design & Manufacture and Labels.

		Restated*
	H1 2021	H1 2020
	£000	£000
Sales	**24,688**	16,316
Cost of sales	**15,579**	11,043
Gross margin	**9,109**	5,273
Overheads	**7,104**	5,105
Operating profit before amortisation and impairment	**2,005**	168
Customer relationships/brand values amortisation	**268**	-
Goodwill impairment	**987**	-
Operating profit	**750**	168

* Restatement as previously noted for 2019 comparatives in the Annual Report and Accounts for 2020, resulting in a reduction in turnover and profit before tax of £0.1m relating to backdated duty with details set out on page 14.

The principal activity of the Packaging Design and Manufacture business is the design, manufacture and assembly of custom-designed packaging solutions for customers requiring cost-effective methods of protecting high value products in storage and transit. The business operates from sites in Grantham and Westbury, supplying both directly to customers and also through Packaging Distribution's RDC network. This business has been significantly enhanced by the acquisition of GWP in February 2021 based in Swindon and Salisbury.

Key market sectors are e-commerce retail, household equipment, defence, aerospace, medical equipment, electronics and automotive. The markets in which we operate 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 Packaging Distribution.

Interim Results - Management Report (continued)

We increased Packaging Design & Manufacture sales by 134.1% in H1 2021 compared to the equivalent period in 2020. This consisted of organic growth of 17.7% following a strong recovery in the automotive and defence sectors supplemented by £6.4m of sales from the acquisition of GWP. Combined with effective management of the gross margin and control of overheads, operating profit before amortisation and impairment in H1 2021 is significantly ahead of the same period in 2020.

Our Labels business designs and prints self-adhesive labels for major fast-moving consumer goods ("FMCG") customers in the UK and Europe and resealable labels for major customers in the UK, Europe and the USA. The business operates from production sites in Kilmarnock and Wicklow and a sales and design office in Sweden which focuses on the development and growth of our resealable labels business, Reseal-it. The Labels business has a high level of dependence on a small number of major customers. Management works closely with these key customers to ensure high levels of service and to introduce product and service development initiatives to achieve competitive differentiation.

In H1 2021, sales at Macfarlane Labels were 16.3% higher than in 2020, mainly due to an increase in demand from existing customers in the food, household essentials and hygiene sectors. Overhead costs have increased due to higher transportation costs servicing overseas customers. Operating profit before amortisation and impairment in H1 2021 is below the same period in 2020.

An impairment in historic goodwill held at consolidated level of £1.0m has been recorded in H1 2021 on the basis of re-assessment of projected profits and cash flows in Manufacturing Operations.

The priorities for the Manufacturing Operations in the second half of 2021 are to:

- Focus the Packaging Design & Manufacture sales team on growth sectors e.g. medical and defence;
- Prioritise new sales activity on our higher added-value bespoke composite pack product range;
- Effectively manage the significant material price increases being experienced across all product categories to minimise the impact on gross margins;
- Continue to strengthen the relationship between our Packaging Design & Manufacture and our Packaging Distribution businesses to create both sales and cost synergies;
- Support GWP to exceed profit expectations through access to Group supply arrangements and engagement with Packaging Distribution on new customer projects;
- Accelerate the Reseal-it growth momentum through improved geographic penetration, extending the product range and introducing Reseal-it to new product sectors; and
- Continue to drive efficiency benefits from the additional labels printing capacity in our Kilmarnock site.

Summary and Future Prospects

Macfarlane Group's businesses all have strong market positions with differentiated product and service offerings. We have a flexible business model and effective implementation of a strategic plan, which is reflected in consistent profit and cash generation over a sustainable period.

Our future performance is largely dependent on our own efforts to grow sales, increase efficiencies and bring high quality acquisitions into the Group. Whilst we have experienced significant challenges from the Covid-19 pandemic and there are still uncertainties ahead, our strategy and business model continue to prove to be resilient. We expect to deliver a strong sales and profit performance in 2021 and are well positioned to benefit as the economy recovers.

Interim Results - Management Report (continued)

Risks and Uncertainties

The Group operates a formal framework for the identification and evaluation of the major business risks faced by each business and determines an appropriate course of action to manage these risks.

The principal risks and uncertainties which could impact on the performance of the Group, together with the mitigating actions, were outlined on pages 21 to 23 in our Annual Report and Accounts for 2020 (available on our website at www.macfarlanegroup.com). These remain substantially the same for the remaining six months of the current financial year and are summarised below:

- 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;
- 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;
- In Packaging Distribution, the business model reflects a decentralised approach with a dependency on effective local decision-making. There is a risk that the decentralised management control is less effective and local decisions may not always meet overall corporate objectives;
- Given the multi-site nature of its business, the Group has a property portfolio comprising 3 owned sites and 34 leased sites. This portfolio gives rise to risks in relation to ongoing lease costs, dilapidations and fluctuations in value;
- The increasing frequency and sophistication of cyber-attacks is a risk which potentially threatens the confidentiality, integrity and availability of the Group's data and IT systems. These attacks could also cause reputational damage and fines in the event of personal data being compromised;
- The Group 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 unfavorable terms. The Group's borrowing facility comprises a committed facility of up to £30 million. This includes requirements to comply with specified covenants, with a breach potentially resulting in Group borrowings being subject to onerous conditions;
- 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;
- The Group's growth strategy includes acquisitions as demonstrated in recent years. There is a risk that such acquisitions may not be available on acceptable terms in the future. It is also possible that acquisitions will not succeed due to the loss of key people or customers following acquisition or the acquired business not performing at the level expected. This could potentially lead to an impairment in the carrying value of the related goodwill and other intangible assets. Execution risks around the failure to successfully integrate the acquired business following conclusion of the earn-out period also exist; and
- 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.

Response to Covid-19

The Group continues to respond to the Covid-19 pandemic with focus on the safety and wellbeing of our people, protecting our financial position and limiting the interruption of service to our customers.

Covid-19 was not classified as a separate principal risk due to its pervasive effect across all principal risks and uncertainties. The uncertainties arising from the pandemic and mitigating actions are set out on pages 20 to 23 of the Annual Report and Accounts for 2020. These uncertainties remain but are expected to reduce through the remainder of 2021 due to the vaccination programme and the easing of lockdown restrictions.

Response to Brexit

The new trading arrangement between the UK and the EU came into effect on 1st January 2021. Whilst there has been some disruption to the supply chain and an increased administrative burden, the impact on the Group has not been significant - largely due to mitigation measures put in place.

Interim Results - Management Report (continued)

Risks and Uncertainties

Climate Change Risk

The risks relating to climate change and the Group's response are outlined in the Corporate Responsibility section of the Annual Report and Accounts for 2020 pages 31 to 33. The markets we operate in are changing, with increased environmental focus and expectations from our stakeholders.

If we do not keep pace with this change, there is a risk of reputational damage and loss of market share. There are risks that climate related change could also impact the business through increased raw material prices, increased business interruption and/or reduced economic activity due to increased frequency of weather-related incidents. The Group is focussed on reducing its carbon footprint through investment in new technologies, focus on minimising waste and ensuring our logistics operations run as efficiently as possible. The Group is dedicated to providing its customers packaging solutions that are sustainable, recycled or recyclable and minimise the environmental impact on their packing and logistics operations.

Cautionary Statement

This announcement has been prepared solely to provide additional information to shareholders to assess the Group's strategy and the potential for the strategy to succeed. It should not be relied on by any other party or for any other purpose.

This report and the condensed 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 that 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 Interim Results Statement should be construed as a profit forecast or an invitation to deal in the securities of the Group.

Responsibility Statement

The Directors of Macfarlane Group PLC during the first six months of 2021 were

S.R. Paterson	Chairman
P.D. Atkinson	Chief Executive
I. Gray	Finance Director
R. McLellan	Non-Executive Director/Senior Independent Director
J.W.F. Baird	Non-Executive Director
A.M. Dunstan	Non-Executive Director
J. Love	Executive Director (resigned 31 March 2021)

The Directors confirm that, to the best of their knowledge:-

(i) the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting*;

(ii) the interim management report includes a fair review of the information required by DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(iii) the interim management report includes a fair review of the information required by DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Approved by the Board of Directors on 26 August 2021 and signed on its behalf by

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Peter D. Atkinson	**Ivor Gray**
Chief Executive	**Finance Director**

MACFARLANE GROUP PLC

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Note	**Six months to 30 June 2021 £000**	Restated* Six months to 30 June 2020 £000	Year to 31 December 2020 £000
Continuing operations				
Revenue	4	**133,513**	105,509	230,029
Cost of sales		**(88,174)**	(70,753)	(153,483)
Gross profit		**45,339**	34,756	76,546
Distribution costs		**(4,219)**	(4,171)	(8,429)
Administrative expenses		**(32,585)**	(26,384)	(53,748)
Operating profit	4	**8,535**	4,201	14,369
Finance costs	5	**(710)**	(654)	(1,367)
Profit before tax		**7,825**	3,547	13,002
Tax	6	**(1,784)**	(722)	(2,831)
Profit for the period	4	**6,041**	2,825	10,171
Earnings per share	8			
Basic		**3.83p**	1.79p	6.45p
Diluted		**3.79p**	1.79p	6.42p

*Details of the restatements are set out on page 14.

MACFARLANE GROUP PLC

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Note	**Six months to 30 June 2021 £000**	Restated* Six months to 30 June 2020 £000	Year to 31 December 2020 £000
Items that may be reclassified to profit or loss				
Foreign currency translation differences		**(89)**	67	60
Items that will not be reclassified to profit or loss				
Remeasurement of pension scheme liability	11	**4,831**	(1,038)	2,112
Tax recognised in other comprehensive income				
Tax on remeasurement of pension scheme liability	12	**(918)**	197	(401)
Long-term corporation tax rate change on deferred tax	12	**-**	129	129
Other comprehensive (expense)/income for the period, net of tax		**3,824**	(645)	1,900
Profit for the period		**6,041**	2,825	10,171
Total comprehensive income for the period		**9,865**	2,180	12,071

*Details of the restatements are set out on page 14.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Note	Share Capital £000	Share Premium £000	Revaluation Reserve £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 period		-	-	-	-	6,041	**6,041**
Foreign currency translation differences		-	-	-	(89)	-	**(89)**
Remeasurement of pension scheme liability	11	-	-	-	-	4,831	**4,831**
Tax on remeasurement of pension scheme liability	12	-	-	-	-	(918)	**(918)**
Total comprehensive income		**-**	**-**	**-**	**(89)**	**9,954**	**9,865**
Transactions with shareholders							
Dividends	7	-	-	-	-	(2,920)	**(2,920)**
Share-based payments		-	-	-	-	410	**410**
Total transactions with shareholders		**-**	**-**	**-**	**-**	**(2,510)**	**(2,510)**
At 30 June 2021		**39,453**	**13,148**	**70**	**202**	**34,260**	**87,133**

MACFARLANE GROUP PLC

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Note	Share Capital £000	Share Premium £000	Revaluation Reserve £000	Translation Reserve £000	Restated* Retained Earnings £000	**Total £000**
At 1 January 2020		39,453	13,148	70	231	15,835	**68,737**
Comprehensive income							
Profit for the period		-	-	-	-	2,825	**2,825**
Foreign currency translation differences		-	-	-	67	-	**67**
Remeasurement of pension scheme liability	11	-	-	-	-	(1,038)	**(1,038)**
Tax on remeasurement of pension scheme liability	12	-	-	-	-	197	**197**
Corporation tax rate change on deferred tax	12	-	-	-	-	129	**129**
Total comprehensive income		**-**	**-**	**-**	**67**	**2,113**	**2,180**
Transactions with shareholders							
Share-based payments		-	-	-	-	90	**90**
Total transactions with shareholders		**-**	**-**	**-**	**-**	**90**	**90**
At 30 June 2020		**39,453**	**13,148**	**70**	**298**	**18,038**	**71,007**

*Details of the restatements are set out on page 14.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Share Capital £000	Share Premium £000	Revaluation Reserve £000	Translation Reserve £000	Retained Earnings £000	**Total £000**
At 1 January 2020		39,453	13,148	70	231	15,835	**68,737**
Comprehensive income							
Profit for the year		-	-	-	-	10,171	**10,171**
Foreign currency translation differences		-	-	-	60	-	**60**
Remeasurement of pension scheme liability	11	-	-	-	-	2,112	**2,112**
Tax on remeasurement of pension scheme liability	12	-	-	-	-	(401)	**(401)**
Corporation tax rate change on deferred tax	12	-	-	-	-	129	**129**
Total comprehensive income		**-**	**-**	**-**	**60**	**12,011**	**12,071**
Transactions with shareholders							
Dividends	7	-	-	-	-	(1,105)	**(1,105)**
Share-based payments		-	-	-	-	75	**75**
Total transactions with shareholders		**-**	**-**	**-**	**-**	**(1,030)**	**(1,030)**
At 31 December 2020		**39,453**	**13,148**	**70**	**291**	**26,816**	**79,778**

MACFARLANE GROUP PLC

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED) AT 30 JUNE 2021

	Note	30 June 2021 £000	Restated* 30 June 2020 £000	31 December 2020 £000
Non-current assets				
Goodwill and other intangible assets		**77,024**	61,857	60,598
Property, plant and equipment		**9,497**	9,248	8,640
Right of use assets		**33,833**	23,078	28,584
Trade and other receivables		**35**	35	35
Deferred tax assets	12	**116**	1,274	396
Retirement benefit surplus	11	**4,566**	-	-
Total non-current assets		**125,071**	95,492	98,253
Current assets				
Inventories		**22,111**	15,014	15,858
Trade and other receivables		**56,231**	44,641	51,371
Cash and cash equivalents	10	**7,215**	6,390	7,228
Total current assets		**85,557**	66,045	74,457
Total assets	4	**210,628**	161,537	172,710
Current liabilities				
Trade and other payables		**59,056**	49,484	47,755
Provisions		**1,933**	735	1,834
Current tax liabilities		**1,871**	756	1,731
Lease liabilities		**7,173**	5,384	5,784
Bank borrowings	10	**15,897**	7,206	7,766
Total current liabilities		**85,930**	63,565	64,870
Net current (liabilities)/assets		**(373)**	2,480	9,587
Non-current liabilities				
Retirement benefit obligations	11	**-**	6,048	1,471
Deferred tax liabilities	12	**5,667**	3,116	3,072
Trade and other payables		**3,714**	22	19
Provisions		**1,365**	-	592
Lease liabilities		**26,819**	17,779	22,908
Total non-current liabilities		**37,565**	26,965	28,062
Total liabilities		**123,495**	90,530	92,932
Net assets	4	**87,133**	71,007	79,778
Equity				
Share capital		**39,453**	39,453	39,453
Share premium		**13,148**	13,148	13,148
Revaluation reserve		**70**	70	70
Translation reserve		**202**	298	291
Retained earnings		**34,260**	18,038	26,816
Total equity		**87,133**	71,007	79,778

*Details of the restatements are set out on pages 14 and 15.

MACFARLANE GROUP PLC

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Note	**Six months to 30 June 2021 £000**	Restated* Six months to 30 June 2020 £000	Year to 31 December 2020 £000
Profit before tax		**7,825**	3,547	13,002
Adjustments for:				
Amortisation of intangible assets		**1,561**	1,262	2,520
Depreciation of tangible assets		**1,003**	941	1,719
Depreciation of right-of-use assets		**3,506**	3,180	6,740
Goodwill impairment		**987**	-	-
(Gain)/Loss on disposal of property,plant,equipment		**(19)**	32	30
Share-based payments		**410**	90	75
Finance costs		**710**	642	1,342
Operating cash flows before movements in working capital		**15,983**	9,694	25,428
(Increase)/decrease in inventories		**(4,288)**	1,080	161
(Increase)/decrease in receivables		**(1,544)**	7,609	955
Increase/(decrease) in payables		**4,779**	1,021	965
Increase in provisions		**275**	75	1,766
Pension contributions less current service costs		**(1,216)**	(1,512)	(2,981)
Cash generated from operations		**13,989**	17,967	26,294
Income taxes paid		**(1,983)**	(830)	(1,728)
Interest paid		**(700)**	(585)	(1,243)
Net cash inflow from operating activities		**11,306**	16,552	23,323
Investing activities				
Acquisitions	9	**(12,238)**	(888)	(2,661)
Proceeds on disposal of property, plant and equipment		**134**	28	102
Purchases of property, plant and equipment		**(1,063)**	(627)	(804)
Net cash flows from investing activities		**(13,167)**	(1,487)	(3,363)
Financing activities				
Dividends paid	7	**(2,920)**	-	(1,105)
Drawdown/(repayment) of bank borrowings		**8,887**	(10,442)	(10,225)
Repayment of lease obligations		**(3,363)**	(3,207)	(6,719)
Net cash flows from financing activities		**2,604**	(13,649)	(18,049)
Net increase in cash and cash equivalents		**743**	1,416	1,911
Cash and cash equivalents at beginning of period		**5,221**	3,310	3,310
Cash and cash equivalents at end of period		**5,964**	4,726	5,221
Reconciliation to condensed consolidated cash flow statement				
Cash and cash equivalents per the balance sheet	10	**7,215**	6,390	7,228
Bank overdraft		**(1,251)**	(1,664)	(2,007)
Balances per the cash flow statement		**5,964**	4,726	5,221

*Details of the restatements are set out on pages 14 and 15.

MACFARLANE GROUP PLC

SIX MONTHS ENDED 30 JUNE 2021

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of preparation

Macfarlane Group PLC is a public company listed on the London Stock Exchange, incorporated and domiciled in the United Kingdom and registered in Scotland.

The Group's annual financial statements for the year ended 31 December 2020 were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. This condensed set of financial statements has been prepared in accordance with United Kingdom adopted International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

This condensed set of financial statements has been prepared applying the accounting policies that were applied in the preparation of the company's published consolidated financial statements for the year ended 31 December 2020. There were no major changes from the adoption of new IFRS's in 2021.

Judgements, assumptions and estimation uncertainties

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 period. Due to the nature of estimation, the actual outcomes may well differ from these estimates. With the exception of the impairment in historic goodwill in note 4, no significant judgements have been made in the current or prior period. The key sources of estimation uncertainty that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

The determination of any defined benefit pension scheme asset or liability is based on assumptions determined with independent actuarial advice. The key assumptions used include discount rate, inflation rate and mortality assumptions, for which a sensitivity analysis is provided in note 11. The directors consider that those sensitivities represent reasonable sensitivities which could occur in the next financial period.

The provision held against trade receivables is based on applying an expected credit loss model and related estimates of recoverable amounts. 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.

Business activities, risks and financing

The Group's business activities, together with the factors likely to affect its future development, performance and financial position, are set out in the Interim Management Report on pages 1 to 7.

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 committed banking facilities with suitable terms and conditions to accommodate the requirements of the Group's operations. Credit risk is managed by applying considerable rigour in managing the Group's trade receivables. Although the current economic climate indicates an increased level of risk, the Directors believe that the Group is adequately placed to manage its financial risks effectively.

The Group's banking arrangement with Lloyds Bank PLC comprises a committed facility of £30 million, expiring in December 2025, secured over part of Macfarlane Group's trade receivables and bearing interest at commercial rates. The facility has financial covenants for interest cover and trade receivables headroom.

The Directors have reviewed the Group's cash and profit projections, which they believe are based on prudent market data and past experience taking account of reasonably possible changes in trading performance given current market and economic conditions including the impact of the ongoing Covid-19 pandemic. The Directors are of the opinion that these projections show that the Group should be able to operate within its current facilities and comply with its banking covenants.

In assessing the going concern basis, the Directors have considered the Group's business activities, the financial position of the Group and the Group's risks and uncertainties. The Directors have a reasonable expectation that, despite the current uncertain economic environment, the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. For this reason this condensed set of financial statements has been prepared on the going concern basis.

MACFARLANE GROUP PLC

SIX MONTHS ENDED 30 JUNE 2021

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of preparation

Restatement due to prior period adjustments

In the Annual Report and Accounts 2020, details set out on pages 76 and 77, adjustments were recognised as prior year errors in accordance with IAS 8 ‘Accounting policies, changes in accounting estimates and errors’ and the Financial Statements were restated accordingly. The impact of those restatements on the affected primary statement line items in the prior period to 30 June 2020 is shown in the table below.

Restatement in prior periods to 30 June 2020	As previously reported £000	Adjustment to retained earnings £000	Adjusted (2020 impact) £000	As restated £000
Condensed Consolidated Income Statement				
Revenue	105,572		(63)	105,509
Gross Profit	34,819		(63)	34,756
Operating profit	4,264		(63)	4,201
Finance costs	(642)		(12)	(654)
Profit before tax	3,622		(75)	3,547
Tax	(736)		14	(722)
Profit for the year	2,886		(61)	2,825
Condensed Consolidated Statement of Other Comprehensive Income				
Profit for the year	2,886		(61)	2,825
Total comprehensive income for the year	2,241		(61)	2,180
Condensed Consolidated Balance Sheet				
Current liabilities - Provisions	-	(660)	(75)	(735)
Deferred tax liabilities	(3,256)	126	14	(3,116)
Net Assets	71,602	(534)	(61)	71,007
Retained earnings	18,633	(534)	(61)	18,038
Total Equity	71,602	(534)	(61)	71,007
Condensed Consolidated Cash Flow				
Profit before tax	3,622		(75)	3,547
Operating cash flows before movements in working capital	9,769		(75)	9,694
Increase in provisions	-		75	75
Cash generated from operations	17,967		-	17,967
Condensed Consolidated Statement of Changes in Equity				
At 1 January 2020	16,369	(534)		15,835
Profit for the Year	2,886		(61)	2,825
At 30 June 2020	18,633	(534)	(61)	18,038

All headings and numbers throughout these Interim Results that are marked as “Restated” reflect the restatements for these prior period adjustments as set out above. These restatements relate to the Manufacturing Operations segment.

1. Basis of preparation

Restatement due to prior period adjustments

In addition, as disclosed in the Annual Report and Accounts 2020, the Group has restated cash balances and bank borrowings. The Group previously offset certain cash balances against bank borrowings which, whilst in line with the Group's legal right of offset, did not reflect any short-term intention to offset the liabilities after the balance sheet dates as required by IAS 32. Accordingly, £1,664k has been added to cash balances and bank borrowings at 30 June 2020. There has been no impact on the income statement or on net assets.

Approval and review of condensed financial statements

These condensed financial statements were approved by the Board of Directors on 26 August 2021. As in previous years, the set of condensed financial statements for the half-year is unaudited.

2. Alternative performance measure

In addition to the various performance measures defined under IFRS the Group reports operating profit before amortisation and impairment 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 and impairment 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 profit 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 and impairment is defined as operating profit before customer relationships and brand values amortisation and goodwill impairment reconciled in the table below.

	Six months to 30 June 2021 £000	Restated* Six months to 30 June 2020 £000	Year to 31 December 2020 £000
Operating profit before amortisation and impairment	**11,083**	5,463	16,889
Customer relationships/brand values amortisation	**(1,561)**	(1,262)	(2,520)
Goodwill impairment	**(987)**	-	-
Operating profit	**8,535**	4,201	14,369

*Details of the restatements are set out on page 14.

3. General information

Comparative figures for the year ended 31 December 2020 are extracted from Macfarlane Group's statutory accounts for 2020. The information for the year ended 31 December 2020 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor on 25 February 2021 was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

4. Segmental information

The Group's principal business segment is **Packaging Distribution,** comprising the distribution of packaging materials and supply of storage services in the UK. Other operations for the manufacture and supply of self-adhesive and resealable labels to a variety of FMCG customers in the UK, Europe and USA and the design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK comprise one segment headed **Manufacturing Operations**.

	Six months to 30 June 2021 £000	Restated* Six months to 30 June 2020 £000	Year to 31 December 2020 £000
Group segment – total revenue			
Packaging Distribution	**110,957**	91,496	201,739
Manufacturing Operations	**24,688**	16,316	33,543
Inter-segment revenue	**(2,132)**	(2,303)	(5,253)
Revenue	**133,513**	105,509	230,029
Trading results - continuing operations			
Packaging Distribution			
Revenue	**110,957**	91,496	201,739
Cost of sales	**(74,727)**	(62,013)	(136,177)
Gross profit	**36,230**	29,483	65,562
Net operating expenses	**(27,152)**	(24,188)	(49,054)
Operating profit before amortisation and impairment	**9,078**	5,295	16,508
Customer relationships/brand values amortisation	**(1,293)**	(1,262)	(2,520)
Operating profit	**7,785**	4,033	13,988
Manufacturing Operations			
Revenue	**24,688**	16,316	33,543
Cost of sales	**(15,579)**	(11,043)	(22,559)
Gross profit	**9,109**	5,273	10,984
Net operating expenses	**(7,104)**	(5,105)	(10,603)
Operating profit before amortisation and impairment	**2,005**	168	381
Customer relationships/brand values amortisation	**(268)**	-	-
Goodwill impairment	**(987)**	-	-
Operating profit	**750**	168	381

4. Segmental information (continued)

		Six months to 30 June 2021 £000	Restated* Six months to 30 June 2020 £000	Year to 31 December 2020 £000
Operating profit - continuing operations				
Packaging Distribution		**7,785**	**4,033**	13,988
Manufacturing Operations		**750**	**168**	381
Operating profit		**8,535**	**4,201**	14,369
Finance costs	(note 5)	**(710)**	**(654)**	(1,367)
Profit before tax		**7,825**	**3,547**	13,002
Tax	(note 6)	**(1,784)**	**(722)**	(2,831)
Profit for the period		**6,041**	**2,825**	10,171

An impairment in historic goodwill held at consolidated level of £1.0m has been recorded in H1 2021 on the basis of projected profits and cash flows for the Manufacturing Operations.

	30 June 2021 £000	Restated* 30 June 2020 £000	31 December 2020 £000
Total assets			
Packaging Distribution	**168,638**	141,809	152,272
Manufacturing Operations	**41,990**	19,728	20,438
Total assets	**210,628**	161,537	172,710
Net assets			
Packaging Distribution	**63,988**	63,235	71,796
Manufacturing Operations	**23,145**	7,772	7,982
Net assets	**87,133**	71,007	79,778

*Details of the restatements are set out on page 14.

5. Finance costs

	Six months to 30 June 2021 £000	Restated* Six months to 30 June 2020 £000	Year to 31 December 2020 £000
Interest on bank borrowings	**227**	228	482
Interest on leases	**473**	357	761
Finance cost relating to defined benefit pension scheme (note 11)	**10**	57	99
Other interest	**-**	12	25
Total finance costs	**710**	654	1,367

*Details of the restatements are set out on page 14.

6. Tax

			Six months to 30 June 2021 £000	Restated* Six months to 30 June 2020 £000	Year to 31 December 2020 £000
Current tax					
UK corporation tax			**1,759**	529	2,343
Foreign tax			**122**	32	121
Prior year adjustments			**(10)**	(58)	(90)
Total current tax			**1,871**	503	2,374
Deferred tax	current year		**(68)**	(146)	37
	Prior year adjustments		**(19)**	-	53
	Long-term corporation tax rate change		**-**	365	367
Total deferred tax		(note 12)	**(87)**	219	457
Total tax			**1,784**	722	2,831

*Details of the restatements are set out on page 14.

Tax for the six months ended 30 June 2021 has been charged at 19.00% (2020 – 19.00%) representing the best estimate of the effective tax charge for the full year.

7. Dividends

		Six months to 30 June 2021 £000	Six months to 30 June 2020 £000	Year to 31 December 2020 £000
Amounts recognised as distributions to equity holders in the period				
Final dividend	1.85p per share (2019: Nil per share)	**2,920**	**-**	-
Interim dividend	(2020: 0.70p per share)	**-**	-	1,105
Distributions in the period		**2,920**	**-**	1,105

An interim dividend of 0.87p per share, payable on 14 October 2021, was declared on 26 August 2021 and has therefore not been included as a liability in these condensed financial statements.

8. Earnings per share

Earnings	**Six months to 30 June 2021 £000**	Restated* Six months to 30 June 2020 £000	Year to 31 December 2020 £000
Profit for the period from continuing operations	**6,041**	2,825	10,171
Number of shares ’000	**30 June 2021**	30 June 2020	31 December 2020
Weighted average number of shares in issue for the purposes of basic earnings per share	**157,812**	157,812	157,812
Effect of Long-Term Incentive Plan awards in issue	**1,627**	358	703
Weighted average number of shares in issue for the purposes of diluted earnings per share	**159,439**	158,170	158,515
Basic earnings per share	**3.83p**	1.79p	6.45p
Diluted earnings per share	**3.79p**	1.79p	6.42p

9. Acquisitions

On 26 February 2021, Macfarlane Group UK Limited ("MGUK") acquired 100% of GWP Holdings Limited, for a maximum consideration of £15.1 million. £10.0 million was paid in cash on acquisition and the deferred consideration of £5.1 million is payable in the first quarters of 2022 and 2023, subject to certain trading targets being met in the two twelve-month periods ending on 28 February 2022 and 2023 respectively. On 31 March 2021, MGUK acquired 100% of Carters Packaging (Cornwall) Limited, for a maximum consideration of £4.5 million. £3.0 million was paid in cash on acquisition and the deferred consideration of £1.5 million is payable in the second quarters of 2022 and 2023, subject to certain trading targets being met in the two twelve-month periods ending on 31 March 2022 and 2023 respectively. On 6 January 2020, the Group's subsidiary, MGUK acquired the trade, selected assets and goodwill of the packaging distribution business of Armagrip for a cash consideration of £0.9m.

Contingent considerations are recognised as a liability in trade and other payables and are remeasured to fair value of £6.6 million at the balance sheet date based on a range of outcomes between £Nil and £6.6 million. Trading in the post-acquisition period supports the remeasured value of £6.6m.

Carters Packaging (Cornwall) Limited and Armagrip are packaging distributors, accounted for in the Packaging Distribution segment. Goodwill arising is attributable to the anticipated future profitability of the distribution of the Group's product ranges in the UK and anticipated operating synergies from future combinations of activities with the existing Packaging Distribution network. GWP Holdings Limited is a packaging manufacturer, accounted for in the Manufacturing Operations segment. Goodwill arising is attributable to the anticipated future profitability of the manufacture of the Group's product ranges in the UK and anticipated operating synergies from future combinations of activities within the existing Manufacturing Operations. Fair values assigned to net assets acquired and consideration paid and payable are set out below:-

		Six months to 30 June 2021	Six months to 30 June 2020	Year to 31 December 2020
Net assets acquired		**£000**	£000	£000
Other intangible assets		**9,482**	298	291
Property, plant and equipment		**4,558**	-	-
Inventories		**1,965**	206	206
Trade and other receivables		**3,316**	282	282
Cash and bank balances		**3,877**	-	-
Trade and other payables		**(4,148)**	-	-
Current tax liabilities		**(427)**	-	-
Lease liabilities		**(3,500)**	-	-
Deferred tax liabilities		**(1,875)**	(57)	(55)
Net assets acquired		**13,248**	729	724
Goodwill		**9,492**	159	164
Total consideration		**22,740**	888	888
Contingent consideration on acquisitions	Current year	**(6,625)**	-	-
	Prior years	**-**	-	1,773
Total cash consideration		**16,115**	888	2,661
Net cash outflow arising on acquisition				
Cash consideration		**(16,115)**	(888)	(2,661)
Cash and bank borrowings acquired		**3,877**	-	-
Net cash outflow		**(12,238)**	(888)	(2,661)

10. Analysis of changes in net debt

	Cash and cash equivalents £000	Bank borrowing £000	Lease liabilities £000	**Total debt £000**
Total debt				
At 1 January 2020	3,310	(15,984)	(25,967)	**(38,641)**
Restatement	2,269	(2,269)	-	**-**
At 1 January (as restated)	5,579	(18,253)	(25,967)	**(38,641)**
Non-cash movements				
New leases	-	-	(403)	**(403)**
Cash movements	811	11,047	3,207	**15,065**
At 30 June 2020 (as restated)	6,390	(7,206)	(23,163)	**(23,979)**
Non-cash movements				
New leases	-	-	(1,465)	**(1,465)**
Exchange movements	-	-	(91)	**(91)**
Lease modifications	-	-	(7,485)	**(7,485)**
Cash movements	838	(560)	3,512	**3,790**
At 31 December 2020	7,228	(7,766)	(28,692)	**(29,230)**
Non-cash movements				
Acquisitions	-	-	(3,500)	**(3,500)**
New leases	-	-	(868)	**(868)**
Exchange movements	-	-	86	**86**
Lease modifications	-	-	(4,381)	**(4,381)**
Cash movements	(13)	(8,131)	3,363	**(4,781)**
At 30 June 2021	**7,215**	**(15,897)**	**(33,992)**	**(42,674)**
Total cash movements for 2020	1,649	10,487	6,719	18,855

Net bank debt			**Net bank Debt £000**
At 30 June 2021	**7,215**	**(15,897)**	**(8,682)**
At 31 December 2020	7,228	(7,766)	(538)

Cash and cash equivalents (which are presented as a single class of asset on the balance sheet) comprise cash at bank and other short-term highly liquid investments with maturity of three months or less.

11. Retirement benefit obligations

The figures below have been prepared by Aon based on the results of the triennial actuarial valuation as at 1 May 2017 updated to 30 June 2020 and as at 1 May 2020 updated to 31 December 2020 and 30 June 2021. The scheme investments and the scheme's net surplus/(liability) position as calculated under IAS 19 are as follows:

Investment class	**30 June 2021 £000**	30 June 2020 £000	31 December 2020 £000
Equities			
UK equity funds	**8,942**	7,520	8,351
Overseas equity funds	**16,554**	12,541	14,585
Multi-asset diversified growth funds	**32,566**	23,976	31,559
Bonds			
Liability-driven Investment funds	**24,883**	32,694	31,463
Other investments			
European loan fund	**6,657**	6,092	6,493
Secured property income fund	**6,587**	6,095	6,254
Cash	**316**	6,798	725
Fair value of Scheme investments	**96,505**	95,716	99,430
Present value of Scheme liabilities	**(91,939)**	(101,764)	(100,901)
Pension scheme surplus/(deficit)	**4,566**	(6,048)	(1,471)

These amounts were calculated using the following principal assumptions as required under IAS 19:

Assumptions		**30 June 2021**	30 June 2020	31 December 2020
Discount rate		**1.90%**	1.50%	1.35%
Rate of increase in pensionable salaries		**0.00%**	0.00%	0.00%
Rate of increase in pensions in payment		**3% or 5% for fixed increases or 3.20% for LPI**	3% or 5% for fixed increases or 2.85% for LPI	3% or 5% for fixed increases or 2.95% for LPI
PIE take up rate		**65%**	45%	65%
Inflation assumption (RPI)		**3.30%**	2.90%	3.00%
Inflation assumption (CPI)		**2.80%**	2.20%	2.50%
Life expectancy beyond normal retirement age of 65				
Scheme member aged 55	Male	**22.9 years**	22.7 years	22.6 years
	Female	**24.4 years**	24.8 years	24.3 years
Scheme member aged 65	Male	**22.3 years**	22.0 years	22.2 years
	Female	**23.6 years**	24.0 years	23.5 years
Average uplift for GMP service		**0.40%**	0.40%	0.40%

	Six months to 30 June 2021 £000	Six months to 30 June 2020 £000	Year to 31 December 2020 £000
Movement in scheme deficit in the period			
At start of period	**(1,471)**	(6,465)	(6,465)
Current service cost	**(95)**	(62)	(143)
Employer contributions	**1,311**	1,574	3,211
GMP on transfer values	**-**	-	(87)
Net finance cost	**(10)**	(57)	(99)
Re-measurement of pension scheme liability in the period	**4,831**	(1,038)	2,112
At end of period	**4,566**	(6,048)	(1,471)

11. Retirement benefit obligations (continued)

Sensitivity to key assumptions

Key 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 deficit as shown below:-

Assumptions	**30 June 2021 £000**	30 June 2020 £000	31 December 2020 £000
Discount rate movement of +0.6%	**8,826**	9,769	9,684
Inflation rate movement of +0.1%	**(469)**	(407)	(515)
Mortality movement of +0.1 year in age rating	**276**	305	303

Positive figures reflect a reduction in scheme liabilities and therefore a reduction in the scheme deficit.

	Six months to 30 June 2021 £000	Six months to 30 June 2020 £000	Year to 31 December 2020 £000
Movement in fair value of Scheme investments			
Scheme investments at start of period	**99,430**	88,061	88,061
Interest income	**663**	879	1,751
Return on scheme assets (exc. amount shown in interest income)	**(3,198)**	7,021	10,655
Contributions from sponsoring companies	**1,311**	1,574	3,211
Contribution from scheme members	**14**	34	34
Benefits paid	**(1,715)**	(1,853)	(4,282)
Scheme investments at end of period	**96,505**	95,716	99,430
Movement in present value of Scheme liabilities			
Scheme liabilities at start of period	**(100,901)**	(94,526)	(94,526)
Normal service costs	**(95)**	(62)	(143)
GMP on transfer values	**-**	-	(87)
Interest cost	**(673)**	(936)	(1,850)
Contribution from scheme members	**(14)**	(34)	(34)
Actuarial loss due to the changes in financial and experience	**8,029**	(8,059)	(8,014)
Actuarial gain due to change in demographic assumptions	**-**	-	(529)
Benefits paid	**1,715**	1,853	4,282
Scheme liabilities at end of period	**(91,939)**	(101,764)	(100,901)

Basis of recognition of surplus

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 Macfarlane Group PLC Pension & Life Assurance Scheme (1974) ('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.

Investments

The Trustees review the scheme investments regularly and consult with the Company regarding any changes.

Funding

Following the completion of the triennial actuarial valuation at 1 May 2020, Macfarlane Group PLC is paying deficit reduction contributions with a deficit recovery period of 4 years. Contributions in 2021, inclusive of service costs and interest of £0.21 million, are expected to be £1.88 million.

12. Deferred tax

	Restated Tax losses less accelerated capital allowances £000	Other intangible assets £000	Retirement Benefit Obligations £000	Restated **Total £000**
At 1 January 2020	(40)	(2,951)	1,099	**(1,892)**
Acquisitions	-	(57)	-	**(57)**
(Charged)/credited in income statement				
Current period	164	(107)	(276)	**(219)**
Credited in other comprehensive income	-	-	326	**326**
At 30 June 2020	**124**	**(3,115)**	**1,149**	**(1,842)**
Acquisitions	-	2	-	**2**
(Charged)/credited in income statement				
Current period	(203)	237	(272)	**(238)**
Charged in other comprehensive income	-	-	(598)	**(598)**
At 1 January 2021	**(79)**	**(2,876)**	**279**	**(2,676)**
Acquisitions	(73)	(1,802)	-	**(1,875)**
Transferred to current tax liabilities	(168)	-	-	**(168)**
Exchange movement	(1)	-	-	**(1)**
Credited/(charged) in income statement				
Current period	19	297	(229)	**87**
Credited in other comprehensive income	-	-	(918)	**(918)**
At 30 June 2021	**(302)**	**(4,381)**	**(868)**	**(5,551)**
Deferred tax assets	116	-	-	**116**
Deferred tax liabilities	(418)	(4,381)	(868)	**(5,667)**
At 30 June 2021	**(302)**	**(4,381)**	**(868)**	**(5,551)**

13. Related party transactions

Related party transactions for 2020 are disclosed in note 27 of the 2020 Annual Report. The directors are satisfied that, other than the changes in the Retirement Benefit Obligations disclosed in note 11 above, there have been no changes which could have a material effect on the financial position of the Group in the first six months of the financial year.

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed.

Details of individual and collective remuneration of the Company's Directors and dividends received by the Directors for calendar year 2021 will be disclosed in the Group's 2021 Annual Report. Peter Atkinson and Ivor Gray hold option awards over 1,072,142 and 364,913 ordinary shares respectively under the Macfarlane Group PLC Long Term Incentive Plan awarded in 2019, 2020 and 2021.

There are no other related party transactions during the six-month period which require disclosure.

14. Post balance sheet events

There are no post balance sheet events requiring disclosure.

15. Interim Report

The interim report will be posted to shareholders on 13 September 2021. Copies will be available from the registered office, 3 Park Gardens, Glasgow G3 7YE and available on the Company's website, www.macfarlanegroup.com, from that date.