MACFARLANE
GROUP

Interim Report 2022

Focused on creating value from sustainable packaging solutions

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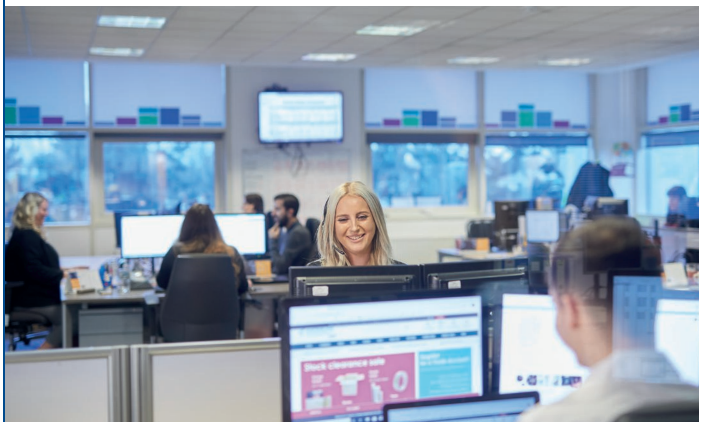

Chairman's statement

The Group has achieved a solid performance in the first half of 2022, especially when compared to a strong trading period in H1 2021.

This has been achieved against the backdrop of a slowdown in spend from the e-commerce sector and significant inflationary pressure on operating costs. We have also made strategic IT investments and incurred start-up costs on our new North-west of England distribution centre. Our people have consistently demonstrated commitment and operating excellence as the business continues to grow and develop.

Outlook

We expect to experience a continuing challenging environment with inflationary pressure on our operating costs and slower demand from our e-commerce customers. Overall, the Group is confident that the effectiveness of our strategy, the diversity of the customers and sectors we serve, the quality of our people, and the resilience of our business model will ensure 2022 will be another year of growth for Macfarlane. Our expectations for the full year 2022 are unchanged.

Board change

As set out in the Annual Report 2021, after over nine years on the Board, I am standing down from the Board, effective 30 September 2022, and I am pleased to announce my successor as Chair will be Aleen Gulvanessian.

Aleen joined the Board in October 2021 as Chair of the Remuneration Committee and in a short time has made a significant contribution through her Corporate legal background and extensive commercial and governance experience. Aleen was selected after an extensive process involving a number of very capable external candidates. We expect to make an announcement on a new Chair of the Remuneration Committee shortly.

I wish Aleen, the Board and all of Macfarlane's employees continued success in the future and thank them for their excellent support during my tenure as Chairman and Non-executive Director of Macfarlane Group.

Stuart R Paterson
Chairman

25 August 2022

Stuart Paterson

Financial highlights

	H1 2022 £000	Restated* H1 2021 £000	Increase %
Continuing operations			
Revenue	**139,209**	122,144	14%
Operating profit before amortisation**	**11,384**	10,817	5%
Operating profit	**9,604**	9,256	4%
Profit before tax	**8,857**	8,585	3%
Continuing and discontinued* operations			
Profit for the period	**6,888**	6,041	14%
Interim dividend (pence)	**0.90p**	0.87p	3%
Basic earnings per share (pence)	**4.36p**	3.83p	14%

* In accordance with IFRS5, 2021 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

** See note 2 for reconciliation of alternative performance measure, operating profit before amortisation, to operating profit.

Macfarlane Group PLC ('Macfarlane Group', 'Macfarlane', 'Group') sets out its financial highlights for the six months ended 30 June 2022.

Key highlights

- Sales from continuing operations* grew by 14% versus H1 2021 to £139.2m.
- Operating profit at £9.6m and profit before tax at £8.9m, both from continuing operations, increased by 4% and 3% respectively with revenue growth partly offset by increased costs.
- Basic and diluted earnings per share were 4.36p per share (H1 2021: 3.83p per share) and 4.31p per share (H1 2021: 3.79p per share) respectively.

Packaging Distribution

- Achieved sales growth of 11% to £123.5m (H1 2021: £111.0m), with recovery of input price increases and the benefits from the acquisitions of Carters Packaging in March 2021 and PackMann in May 2022 offsetting lower demand from e-commerce customers after the sector experienced a strong H1 last year due to Covid-19 restrictions.
- Gross margin at 32.3% (H1 2021: 32.7%) was marginally behind a very strong H1 2021 and reflects effective recovery of input price inflation.
- Operating profit before amortisation reduced by 2% to £8.9m (H1 2021: £9.1m) due to cost increases of 14%. The key areas of increased costs were inflationary pressures on labour and logistics, start-up costs for the company's new North-west of England distribution centre and strategic IT investments.
- The contribution from acquisitions was reduced by the expensing of acquisition-related costs of £0.2m in H1 2022.

Manufacturing Operations

- Delivered strong growth, with sales increasing 40% to £15.7m (H1 2021: £11.2m) and operating profit before amortisation increasing 44% to £2.5m (H1 2021: £1.7m). There was a continued strong performance from GWP, acquired in February 2021, and recovery in the aerospace sector benefited the Macfarlane Design and Manufacture business.
- The Group sold its Labels division in December 2021. Labels generated a loss before tax of £0.1m in H1 2022 (H1 2021: Loss £0.8m) after finalisation of the net asset position.

Group

- Net cash inflow from operating activities of £6.5m (H1 2021: £11.3m) reflected significantly higher 2021 employee incentive payments paid in H1 2022 compared to the same period last year.
- The Group cash position continues to be managed well, enabling capital investment and acquisitions to be funded through the committed bank debt facility.
- The Group has reinvested the proceeds from the sale of the Labels business into the acquisition of PackMann in Germany, strengthening the platform from which it will accelerate the growth of the protective packaging business in Northern Europe.
- Net bank debt on 30 June 2022 was £9.7m – a cash outflow of £12.1m from 31 December 2021, including £9.1m of net investment in acquisitions and disposals. The Group is operating well within its existing bank facility of £30.0m which runs until 31 December 2025.
- Pension scheme surplus increased to £8.8m at 30 June 2022 (31 December 2021: £8.3m). The improvement is due to continued contributions from the Group and an increase in the discount rate, offset by lower investment returns in H1 2022. An additional contribution of £0.7m was paid into the pension scheme in H1 2022 to satisfy the debt on exit of the Labels business.
- Interim dividend increased to 0.90p per share (H1 2021: 0.87p per share) – to be paid on 13 October 2022 to shareholders on the register as at 16 September 2022.

Interim results – management report

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

Packaging Distribution

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 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. Through the 'Significant Six' 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.

	H1 2022 £000	H1 2021 £000
Sales	**123,533**	110,957
Cost of sales	**83,627**	74,727
Gross margin	**39,906**	36,230
Overheads	**31,022**	27,152
Operating profit before amortisation	**8,884**	9,078
Amortisation	**1,379**	1,293
Operating profit	**7,505**	7,785

The main features of our first half performance in 2022 were:

- Organic growth in the UK and Ireland of £8.6m 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 and customers buying packaging using our online shop, which benefited from the Covid-19 lockdowns in H1 2021.
- Our 'Follow the Customer' strategy in Northern Europe achieved £1.6m of incremental sales through the Group subsidiary in the Netherlands, with the business now generating profits.
- Sales growth of £2.4m 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 H1 2022.
- Effective management of significant input price increases across all product categories in H2 2021 and H1 2022 has minimised the impact on gross margins which have reduced marginally to 32.3% (H1 2021: 32.7%).
- The marginally lower operating profit in H1 2022 was primarily due to overheads being higher than the same period in 2021. This is attributable to the impact of inflation on staff and logistics costs, strategic IT investments and start-up costs for our new distribution centre in the North-west of England.

The key areas we will focus on in H2 2022 are to:

- 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 new 'Packaging Optimiser' 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.
- 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.
- 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.
- 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.

Manufacturing Operations

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.

	H1 2022 £000	Restated* H1 2021 £000
Sales	**15,676**	11,187
Cost of sales	**8,486**	5,657
Gross margin	**7,190**	5,530
Overheads	**4,690**	3,791
Operating profit before amortisation	**2,500**	1,739
Amortisation	**401**	268
Operating profit	**2,099**	1,471

* In accordance with IFRS5, 2021 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

Sales in H1 2022 increased by £4.5m compared to the equivalent period in 2021. This consisted of organic growth of 19.0% (£0.9m), due mainly to recovery in the aerospace (defence and commercial) sector, supplemented by £3.6m of incremental sales from the acquisition of GWP. This growth, combined with effective management of the gross margin and overhead costs reducing as a percentage of sales, has contributed to a significant improvement in operating profit in H1 2022 compared to H1 2021.

The priorities for Manufacturing Operations in the second half of 2022 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.
- 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.

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 growth and cash generation over a sustained 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 market conditions are challenging, our strategy and business model continue to prove to be resilient. We expect to deliver another year of profit growth in 2022.

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 20 to 23 in our Annual Report and Accounts for 2021 (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;
- 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 Environmental, Social and Governance (ESG) credentials. There is increasing regulatory focus around reporting disclosures and new requirements, such as the Plastic Tax which was introduced from April 2022. 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 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;
- 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;
- The Group has a property portfolio comprising two owned sites and 45 leased sites. This multi-site 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 or 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;
- 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; 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 pandemic ('Covid-19')

The Group continues to respond to Covid-19 with the focus being 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 the principal risks and uncertainties. These uncertainties will remain for some time and to date the Group has adapted well to the constantly changing conditions.

Response to Brexit

The new trading arrangement between the UK and the EU came into effect on 1 January 2021. Whilst there has been some disruption to the supply chain and an increased administration burden, the impact on the Group has not been significant – largely due to mitigation measures put in place. We continue to monitor the impact of ongoing negotiations over the Northern Ireland protocol and the full implementation of customs checks at ports which came into effect from January 2022.

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.

Statement of Directors' responsibilities

The Directors of Macfarlane Group PLC during the first six months of 2022 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. Gulvanessian	Non-Executive Director

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 25 August 2022 and signed on its behalf by:

Peter D. Atkinson
Chief Executive

Ivor Gray
Finance Director

Condensed consolidated income statement (unaudited)

For the six months ended 30 June 2022

	Note	**Six months to 30 June 2022 £000**	Restated* Six months to 30 June 2021 £000	Year to 31 December 2021 £000
Continuing operations				
Revenue	4	**139,209**	122,144	264,465
Cost of sales		**(92,113)**	(80,384)	(174,998)
Gross profit		**47,096**	41,760	89,467
Distribution costs		**(5,169)**	(3,919)	(8,651)
Administrative expenses		**(32,323)**	(28,585)	(60,761)
Operating profit	4	**9,604**	9,256	20,055
Finance costs	5	**(747)**	(671)	(1,390)
Profit before tax		**8,857**	8,585	18,665
Tax	6	**(1,882)**	(1,757)	(4,917)
Profit for the period from continuing operations	4	**6,975**	6,828	13,748
Discontinued operations				
Loss for the period from discontinued operations		**(87)**	(787)	(1,150)
Profit for the period		**6,888**	6,041	12,598
Earnings per share from continuing operations	9			
Basic		**4.41p**	4.33p	8.71p
Diluted		**4.36p**	4.28p	8.62p
Earnings per share from continuing and discontinued operations	9			
Basic		**4.36p**	3.83p	7.98p
Diluted		**4.31p**	3.79p	7.90p

* In accordance with IFRS5, 2021 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

Condensed consolidated statement of comprehensive income (unaudited) For the six months ended 30 June 2022

	Note	**Six months to 30 June 2022 £000**	Six months to 30 June 2021 £000	Year to 31 December 2021 £000
Items that may be reclassified to profit or loss				
Foreign currency translation differences		**5**	(89)	(120)
Items that will not be reclassified to profit or loss				
Remeasurement of pension scheme liability	12	**(825)**	4,831	8,212
Tax recognised in other comprehensive income				
Tax on remeasurement of pension scheme liability	13	**206**	(918)	(2,054)
Corporation tax rate change on deferred tax	13	**–**	–	88
Other comprehensive income for the period, net of tax		**(614)**	3,824	6,126
Profit for the period		**6,888**	6,041	12,598
Total comprehensive income for the period		**6,274**	9,865	18,724

Condensed consolidated statement of changes in equity (unaudited)

For the six months ended 30 June 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 2022		39,453	13,148	70	–	171	42,052	**94,894**
Comprehensive income								
Profit for the period		–	–	–	–	–	6,888	**6,888**
Foreign currency translation differences		–	–	–	–	5	–	**5**
Remeasurement of pension scheme liability	12	–	–	–	–	–	(825)	**(825)**
Tax on remeasurement of pension scheme liability	13	–	–	–	–	–	206	**206**
Total comprehensive income		**–**	**–**	**–**	**–**	**5**	**6,269**	**6,274**
Transactions with shareholders								
Dividends	8	–	–	–	–	–	(3,677)	**(3,677)**
New shares issued		131	425	–	(7)	–	–	**549**
Share-based payments		–	–	–	–	–	(212)	**(212)**
Total transactions with shareholders		**131**	**425**	**–**	**(7)**	**–**	**(3,889)**	**(3,340)**
At 30 June 2022		**39,584**	**13,573**	**70**	**(7)**	**176**	**44,432**	**97,828**

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	12	–	–	–	–	4,831	**4,831**
Tax on remeasurement of pension scheme liability	13	–	–	–	–	(918)	**(918)**
Total comprehensive income		**–**	**–**	**–**	**(89)**	**9,954**	**9,865**
Transactions with shareholders							
Dividends	8	–	–	–	–	(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**

Condensed consolidated statement of changes in equity

For the year ended 31 December 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 year		–	–	–	–	12,598	**12,598**
Foreign currency translation differences		–	–	–	(120)	–	**(120)**
Remeasurement of pension scheme liability	12	–	–	–	–	8,212	**8,212**
Tax on remeasurement of pension scheme liability	13	–	–	–	–	(2,054)	**(2,054)**
Corporation tax rate change on deferred tax	13	–	–	–	–	88	**88**
Total comprehensive income		**–**	**–**	**–**	**(120)**	**18,844**	**18,724**
Transactions with shareholders							
Dividends	8	–	–	–	–	(4,293)	**(4,293)**
Share-based payments		–	–	–	–	685	**685**
Total transactions with shareholders		**–**	**–**	**–**	**–**	**(3,608)**	**(3,608)**
At 31 December 2021		**39,453**	**13,148**	**70**	**171**	**42,052**	**94,894**

Condensed consolidated balance sheet (unaudited)

At 30 June 2022

	Note	**30 June 2022 £000**	30 June 2021 £000	31 December 2021 £000
Non-current assets				
Goodwill and other intangible assets		**79,447**	77,024	74,902
Property, plant and equipment		**7,591**	9,497	6,101
Right of use assets		**33,807**	33,833	34,718
Trade and other receivables		**35**	35	35
Deferred tax assets	13	**19**	116	19
Retirement benefit surplus	12	**8,847**	4,566	8,267
Total non-current assets		**129,746**	125,071	124,042
Current assets				
Inventories		**25,150**	22,111	21,269
Trade and other receivables		**60,833**	56,231	58,541
Cash and cash equivalents	11	**6,804**	7,215	12,315
Total current assets		**92,787**	85,557	92,125
Total assets	4	**222,533**	210,628	216,167
Current liabilities				
Trade and other payables		**61,184**	59,056	60,975
Provisions		**1,370**	1,933	1,730
Current tax liabilities		**524**	1,871	771
Lease liabilities	11	**6,139**	7,173	6,364
Bank borrowings	11	**16,473**	15,897	9,840
Total current liabilities		**85,690**	85,930	79,680
Net current assets/(liabilities)		**7,097**	(373)	12,445
Non-current liabilities				
Deferred tax liabilities	13	**8,241**	5,667	7,472
Trade and other payables		**908**	3,714	3,695
Provisions		**1,848**	1,365	1,848
Lease liabilities	11	**28,018**	26,819	28,578
Total non-current liabilities		**39,015**	37,565	41,593
Total liabilities		**124,705**	123,495	121,273
Net assets	4	**97,828**	87,133	94,894
Equity				
Share capital		**39,584**	39,453	39,453
Share premium		**13,573**	13,148	13,148
Revaluation reserve		**70**	70	70
Own shares		**(7)**	–	–
Translation reserve		**176**	202	171
Retained earnings		**44,432**	34,260	42,052
Total equity		**97,828**	87,133	94,894

Condensed consolidated cash flow statement (unaudited)

For the six months ended 30 June 2022

	Note	**Six months to 30 June 2022 £000**	Restated* Six months to 30 June 2021 £000	Year to 31 December 2021 £000
Profit/(loss) before tax from:				
Continuing operations		**8,857**	8,585	18,665
Discontinued operations		**(87)**	(760)	(938)
Total operations		**8,770**	7,825	17,727
Adjustments for:				
Amortisation of intangible assets		**1,780**	1,561	3,311
Depreciation of property, plant, equipment		**693**	1,003	1,989
Depreciation of right-of-use assets		**3,768**	3,506	7,282
Goodwill impairment	7	**–**	987	987
Loss/(gain) on disposal of property,plant,equipment		**132**	(19)	43
Loss on disposal of subsidiaries	7	**87**	–	232
Share-based payment expense		**337**	410	685
Finance costs		**747**	710	1,390
Operating cash flows before movements in working capital		**16,314**	15,983	33,646
Increase in inventories		**(1,517)**	(4,288)	(4,848)
Increase in receivables		**(586)**	(1,544)	(7,892)
(Decrease)/increase in payables		**(2,923)**	4,779	8,905
(Decrease)/increase in provisions		**(360)**	275	1,884
Pension contributions less current service costs		**(1,322)**	(1,216)	(1,533)
Cash generated from operations		**9,606**	13,989	30,162
Income taxes paid		**(2,322)**	(1,983)	(4,975)
Interest paid		**(830)**	(700)	(1,383)
Net cash inflow from operating activities		**6,454**	11,306	23,804
Investing activities				
Acquisitions	10	**(9,268)**	(12,238)	(12,238)
Proceeds from sales of subsidiaries		**166**	–	5,212
Proceeds on disposal of property, plant and equipment		**92**	134	199
Purchases of property, plant and equipment		**(2,271)**	(1,063)	(2,132)
Net cash flows from investing activities		**(11,281)**	(13,167)	(8,959)
Financing activities				
Dividends paid	8	**(3,677)**	(2,920)	(4,293)
Drawdown of bank borrowings		**5,957**	8,887	3,889
Repayment of lease obligations	11	**(3,640)**	(3,363)	(7,539)
Net cash flows from financing activities		**(1,360)**	2,604	(7,943)
Net (decrease)/increase in cash and cash equivalents		**(6,187)**	743	6,902
Cash and cash equivalents at beginning of period		**12,123**	5,221	5,221
Cash and cash equivalents at end of period		**5,936**	5,964	12,123

* In accordance with IFRS5, 2021 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

	Note	**Six months to 30 June 2022 £000**	Six months to 30 June 2021 £000	Year to 31 December 2021 £000
Reconciliation to condensed consolidated cash flow statement				
Cash and cash equivalents per the balance sheet	11	**6,804**	7,215	12,315
Bank overdraft		**(868)**	(1,251)	(192)
Balances per the cash flow statement		**5,936**	5,964	12,123

Notes to the condensed financial statements (unaudited)

For the six months ended 30 June 2022

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 2021 were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom. This condensed set of interim financial statements has been prepared in accordance with United Kingdom adopted International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

This condensed set of interim 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 2021. There were no major changes from the adoption of new IFRSs in 2022.

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 7, 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 12. 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.

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 £30m, 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. 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.

Approval and review of condensed financial statements

These condensed financial statements were approved by the Board of Directors on 25 August 2022. 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 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.

Continuing operations

	Six months to 30 June 2022 £000	Restated* Six months to 30 June 2021 £000	Year to 31 December 2021 £000
Operating profit before amortisation	**11,384**	10,817	23,366
Customer relationships/brand values amortisation	**(1,780)**	(1,561)	(3,311)
Operating profit	**9,604**	9,256	20,055

* In accordance with IFRS5, 2021 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

Notes to the condensed financial statements (unaudited) (continued)

For the six months ended 30 June 2022

3. General information

Comparative figures for the year ended 31 December 2021 are extracted from Macfarlane Group's statutory accounts for 2021. The information for the year ended 31 December 2021 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 24 February 2022 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 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 2022 £000	Restated* Six months to 30 June 2021 £000	Year to 31 December 2021 £000
Group segment – total revenue			
Packaging Distribution	**123,533**	110,957	239,508
Manufacturing Operations	**17,739**	12,963	28,527
Inter-segment revenue	**(2,063)**	(1,776)	(3,570)
Revenue	**139,209**	122,144	264,465

Trading results – continuing operations

	Six months to 30 June 2022 £000	Restated* Six months to 30 June 2021 £000	Year to 31 December 2021 £000
Packaging Distribution			
Revenue	**123,533**	110,957	239,508
Cost of sales	**(83,627)**	(74,727)	(161,896)
Gross profit	**39,906**	36,230	77,612
Net operating expenses	**(31,022)**	(27,152)	(57,915)
Operating profit before amortisation	**8,884**	9,078	19,697
Amortisation	**(1,379)**	(1,293)	(2,642)
Operating profit	**7,505**	7,785	17,055
Manufacturing Operations			
Revenue	**15,676**	11,187	24,957
Cost of sales	**(8,486)**	(5,657)	(13,102)
Gross profit	**7,190**	5,530	11,855
Net operating expenses	**(4,690)**	(3,791)	(8,186)
Operating profit before amortisation	**2,500**	1,739	3,669
Amortisation	**(401)**	(268)	(669)
Operating profit	**2,099**	1,471	3,000

* In accordance with IFRS5, 2021 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

	Six months to 30 June 2022 £000	Restated* Six months to 30 June 2021 £000	Year to 31 December 2021 £000
Operating profit – continuing operations			
Packaging Distribution	**7,505**	7,785	17,055
Manufacturing Operations	**2,099**	1,471	3,000
Operating profit	**9,604**	9,256	20,055
Finance costs (note 5)	**(747)**	(671)	(1,390)
Profit before tax	**8,857**	8,585	18,665
Tax (note 6)	**(1,882)**	(1,757)	(4,917)
Profit for the period from continuing operations	**6,975**	6,828	13,748
Loss for the period from discontinued operations	**(87)**	(787)	(1,150)
Profit for the period	**6,888**	6,041	12,598

Notes to the condensed financial statements (unaudited) (continued)

For the six months ended 30 June 2022

4. Segmental information (continued)

	30 June 2022 £000	Restated* 30 June 2021 £000	31 December 2021 £000
Total assets			
Packaging Distribution	**192,221**	168,638	185,111
Manufacturing Operations	**30,312**	30,106	31,056
Total assets	**222,533**	198,744	216,167
Net assets			
Packaging Distribution	**77,718**	63,988	74,899
Manufacturing Operations	**20,110**	18,405	19,995
Net assets	**97,828**	82,393	94,894

* In accordance with IFRS5, 2021 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

5. Finance costs

	Six months to 30 June 2022 £000	Restated* Six months to 30 June 2021 £000	Year to 31 December 2021 £000
Interest on bank borrowings	**279**	227	414
Interest on leases	**551**	434	969
Finance (income)/cost relating to defined benefit pension scheme (note 12)	**(83)**	10	7
Total finance costs from continuing operations	**747**	671	1,390

* In accordance with IFRS5, 2021 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

6. Tax

	Six months to 30 June 2022 £000	Six months to 30 June 2021 £000	Year to 31 December 2021 £000
Current tax			
UK corporation tax	**1,786**	1,759	3,672
Foreign tax	**113**	122	245
Prior year adjustments	**(21)**	(10)	72
Total current tax	**1,878**	1,871	3,989
Deferred tax – current year	**4**	(68)	(76)
– prior year adjustments	**–**	(19)	(61)
– long-term corporation tax rate change	**–**	–	1,277
Total deferred tax (note 13)	**4**	(87)	1,140
Total tax	**1,882**	1,784	5,129
Tax charge attributable to continuing operations	**1,882**	1,757	4,917
Tax charge attributable to discontinued operations	**–**	27	212
Tax charge for the period	**1,882**	1,784	5,129

Tax for the six months ended 30 June 2022 has been charged at 19.00% (2021: 19.00%) representing the best estimate of the effective tax charge for the full year. Deferred tax assets and liabilities at 30 June 2022 have been calculated based on the long-term corporation tax rate of 25%, which had been substantively enacted at that date.

7. Discontinued operations

	Six months to 30 June 2022 £000	Six months to 30 June 2021 £000	Year to 31 December 2021 £000
Revenue	**–**	11,369	21,220
Expenses	**(87)**	(12,129)	(22,158)
Loss before tax	**(87)**	(760)	(938)
Attributable tax expense	**–**	(27)	(212)
Loss for the period from discontinued operations	**(87)**	(787)	(1,150)

On 31 December 2021, the Group entered into a sales agreement to dispose of Macfarlane Labels Limited and its subsidiaries Macfarlane Group Ireland (Labels & Packaging) Limited and Macfarlane Group Sweden AB (collectively 'Macfarlane Labels'). The results of the discontinued operations, which have been included as a single item of loss from discontinued operations for the period, are set out above.

The loss for the six months to 30 June 2021 and the year to 31 December 2021 was after charging £987,000 of goodwill impairment.

The loss on disposal was £319,000, £87,000 recognised in the six months to 30 June 2022 and £232,000 recognised in the year to 31 December 2021. No loss on disposal was recognised in the six months to 30 June 2021.

8. Dividends

			Six months to 30 June 2022 £000	Six months to 30 June 2021 £000	Year to 31 December 2021 £000
Amounts recognised as distributions to equity holders in the period					
Final dividend	(2.33p per share)	(2021: 1.85p per share)	**3,677**	2,920	2,920
Interim dividend		(2021: 0.87p per share)	**–**	–	1,373
Distributions in the period			**3,677**	2,920	4,293

An interim dividend of 0.90p per share, payable on 13 October 2022, was declared on 25 August 2022 and has therefore not been included as a liability in these condensed financial statements.

9. Earnings per share

	Six months to 30 June 2022 £000	Restated* Six months to 30 June 2021 £000	Year to 31 December 2021 £000
Earnings			
Profit for the period from continuing operations	**6,975**	6,828	13,748
Loss for the period from discontinued operations	**(87)**	(787)	(1,150)
Profit for the period from continuing and discontinued operations	**6,888**	6,041	12,598

	30 June 2022	30 June 2021	31 December 2021
Number of shares '000			
Weighted average number of shares in issue for the purposes of basic earnings per share	**157,987**	157,812	157,812
Effect of Long-Term Incentive Plan awards in issue	**1,834**	1,627	1,627
Weighted average number of shares in issue for the purposes of diluted earnings per share	**159,821**	159,439	159,439
Basic earnings per share from continuing operations	**4.41p**	4.33p	8.71p
Diluted earnings per share from continuing operations	**4.36p**	4.28p	8.62p
Basic earnings per share from discontinued operations	**(0.06)p**	(0.50)p	(0.73)p
Diluted earnings per share from discontinued operations	**(0.05)p**	(0.49)p	(0.72)p
Basic earnings per share from continuing and discontinued operations	**4.36p**	3.83p	7.98p
Diluted earnings per share from continuing and discontinued operations	**4.31p**	3.79p	7.90p

* In accordance with IFRS5, 2021 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

10. Acquisitions

On 17 May 2022, Macfarlane Group PLC acquired 100% of PackMann Gesellschaft für Verpackungen und Dienstleistungen mbH ('PackMann'), for a maximum consideration of £7.4m, excluding cash, bank balances and bank borrowings. £5.9m was paid in cash on acquisition 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. A recovery for closing balance sheet adjustments is estimated to be £0.6m receivable in H2 2022.

On 26 February 2021, Macfarlane Group UK Limited ('MGUK') acquired 100% of GWP Holdings Limited ('GWP'), for a maximum consideration of £15.1m, excluding cash and bank balances retained. £10.0m was paid in cash on acquisition, in addition to the cash and bank balances retained, £2.2m was paid in the first half of 2022 as the profit target for the first twelve month period was met and a further £2.9m is payable in 2023, subject to the profit target being met in the second twelve-month period ending on 28 February 2023. On 31 March 2021, MGUK acquired 100% of Carters Packaging (Cornwall) Limited ('Carters'), for a maximum consideration of £4.5m, excluding cash and bank balances retained. £3.0m was paid in cash on acquisition, in addition to the cash and bank balances retained, £0.7m was paid in the first half of 2022 as the profit target for the first twelve month period was met and a further £0.8m is payable in 2023, subject to the profit target being met in the second twelve-month period ending on 31 March 2023.

Contingent considerations are recognised as a liability in trade and other payables and are remeasured to fair value of £5.1m at the balance sheet date based on a range of outcomes between £Nil and £5.1m. Trading in the post-acquisition period supports the remeasured value of £5.1m.

Carters and PackMann 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 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:

10. Acquisitions (continued)

	Six months to 30 June 2022 £000	Six months to 30 June 2021 £000	Year to 31 December 2021 £000
Net assets acquired			
Other intangible assets	**3,520**	9,482	9,482
Property, plant and equipment	**836**	4,558	4,558
Inventories	**2,364**	1,965	1,965
Trade and other receivables	**1,347**	3,316	3,316
Cash and bank balances	**290**	3,877	3,877
Bank borrowings	**(730)**	–	–
Trade and other payables	**(1,899)**	(4,148)	(4,148)
Current tax liabilities	**(196)**	(427)	(427)
Lease liabilities	**(739)**	(3,500)	(3,500)
Deferred tax liabilities	**(971)**	(1,875)	(1,875)
Net assets acquired	**3,822**	13,248	13,248
Goodwill	**2,843**	9,492	9,492
Total consideration	**6,665**	22,740	22,740
Contingent consideration on acquisitions			
Current year	**(767)**	(6,625)	(6,625)
Prior years	**2,930**	–	–
Total cash consideration	**8,828**	16,115	16,115
Net cash outflow arising on acquisition			
Cash consideration	**(8,828)**	(16,115)	(16,115)
Cash and bank borrowings acquired	**(440)**	3,877	3,877
Net cash outflow	**(9,268)**	(12,238)	(12,238)

11. 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 2021	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)**
Non-cash movements				
Disposals	–	–	1,363	**1,363**
New leases	–	–	(8,235)	**(8,235)**
Exchange movements	–	–	40	**40**
Lease modifications	–	–	1,706	**1,706**
Cash movements	5,100	6,057	4,176	**15,333**
At 31 December 2021	12,315	(9,840)	(34,942)	**(32,467)**
Non-cash movements				
Acquisitions	–	–	(739)	**(739)**
Disposals	–	–	163	**163**
New leases	–	–	(1,743)	**(1,743)**
Exchange movements	–	–	(4)	**(4)**
Lease modifications	–	–	(532)	**(532)**
Cash movements	(5,511)	(6,633)	3,640	**(8,504)**
At 30 June 2022	**6,804**	**(16,473)**	**(34,157)**	**(43,826)**
Total cash movements for 2021	5,087	(2,074)	7,539	10,552

Net bank (debt)/funds

	Cash and cash equivalents £000	Bank borrowing £000	**Net bank (debt)/funds £000**
At 30 June 2022	**6,804**	**(16,473)**	**(9,669)**
At 31 December 2021	12,315	(9,840)	2,475

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.

12. Retirement benefit obligations

The figures below have been prepared by Aon based on the results of the triennial actuarial valuation as at 1 May 2020 updated to 30 June 2021, 31 December 2021 and 30 June 2022. The scheme investments and the scheme's net surplus position as calculated under IAS 19 are as follows:

Investment class	**30 June 2022 £000**	30 June 2021 £000	31 December 2021 £000
Equities			
UK equity funds	**7,304**	8,942	9,392
Overseas equity funds	**13,234**	16,554	17,010
Multi-asset diversified growth funds	**27,061**	32,566	29,113
Bonds			
Liability-driven investment funds	**14,314**	24,883	30,531
Other investments			
European loan fund	**6,332**	6,657	6,778
Secured property income fund	**7,293**	6,587	6,995
Cash	**1,010**	316	604
Fair value of scheme investments	**76,548**	96,505	100,423
Present value of scheme liabilities	**(67,701)**	(91,939)	(92,156)
Pension scheme surplus	**8,847**	4,566	8,267

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

Assumptions	**30 June 2022**	30 June 2021	31 December 2021
Discount rate	**3.80%**	1.90%	1.90%
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 3.22% for LPI**	3% or 5% for fixed increases or 3.20% for LPI	3% or 5% for fixed increases or 3.30% for LPI
PIE take up rate	**65%**	65%	65%
Inflation assumption (RPI)	**3.30%**	3.30%	3.40%
Inflation assumption (CPI)	**2.80%**	2.80%	2.90%
Life expectancy beyond normal retirement age of 65			
Scheme member aged 55 – Male	**22.9 years**	22.9 years	22.8 years
– Female	**24.5 years**	24.4 years	24.4 years
Scheme member aged 65 – Male	**22.3 years**	22.3 years	22.3 years
– Female	**23.7 years**	23.6 years	23.6 years
Average uplift for GMP service	**0.40%**	0.40%	0.40%

	Six months to 30 June 2022 £000	Six months to 30 June 2021 £000	Year to 31 December 2021 £000
Movement in scheme surplus/(deficit) in the period			
At start of period	**8,267**	(1,471)	(1,471)
Current service cost	**(24)**	(95)	(126)
Employer contributions	**1,346**	1,311	1,992
Past service costs (curtailed due to disposal of business)	**–**	–	(333)
Net finance income/(cost)	**83**	(10)	(7)
Re-measurement of pension scheme liability in the period	**(825)**	4,831	8,212
At end of period	**8,847**	4,566	8,267

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 surplus as shown below:

Assumptions	**30 June 2022 £000**	30 June 2021 £000	31 December 2021 £000
Discount rate movement of +0.6%	**6,499**	8,826	8,845
Inflation rate movement of +0.1%	**(339)**	(469)	(470)
Mortality movement of +0.1 year in age rating	**203**	276	277

Positive figures reflect a reduction in scheme liabilities and therefore an increase in the scheme surplus.

	Six months to 30 June 2022 £000	Six months to 30 June 2021 £000	Year to 31 December 2021 £000
Movement in fair value of scheme investments			
Scheme investments at start of period	**100,423**	99,430	99,430
Interest income	**947**	663	1,332
Return on scheme assets (exc. amounts shown in interest income)	**(23,758)**	(3,198)	1,273
Contributions from sponsoring companies	**1,346**	1,311	1,992
Contribution from scheme members	**4**	14	23
Benefits paid	**(2,414)**	(1,715)	(3,627)
Scheme investments at end of period	**76,548**	96,505	100,423

12. Retirement benefit obligations (continued)

	Six months to 30 June 2022 £000	Six months to 30 June 2021 £000	Year to 31 December 2021 £000
Movement in present value of scheme liabilities			
Scheme liabilities at start of period	**(92,156)**	(100,901)	(100,901)
Normal service costs	**(24)**	(95)	(126)
Past service costs (curtailed due to disposal of business)	**–**	–	(333)
Interest cost	**(864)**	(673)	(1,339)
Contribution from scheme members	**(4)**	(14)	(23)
Actuarial gain due to the changes in financial and experience	**22,933**	8,029	6,939
Benefits paid	**2,414**	1,715	3,627
Scheme liabilities at end of period	**(67,701)**	(91,939)	(92,156)

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 of £1.25m per annum with a deficit recovery period of 4 years. The Group paid a further £0.7m into the scheme in H1 2022 to satisfy the debt agreed with the trustees in relation to the cessation of Macfarlane Labels Limited as a sponsoring employer.

13. Deferred tax

	Tax losses less accelerated capital allowances £000	Other intangible assets £000	Retirement benefit obligations £000	**Total £000**
At 1 January 2021	**(79)**	**(2,876)**	**279**	**(2,676)**
Acquisitions	(73)	(1,802)	–	**(1,875)**
Transferred to corporation tax	(168)	–	–	**(168)**
Exchange movement	(1)	–	–	**(1)**
Credited/(charged) in income statement				
Current period	19	297	(229)	**87**
Charged in other comprehensive income				
Remeasurement of pension scheme liability	–	–	(918)	**(918)**
At 30 June 2021	**(302)**	**(4,381)**	**(868)**	**(5,551)**
Disposal	372	–	–	**372**
Exchange movement	1	–	–	**1**
(Charged) in income statement				
Current period	(390)	(684)	(153)	**(1,227)**
(Charged)/credited in other comprehensive income				
Remeasurement of pension scheme liability	–	–	(1,136)	**(1,136)**
Corporation tax rate change	–	–	88	**88**
At 1 January 2022	**(319)**	**(5,065)**	**(2,069)**	**(7,453)**
Acquisitions	–	(971)	–	**(971)**
Credited/(charged) in income statement				
Current period	4	341	(349)	**(4)**
Charged in other comprehensive income	–	–	206	**206**
At 30 June 2022	**(315)**	**(5,695)**	**(2,212)**	**(8,222)**
Deferred tax assets	19	–	–	**19**
Deferred tax liabilities	(334)	(5,695)	(2,212)	**(8,241)**
At 30 June 2022	**(315)**	**(5,695)**	**(2,212)**	**(8,222)**

14. Related party transactions

Related party transactions for 2021 are disclosed in note 27 of the 2021 Annual Report. The Directors are satisfied that, other than the changes in the Retirement Benefit Obligations disclosed in note 12 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 2022 will be disclosed in the Group's 2022 Annual Report. Peter Atkinson and Ivor Gray hold option awards over 1,055,972 and 463,112 ordinary shares respectively under the Macfarlane Group PLC Long Term Incentive Plan awarded in 2020, 2021 and 2022. Peter Atkinson and Ivor Gray hold 180,875 and 30,770 ordinary shares respectively after exercising option awards on 17 May 2022 under the Macfarlane Group PLC Long Term Incentive Plan awarded in 2019.

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

15. Post balance sheet events

There are no post balance sheet events requiring disclosure.

16. Interim Report

The interim report will be posted to shareholders on 12 September 2022. 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.